Course Code MBA 881

Code Title Business Policy (3 credits units)

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COURSE GUIDE

1.0 INTRODUCTION

MBA 881 Business Policy is one semester, course of three units for 800 level students of Master‘s degree in Business Administration programme of the Faculty of Management Sciences. This course consists of twenty-one units. The material has been developed to suit students for their learning process and prepare them as potential or active entrepreneurs. This course guide tells you briefly what the course is about, what course materials you will be using and how you are to use them. It provides some general guidelines for the amount of time you might be spending in order to successfully completed each unit of the course.

2.0 COURSE AIMS

The aim of this course is to explain business and identify it as the basis for guiding the management and organization of an enterprise

3.0 COURSE OBJECTIVES

By the end of this course, the student should be able to:

- Learn business policies
- Explain the functions and responsibilities of an enterprises general management
- Identify problems associated with the management of an enterprise
- Design and implementation of corporate strategies

4.0 WORKING THROUGH THE COURSE

This course, MBA 881 – Business Policy expects you to do a lot of reading in order to cover the materials in the course material. It implies that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals in research. The course material has been made easy to read and user-friendly.

To complete this course you are required to read the study units in each module, read also the suggested full books and other materials that will help you achieve the objectives. Each unit contains self-assessment exercises and at intervals in the course you are required to submit assignment for assessment. There will be a final examination at the end of the course.

5.0 COURSE MATERIALS

The National Open University of Nigeria provides you with the following items:

Course Guide
Study Units

In addition, at the end of every unit is a list of texts for your references and for further reading. It is not compulsory for you to read all of them. They are only essential supplements to this course material.

6.0 STUDY UNITS

The study units in this course are located under Modules as follows:

MODULE 1 BUSINESS POLICY

Unit 1 Business Policy – An overview
Unit 2 Evolution of business policy and its prospects
Unit 3 Business policy and its importance in organisations
Unit 4 Policy formulation as a skill
Unit 5 Policies and other related terms
Unit 6 Organisational policy and business policy in different organisations
Unit 7 Functions of business policy and recent developments in policy making

MODULE 2 STRATEGY AND MANAGEMENT OF ORGANISATIONAL STRATEGY

Unit 1 Strategy and strategic Management-An overview
Unit 2 Strategy and the strategists
Unit 3 Strategic decision-making theories of strategic management
Unit 4 Levels of Strategy
Unit 5 Generic Strategies
Unit 6 Grand Strategies
Unit 7 Strategic Management in generic types of industry environments, and competitive situations

MODULE 3 STRATEGY FORMULATION AND APPRAISAL IN ORGANISATIONS

Unit 1 Hierarchy of Strategic Intent (I)
Unit 2 Hierarchy of Strategic Intent (2)
Unit 3 Concept of Environment
Unit 4 Environmental scanning and appraisal
Unit 5 Organisational appraisal
Unit 6 Strategic analysis and strategic choice
Unit 7 Portfolio planning approaches

The modules and units are self explanatory as they summarize Business Policy for 800 level students of Master‘s degree in Business Administration. You will need to work in groups with other students in this course and program in order to discuss, compare notes and thoughts in order to exchange and share ideas.

7.0 ASSESSMENTS

There are two aspects to the assessment of the course: first are the tutor-marked assignments (TMA); and the end of course examination. Within each unit are self-assessment exercises which are aimed at helping you check your assimilation as you proceed. Try to attempt each of the exercises before finding out the expected answer from lecture.

8.0 TUTOR-MARKED ASSIGNMENT (TMA)

This is your continuous assessment and accounts for 30% of your total score. You are expected to answer at least four TMA‘s, three of which must be answered and submitted before you sit for the end of course examination. Your Facilitator will give you the TMA‘s and you must submit to your Centre your responses.

9.0 FINAL EXAMINATION AND GRADING

With this examination written successfully, you have completed your course in Basic Research and one believes you would apply your knowledge (new or up-graded) in your project. The end of course examinations‘ would earn you 70% which would be added to your TMA score (30%). The time for this examination would be communicated to you.

Table 1: Course Marking Scheme

ASSESSMENT	MARKS
Assignment (TMAs) 1 – 4	Four (4) assignments, best three (3) marks of the four account at 10% each = = 10 x 3 = 30%
End of course examination	70% of overall course marks
Total	**100% of course marks**

10.0 HOW TO GET THE MOST FROM THIS COURSE

In distance learning, the study units are specially developed and designed to replace the conventional lectures. Hence, you can work through these materials at your own pace, and at a time and place that suits you best. Visualize it as reading the lecture.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your set books or from a ***Reading Section***. Activities are interspersed throughout the units, and answers are given at the end of the units. Practice these self-assessment exercises to help you to achieve the objectives of the units and prepare you for the assignments and the examinations. Keep tap with your facilitator for assistance.

In summary:

(1) Try to read this course guide.

(2) Organize a study schedule.

(3) Do everything you can to stick to the schedule.
(4) Assemble the study materials.
(5) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through this unit, you will be instructed to read sections from your set books or other further readings.

(6) Review the objectives for each study unit confirms that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult.

(7) When you are sure of having achieved a unit's objectives, you can then start on the next unit.

(8) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives and the course objectives.

To gain the maximum benefit from course tutorials, prepare a question list before attempting them.

11.0 SUMMARY

This course MBA 881 is designed to give you some knowledge which would help you to understand business policy of business organisation/enterprise. Endeavour to go through this course successfully and you would be in a good position to pass your examination at the end of the semester

We wish you success in this life-long and interesting course. GOOD LUCK.

COURSE DESCRIPTION AS IN THE OPP/DPP

Type of business policies; business policy as a field of study; functions and responsibilities of general management; the concept of corporate strategy; concept of strategy in relation to business, corporations and management; linkages between organization and their environments; introducing a formal strategic planning system in a business firm; concepts of policies, decision making, business objectives, performance, criteria, structure and managerial behaviours; practice in calculating simple financial and economic indices from business data and other accounting information; learning opportunities and threats, strength s and weaknesses of business system

MODULE 1

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MODULE 1: BUSINESS POLICY

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UNIT 1: BUSINESS POLICY – AN OVERVIEW

UNIT STRUCTURE

1.1 INTRODUCTION
1.2 LEARNING OUTCOMES
1.3 Business policy – an overview
1.3.1 Business (Definitions and forms of business ownership)
1.3.2 Policy (Definitions, nature, and principles of policy formulation)
1.3.3 Business Policy (Definitions, objectives and purposes of business policy)
1.4 Summary
1.5 References/Further Readings/Web Sources
1.6 Possible Answers to Self-Assessment Exercises

1.1: INTRODUCTION

You are welcomed to this course MBA 881 and in the first unit of the first module of this course. An overview was given on what business is all about in our contemporary world. Also, the idea that every organisation has a purpose for which it was established either for profit making or non- profit making was passed across, and closely allied to the purpose of an organisation are the principles on which it is to be conducted. These principles in business parlance are commonly called **"Policy"**. Policy, according to Kalejaye (1998), denotes a future course of action of intent towards the activities of an organisation. He opined that there is more to the meaning of policy than an expression of intent. To him, there is usually the connotation that policies should express the beliefs of the organisation, the things that are right to do and the courses of act ion which it ought to take in the organisation. This explains why policies on the same subject can be so different from one organisation to another. Every business requires guidelines which are to be embedded in policy. Policy is a decision rule, not a decision (Ackoff 1993). Principles in business parlance are commonly known as policy. Policy denotes a future course of action of intent towards the activities of an organization.

In this unit, you will be introduced to the meaning of business policy in order to prepare you for all the associated ideas about the concept in business management. We shall also highlight the reasons why business policy is necessary. Finally, we shall explain business policy implementation in an organisation.

I believe you must have read the course guide and have a general understanding of this course unit and how it fits into the course as a whole. You will see the objectives below specify what you are expected to learn after reading this unit.

1.2: LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- Explain the concept of business,
- Discuss the forms of business ownership;
- Explain what policy is all about, its nature and principles of policy formulation.
- Describe business policy-its definition, objectives and purposes of business policy.

1.3 BUSINESS POLICY (An overview)

The introductory unit is intended to familiarize you with contemporary meaning of business, discuss policy, and then, business policy the main concepts of this programme. It starts with a description of business, policy, and then, business policy. This is followed by a description of the development process that evolved before learners like you got the opportunity to study this course.

Next, we shall introduce you to the nature of business policy where its definition is also provided. You should be convinced of the importance of the business policy course to be motivated to learn it better. Hence, we have to be clear about the purpose and objectives of the course that we are learning. The objectives of the course have been described in terms of knowledge, skills and attitudes. It is essential to know what to expect from this course and in which direction the learning objectives are likely to take the students.

1.3.1: Definitions of Business

Wikipedia (2012) states that a **business** (also known as **enterprise** or **firm**) is an organization engaged in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning.

The etymology of "business" relates to the state of being busy either as an individual or society as a whole, doing commercially viable and profitable work. The term "business" has at least three usages, depending on the scope-the singular usage to mean a particular organization-the generalized usage to refer to a particular market sector, "the music business" and compound forms such as agribusiness; and the broadest meaning, which encompasses all activity by the community of suppliers of goods and services.

Business has been defined as an economic activity which has to do with continuous and regular conversion of inputs into tangible products and then, distribution of outputs for satisfying human wants (Mohddeeb, 2011). From his view about what business is all about, everyone needs food, clothing and shelter, and some other pressing needs to meet. People will have to stand in the position of a shopkeeper, wholesaler and manufacturer for these needs to be satisfied, and this is the essence of business. Also, Stephenson (2011) defined business as the daily transformation of material inputs or purchase and sales of goods carried out in anticipation of profit and raising wealth via the satisfaction of human wants. According to Ogunro (2014), business involves continuous conversion of material inputs and distribution of outputs with which could be goods or services for profit-making purpose under unstable market situations.

From the Reviewer's point of view, business can be defined as any human activity tailored towards satisfying identified needs/wants in anticipation of profit. However, in this modern/digital age, the definition of business has taken a new dimension considering the contemporary inputs of leading modern theorists/academics/professionals who are in support of definitions that consider the interests of stakeholders first and see it as paramount considering the fact that businesses can only strive in an atmosphere of peace and tranquility which the environment stands to offer: So, business from this angle can be defined as any human activity that is aimed at meeting identified needs/wants of an environment with a view to ensuring a mutually/reasonable beneficial returns on capital invested.

Different interests of stakeholders around business have to be captured in business budgets these days minding the level of unemployment, poverty, strife, banditry and climatic change that is not favourable to mankind (Toffler, 1980; Wheeler, Hunger, Huffman, & Bamford, 2018). With the emergence of futuristic organizations, businesses are no longer responsible simply for making profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual, and social problems (Toffler, 1980) However, the exact definition of business, like much else in the philosophy of business, is a matter of debate and complexity of meanings.

Forms of business ownership

- **Sole proprietorship:** A sole proprietorship is a business owned by one person for-profit. The owner may operate the business alone or may employ others. The owner of the business has unlimited liability for the debts incurred by the business.
- **Partnership:** A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of for-profit partnerships are general partnerships, limited partnerships, and limited liability partnerships.

- **Corporation:** A corporation is a limited liability business that has a separate legal personality from its members. Corporations can be either government-owned or privately-owned, and corporations can organize either for-profit or not-for-profit. A privately-owned, for-profit corporation is owned by shareholders who elect a board of directors to direct the corporation and hire its managerial staff. A privately-owned, for-profit corporation can be either privately held or publicly held.

- **Cooperative:** Often referred to as a "co-op", a cooperative is a limited liability business that can organize for-profit or not-for-profit. A cooperative differs from a for-profit corporation in that it has members, as opposed to shareholders, who share decision-making authority. Cooperatives are typically classified as either consumer cooperatives or worker cooperatives. Cooperatives are fundamental to the ideology of economic democracy. .

❖ **Define business and justify why businesses should not only aim at profit.**

1.3.2: Policy (Definitions, nature, principles of policy formulation)

What comes to your mind when the word policy is mentioned? As stated in the introduction earlier, policy is defined as a decision rule not a decision. For example, of a policy- Hire only professionally qualified accountants for senior accounting positions. When such a person is hired it is a decision. A policy is considered the general guideline for decision making. Kalejaye (1998) defined policy as the objectives, the mode of thought and the body of principle underlying the activities of an organization

According to Fagbemi (2006) a policy refers to what an organization or a person intends to do or does. Business policy therefore is what business organization intends to do. It aims at assisting the organization to deliver services to meet the needs and expectations of the goals of the organization. It aims at addressing organizational problems which affect the success of the total enterprise, map out future course of action that an organization has to adopt, choose the purpose and define what needs to be done in order to mould the character and identity of an organization, and the mobilization of resources, which will help the organization to achieve its goals.

Policies are plans in that they are general statements or understandings that guide or channel thinking in decision making. In actual business situation, not all policies are statements; they are often merely implied from the action of managers. The president of a company (organization), for example may strictly follow-perhaps for convenience rather than as policy-the practice of promoting from within; the practice may be interpreted as policy and carefully followed by subordinates. Weighrich and Koontz (2005) submitted that business policy is a guide and roadmap to create awareness and direction to the management of any organization. It publicizes the rights and obligations of different rung of the ladder- horizontal and vertical- of the different capital be human resource engagement, finance utilization etc. It ensures that organizations deliver better end product within a framework. It encourages, promotes and improves performance attainment in an organization.

Policy provides the bedrock for vision and mission statement of the business organization along the corporate objectives and goal. Policy enables the business to be assessed and given an image by the way the carry out their responsibility along with their relationship with their clients/customers. It is the barometer of playing by the rule and gives purpose to the strategy thrust of the organization.

Nature of policy

Before we proceed to understand the nature of business policy, let us witness these situations, as reported in an issue of a reputed business magazine in India: (Business India, 1999, cited in Kazmi, 2006).

- Exide reaps the benefits of its strategies, which include modernization, expansion, and acquisitions, to become the integrated leader in the battery sector.
- Costly expansions and poor demand have forced JK Corp to rework its strategies. It is now banking its future on its core paper business. This will come through the divestment of its cement division, Laxmi Cements, and the acquisition of the Central Pulp Mills.
- Tisco is using divestments and mergers to restructure its core businesses of steel, allied industries, refractory, and engineering.

- Exim Bank (the Export and Import Bank of India), established in the early eighties with the objective of extending support to Indian exporters and importers, still remains small given the Indian economy‘s requirements. As it faces tough competition from the scheduled commercial banks it needs a strategic vision to cope with the increasing competition in the new millennium.

From the above reports, we can see that when a company either promotes a joint venture, divests a part of its business, embarks upon an expansion programme, undertakes mergers and acquisitions or takes other similar actions which have a long-term impact on its future operations and status, those are a result of senior management decision-making. The senior management in any organization is primarily responsible for guiding the future course of action and for providing a sense of direction. Business policy attempts to inculcate the capability for senior management in one toward these ends.

As defined by Christensen *et al.* (1982) cited in Kazmi, 2006), business policy is the study of the function and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identify and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstances‖ (Christensen *et. al.,* 1982).

This comprehensive definition covers many aspects of business policy. Firstly, it is considered as the study of the functions and responsibilities of the senior management related to those organizational problems which affect the success of the total enterprise. Secondly, it deals with the determination of the future course of action that an organization has to adopt. Thirdly, it involves choosing the purpose and defining what needs to be done in order to mould the character and identity of an organization. Lastly, it is also concerned with the mobilization of resources, which will help the organization to achieve its goals.

The senior management consists of those managers who are primarily responsible for long-term decisions, and who carry designations, such as, Chief Executive Officer, President, General Manager, or Executive Director. These are persons who are not concerned with the day-to-day problems but are expected to devote their time and energy to thinking and deciding about the future course of action. With its concern for the determination of the future course of action, business policy lays down a long-term plan, which the organization then follows. While determining the future course of action, the senior management has a mental picture of the type of organization they want their company to become.

While deciding about a future course of action, the senior management are confronted with a wide array of decisions and actions that could possibly be taken. The senior management exercises a choice, on the basis of given circumstances, and which, in their opinion, would lead the organization in a specific direction. By moving in a predetermined direction, an organization can attain its planned identity and character. Organizational decisions are not made in isolation and managerial actions cannot be taken without providing the resources necessary for them. While deciding about the future course of action, the senior management concern themselves with the financial, material and human resources that would be required for the implementation of the long-term plans.

Principles of policy formulation

1. **Specific-** Policy should be specific and definite. If it is uncertain, then the implementation will become difficult.

2. **Clear-** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.

3. **Reliable/Uniform-** Policy must be uniform enough so that it can be efficiently followed by the subordinates.

4. **Appropriate-** Policy should be appropriate to the present organizational goal.

5. **Simple-** A policy should be simple and easily understood by all in the organization.

6. **Inclusive/Comprehensive-** In order to have a wide scope, a policy must be comprehensive.

7. **Flexible-** Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.

8. **Stable-** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

9. **Environment-compliant**: Policy should recognize economic principles and conform with established government laws, and also, must not be repugnant to public interest.

10. **Objectivity:** Policy must be arrived at from organisational facts and figures and sound judgment and not based on sentiments.

Wikipedia (2012) states that company policies are most effective as official written documents. While policies often differ in form depending on company size, industry, and length of time in business, policy documents generally contain certain standard components including:

- **Purpose Statement**, outlining why the organization is issuing the policy, and what the desired effect or outcome of the policy is.

- **Specifications**, including statements indicating the specific regulations, requirements, and organizational behavior that the policy is creating.

- **Implementation section**, indicating which parties is responsible for carrying out individual policy statements and how policy adherence will be ensured.

- **Effective Date**, which indicates when the policy is considered in force (an executive signature or endorsement can be useful to legitimize the policy).

- **Applicability and Scope Statement**, describing whom the policy affects and which actions are impacted by the policy.

- **Background**, indicating any reasons, history, and intent that led to the creation of the policy, which may be listed as motivating factors.

- **Definitions**, providing clear definitions for terms and concepts found in the policy document.

❖ **Define business?**

❖ Self-Assessment Exercises

I. Name forms of business. 2. Justify why businesses should not only aim at profit. 3. Highlight how business policy evolved.

1.3.3: BUSINESS POLICY (Definitions, objectives and purposes of business policy)

Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run. Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization (Wikipedia, 2012).

It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions. Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Rao (2010) gave some useful definitions of Business Policy as follows:

A business policy is an implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.

(1) A business policy is one, which focuses attention on the strategic allocation of scarce resources. Conceptually speaking strategy is the direction of such resource allocation while planning is the limit of allocation.

(2) A business policy represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions.

(4) A business policy is the study of the nature and process of choice about the future of independent enterprises by those responsible for decisions and their implementation.

The purpose of a business policy is to enable the management to relate properly the organization‘s work to its environment. Business policies are guides to action or channels to thinking.

Objectives of business policy

The main objective of business policy is performance driven which ensures delivery of service or product depending on purpose of which the business was set up-service or product oriented.

Business policy specific objectives ensure:

- Efficiency and effectiveness in performance of duties
- Equal provision of services and treatment of customers
- Better management and provision of better quality services
- The utilization and application of resources
- The formulation mission statement
- The establishment of vision of the organization

Policies are always aligned with the objectives of the enterprise if it is to be effective. All policies follow parallel courses and directly related to objectives. If they cross or oppose objectives; collective effect is lost and disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy (Kalejaye, 1998).

Other objectives of business policies include:

- drive strategic planning, and help set expectations and performance objectives.
- lead to more efficient internal operations.
- engage and align the values of stakeholders; and build mutual understanding of expectations and challenges.
- ensure accountability and create transparency.
- promote ethical and responsible decision-making.
- assess and mitigate risk.
- streamline new staff orientation; having established written policies that staff can refer to create consistency, clarity, and provides an understanding of the goals and culture of the company.

- result in time savings: proactively thinking about how specific situations and issues will be handled eliminates having to discuss and debate how to handle issues every time they come to the forefront.
- meet legal requirements; some laws require employers to adopt cert ain policies to guide the actions of their staff and management. Example: Discrimination/Harassment Policy.

Meanwhile, students need to pass through this class and equally allow the class to pass through them as they stand to gain a lot in the area of integrating the various functional tactics and efforts (i.e. by marrying the knowledge acquired in the management classes) together to accomplish a unified whole.

Kazmi (2006) opined that business policy is important as a course in the management curriculum and as a component of executive development programmes for middle-level managers who are preparing to move up to the senior management level. A study of business policy fulfills the needs of management students as well as those of middle-level managers. To highlight the importance of business policy, we shall consider four areas where this course proves to be beneficial.

- **Learning the Course**

Business policy seeks to *integrate the knowledge and experience* gained in various functional areas of management. It enables the learner to understand and make sense of the complex interaction that takes place between different functional areas.

Business policy *deals with the constraints and complexities of real-life businesses*. In contrast, the functional area courses are based on a structured, specialized and well-developed body of knowledge, resulting from a simplification of the complex overall tasks and responsibilities of the management.

To develop a theoretical structure of its own, business policy *cuts across the narrow functional boundaries* and draws upon a variety of sources – other courses in the management curriculum and a wide variety of disciplines, like economics, sociology, psychology, political science, and so on. In so doing, business policy offers a very broad perspective to its students.

Business policy *makes the study and practice of management more meaningful* as one can view business decision-making in its proper perspective. For instance, in the context of business policy, a short-term gain for a department or a sub-unit is willingly sacrificed in the interest of the long-term benefit that may accrue to the organization as a whole.

- **Understanding the Business Environment**

Regardless of the level of management a person belongs to, business policy helps to *create an understanding of how policies are formulated*. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation.

By gaining an understanding of the business environment, *managers become more receptive to the ideas and suggestions of the senior management*. Such an attitude on the part of the management makes the task of policy implementation simpler. When they become capable of relating environmental changes to policy changes within an organization,*managers feel themselves to be a part of a greater design*. This helps to reduce their feeling of isolation.

- **Understanding the Organisation**

Business policy presents *a basic framework for understanding strategic decision-making* while a person is at the middle level of management. Such a framework, combined with the experience gained while working in a specialized functional area, enables a person to make preparations for handling general management responsibilities. This benefits the organization in a variety of ways.

Business policy, like most other areas of management, brings *the benefit of years of distilled experience in strategic decision-making* to the organization and also to its managers. Case study – which is the most common pedagogical tool in business policy – provides illustrations of real-life business strategy formulation and implementation.

An understanding of business policy may also lead to an *improvement in job performance*. As a middle-level manager, a person is enabled to understand the linkage between the different sub-units of an organization and how a particular sub-unit fits into the overall picture. This has far-reaching implications for managerial functions like coordination and communication, and also for the avoidance of inter-departmental conflicts.

- **Personal Development**

A study of business policy offers considerable scope for personal development. It is a fact of organizational life that the different sub-units within an organization have a varying value and importance at different times. It often happens that a company which has followed a production-orientation as a matter of policy gradually shifts emphasis to marketing may be due to increasing competition. In the changed situation, executives within the production departments have fewer opportunities for career advancement as compared to their colleagues in marketing. In this case, *it is beneficial for an executive to understand the impact of policy shifts on the status of one's department and on the position one occupies*. In extreme cases, many positions may become redundant due to policy shifts and retrenchment is inevitable.

Business India cautions executives, especially those who work for multinationals. It says persons who have devoted their lives working for one company suddenly find bewildering changes at head offices in the UK and US‖, and adds that reorganization and changes at the top level can have a dramatic impact on individuals. It is only too common for divisions of a company to be shut down worldwide, or to be sold off to another company. An understanding of business policy enables executives to *avail an opportunity or avoid a risk with regard to career planning and development*.

While making a career choice, a study of business policy *provides an adequate grounding for understanding the macro factors and their impact at the micro level*. By gaining an understanding of such an impact, an executive is better placed to identify the growth areas. For instance, in the current business situation in India, a career in the computer industry, especially in software, would offer better personal growth opportunities than, say, the steel industry. Business policy offers *a unique perspective to executives to understand the senior management's viewpoint*. With such an understanding the chances that a proposal made by or an action taken by an executive will be appreciated by senior managers is decidedly better.

An interesting by-product of the business policy course is the *theoretical framework provided in the form of the strategic management model*. The applicability of this model is not limited to businesses alone. It can be applied to organizations like, services, educational institutions, family, government, public administration, and to many other areas. In fact, the model provides powerful insights for dealing with policy-making at the macro level as well as at an individual level through self-analysis.

The importance of business policy stems from the fact that it offers advantages to an executive from multiple sources. Apart from the intangible benefits, an executive gains an understanding of the business environment and the organization he or she works in. such an understanding can help considerably in career planning and development.

Having studied the importance of business policy, we now move ahead to understand the purpose it can serve for its learners.

Objectives derivable from business policy and what learners stand to gain

Knowledge

1. The learners of business policy have to understand the various concepts involved. Many of these concepts, like, strategy, policies, plans, and programmes are encountered in the functional area courses too. It is imperative to understand these concepts specifically in the context of business policy.
2. A knowledge of the external and internal environment and how they affect the functioning of an organization is vital to an understanding of business policy. Through the tools of analysis and diagnosis, a learner can understand the environment in which a firm operates.

3. Information about the environment helps in the determination of the mission, objectives, and strategies of a firm. The learner appreciates the manner in which strategy is formulate.

4. The implementation of strategy is a complex issue and is invariably the most difficult part of strategic management. Through the knowledge gained from business policy, the learner will be able to visualize how the implementation of strategic management can take place.

5. To learn that the problems in real-life business are unique and so are the solutions is an enlightening experience for the learners. The knowledge component of such an experience stresses the general approach to be adopted in problem-solving and decision-making. With a generalized approach, it is possible to deal with a wide variety of situations. The development of this approach is an important objective to be achieved in terms of knowledge.

6. To survey the literature and learn about the research taking place in the field of business policy is also an important knowledge objective.

Skills

1. The attainment of knowledge should lead to the development of skills so as to be able to apply that which has been learnt. Such an application can take place by an analysis of case studies and their interpretation, and by an analysis of the business events taking place around us.

2. The study of business policy should enable a student to develop analytical ability and use it to understand the situation in a given case or incident.

3. Further, the study of business policy should lead to the skill of identifying the factors relevant in decision-making. The analysis of the strengths and weaknesses of an organization, the threats and opportunities present in the environment, and the suggestion of appropriate strategies and policies form the core content of general management decision-making.

4. The above objectives, in terms of skills, increase the mental ability of the learners and enable them to link theory with practice. Such an ability is important in managerial decision- making where a large number of factors have to be considered at once to suggest appropriate action.

5. As a part of business policy study, case analysis leads to the development of oral as well as written communication skills.

Attitude

1. The attainment of the knowledge and skill objectives should lead to the inculcation of an appropriate attitude among the learners. The most important attitude developed through this course is that of a generalist. The generalist attitude enables the learners to approach and assess a situation from all possible angles.

2. By acting in a comprehensive manner, a generalist is able to function under conditions of partial ignorance by using his or her judgement and intuition. Typically, case studies provide only a glimpse of the overall situation and a case analyst frequently faces the frustrating situation of working with less than the required information. Experience has shown that managers, specially in the area of long-range planning, have to work with incomplete information. A specialist would tend to postpone or avoid a decision under such conditions but a generalist would go ahead with whatever information was available. In this way, he or she acts more like a practitioners rather than a perfectionist.

3. For a general manager information and suggestions are important to possess a liberal attitude and be receptive to new ideas. Dogmatism with regard to techniques should be replaced with a
4. practical approach to decision-making for problem-solving. In this way, a general manager can act like a professional manager.

5. It is important to have the attitude to go beyond and think' when faced with a problematic situation. Developing a creative and innovative attitude is the hallmark of a general manager who refuses to be bound by precedents and stereotyped decisions.

An Alternative Viewpoint on the Objectives of Business Policy Course

Anisya S. Thomas of Florida International University says that the fundamental objectives of the capstone business policy course have remained relatively stable over a long period of time. There is broad agreement among textbook writers and instructors that these objectives encompass content as well as process dimensions, that is, they deal with the core concepts and theories and also seek to teach an analytical process that incorporates multiple perspectives. More specifically, these objectives are as below:

1. **Integration of functionally specific knowledge**: Business policy acts as an integrative, capstone course demonstrating the interdependence between separate functional areas, such as marketing, finance, and so on.

2. **Understanding the big picture**: Communicating the appreciation of the synergy created by managing the interdependence among the functional areas is a critical objective of business policy. A general management perspective aids in exposing the student to the tradeoffs involved in achieving superior performance by balancing the internal competencies with the external requirements.

3. **Working in, managing, and leading a team**: Working with and managing a diverse and flexible team is a critical priority with the corporate recruiters. (Interestingly, a similar view is expressed on the basis of surveys conducted by the Indian business magazines too.) Business policy tries to build up the teamwork spirit by illustrating the finer aspects of group dynamics and by bringing together students from different specialization areas.

4. **Enhancement of comprehension and communication skills**: Business policy lays great emphasis on allowing students to be active participants in the learning process. In contrast to the functional courses, there is a stress on using methodologies, such as case discussions, and oral and written presentations and reports.

5. **Ability to assess the applicability and relevance of strategic management research** (theory to practice): Theoretical advances in the field of business policy are taking place rapidly. It is necessary for the students to evaluate the relative merit and applicability of theoretical advances to deal with the rapid environmental and strategic changes that characterize the business arena. So it is imperative that the students not just learn but also learn how to learn (Kazmi, 2006).

Having looked at the above alternative view of the objectives of business policy course, you will be in a position to gain further insight into the issue. The objective of business policy, in terms of knowledge, skills and attitude could be further extended to the areas of behavior and performance.

After having attained a knowledge of the objectives in the classroom, or in an executive development programme, the learner is expected to exhibit appropriate behavior and good performance on the job. The structure of business policy, built through the accumulation of experience as one moves up the managerial ladder. The richness and variety of experience gained as one moves up the managerial ladder in business offers opportunities of testing, validating, and replicating the mental images and models learnt in the business policy course. Such an approach imparts an added impetus to the development of general management capability which is the *sine qua non* for a manager who wishes to succeed in his or her job and make a meaningful contribution to the organization he or she works for.

Purposes of business policy

Business policy' is a term associated with the integrated management course, which is generally studied in the latter part of the degree or diploma, and is preceded by the study of functional area courses in finance, marketing, operations and personnel (Kazmi, 2006). A business policy course seeks to integrate the knowledge gained in various functional areas so as to develop a generalist approach in management students. Such an approach is helpful in viewing organizational problems in their totality. It can also create an awareness about the repercussions that an action taken in one area of management can have on other areas individually, and on the organization as a whole.

The viewpoint adopted in business policy is different from that adopted in the functional area courses. For instance, a marketing problem is not viewed purely as a problem of marketing but as an organizational problem. A course in business policy helps in understanding a business as a system consisting of a number of sub-systems. Any action taken in one sub-system has an impact on other sub-systems, and on the system as a whole. It is of vital importance for the top management in any organization to adopt such a systems approach to decision-making. Business policy helps a manager to become a generalist by avoiding the narrow perspective generally adopted by the specialists, and to deal with business problems from the viewpoint of the senior management.

The problem of declining sales volume is apparently a marketing problem. However, an analysis of the problem will show that its roots may probably lie anywhere in the organization. Declining sales volume may be due to a rising level of competition, inefficient distribution, faulty sales promotion, inappropriate recruitment policies, misdirected training, inadequate sales promotion, limited commission to sales personnel, falling quality standards, a decrease in the variety of products offered, outdated design, underutilization of capacity, demotivating credit policies and so on a problem, which apparently seems to be a marketing problem, may be due to factors not necessarily within the control of the marketing department.

A solution to the problem would necessitate transgressing the artificial boundaries between the functional areas, each of which is looked after by a team of specialists. These specialists, due to their background, training and, possibly, loyalty to their disciplines are unaware and ill-equipped to deal with all the problems in entirety. They may come up with short-term solutions but these are only like first-aid to a victim when a thorough diagnosis and treatment is required to mitigate the misery. A generalist, on the other hand, is better qualified to deal with organizational problems and can come up with solutions that will have a lasting effect. On the basis of the above discussion, we can say that the purpose of business policy is three-fold:

1. to integrate the knowledge gained in various functional areas of management;
2. to adopt a generalist approach to problem-solving, and
3. to understand the complex inter-linkages operating within an organization through the use of a systems approach to decision-making and relating these to the changes taking place in the external environment.

❖ **What is business policy and why should organizations formulate business policy?**

1.4 **Summary**

Business involves continuous conversion of material inputs and distribution of outputs with which could be goods or services for profit-making purpose under unstable market situations. From the reviewer's point of view, business can be defined as any human activity tailored towards satisfying identified needs/wants in anticipation of profit. However, in this modern/digital age, the definition of business has taken a new dimension considering the contemporary inputs of leading modern theorists/academics/professionals who are in support of definitions that consider the interests of stakeholders first and see it as paramount considering the fact that businesses can only strive in an atmosphere of peace and tranquility which the environment stands to offer. Forms of business are sole proprietorship, partnership, corporation, and cooperative: Policies on its own part is a guide to action and aims at assisting the organization to deliver services to meet the needs and expectations of the goals of the organization. It aims at addressing organizational problems which affect the success of the total enterprise, map out future course of action that an organization has to adopt to steer the ship of the organization. In line with the above, business policy course seeks to integrate the knowledge gained in various functional areas so as to develop a generalist approach in management students.

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1.6 Possible Answers to Self-Assessment Exercises

POSSIBLE ANSWERS TO SAEs

1a. Sole proprietorship business, Partnership business, Corporation (Public & Private), Cooperative.

b. Businesses should think beyond profit making these days minding the level of unemployment, poverty, strife, banditry and climatic change that is not favourable to mankind.

2a. Policy focuses on the functions and responsibilities of the senior management related to those organizational problems which affect the success of the total enterprise.

b. It deals with the determination of the future course of action that an organization has to adopt.

c. Also, by its nature involves choosing the purpose and defining what needs to be done in order to mould the character and identity of an organization.

d. It is also concerned with the mobilization of resources, which will help the organization to achieve its goals.

3a. The essence of the business policy course is to avail students opportunity of pulling together what they have learned in the separate business fields (Human resource management, Financial management, operations management, marketing management) and utilize this knowledge in analysis of complex business problems.

b. Planning stage, Long-range planning stage, Strategic planning stage and Strategic management stage.

UNIT 2: EVOLUTION OF BUSINESS POLICY AND ITS PROSPECTS

Unit Structure

2.1 INTRODUCTION
2.2 LEARNING OUTCOMES
2.3 Business policy – an overview
2.3.1 Evolution of business policy
2.3.2 Business policy and its prospects
2.3.3 Business policy as a discipline-the justification
2.4 Summary
2.5 References/Further Readings/Web Sources
2.6 Possible Answers to Self-Assessment Exercises

1.0 INTRODUCTION

In the last unit, we gave an overview of the concept of business and forms of business. Here, we discussed the evolution of business policy and the prospects of the course in relation to organizations and then, the justification for its study as a course.

In this unit, we shall discuss evolution of business policy and its prospects and justification for embracing it in organisations.

2.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- explain how business policy evolved;
- discuss business policy prospects;
- explain the justification for its study and introduction in organizations.

2.3 EVOLUTION OF BUSINESS POLICY AND ITS PROSPECTS

2.3.1 Evolution of business policy

Hofer *et. al.* (1984) have viewed the evolution of business policy in terms of four paradigm shifts. For the sake of convenience, these shifts may be considered as four overlapping phases in the development of the subject, business policy. It is interesting to note that the development of business policy, as a field of study, has closely followed the demands of real-life business. According to Hofer et. al. (1984) (referred to above), the first phase which can be traced to the mid-1930s, rested on the paradigm of **ad-hoc policy-making**.

The need for **policy-making** arose due to the nature of the American business firms of that period. The first, which had originally commenced operations in a single product line catering to a unique set of customers in a limited geographical area, expanded in one or all of these three dimensions. Informal control and coordination became partially irrelevant as expansion took place and the need to integrate functional areas arose. This integration was brought about by framing policies to guide managerial action. Policy-making became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management. Due to the increasing environmental changes in the 1930s and 40s in the United States, planned policy formulation replaced ad-hoc policy- making. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.

Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the needs of a business could no longer be served by policy-making and functional area integration only. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship to the environment.

The **concept of strategy** satisfied this requirement and the third phase, based on a strategy paradigm, emerged in the early sixties. The current thinking which emerged in the eighties is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the strategic process of business firms and the responsibilities of general management.

The resolution of strategic issues that affect the future of a business firm has been a continual endeavour in the subject of business policy. The endeavour is based on the development of strategic thinking. As Whitefield says really useful training (in strategic management should yield) a comprehension of a few general principles with a thorough grounding in the way they apply to a variety of concrete details‖ (Whitefield, 1963, cited in Kazmi, 2006). Most likely, the students will forget the details and principles but remember (usually unconsciously) new, non-obvious ways of thinking strategically (Kazmi, 2006). The general principles undergirding strategic thinking have been the focus of the efforts of researchers and academicians in the field of business policy. What, then, are these general principles? As a first step, the model of strategic management that has developed so far, and is under constant review, incorporates these general principles.

2.3.2 Business policy and its prospects

The direction in which strategic management is moving: This can be anticipated from what Ansoff (1984) calls an emerging comprehensive approach of management of discontinuous change, which takes account of psychological, sociological, political, and systemic characteristics of complex organizations (Ansoff, 1984). With the emergence of futuristic organizations, businesses are no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual, and social problems (Toffler, 1980). The demands on business policy are expected to rise tremendously. The general managers of tomorrow may be called upon to shoulder a set of entirely new responsibilities necessitating a drastic review of the emerging concepts and techniques in business policy. Responding to the need for evolving new approaches to the teaching of business policy, the AACSB no longer insists on the provision of just one course in this area. Now there is an emerging trend to have several courses, such as, the theory of strategic competitive strategy, industry dynamics, hyper-competition, and global strategy in the curriculum (Kazmi, 2006). While reviewing the development of strategy and theory, Rumelt, Schendel and Teece (1994) posed four fundamental questions which, in their view, characterize the major concerns of strategic management. These four fundamental questions are:

1. How do firms behave? Or, do firms really behave like rational actors, and, if not, what models of their behavior should be used by researchers and policy-makers?
2. Why are firms different? Or, what sustains the heterogeneity in resources and performance among close competitors despite competition and imitative attempts?

3. What is the function of or the value added by the headquarters unit in a diversified firm? Or, what limits the scope of a firm?
4. What determines success or failure in international competition? Or, what are the origins of success and what are their particular manifestations in international settings or global competition?

In dealing with most of the issues raised by these fundamental questions, we would need to look at what has been happening in Nigerian business scene.

Kazmi (2006) states that business policy is a mandatory course which is usually included in a typical management studies curriculum which almost all management education programmes offered by the universities and management institutes in Nigeria include business policy course (by whatever nomenclature it may be addressed) normally in the latter part of a degree or diploma programme.

- How did business policy evolve and the different stages of evolvements?
- Predict the future of business policy with regard to managerial practices**.**

2.3.3 Business policy as a discipline

Tracing the history of business policy, Kazmi (2006) stated that it can be traced back to 1911, when the Harvard Business School introduced an integrative course in management aimed at providing general management capability. This course was based on case studies which had been in use at the School for instructional purposes since 1908 (Christensen, et. al., 1982 cited in Kazmi, 2006). However, the real impetus for introducing business policy in the curriculum of business schools (as management institutes or departments are known in the United States) came with the publication of two reports in 1959. The Gordon and Howell report, sponsored by the Ford Foundation, had recommended a capstone course of business policy which would give students an opportunity to pull together what they have learned in the separate business fields and utilize this knowledge in analysis of complex business problems (Gordo and Howell, 1959, quoted in Kazmi, 2006). The Pierson report, sponsored by the Carnegie Foundation, and published simultaneously, had made a similar recommendation.

Glueck and Jauch (1984 cited in Kazmi, 2006) have viewed the development in business policy as arising from the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers, till recently, tried to anticipate the future through the preparation of budgets and by using control systems like capital budgeting and management by objectives. However, as these techniques were unable to emphasise the role of the future adequately, long-range planning came into use. But, soon, long-range planning was replaced by strategic planning, and later, by strategic management, a term that is currently being used to describe the process of strategic decision-making. Strategic management forms the theoretical framework for business policy courses today.

❖ **Trace the evolution of business policy based on managerial practices.**

Self-Assessment Exercises 3

I. Why is the study of business policy important?
2.State the different stages of business policy evolvements.

2.4 SUMMARY

It is deduced that every organization including business which should not only focus on the profit side but capture interests of other stakeholders requires a policy as a decision rule to guide the activities and performance of the business to eventually achieve goals and objective of the organization. Also, the essence of the business policy course is to avail students opportunity of pulling together what they have learned in the separate business fields (Human resource management, Financial management, operations management, marketing management) and utilize this knowledge in analysis of complex business problems. In this unit, we have made an overview of the concept of business policy. The concepts of policy, business and business policy, principles of policy formulation and evolution of policy had also been respectively defined. We have also identified the reasons for business policy. Finally, explanations have been offered on objectives of a business policy and also the essence of the business policy class.

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2.6 POSSIBLE ANSWERS TO SAEs

1. The essence of the business policy course is to avail students opportunity of pulling together what they have learned in the separate business fields (Human resource management, Financial management, operations management, marketing management) and utilize this knowledge in analysis of complex business problems.

b. Planning stage, Long-range planning stage, Strategic planning stage and Strategic management stage.

UNIT 3: BUSINESS POLICY AND ITS IMPORTANCE IN ORGANISATIONS

Unit Structure

3.1 INTRODUCTION

3.2 LEARNING OUTCOMES

3.3 Business policy and its importance in organisations

3.3.1 Sources of business policies

3.3.2 Dimensions of business policies

3.3.3 Characteristics of business policies

3.3.4 Qualities of good business policies

3.3.5 Uses of policies for management effectiveness

3.4 SELF ASSESSMENT EXERCISE

3.5 REFERENCES/FURTHER READINGS

3.6 POSSIBLE ANSWERS TO SAEs

3.1 INTRODUCTION

In the last unit, we discussed evolution of business policy and its prospects. In this unit, the focus will be on sources of business policies; dimensions of business policies; characteristics of business policies; qualities of good business policies; and uses of policies for management effectiveness.

In this unit, we shall discuss business policy and its importance in organizations looking more into sources of business policies; dimensions of business policies; characteristics of business policies; qualities of good business policies; and uses of policies for management effectiveness.

3.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- Describe the sources of business policies;
- Discuss the dimensions of business policies;
- Explain the characteristics of business policies and qualities of good policies.
- Explain the uses of policies for management effectiveness

3.3 BUSINESS POLICY AND ITS IMPORTANCE IN ORGANISATIONS

3.3.1: SOURCES OF BUSINESS POLICIES

Kalejaye (1998) examined the major sources of policies and classified them as originated, appealed, implied and externally-imposed. These are explained as follows:

(1) **Originated Source** – The most acclaimed source of policies is the one from top management which originates for the express purpose of guiding the company's operations. Originated policies flow basically from the objectives of the enterprise, as they are defined by top executive authority. These types of policies may be broad in scope, allowing key subordinates to give them clearer definition or they might be promulgated so completely and comprehensively as to leave little room for definition or interpretation.

(2) **Appealed Source:** In practice, in most cases, policies stem from appeal through the hierarchical level of management authority. If occasion for decision arises for executives who do not know whether they have sufficient authority or how such matters should be handled, they appeal to their supervisors for the necessary support and action. As appeals are taken upward and decisions are made on them, a kind of rules and procedures are established. Precedent, therefore, develops and becomes guides for future managerial action and serves as reference point.

(3) **Implied Source:** Useful policies are developed from the actions which employees see about them and believe to constitute them. Employees will readily understand what real policy is if they work for a company that operate policies that produce high quality goals, or sound labour policy, for instance, though the real policy is implied.

(4) **Externally-imposed Source:** To a large extent, policies are externally-imposed by such agencies as the government, trade unions, professional associations and others like trade association. This might come in form of direct regulation or one of the many conditions of accepting government aid or contract; it could also be to maintain industrial peace. Besides, local and state governments, professional associations, social and charitable organisations do influence the policies of organisations.

3.3.2: DIMENSIONS OF BUSINESS POLICIES

Top-to-Bottom Approach

Some policies cut across all functional areas of the organisation. Many are so interrelated with all area of operations that their significance can best be understood by the top level management. Policies that originate from the top arise out of broad, basic needs perceived and defined by the top managers. In large corporations today, for instance, the Chief Accountant is an important contributor to advance planning and policy formulation. Complex taxes, new accounting procedures, mergers, computerization, insurance, pensions, investment options and appraisal, profit sharing, and depreciation of assets and other many cost implication corporate issues cause the Chief Accountant to become involved in areas that are broad than strictly finance.

General policies or corporate policies affecting all areas of operation usually originate from the top management. Descending levels in the organisation structure will be guided by these policies when formulating more limited policies at their own levels.

Functional Approach

Those in charge of functional areas, and/or departments are generally involved in establishing policies for those areas. Marketing executives formulate marketing policies, purchasing executive formulate purchasing policies; personnel managers formulate personnel policies, etc. These are operational policies proposed and formulated at functional areas and departmental levels. Managers must be consistent and operate within corporate policy guidelines while formulating policies at these levels. Policy established within functional areas may influence the formulation of policy in other functional areas as well as the strategies developed to pursue those policies.

Bottom-to-Top Approach

There are lots of advantages and wisdom in inviting supervisors and other operating personnel to participate in developing and implementing policies. Whenever possible, non-management employees should have a voice in policy matters that will directly affect them or their work. This kind of Participative Management‖ engenders good human relations. It gives the managers a chance to hear from the workers reactions to subject policies and to accommodate them, but also to give the workers the opportunity to gratify deep seated needs for recognition and influence on the group's functioning. Also, by participating in policy making, a worker develops a managerial perspective and a tendency to consider the enterprise as a whole, thereby contributing to its success.

One important thing to note in the above arrangement is that policies and suggestions which may originate at or near the bottom of an organisation and which may be useful never get to the top except through strong influential pressures. If the higher level management is receptive to ideas, feelings and attitudes of those below, they will derive valuable policy inputs from them. The openness of upward communication and the use of participative management method can do much to generate upward policy formulation process.

In general, it is advisable that managers review all policies periodically, as some might have outgrown their original purpose or usefulness. They should not be glorified and perpetuated merely because they are policies, rather, they should be modified or replaced when circumstances call for such a change. Once a policy has been adopted or modified, it should be communicated to all affected by it. It is advisable to communicate policy statements at all levels in writing and to maintain a policy file that is accessible to everyone. Persons expected to conform to a policy have a right to know that such a policy exists, the purpose of that policy and why it was formulated.

❖ **Explain the different sources of policy**

Self-Assessment Exercises 1

I. What are the different sources of policy.
2. Describe a top-bottom approach to policy making.

3.3.3: CHARASTERISTICS OF BUSINESS POLICIES

Sound policies usually contain a combination of the following characteristics:

(1) Destiny
(2) Top Management Approval and Commitment

(3) Intellectual Input
(4) Consistency and Long-term in Nature
(5) Acceptability
(6) Communicated to Staff
(7) Genuine Intention and Application
(8) Balanced Interpretation
(9) Alignment with Objective

- **Destiny** – A common characteristic of business policy is that it denotes future action and intent. It usually describes a goal or destiny which is there to be achieved. In addition, it implies a conviction in a set of beliefs which is considered right‖ for the people in the organisation. The manner a policy is expressed and the detailed procedures which stem from it all point in the same direction and do not allow individual actions to follow a different direction. If the actual procedures and wording do not imply belief in a course of action, then it is probably a wrongly formulated policy.

- **Top Management Approval and Commitment** – In practice, making contributions and recommendations on policy issues may be the function at the lower levels of management in the organisation, but it is the hallmark of policy that it is approved and endorsed by the top management. This may be Board of Directors and Managing Director or the responsibility may be delegated to a top executive committee. Directors and top managers are primarily responsible for policy making and setting long-term objectives. Once the series of policies are approved at the top, there is every possibility that all segments of the organisation will move to the same direction toward the set objectives.

- **Intellectual Input** – Policy requires a high level of intellectual and intelligent inputs because policies are concerned about the future activities deemed to be just and right for the organisation. Policies must be able to withstand pressures, opposition and challenges from all parts of the organisation and its environment which may see and treat the policies differently. Without a high degree of thorough analysis and deep thought of reasoning during formation, a policy may be less effective and may even fail to provide the framework for enduring decision making.

- **Consistency and Long-term in Nature:** Usually, policy makers have thought through all aspects of a particular policy culminating into consistent and enduring policy thereby making frequent amendments difficult. Constant changes in the course of action and direction of an organisation will surely bring about confusion, resenting and even generally derail all things that sound policies are trying to achieve. Practically, almost all policies are long-term in nature, although for practical purposes; long-term policies are sub-divided into short-term. It is worthy of note that there could be circumstances in which refinement and revision might be required; in essence, they are intended to create a continuum against which day-to-day standards and decisions can be made.

- **Acceptability** – The degree of acceptance of organisation policy to everyone is marked by the persistence and understanding of employees who want to know why the policy is made or changed. Genuine reasons must be forthcoming and management needs to provide supervisors with sufficient information to satisfy queries regarding a policy. There is danger in withholding information which often leads to gossip and speculation in an organisation as this can be disorganizing, cause increased friction between management and employees, upset and strain relationships through general suspicion and mistrust.

- **Communicated to Staff** – As soon as policies are formulated and ratified, they should be communicated to members of the organisation. Everybody must be aware about the mission and objectives of the organisation; hence, there should be no exception in communicating policies to the members of the organisation. Appropriate channels must be used in channeling policies throughout the organisation, so that nobody is left out. This, of course, will cement relationship in the organisation and motivate the staff to reach higher heights.

- **Genuine Intention and Application:**
  It is not uncommon for management to declare policy for prestige purposes, such as publicity and then fail to put the policy into practice. Management‘s intention, in these circumstances, is to ignore and dump the declared policies. In some cases, some managers apply policies in wrong and negative ways, hiding under one excuse or the other for not carrying out some course of

action. These types of policies are rarely put into writing and where it is in written form; they are usually wrongly worded in such vague manners that will distort to fit in with any course of genuine action at the line. These types of policies must be avoided; every policy of the management must be treated with all the seriousness it deserves and must be genuinely applied to the intended course of action.

- **Balanced Interpretation:** While correctly interpreting policies, managers do rigidly conform to principles and procedures without due regard for the human elements of the organisation and emerging pressing issues. Something more than correctness is required in human society and ever changing complex environment; all these factors, when weighed carefully, might well provide a more balanced interpretation which would relegate to the background the narrow correct ones. A little of flexibility to accommodate the emerging factors and balanced interpretation of policies are the real art of managing and supervising which cannot be attributable to abuse of policy.

- **Alignment with Objective:** All policies must follow parallel courses of action which are directly related to objectives. If they cross or oppose objectives, collective effect is lost and disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy. These identified dangers highlight the need for careful checking of ambiguity in policy so as to avoid misunderstanding especially at the lower level of management hierarchy.

3.3.4: QUALITIES OF GOOD BUSINESS POLICIES

Wikipedia (2012) states that company policies are most effective as official written documents. While policies often differ in form depending on company size, industry, and length of time in business, policy documents generally contain certain standard components including:

- **Purpose Statement**: A good business policy should outline why the organization is issuing the policy, and what the desired effect or outcome of the policy is.

- **Specifications**: A good business policy statement should indicate the specific regulations, requirements, and organizational behavior that the policy is creating.

- **Implementation section**: The quality of a business policy lies in its ability to indicate which party is responsible for carrying out individual policy statements and how policy adherence will be ensured.

- **Effective Date**: A good business policy should indicate when the policy is considered in force (an executive signature or endorsement can be useful to legitimize the policy).

- **Applicability and Scope Statement**: It should be able to describe whom the business policy affects and which actions are impacted by the policy.

- **Background**: A good policy should indicate any reason(s), history, and intent that led to the creation of the policy, which may be listed as motivating factors.

- **Definitions**: A good business policy should provide clear definitions for terms and concepts found in the policy document.

❖ **Discuss the qualities of good business policy in organizations**

Self-Assessment Exercises 2

I. Discuss the roles of policies in ensuring organizational effectiveness.
2.What are the qualities of good business policy?

3.3.5 Uses of policies for management effectiveness

Policies are of great importance to every organisation as they are used to establish stable institution, create identity, shape planning and boost the organisation‘s image and acceptability by the public. Kalejaye (1998) itemised the various uses of policies as follows:

1. Policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organisational units thus facilitating the delegation process.
2. Policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to further action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things. As long as managers are conforming to the organisation's policies, they can safely proceed and use their own initiatives.
3. Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organization.
4. Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that their actions are consistent with organisational policies, they are more likely to take actions than do nothing.
5. Definiteness and flexibility are both desirable to goals attainment, but calculating the trade- off lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.
6. To the subordinates, policies will not only serve as means of exercising authorities, it also lay down the guidelines that define and limit the exercise of the subordinates authorities and responsibilities.
7. Policies under-guide the planning of a future course of actions. They show the way the future plans and activities of an organisation are formulated and implemented.
8. Policies define and clarify the objectives and goals of an organisation. They give a further definition on how the objectives of the organisation can be accomplished.
9. Policies are particularly necessary at lower levels where relationship between actions and objectives are most of the time vaguely articulated. Policies are used to bridge the gap – ensuring that staff actions are consistent with the broad policies and actions of others in the organisation. If this were not done by policies, every action will have to be approved, putting an impossible communications burden on coordinating supervisors.

10. Policies are used to mould and project the image of the organisation before the interest groups such as shareholders, suppliers, customers, employees and the public in general. The reputation that a company enjoys, whether favourable or otherwise, is frequently linked to the way the outsider perceives the company through its policy structure. It is common to hear people making statement such as the firm is known to be liberal in its credit policy or the policy dictates positive attitude towards employees.

3.4 SUMMARY

We have gained familiarity with business policy and its importance in organisations through sources of business policies, its dimensions, and its characteristics. Also, qualities of good policies and uses of policies for management effectiveness have been discussed. Uses of policies include the following: Policies are of great importance to every organisation as they are used to establish stable institution, create identity, shape planning and boost the organisation‘s image and acceptability by the public. According to Kalejaye (1998) as discussed above, policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organisational units thus facilitating the delegation process. Also, policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to further action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things. As long as managers are conforming to the organisation‘s policies, they can safely proceed and use their own initiatives among others.

3.5 REFERENCES/FURTHER READINGS/WEB SOURCES

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3.6 POSSIBLE ANSWERS TO SAEs

1. Different sources of policy are originated policy, appealed policy, implied policy, and externally-imposed policy.
2. Top-bottom approach to policy making are policies that originate from the top arise out of broad, basic needs perceived and defined by the top managers.
3. According to Kalejaye (1998) policies are used to establish stable institution, create identity, shape planning and boost the organisation's image and acceptability by the public and these include:
   - Preventing deviation from planned course of action by providing definite guide to follow.
   - Providing a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans.
   - Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organization.
   - Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that their actions are consistent with organisational policies, they are more likely to take actions than do nothing.
   - Definiteness and flexibility are both desirable to goals attainment, but calculating the trade- off lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.

4. Qualities of good business policy include purpose statement, specifications, implementation section, effective date, applicability and scope statement among others.

UNIT 4 POLICY FORMULATION AS A SKILL

Unit Structure

4.1 INTRODUCTION
4.2 LEARNING OUTCOMES
4.3 Policy formulation as a skill
.3.1 Types of Policy
4.3.2 Reasons for formulating policies
4.3.3 The art of formulating Policy
4.3.4 Policy making process/procedure
4.3.5 Roles of employees in policy formulation
4.4 SELF ASSESSMENT EXERCISE
4.5 REFERENCES/FURTHER READINGS
4.6 POSSIBLE ANSWERS TO SAEs

4.1 INTRODUCTION

In the last unit, we discussed sources of policy, dimensions of policy, characteristics of business policy, qualities of good policy and uses of policies for management effectiveness. In this unit, we shall discuss types of policies, the art of policy formulation, process of policy making and roles of employees in policy formulation, and reasons for formulating policies.

4.2 LEARNING OUTCOMES (LOs)

- By the end of this unit, you will be able to:
- Discuss types of policy;
- Explain reasons for formulating policy;
- Discuss the art of policy formulation;
- Describe the procedures of policy formulation;
- Discuss employees' roles in policy formulation

4.3 POLICY FORMULATION AS A SKILL

4.3.1:TYPES OF POLICIES

Most organisations produce statements and explanations on what they are trying to achieve in particular areas. Policies are subdivided and stated in terms of procedures i.e. series of related steps or tasks expressed in a chronological order, and rules i. e. prescribed course of actions that explicitly state what are to be done under a given sets of circumstances. Many organisations provide parameters within which decisions must be made. Some of these will be written by specialists in different operational areas, like employment matters which may focus on hiring and firing, sales and marketing departments may provide guidelines of pricing and credit facilities; purchasing department policies may prohibit gifts from suppliers. Some policies focus on materials/stock and others on capital and equipment. Some describe objectives and others means. In general, policies may be classified in relation to personnel, capital, objectives, means and specific organisational areas. This is an arbitrary but convenient way to classify policies. It should be noted that these categories are not mutually exclusive but frequently overlap.

The type of organization influences the type of policies muted out for compliance. The regulations which guide decisions and actions vary considerably and cut across the hierarchical structure of the organization depending on the nature and magnitude of objective. There are many types of policies; marketing policies, financial policies, production policies, personnel policies to name a few in every organization. Within each of these areas more specific policies are developed. For example, personnel policies may cover recruitment training promotion and retirement policies. Viewed from a systems angle, policies form a hierarchy of guides to managerial thinking. At the top of level policy statements are broad.

The management is responsible for developing and approving major comprehensive company policies. Middle managers usually establish less critical policies relating to the operation of their subunits. Policies tend to be more specific at lower levels. The manager's job is to ensure the consonance of these policies, each must contribute to the objectives of the firms and there should be no conflict between sub system policies. Although it is customary to think of policies as written statements it is not necessarily the case. For example a firm may simply decline to consider handicapped employees in the selection of new personnel. In effect, this becomes an effective policy even though the company has never verbalized its position.

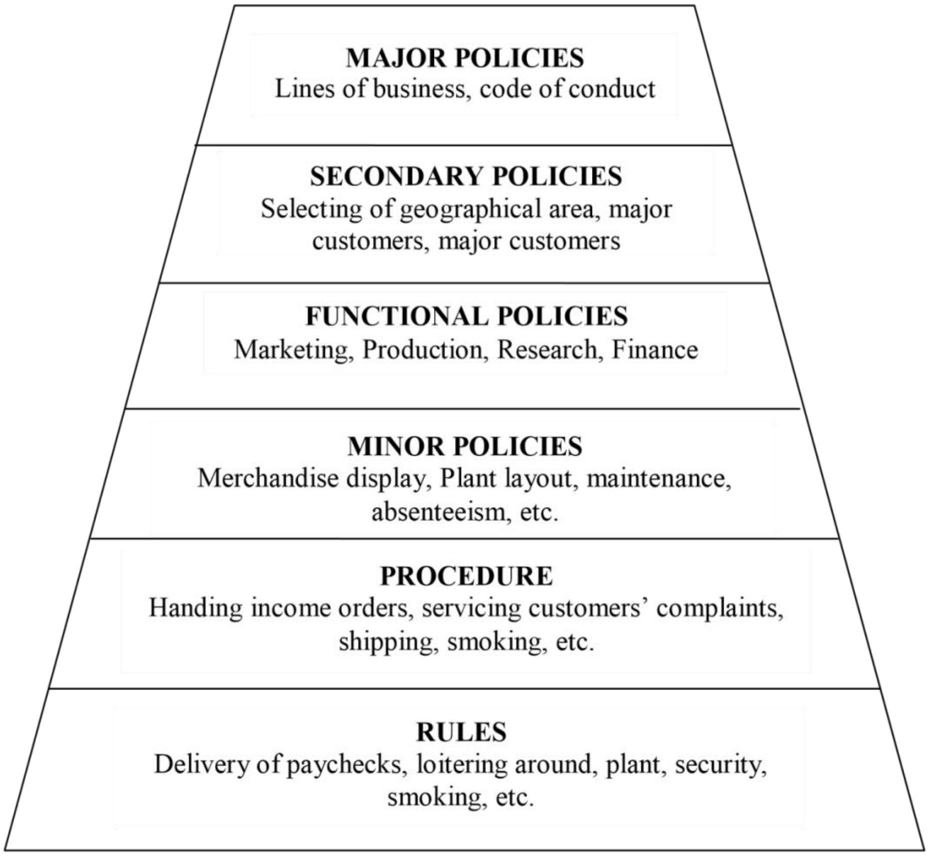
There are many types of policies. Examples include:

- hiring university-trained engineers;
- encouraging employees suggestions for improved cooperation;
- promoting from within, conforming strictly to a high standards of business ethics;
- setting competitive prices; and
- insisting on fixed, rather than cost-plus, pricing.

Hicks and Gullett (1985) expressed the opinion that every operating areas ranging from sales, procurement, manufacturing, personnel (human resources) and finance need a hierarchy of supporting policies to drive the business. This move enhances policies as guide to decision define the boundaries within the organization and they direct decisions toward accomplishing objectives thereof. In the progression from objectives to policies to procedures to rules, the limits become increasingly narrow.

Steiner (1969) stated that the regulations which guide decisions and actions vary considerably and cut across the hierarchical structure of the organisation depend on the nature and magnitude of mission to be accomplished. He therefore developed a pyramid to demonstrate the relationship among various types of business policies will be used as a model as discussed below:

Figure 3.1 Steiner's Pyramid of Business Policies



Source: Steiner, G. (1969 quoted in Kalejaye, A., 1998).

Top Management Planning, Macmillan, New York.

- Major policies
- Secondary (corporate) policies
- Functional policies
- Minor policies
- Procedure
- Rules

Major Policies

Major policies are formulated at the top of the organization and relate to the company's main purpose. They provide guide line pertaining to such things as the line of business and ethical conduct of organization.

Secondary or Corporate Policies

These policies are broad and general policies formulated at the upper levels of management of the organization. These policies apply to the entire organization and deal with business facets such as the selection of major products and services and the selection of marketing areas. Much of the information generated in the proper formulation of major policies can be used in determining secondary policies, which are more specific than major policies.

Functional Policies

These deal with specific functional areas of the organization. They involve policies that specifically related to marketing production, finance, and other functional areas. For instance, the ABC Transport Company will accept customer exchanges or returns made within one month after purchase is an example of functional policy related to marketing.

Minor Policies

They are subordinate to functional policies and define in details such matters as maintenance of equipment, schedules, plant layout, absenteeism etc.

Procedure

This is a series of related steps or related steps or tasks expressed in chronological order to achieve a specified purpose. Procedure defines in step-by-step fashions the method by which policies are achieved. They outline precisely the manner in which an activity must be accomplished. Procedure generally permits little flexibility and deviation.

Rules

This is a statement of what may, must or must not be done in a particular situation or when playing a game. It explains in a lucid manner what an employee should do or is advised to do in a particular situation. You can also describe rules as the habits, the normal state of things, or what is true in most cases. Finally, a rule is a statement of what is possible according to a particular system. Rules permit the use of discretion in performing a particular task.

4.3.2: REASONS FOR FORMULATING POLICIES

Many professionally managed businesses acknowledged that it is necessary to have policies in all the major functional areas of management. The focus areas will thus include production policy, purchasing policy, marketing policy, selling and promotional policy, etc. All these policies are expected to give support to the overall objectives of the organisation as defined by the top management and they complement each other. The major reasons for having policies are as follows:

(1) It is impossible and wrong to rely on expediency or precedents to solve problems which arise on interval basis or regularly. To that extent, decision-making is more consistent and detailed when policy is defined and known.

(2) Policy provides continuity for the organisation. They are more permanent than the individuals who are employed and later leave for greener pastures or are sacked; thereby providing an enduring foundation for continuity.

(3) They help to facilitate expansion and integration of new businesses into the company so that when growth occurs, there is already a firm foundation policy to apply in the new situation.

(4) They provide a yardstick with which to measure progress in the organisation. For example, policy on issue of stock items – stipulating that no condition on which stock should be issued on verbal instruction. This may not be achievable instantly, but it sets a standard against which progress can be measured as the policy is implemented.

(5) They stimulate action, because managers and supervisors have the knowledge and confidence to make decisions and take actions knowing fully well that they are following the laid down policies.

(6) Policies also save management time because the information is available and the procedures for carrying them out are known. This, of course, assumes that the policies are made freely available to those who require them.

(7) They promote fairness in treating employee matters; provided the policies take account of the needs of the entire organisation and are interpreted consistently.

(8) Policies serve as bases for the defence of the various organisation actions and activities in the event of challenges and litigation in the court of law.

- **Discuss types of policies**

Self-Assessment Exercises 1

I. Distinquish between major policies and minor policies 2. Why do organisations need policies to accomplish their numerous objectives and goals?

4.3.3: THE ART OF FORMULATING POLICY

The studies or theories in which purposeful organisations formulate policies represent a scholarly pursuit which has been carried on for years by management theorists. These scholars have observed and analysed the decision making action of managers of business and other organisations as they determined the direction and course of their respective organisations.

To influence policy thinking in an organisation is one of the important goals of an executive as he develops his career. The greater an executive‘s influence on policy, the greater is his contribution and the higher his status among fellow executives. This, in part, is what contributes to the difference and respect generally accorded a company's chief executive. His thinking is all centred on policy issues and as you will note, all policies are crucial to the survival, health and success of an enterprise.

Policy decisions rest fundamentally on human judgment and intuition. Some policies evolve informally over a long period of time without conscious or selective formulation. They have their origin in slowly developing customs, traditions and attitudes. Others are formulated quickly, because the situation requires rapid implementation. Both types may originate at the top levels in the organisation and work their way down; they may also arise in a given area and remain in that area; or they may start at lower levels and permeate upward. In general, policies should be formulated by those in organisation who have the responsibility for accomplishing the particular objectives to which the policies relate.

4.3.4: POLICY MAKING PROCESS/PROCEDURE

Since policy formulation is not a guess work, certain definite steps are stipulated to be followed by decision makers when formulating new policies or modifying the existing ones. These are (Kalejaye, 1998):

(i) Carefully study the organisation's objectives.
(ii) Identify the need for a policy in a given area.
(iii) Source for and collect all possible and relevant information for the policy formulation.
(iv) Consideration must be given to all alternatives especially as they relate to the policy.
(v) Analyse all possible available outcomes.
(vi) Select the best policy statement so far made taking into consideration its possible outcome.
(vii) Review the policy statement with the employees and others who will be affected by its application.
(viii) Ensure the policy is in line with the other existing policies of the organisation.
(ix)Draw out the final policy statements including the effective dates of such a policy.

4.3.5: ROLES OF EMPLOYEES IN POLICY FORMULATION

The concept of employees participation in management policy formulation has always been controversial. The principal perspectives in which workers participation in management policy may be seen as:

(i) Workers participation is viewed as a means of advancing the interest of workers;

(ii) Workers participation is a way of distributing power within the enterprise more equally and in handling conflicts of interest by democratic procedure otherwise known as industrial democracy.

(iii) By involving workers in policy formulation, this will bring about effective utilization of the human resources of the enterprise.

(iv) Workers participation in management policy is in effect seen as the antidote towards uncooperative attitudes and increase in industrial conflicts.

❖ **Why should employees be involved in formulating policies in organisations?**

Self-Assessment Exercises 2

I. Discuss the art of formulating policies?

2. Why would one need to read, understand and digest the objective of an organization to be able to write a good policy?

4.4 SUMMARY

The unit took students through types of policy in organisations, reasons for formulating policies, the art of formulating policies and policy formulating process. Also, employees roles in policy formulation was discussed. In this unit, we have discussed types of policy in organisations, reasons for formulating policies, the art of formulating policies and policy formulating process. Also, employees roles in policy formulation was discussed. In the next unit, we shall examine policies and other related terms.

4.5 REFERENCES/FURTHER READINGS

Aluko, M., Odugbesan, O., Gbadamosi, G., & Osuagwu, .L. (2004). *Business policy and strategy* (3rd ed.). Lagos, Longman Nigeria Plc.

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4.6 POSSIBLE ANSWERS TO SAEs

1a**.** Major policies are formulated at the top of the organization and relate to the company's main purpose. They provide guidelines pertaining to such things as the line of business and ethical conduct of organization while minor policies are subordinate to functional policies and define in details such matters as maintenance of equipment, schedules, plant layout, absenteeism

b. Organisations policies are expected to give support to the overall objectives of the organisation as defined by the top management and they complement each other. The major reasons for having policies are as follows: It is impossible and wrong to rely on expediency or precedents to solve problems which arise on interval basis or regularly. To that extent, decision-making is more consistent and detailed when policy is defined and known.

Policy provides continuity for the organisation. They are more permanent than the individuals who are employed and later leave for greener pastures or are sacked; thereby providing an enduring foundation for continuity.

They help to facilitate expansion and integration of new businesses into the company so that when growth occurs, there is already a firm foundation policy to apply in the new situation.

They provide a yardstick with which to measure progress in the organisation. For example, policy on issue of stock items – stipulating that no condition on which stock should be issued on verbal instruction. This may not be achievable instantly, but it sets a standard against which progress can be measured as the policy is implemented. They stimulate action, because managers and supervisors have the knowledge and confidence to make decisions and take actions knowing fully well that they are following the laid down policies.

2a. The art of formulating policies involves carefully study the organisation‘s objectives:

Identify the need for a policy in a given area: Source for and collect all possible and relevant information for the policy formulation: Consideration must be given to all alternatives especially as they relate to the policy: Analyse all possible available outcomes: Select the best policy statement so far made taking into consideration its possible outcome: Review the policy statement with the employees and others who will be affected by its application: Ensure the policy is in line with the other existing policies of the organization: Draw out the final policy statements including the effective dates of such a policy.

- b. The objectives of organizations are measurable results that organizations seek to accomplish within a short period. A manager needs to familiarize himself with the objective of his organization to be able to plan, organize, control and lead in the right direction to accomplish the ultimate goal of the organization. Writing good policy demands knowing the vision, mission goal and objective.

UNIT 5 POLICY AND OTHER RELATED TERMS

Unit Structure

5.1 INTRODUCTION
5.2 LEARNING OUTCOMES
5.3 Policy and other related terms
5.3.1 Relationships between Policy and Vision
5.3.2 Relationship between Policy and Mission
5.3.3 Relationship between Policy and Objective
5.3.4 Relationship between Policy and Strategy
5.3.5 Relationship between Policy and Procedure
5.4 SUMMARY
5.5 REFERENCES/FURTHER READING
5.6 POSSIBLE ANSWERS TO SAEs

5.1 INTRODUCTION

In the last unit, we discussed types of policy in organisations, reasons for formulating policies, the art of formulating policies and policy formulating process. Also, employees roles in policy formulation were discussed.

In this unit, we shall continue with the discussion on policies and related terms. This discussion will center on looking into relationships between policy and other related terms with/without which policy can strive or be result-oriented. Since policy is a document containing directives that show/establish how things are done/are to be done in organizations and reflects the organisation's values, its interface with the vision, mission and objectives and goals of the organization is germane and crucial for it to have meaning.

5.2: LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- Explain the relationship between policy and vision;
- Describe the relationship between policy and mission;
- Discuss the relationship between policy and objective
- Explain the relationship between policy and strategy
- Describe the relationship between policy and procedure

5.3 POLICY AND OTHER RELATED TERMS

Policy is a document containing directives that show/establish how things are done/are to be done in organizations and reflects the organisation's values, and so, its interface with the vision, mission, strategy, objectives and goals of the organization is germane and crucial for it to have meaning. They are all interrelated because a well written mission statement makes it easy for managers to set objectives to accomplish missions and policy does emanate from objectives.

5.3.1: POLICY AND VISION

While policies are guides to decision making in organisations, vision represents the dream and what the organization aspires to accomplish and known for in the long term. The organization vision is its long-term and futuristic aspirations which make it so unique and distinguish it from others in the same business or serving the same market (Oyedijo, 2004). Policies are engaged for the purpose of ensuring that employees across the functional areas of the organization make decisions and take actions that are in line with the organisations' mission, objective and strategies, for the ultimate purpose of reaching the ultimate dream i.e vision of the organization. A company's vision defines its goal in a simple way e.g. to build a healthy nation, a design leader with a focus on getting the best out of the athletes with performance assurance products in the sports market across the globe etc.

5.3.2: POLICY AND MISSION

While policies are engaged for the purpose of ensuring that employees across the functional areas of the organization make decisions and take actions that are in line with the organisations' mission, mission on its own part represents the main reason of existence. It tells us what the company is offering to the society- either a service or product or a combination of both (Aluko et al., 2004). Mission clarifies the fundamental and major reason of setting up the business which distinguishes it from others in the same line of business. Very good examples of a business/organizational mission which could either be broad or narrow are ‘to put our stakeholders interest above others’; ‘to be a highly referenced, efficient, courteous and innovative bank that combines information technology with technical competence to foster an enduring partnership with our customers’.

5.3.3: POLICY AND OBJECTIVE

While objectives set out more specifically the goals of the organisation; the aims to be achieved and the desired end-results, policy is developed within the framework of objectives. It provides the basis for decision-making and the course of action to follow in order to achieve objectives. The relationship between the organisation, its objectives and management is espoused as one of the managerial duties of an organization, which it is to ensure that the human and material organisation is consistent with the objective, resources and requirements of the concern. The established objectives and policy therefore constitute an integral part of the process of management and a necessary function in every organisation.

The objectives of an organisation are related to the input-conversion-output cycle. In order to achieve its objectives and satisfy its goals, the organisation buys inputs from the environment, through a series of activities transforms or converts these inputs into outputs and returns them to the environment as inputs to the systems. The organisation operates within a dynamic setting and success in achieving its goals will be influenced by a multiplicity of interactions with the environment.

Regardless of the type of organization under consideration, there is need for lines of direction through the establishment of objectives and determination of policy. Objectives and policy form a basis for the process of management. The choice of objectives is an essential part of the decision-making process including future courses of action. Objectives may be set out either in general terms or in more specific terms. General objectives are determined by top management. Specific objectives are formulated within the scope of general objectives and usually have more defined areas of application and time limits.

Objectives may be just implicit but the formal, explicit definition of objectives will help highlight the activities which the organisation needs to undertake as the comparative importance of its various functions. An explicit statement of objectives may assist communications and reduce misunderstandings, and provide more meaningful criteria for evaluating organisational performance. However, objectives should not be stated in such a way that they detract from the recognition of possible new opportunities, potential danger areas, the initiative of staff or the need for innovation or change. Objectives emphasise aims and are stated as expectations, but policies emphasise rules and are stated in the form of directives. In terms distinction between objectives and policy, the figure below is very relevant.

Figure 5.1: Comparison between Objectives and Policy

Functional Area Objective Policy

Marketing Complete market coverage The company will sell to every retail outlet that is creditworthy, as decided by the Company Accountant.

Production Low units costs from long production runs

The company will not produce one-off jobs without the specific authority of the Board.

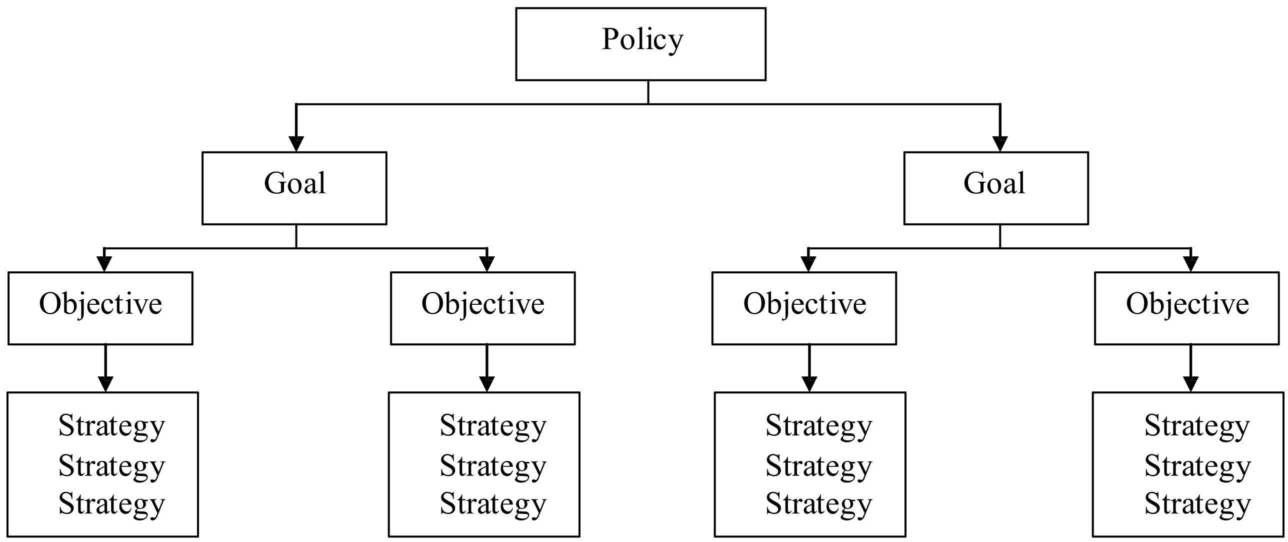
Finance To maintain adequate liquidity accountant will draw up a cash budget and inform the Board if working capital is likely to fall below a specified limit.

Personnel Good labour relations Set up and maintenance schemes for Joint Consultation, Job Evaluation, Wage Incentives.

Source: Daft, Richard (2009). Management (9th Edition)

Objectives and policy together provide corporate guidelines for the operation and management of the organisation. The activities of the organisation derive the significance from the contribution they make to achieving objectives in the manner directed. The formulation of objectives and policy, and the allocation of resources, provide the basis for strategic planning which is the first stage in the planning and control processes of business organisations

Figure 5.2 Relationships between Objectives, Policies and Strategies



Source: Rogers, D.C.D. (1973). Corporate Strategy and Long Range Planning, Ann Arbor Mich, The Landis Press, p. 18.

The above sketch indicates a situation where the boat is going up a river. The surrounding terrains represent the organisational purpose, and the surroundings terrains that influence the general flow and direction of the river. The primary objective is the harbour or stopping point of some distance up the river to be reached by a certain time. Organisational objectives and other subordinate goals and plans can be represented by other milestones between the boat‘s present position and the harbour. Policies are the river bank that directs and guides the boat towards the harbour. Like the river bank, policies remain the effect, after the primary objectives had been reached. They are independent of time and must be reviewed as to acceptability and consistency whenever objectives are set. By all indications, it has been established that policies and objectives are related and that one leads to another. Policies serve as guide that provide direction and vision to managers in decision making. With articulated and purposive policies, managers can make decisions with some assurance that the decisions are likely to make the organisation‘s corporate objective realizable within the stipulated time.

5.3.4: POLICY AND STRATEGY

The term policy should not be considered as synonymous to the term strategy. Majorly, while strategy is the means of accomplishing long-term objectives and does take the form of expansion, diversification, acquisition, product development, market penetration etc., policies are the means of achieving short-term objectives and do take the form of rules, procedures, guidelines, and programmes put in place to aid the accomplishments of set objectives and goals. Other distinguishing factors between **policy and strategy** be can summarized as follows:

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.

2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.

3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.

4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action.

5.3.5: POLICY AND PROCEDURE

- Every organisation, be it private or public, profit or not-for-profit,needs a policy as a decider or decision yardstick to guide the activities and performance of the entity.Policies are subdivided and stated in terms of procedures i.e. series of related steps or tasks expressed in a chronological order, and rules i. e. prescribed course of actions that explicitly state what are to be done under a given sets of circumstances. Organisations provide parameters within which decisions must be made, and so, procedures, rules, programmes and tactics represent/enhance policy directions (Aluko et al., 2004). Procedures involves detailing activities that are needed to accomplish tasks.

According to Wheeler et al., (2018), procedures stand in the position of steps to be taken and observed towards accomplishing a task in an organization.

- **Discuss relationships between policy and objective of an organization**

Self-Assessment Exercises 1

I. Discuss relationships between policy and objective of an organization 2. What have policy and mission got in common?

5.4 SUMMARY

You will note from the discussion in this unit that policies are related to vision, mission, objective, strategy and procedure and that policies are subdivided and stated in terms of procedures-it contains series of related steps or tasks expressed in a chronological order, and rules. In this unit, we describedhow policies are related to vision, mission, objective, strategy and procedure,in the next unit, we shall discuss organizational policy and business policy in different organisations.

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5.6 POSSIBLE ANSWERS TO SAEs

1. Policy is developed within the framework of objectives. It provides the basis for decision-making and the course of action to follow in order to achieve objectives. The relationship between the organisation, its objectives and management is espoused as one of the managerial duties of an organization, which it is to ensure that the human and material organisation is consistent with the objective, resources and requirements of the concern

2. While policies are engaged for the purpose of ensuring that employees across the functional areas of the organization make decisions and take actions that are in line with the organisations' mission, mission on its own part represents the main reason of existence.

UNIT 6 ORGANISATIONAL POLICY AND BUSINESS POLICY IN DIFFERENT ORGANISATIONS

Unit Structure

6.1 INTRODUCTION
6.2 LEARNING OUTCOMES
6.3 Organisational policy and business policy in different organisations
6.3.1 Meaning of organizational Policy and its nature
6.3.2 Purpose of organisational Policy
6.3.3 Business Policies in different organisation
6.4 SUMMARY
6.5 REFERENCES/FURTHER READING
6.6 POSSIBLE ANSWERS TO SAEs

6.1 INTRODUCTION

In this unit, we describe organizational policy, purposes of organizational policy, and business policy in different organisations. The unit equally discussed functions of policy in management and then, recent developments in organizational policy making.

6.2 LEARNING OUTCOMES (Los)

By the end of this unit, you will be able to:

- describe organizational policy and its nature;
- discuss purposes of organizational policy;
- discuss business policy in different organisations;
- highlight functions of policy in management;
- discuss recent developments in organizational policy making;

6.3 ORGANISATIONAL POLICY AND BUSINESS POLICY IN DIFFERENT ORGANISATIONS

Organisational policy plays a central role in terms of corporate organisations' accomplishments. According to Abdullahi (2009), corporate organizations operate within the ambit of the necessary guides which are normally the organizational procedures and regulations for effectiveness and efficiency. Basically, policies incorporate all the necessary operational procedures and regulations of an organization. Therefore, all the operational activities of an organization are circumscribed within the ambit of organizational policy. Hence, the issue of organizational policy cannot be compromised. All organizations must operate with policy as it is normally formulated for the good of healthy operations and interrelationships among the various subsystems of the organization. In this unit of the study material, therefore, the discussion is on organizational policy.

6.3.1: MEANING OF ORGANIZATIONAL POLICY AND ITS NATURE

According to Pearce II and Robinson Jr. (1998, cited in Abdullahi, 2009), organizational policies are specific guides for operating managers and their subordinates. Policies are powerful tools for strategy implementation and control once they are clearly linked to operating strategies and long-term objectives. In the opinion of Thompson and Strickland (1987, cited in Abdullahi, 2009), policies are directives designed to guide the thinking, decisions, and actions of managers and their subordinates in implementing an organization‘s strategy. Policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm‘s strategic objectives. Often referred to as standard operating procedures, policies serve to increase managerial effectiveness by standardizing many routine decisions and controlling the discretion of managers and subordinates in implementing operational strategies. Logically, policies should be derived from functional strategies (and, in some instances, from corporate or business strategies) with the key purpose of aiding in strategy execution.

In essence, a policy is a guideline for organisational action and the implementation of goals and objectives. Policy is translated into rules, plans and procedures; it relates to all activities of the organisation, and to all levels of the organisation. Clearly stated, policy can help reinforce the main functions of the organisation, make for consistency and reduce dependence on the actions of individual managers. Policy clarifies roles and responsibilities of managers and other members of staff and provides guidelines for managerial behaviour. Securing agreement to a new or revised policy can help overcome reliance on outdated practices and aid the introduction of organisational change.

Policy provides guiding principles for areas of decision-making and delegation, for example, specific decisions relating to personnel policy may be to:

- give priority to promotion from within the organisation;
- enforce retirement at government pensionable age;
- employ only graduate or professionally qualified accountants;
- permit line managers, in consultation with the personnel manager, to appoint staff up to a given salary/wage level.

Some policy decisions are directly influenced by external factors, for example, government legislation on equal opportunities. Policies in their nature can vary in their level of strategic significance. Some, such as travel reimbursement procedures, are really work rules that are not necessarily linked to the implementation of a specific strategy. A policy, for instance, couched that requirement that every location invest a certain percent of gross revenue in local advertising are virtually functional strategies. Policies can also be externally imposed or internally derived depending on the ownership interest. Policies regarding equality of opportunity practices are often developed in compliance with external (government) requirements. In the same vein, some organizational policies regarding leasing or depreciation may be strongly influenced by current tax regulations. Regardless of the origin, formality, and nature of the policy, the key point to bear in mind is the valuable role policies can play in strategy implementation.

In utmost consideration, the carefully constructed policies enhance strategy implementation in several ways. Obviously, it is imperative to examine exist ing policies and ensure the existence of policies necessary to guide and control operating activities consistent with current business and functional strategies. Ensuring communication of specific policies will help overcome resistance to strategic change and foster greater organisational commitment for successful strategy implementation.

On the basis of the organization‘s ideology of philosophy, the goals of the organisation are translated into objectives and policy. Terminology and use of the two terms vary but objectives are seen here as the what‘, and policy as the how‘, where‘ and when‘ the means that follow the objectives.

6.3.2: PURPOSE OF ORGANISATIONAL POLICY

According to Pearce II and Robinson Jr. (1998 cited in Abdullahi, 2009), policies are designed to communicate specific guides to decisions. They are designed to control and reinforce the implementation of functional strategies and the grand strategy, and they fulfill this role in several ways such as discussed below:

1. Policies establish indirect control over independent action by making a clear statement about how things are now to be done. By limiting discretion, policies in effecting control decisions and the conduct of activities without direct intervention by top management.

2. Policies promote uniform handling of similar activities. This facilitates coordination of work tasks and helps reduce friction arising from favoritism, discrimination, and disparate handling of common functions.

3. Policies ensure quicker decisions by standardizing answers to previously answered questions that would otherwise recur and be pushed up the management hierarchy again and again.

4. Policies help institutionalize basic aspects of organisation behaviour. This minimizes conflicting practices and establishes consistent patterns of action in terms of how organisational members attempt to make the strategy work.

5. Policies reduce uncertainty in repetitive and day-to-day decision making, there providing a necessary foundation for coordinated, efficient efforts.

6. Policies can counteract resistance to or rejection of chosen strategies by organisation members. When major strategic change is undertaken, unambiguous operating policies help clarify what is expected and facilitate acceptance, particularly when operating managers participate in policy development.

7. Policies offer a predetermined answer to routine problems, giving managers more time to cope with non-routine matters; dealing with ordinary and extraordinary problems is greatly expedited

8. The former by referring to established policy and the latter by drawing on a portion of the manager‘s time.

9. Policies afford managers a mechanism for avoiding hasty and ill-conceived decisions in changing operations. Prevailing policy can always be used as a reason for not yielding to emotion-based, expedient, or temporarily valid arguments for altering procedures and practices.

A policy can either in writing and documented or implied. In other words, policies may be written and formal or unwritten and informal. The positive reasons for informal, unwritten policies are usually associated with some strategic need for competitive secrecy.

Some unwritten policies, such as consultation with the employees‖, are widely known (or expected) by employees and implicitly sanctioned by management. On the contrary, unwritten, informal policies may be contrary to the long-term success of a strategy. Still, managers and employees often like the latitude granted when policies are unwritten and informal.

There are inherent advantages in the use of formal written policies such as follows:

(i) Managers are required to think through the policy‘s meaning, content, and intended use.
(ii) The policy is explicit so misunderstandings are reduced.
(iii) Equitable and consistent treatment of problems is more likely.
(iv) Unalterable transmission of policies is ensured.

(v) Authorization or sanction of the policy is more clearly communicated, which can be helpful in many cases.

(vi) A convenient and authoritative reference can be supplied to all concerned with the policy.

(vii) Indirect control and organisation-wide coordination, key purposes of policies, are systematically enhanced.

❖ **What do you understand by organizational policy and what purposes does it serve in organisations?**

Self-Assessment Exercises 1

I. What do you understand by organizational policy 2. What purposes does it serve in organisations?

6.3.3: BUSINESS POLICIES IN DIFFERENT ORGANISATIONS

Business organizations require policy as an added outstanding plan of organizations. There are policies in different organizations depending if it is service or product oriented, profit or not-for-profit organisations.

Policies in each of these operational areas will be formulated. For example, in personnel numerous policies would be established to provide consistent guides to action. Areas might include securing, selecting, training and compensating employees. Working conditions, employee services and industrial relations also might be considered. Business policies generally have a long life. They are established after a careful evaluation of various internal and external factors having an impact on the firm‘s market standing. As and when circumstances change in a major way the firm is naturally forced to shift gears, rethink and reorient its policies. The World Oil crisis during the 70s has forced many manufacturers all over the globe to reverse the existing practices and pursue a policy of manufacturing fuel efficient cars. Therefore, policies should be changed in response to changing environmental and internal system conditions.

There are many types of policies – marketing policies, financial policies, production policies, personnel policies to name a few in every organization. Within each of these areas more specific policies are developed. For example, personnel policies may cover recruitment training promotion and retirement policies. Viewed from a systems angle, policies form a hierarchy of guides to managerial thinking (Rao, 2010). At the top of level policy statements are broad. The management is responsible for developing and approving major comprehensive company policies. Middle managers usually establish less critical policies relating to the operation of their sub units. Policies tend to be more specific at lower levels. The manager‘s job is to ensure the consonance of these policies, each must contribute to the objectives of the firms and there should be no conflict between sub system policies.

However, many professionally managed companies acknowledge the fact that it is necessary to have policies in all the major functional areas of management (Kalejaye, 1998). The focus areas will thus include: Production policy, Purchasing policy, Financial policy, Marketing policy, Credit policy, Selling and promotion policy etc.All these policies are expected to give support to overall objectives of the organization as defined by the top management and they complement each other.

Although, it is customary to think of policies as written statements it is not necessarily the case. For example, a firm may simply decline to consider handicapped employees in the selection of new personnel. In effect, this becomes an effective policy even though the company has never verbalized its position.

Self-Assessment Exercises 2

I. Discuss the essence of business policy formulation in organizations

2. What are the functions of policy in business organizations?

6.4 SUMMARY

From the discussions in this unit, it can be deduced that every organization, whether business or non-business, requires a policy as a decision rule to guide the activities and performance of the business to eventually achieve goals and objective of the organization. In this unit, we have discussed organizational policy and business policy in different organisations: meaning of organizational policy and its nature, purpose of organizational policy, business policy in different organisations, functions of business policy in management and recent developments in organizational policy making. In the next unit, you will be introduced to yet another topic known as organisational policies.

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6.6 POSSIBLE ANSWERS TO SAEs

- Organizational policies are specific guides for operating managers and their subordinates. Policies are powerful tools for strategy implementation and control once they are clearly linked to operating strategies and long-term objectives. Organisational policies are directives designed to guide the thinking, decisions, and actions of managers and their subordinates in implementing an organization‘s strategy.
- Policy clarifies roles and responsibilities of managers and other members of staff and provides guidelines for managerial behaviour.
- Policies establish indirect control over independent action by making a clear statement about how things are now to be done. By limiting discretion, policies in effecting control decisions and the conduct of activities without direct intervention by top management.

Policies promote uniform handling of similar activities. This facilitates coordination of work tasks
and helps reduce friction arising from favoritism, discrimination, and disparate handling of common functions.

Policies ensure quicker decisions by standardizing answers to previously answered questions that would otherwise recur and be pushed up the management hierarchy again and again.

Policies help institutionalize basic aspects of organisation behaviour. This minimizes conflicting practices and establishes consistent patterns of action in terms of how organisational members attempt to make the strategy work.

Policies reduce uncertainty in repetitive and day-to-day decision making, there providing a necessary foundation for coordinated, efficient efforts.

- Areas where business policy makes outstanding contributions to effective and efficient management of human and material resources are areas of:

➢ Organisation: The organisation has to develop policies for itself. Such policies have to do with defining the appropriate departments, jobs, ranks within the organisation and interrelationships in line with the corporate objectives of the organisation.

- Administration: Administrative policies of the organisation are formulated with a view to ensuring that there is effective leadership, direction and supervision at all levels and divisions of the organisation.
- Unions: The policy statements are set out to maintain appropriate relationships with management. Between the organisation and unions/labour movement, they also space out the procedure for negotiating conditions of service and settling of industrial disputes.
- Control: Policies on control are essential in organisation because they facilitate and pave way for the attainment of organisational goals by maintaining appropriate standards of tasks, personal and group performance.
- Training and Development: This category of policies are formulated to guide the top management in providing programmes designed to meet organisation needs, individual needs an career requirements of managers and employees.
- Incentive: This involves developing appropriate incentives to motivate employees and managers alike in order to ensure efficient performance.
- Public Relations: The policy here guides in providing adequate and appropriate attention to public attitudes and reactions to policies and practices of the organisation.
- Political Action: This policy expresses the position or attitude of the organisation on political issues and events. Policy statement in this regard may restrain employees from talking to the press on political issues or even discuss political matters within the organisation.

UNIT 7 FUNCTIONS OF BUSINESS POLICY AND RECENT DEVELOPMENTS IN POLICY MAKING

Unit Structure

7.1 INTRODUCTION
7.2 LEARNING OUTCOMES
7.3 Functions of business policy and recent developments in policy
7.3.1 Functions of business policy in management
7.3.2 Recent developments in organizational policy making
7.4 SELF ASSESSMENT EXERCISE
7.5 REFERENCES/FURTHER READINGS
7.6 POSSIBLE ANSWERS TO SAEs

7.1 INTRODUCTION

In the last unit, we gave an overview of organizational policy. The unit equally assessed business policy in different organizations.

In this unit, we shall discuss functions of business policy in management and recent developments in organizational policy making.

7.2 LEARNING OUTCOMES (LOs)

- By the end of this unit, you will be able to:
- Discuss the different functions of business policy
- Discuss recent developments in organizational policy making
- Explain the uses of policies for management effectiveness

7.3 FUNCTIONS OF BUSINESS POLICY AND RECENT DEVELOPMENTS IN POLICY MAKING

7.3.1: FUNCTIONS OF BUSINESS POLICY IN MANAGEMENT

Business policies define areas within which decisions are made and ensure that decision will be consistent with and contribute to an objective. For visionary management, policies help decide issues before they become problems, make it unnecessary to analyze the same situation every time it occurs and unify other plan thus permitting managers to delegate authority and still maintain control over what their subordinate do (Weighrich & Koontz, 2005). The fabric of our lives is held together by organizations. Managers and organization go to get her hand in hand, hence establishing the need for managers in organization. They are there to make wise decisions through dependable standing plans leading to the development of policies, procedures and rules.

Other relevant and key areas where business policy makes outstanding contributions to effective and efficient management of human and material resources are areas of:

Organisation: The organisation has to develop policies for itself. Such policies have to do with defining the appropriate departments, jobs, ranks within the organisation and interrelationships in line with the corporate objectives of the organisation.

Administration: Administrative policies of the organisation are formulated with a view to ensuring that there is effective leadership, direction and supervision at all levels and divisions of the organisation.

Unions: The policy statements are set out to maintain appropriate relationships with management. Between the organisation and unions/labour movement, they also space out the procedure for negotiating conditions of service and settling of industrial disputes.

Control: Policies on control are essential in organisation because they facilitate and pave way for the attainment of organisational goals by maintaining appropriate standards of tasks, personal and group performance.

Training and Development: This category of policies are formulated to guide the top management in providing programmes designed to meet organisation needs, individual needs an career requirements of managers and employees.

Incentive: This involves developing appropriate incentives to motivate employees and managers alike in order to ensure efficient performance.

Public Relations: The policy here guides in providing adequate and appropriate attention to public attitudes and reactions to policies and practices of the organisation.

Political Action: This policy expresses the position or attitude of the organisation on political issues and events. Policy statement in this regard may restrain employees from talking to the press on political issues or even discuss political matters within the organisation.

7.3.2: RECENT DEVELOPMENTS IN BUSINESS POLICY MAKING

Recent happenings in global business have revealed that making, selling of goods and rendering of services should be taken to the next level. Business organisations now think beyond their immediate environment and embrace a total view of activities around them. Profits are shrinking because size no longer serves as strength, rather, ability to create unique offerings through competitive products and services which require innovative skills. Business policy cannot afford to be static, and so, strategic management approaches cannot remain standstill as this position will expose corporations to the risk of being subdued by competitors. According to Wheeler et al., (2018), extraordinary accomplishments of recent years are becoming easily forgotten and only serving as yardsticks upon which to measure new offerings.

Also, in order to ensure continuous survival, relevance and win sympathy of stakeholders, most especially consumers through their offerings, organisations this time have embraced policies that are against pollution, i.e. dumping of wastes anyhow not minding its negative impact on human existence. Corporations, through carelessness or as a result of overshadowed influence of profit used to mess up environments with wastes from their products in drainages, streams, lakes and pollute the air with smokes rich of noxious gases. Apart from government regulations and penalties to caution erring business organisations, other stakeholders are beginning to frown at this and it has become an established yardstick by which the human-sensitive spirit of corporations are measured. This time around, recycling and refurbishing of wastes are now the order of the day and the pendulum has swung from measuring sustainability through competitive advantage to how environmentally-friendly or otherwise a corporation is.

To cap it up, Elkington (1994) cited in Wheeler et al., (2018) submitted that today's business should aim at sustainability which could only be attained through the 'Triple bottom line' of profit/loss; people-centered; and planet-centered policies that not only drive at profit/loss making, but also consider reaching out to vulnerable people via social responsibility and then, environmental responsibility. Today, organisations business policies should be fashioned towards addressing contemporary issues of insecurity-banditry, kidnapping; internet fraud; and environmental disasters occasioned by climatic change that engulf the world for business sustainability.

Self-Assessment Exercises

1.Discuss the relevance of business policy in management. 2. Discuss recent developments in the world of business and what business policy got to do with them.

7.4 SUMMARY

Business policy does make outstanding contributions to effective and efficient management of human and material resources. Business organisations now think beyond their immediate environment and embrace a total view of activities around them. Profits are shrinking because size no longer serves as strength, rather, ability to create unique offerings through competitive products and services which require innovative skills: This is the trend the business policy is following.

7.5 REFERENCES/FURTHER READINGS

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7.6 POSSIBLE ANSWERS TO SAEs

1. Business policy makes outstanding contributions to effective and efficient management of human and material resources are areas of:

Organisation: The organisation has to develop policies for itself. Such policies have to do with defining the appropriate departments, jobs, ranks within the organisation and interrelationships in line with the corporate objectives of the organisation.

Administration: Administrative policies of the organisation are formulated with a view to ensuring that there is effective leadership, direction and supervision at all levels and divisions of the organisation.

Unions: The policy statements are set out to maintain appropriate relationships with management. Between the organisation and unions/labour movement, they also space out the procedure for negotiating conditions of service and settling of industrial disputes.

Control: Policies on control are essential in organisation because they facilitate and pave way for the attainment of organisational goals by maintaining appropriate standards of tasks, personal and group performance.

ETC.

Answer to Q2. Business organisations now think beyond their immediate environment and embrace a total view of activities around them. Profits are shrinking because size no longer serves as strength, rather, ability to create unique offerings through competitive products and services which require innovative skills. Business policy cannot afford to be static, and so, strategic management approaches cannot remain standstill as this position will expose corporations to the risk of being subdued by competitors. According to Wheeler et al., (2018), extraordinary accomplishments of recent years are becoming easily forgotten and only serving as yardsticks upon which to measure new offerings.

Also, in order to ensure continuous survival, relevance and win sympathy of stakeholders, most especially consumers through their offerings, organisations this time have embraced policies that are against pollution, i.e. dumping of wastes anyhow not minding its negative impact on human existence.

MODULE 2 STRATEGY AND MANAGEMENT OF ORGANISATIONAL STRATEGY

Unit 1 Strategy and strategic Management-An overview
Unit 2 Strategy and the strategists
Unit 3 Strategic decision-making theories of strategic management
Unit 4 Levels of Strategy
Unit 5 Generic Strategies
Unit 6 Grand Strategies
Unit 7 Strategic Management in generic types of industry environments, and competitive situations

UNIT 1: STRATEGY AND STRATEGIC MANAGEMENT- AN OVERVIEW

Unit Structure

1.1 INTRODUCTION
1.2 LEARNING OUTCOMES
1.3 Strategy and strategic management- an overview
1.3.1 Historical development of Strategic management
1.3.2 Strategy and strategic management (Definitions and discussion of concepts)
1.3.3 Scope of Strategic management
1.3.4 Phases of Strategic management
1.4 SUMMARY
1.5 REFERENCES AND FURTHER READING
1.6 POSSIBLE ANSWERS TO SAEs

1.1 INTRODUCTION

You are welcome to the second module of this course.

Business policy eventually metamorphosed into strategic management as time went by due to series of developments in the world of business that keep making remaining on the drawing board a relevant sustainability option. The last unit discussed organizational policy and its purpose in organisations, and then, acquainted learners with recent developments in the world of business that demand a shift in policy directions for sustainability.

We would start with a discussion on the historical development of Strategic management, concept of strategy and strategic management, its scope, phases of strategic management, strategic management process and its phases, the strategic model and then, strategists and their roles.

1.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be to:

- explain the historical development of Strategic management
- explain strategy and strategic management
- explain the scope of strategy
- list phases of strategic management
- discuss strategic management process and its phases
- draw the strategy model
- describe strategists and explain their different roles.

1.3 STRATEGY AND STRATEGIC MANAGEMENT (An Overview)

1.3.1: HISTORICAL DEVELOPMENT OF STRATEGIC MANAGEMENT

Birth of Strategic Management

The Strategic management discipline is originated in the 1950s and 60s. Although there were numerous early contributors to the literature, the most influential pioneers were Chandler (1962), Selznick (1957), Ansoff (1965), and Drucker (). The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years.

Alfred Chandler recognized the importance of coordinating the various aspects of management under one all-encompassing strategy. Prior to this time the various functions of management were separate with little overall coordination or strategy. Interactions between functions or between departments were typically handled by a boundary position, that is, there were one or two managers that relayed information back and forth between two departments. Chandler also stressed the importance of taking a long term perspective when looking to the future. In his 1962 ground breaking work '*Strategy and Structure'*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. He says it concisely, structure follows strategy.

Selznick (1957) introduced the idea of matching the organization's internal factors with external environmental circumstances.This core idea was developed into what we now callSWOT analysis by Learned, Andrews, and others at the Harvard Business School General Management Group. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment.

Ansoff built on Chandler's work by adding a range of strategic concepts and inventing a whole new vocabulary. He developed a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal and vertical integration and diversification strategies. He felt that management could use these strategies to systematically prepare for future opportunities and challenges. In his 1965 classic *Corporate Strategy*, he developed the gap analysis still used today in which we must understand the gap between where we are currently and where we would like to be, then develop what he called gap reducing actions.

Peter Drucker was a prolific strategy theorist, author of dozens of management books, with a career spanning five decades. His contributions to strategic management were many but two are most important. Firstly, he stressed the importance of objectives. An organization without clear objectives is like a ship without a rudder. He was developing a theory of management based on objectives which evolved into his theory of **management by objectives** (MBO). According to Drucker, the procedure of setting objectives and monitoring your progress towards them should permeate the entire organization, top to bottom. His other seminal contribution was in predicting the importance of what today we would call intellectual capital. He predicted the rise of what he called the ―knowledge worker‖ and explained the consequences of this for management. He said that knowledge work is non-hierarchical. Work would be carried out in teams with the person most knowledgeable in the task at hand being the temporary leader.

Chaffee (1985) summarized what she thought were the main elements of strategic management theory thus:

- Strategic management involves adapting the organization to its business environment.
- Strategic management is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses.
- Strategic management affects the entire organization by providing direction.
- Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process).
- Strategic management is partially planned and partially unplanned.
- Strategic management is done at several levels: overall corporate strategy, and individual business strategies.
- Strategic management involves both conceptual and analytical thought processes.

Growth and Portfolio Theory

In the 1970s much of strategic management dealt with size, growth, and portfolio theory. ThePIMS study was a long term study, started in the 1960s and lasted for 19 years,that attempted to understand the Profit Impact of Marketing Strategies (PIMS), particularly the effect of market share. Started at General Electric, moved to Harvard in the early 1970s, and then moved to the Strategic Planning Institute in the late 1970s, it now contains decades of information on the relationship between profitability and strategy. Their initial conclusion was unambiguous: The greater a company's market share, the greater will be their rate of profit. The high market share provides volume and economies of scale. It also provides experience and learning curve advantages. One of the most valuable concepts in the strategic management of multi-divisional companies is **portfolio theory**..

The Marketing Revolution

The 1970s also saw the rise of the marketing oriented firm. From the beginnings of capitalism it was assumed that the key requirement of business success was a product of high technical quality. If you produced a product that worked well and was durable, it was assumed you would have no difficulty selling them at a profit. This was called the production orientation and it was generally true that good products could be so ld without effort, encapsulated in the saying "Build a better mousetrap and the world will beat a path to your door." This was largely due to the growing numbers of affluent and middle class people that capitalism had created. Thus, in terms of producing products,and then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them. The customer became the driving force behind all strategic business decisions.

Competitive Advantage

The Japanese challenge shook the confidence of the western business elite, but detailed comparisons of the two management styles and examinations of successful businesses convinced westerners that they could overcome the challenge. The 1980s and early 1990s saw a plethora of theories explaining exactly how this could be done. They cannot all be detailed here, but some of the more important strategic advances of the decade are explained below.

Hamel and Prahalad () declared that strategy needs to be more active and interactive; less ―arm-chair planning‖ was needed. They introduced terms like **strategic intent** and **strategic architecture**. Their most well known advance was the idea of core competency. They showed how important it was to know the one or two key things that your company does better than the competition. Active strategic management required active information gathering and active problem solving.

Probably the most influential strategist of the decade was Michael Porter. He introduced many new concepts including; 5 forces analysis, generic strategies, the value chain, strategic groups, and clusters. In 5 forces analysis he identifies the forces that shape a firm's strategic environment. It is like a SWOT analysis with structure and purpose. It shows how a firm can use these forces to obtain a sustainable competitive advantage. Porter modifies Chandler's dictum about structure following strategy by introducing a second level of structure: Organizational structure follows strategy, which in turn follows industry structure. Porter's generic strategies detail the interaction between **cost minimization strategies**, **product differentiation strategies**, and **market focus strategies**. Although he did not introduce these terms, he showed the importance of choosing one of them rather than trying to position your company between them. He also challenged managers to see their industry in terms of a value chain. A firm will be successful only to the extent that it contributes to the industry's value chain. This forced management to look at its operations from the customer's point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer.

John Kay (1993) took the idea of the value chain to a financial level claiming ― Adding value is the central purpose of business activity‖, where adding value is defined as the difference between the market value of outputs and the cost of inputs including capital, all divided by the firm's net output. Borrowing from Gary Hamel and Michael Porter, Kay claims that the role of strategic management is to identify your core competencies, and then assemble a collection of assets that will increase value added and provide a competitive advantage.

The seven areas of best practice were:

- Simultaneous continuous improvement in cost, quality, service, and product innovation
- Breaking down organizational barriers between departments
- Eliminating layers of management creating flatter organizational hierarchies.
- Closer relationships with customers and suppliers
- Intelligent use of new technology
- Global focus
- Improving human resource skills

The search for best practices‖ is also called benchmarking. This involves determining where you need to improve, finding an organization that is exceptional in this area, then studying the company and applying its best practices in your firm. Process management uses some of the techniques from product quality management and some of the techniques from customer service management. It looks at an activity as a sequential process. The objective is to find inefficiencies and make the process more effective. Although the procedures have a long history, dating back to Taylorism, the scope of their applicability has been greatly widened, leaving no aspect of the firm free from potential process improvements. Because of the broad applicability of process management techniques, they can be used as a basis for competitive advantage.

James Gilmore and Joseph Pine found competitive advantage in mass customization. Flexible manufacturing techniques allowed businesses to individualize products for each customer without losing economies of scale. This effectively turned the product into a service. They also realized that if a service is mass customized by creating a performance‖ for each individual client, that service would be transformed into an experience‖. Their book, *The Experience Economy*, along with the work of Bernd Schmitt convinced many to see service provision as a form of theatre. This school of thought is sometimes referred to as customer experience management (CEM).

Like Peters and Waterman a decade earlier, James Collins and Jerry Porras spent years conducting empirical research on what makes great companies. Six years of research uncovered a key underlying principle behind the 19 successful companies that they studied: They all encourage and preserve a **core ideology** that nurtures the company. Even though strategy and tactics change daily, the companies, nevertheless, were able to maintain a core set of values. These core values encourage employees to build an organization that lasts. In '*Built To Last'* (1994) they claim that short term profit goals, cost cutting, and restructuring will not stimulate dedicated employees to build a great company that will endure. Collins (2000) coined the term built to flip to describe the prevailing business attitudes in Silicon Valley. It describes a business culture where technological change inhibits a long term focus. He also popularized the concept of the **BHAG** (Big Hairy Audacious Goal).

Geus (1997) undertook a similar study and obtained similar results. He identified four key traits of companies that had prospered for 50 years or more. They are:

- Sensitivity to the business environment — the ability to learn and adjust
- Cohesion and identity the ability to build a community with personality, vision, and purpose
- Tolerance and decentralization-the ability to build relationships
- Conservative financing

A company with these key characteristics he called a **living company** because it is able to perpetuate itself. If a company emphasizes knowledge rather than finance, and sees itself as an ongoing community of human beings, it has the potential to become great and endure for decades. Such an organization is an organic entity capable of learning (he called it a learning organization‖) and capable of creating its own processes, goals, and persona.

There are numerous ways by which a firm can try to create a competitive advantage – some will work but many will not. To help firms avoid a hit and miss approach to the creation of competitive advantage, Will Mulcaster suggests that firms engage in a dialogue that centres around the question "Will the proposed competitive advantage create Perceived Differential Value?" The dialogue should raise a series of other pertinent questions, including:

Will the proposed competitive advantage create something that is different from the competition?"

- "Will the difference add value in the eyes of potential customers?" – This question will entail a discussion of the combined effects of price, product features and consumer perceptions.
- "Will the product add value for the firm?" Answering this question will require an examination of cost effectiveness and the pricing strategy.

The Military Theorists

In the 1980s some business strategists realized that there was a vast knowledge base stretching back thousands of years that they had barely examined. They turned to military strategy for guidance. Military strategy books such as *The Art of War* by Sun Tzu, *On War* by von Clausewitz, and *The Red Book* by Mao Zedong became instant business classics. From Sun Tzu, they learned the tactical side of military strategy and specific tactical prescriptions. From Von Clausewitz, they learned the dynamic and unpredictable nature of military strategy. From Mao Zedong, they learned the principles of guerrilla warfare. Philip Kotler was a well-known proponent of marketing warfare strategy.

There were generally thought to be four types of business warfare theories. They are:

- Offensive marketing warfare strategies
- Defensive marketing warfare strategies
- Flanking marketing warfare strategies
- Guerrilla marketing warfare strategies

The marketing warfare literature also examined leadership and motivation, intelligence gathering, types of marketing weapons, logistics, and communications.

By the turn of the century marketing warfare strategies had gone out of favour. It was felt that they were limiting. There were many situations in which non-confrontational approaches were more appropriate. In 1989, Dudley Lynch and Paul L. Kordis published *Strategy of the Dolphin: Scoring a Win in a Chaotic World*. "The Strategy of the Dolphin‖ was developed to give guidance as to when to use aggressive strategies and when to use passive strategies. A variety of aggressiveness strategies were developed.

Moore (1993) used a similar metaphor.Instead of using military terms, he created an ecological theory of predators and prey (see ecological model of competition), a sort of Darwinianmanagement strategy in which market interactions mimic long term ecological stability.

Strategic Change

In 1968, Peter Drucker (1969) coined the phrase **Age of Discontinuity** to describe the way change forces disruptions into the continuity of our lives.In an age of continuity attempts to predict the future by extrapolating from the past can be somewhat accurate. But according to Drucker, we are now in an age of discontinuity and extrapolating from the past is hopelessly ineffective. We cannot assume that trends that exist today will continue into the future. He identifies four sources of discontinuity: new technologies, globalization, cultural pluralism, and knowledge capital.

Toffler (1970) in *Future Shock* described a trend towards accelerating rates of change.He illustrated how social and technological norms had shorter life-spans with each generation, and he questioned society's ability to cope with the resulting turmoil and anxiety. In past generations periods of change were always punctuated with times of stability. This allowed society to assimilate the change and deal with it before the next change arrived. But these periods of stability are getting shorter and by the late 20th century had all but disappeared. In 1980 in *The Third Wave*, Toffler characterized this shift to relentless change as the defining feature of the third phase of civilization (the first two phases being the agricultural and industrial waves).He claimed that the dawn of this new phase will cause great anxiety for those that grew up in the previous phases, and will cause much conflict and opportunity in the business world. Hundreds of authors, particularly since the early 1990s, have attempted to explain what this means for business strategy.

Gary Hamel (2000) discussed **strategic decay**, the notion that the value of all strategies, no matter how brilliant, decays over time. Abell(1980) described **strategic windows** and stressed the importance of the timing (both entrance and exit) of any given strategy. This has led some strategic planners to build planned obsolescence into their strategies.

Charles Handy (1989) identified two types of change.**Strategic drift** is a gradual change that occurs so subtly that it is not noticed until it is too late. By contrast, **transformational change** is sudden and radical. It is typically caused by discontinuities (or exogenous shocks) in the business environment. The point where a new trend is initiated is called a **strategic inflection point** by Andy Grove. Inflection points can be subtle or radical.

Malcolm Gladwell (2000) discussed the importance of the**tipping point**, that point where a trend or fad acquires critical mass and takes off.Noel Tichy (1983) wrote that because we are all beings of habit we tend to repeat what we are comfortable with.He wrote that this is a trap that constrains our creativity, prevents us from exploring new ideas, and hampers our dealing with the full complexity of new issues. He developed a systematic method of dealing with change that involved looking at any new issue from three angles: technical and production, political and resource allocation, and corporate culture.
Pascale (1990) wrote that relentless change requires that businesses continuously reinvent themselves.His famous maxim is Nothing fails like success‖ by which he means that what was a strength yesterday becomes the root of weakness today, We tend to depend on what worked yesterday and refuse to let go of what worked so well for us in the past. Prevailing strategies become self-confirming. To avoid this trap, businesses must stimulate a spirit of inquiry and healthy debate. They must encourage a creative process of self-renewal based on constructive conflict.

Peters and Austin (1985) stressed the importance of nurturing champions and heroes. They said we have a tendency to dismiss new ideas, so to overcome this, we should support those few people in the organization that have the courage to put their career and reputation on the line for an unproven idea.

Slywotzky (1996) showed how changes in the business environment are reflected invalue migrations between industries, between companies, and within companies.He claimed that recognizing the patterns behind these value migrations is necessary if we wish to understand the world of chaotic change. In Profit Patterns, Slywotzy (1999) described businesses as being in a state of **strategic anticipation** as they try to spot emerging patterns. Slywotsky and his team identified 30 patterns that have transformed industry after industry.

Christensen (1997) took the position that great companies can fail precisely because they do everything right since the capabilities of the organization also defines its disabilities.Christensen's thesis is that outstanding companies lose their market leadership when confronted with **disruptive technology**. He called the approach to discovering the emerging markets for disruptive technologies **agnostic marketing**, i.e., marketing under the implicit assumption that no one – not the company, not the customers can know how or in what quantities a disruptive product can or will be used before they have experience using it.

A number of strategists use scenario planning techniques to deal with change. Schwartz (1991)was of the opinion that strategic outcomes could not be known in advance so the sources of competitive advantage could be predetermined. The fast changing business environment is too uncertain for us to find sustainable value in formulas of excellence or competitive advantage. Instead, scenario planning is a technique in which multiple outcomes can be developed, their implications assessed, and their likeliness of occurrence evaluated. According to Pierre Wack (), scenario planning is about insight, complexity, and subtlety, not about formal analysis and numbers.

Henry Mintzberg (1988) looked at the changing world around him and decided it was time to reexamine how strategic management was done.He examined the strategic process and concluded it was much more fluid and unpredictable than people had thought. Because of this, he could not point to one process that could be called strategic planning. Instead, Mintzberg concludes that there are five types of strategies:

- Strategy as plan – a direction, guide, course of action intention rather than actual

- Strategy as ploy – a maneuver intended to outwit a competitor
- Strategy as pattern – a consistent pattern of past behaviour realized rather than intended
- Strategy as position – locating of brands, products, or companies within the conceptual framework of consumers or other stakeholders – strategy determined primarily by factors outside the firm
- Strategy as perspective – strategy determined primarily by a master strategist

Mintzberg (1998) developed these five types of management strategy into 10 schools of thought‖. These 10 schools are grouped into three categories. The first group is prescriptive or normative. It consists of the informal design and conception school, the formal planning school, and the analytical positioning school. The second group, consisting of six schools, is more concerned with how strategic management is actually done, rather than prescribing optimal plans or positions. The six schools are the entrepreneurial, visionary, or great leader school, the cognitive or mental process school, the learning, adaptive, or emergent process school, the power or negotiation school, the corporate culture or collective process school, and the business environment or reactive school. The third and final group consists of one school, the configuration or transformation school, an hybrid of the other schools organized into stages, organizational life cycles, or episodes.

Markides (1999) also wanted to reexamine the nature of strategic planning itself.He describes strategy formation and implementation as an on-going, never-ending, integrated process requiring continuous reassessment and reformation. Strategic management is planned and emergent, dynamic, and interactive. Moncrieff (1999) also stresses strategy dynamics.He recognized that strategy is partially deliberate and partially unplanned. The unplanned element comes from two sources: **emergent strategies** (result from the emergence of opportunities and threats in the environment) and **Strategies in action** (ad hoc actions by many people from all parts of the organization).

Some business planners are starting to use a complexity theory approach to strategy. Complexity can be thought of as chaos with a dash of order. Chaos theory deals with turbulent systems that rapidly become disordered. Complexity is not quite so unpredictable. It involves multiple agents interacting in such a way that a glimpse of structure may appear.

Information - and Technology-driven Strategy

Peter Drucker had theorized the rise of the knowledge worker‖ back in the 1950s. He described how fewer workers would be doing physical labor, and more would be applying their minds. Naisbitt (1984) theorized that the future would be driven largely by information: companies that managed information well could obtain an advantage, however the profitability of what he calls the information float‖ (information that the company had and others desired) would all but disappear as inexpensive computers made information more accessible.

Daniel Bell (1985) examined the sociological consequences of information technology, while Schuck and Zuboff () looked at psychological factors.Zuboff, in her five year study of eight pioneering corporations made the important distinction between automating technologies‖ and informating technologies. She studied the effect that both had on individual workers, managers, and organizational structures. She largely confirmed Peter Drucker's predictions three decades earlier, about the importance of flexible decentralized structure, work teams, knowledge sharing, and the central role of the knowledge worker. Zuboff also detected a new basis for managerial authority, based not on position or hierarchy, but on knowledge (also predicted by Drucker) which she called participative management‖.

Senge (1990) who had collaborated with Arie de Geus at Dutch Shell, borrowed de Geus' notion of the **learning organization**, expanded it, and popularized it. The underlying theory is that a company's ability to gather, analyze, and use information is a necessary requirement for business success in the information age. To do this, Senge (1990) claimed that an organization would need to be structured such that:

- People can continuously expand their capacity to learn and be productive,
- New patterns of thinking are nurtured,
- Collective aspirations are encouraged, and

- People are encouraged to see the whole picture‖ together.

Senge (1990) identified five disciplines of a learning organization. They are:

- Personal responsibility, self reliance, and mastery – We accept that we are the masters of our own destiny. We make decisions and live with the consequences of them. When a problem needs to be fixed, or an opportunity exploited, we take the initiative to learn the required skills to get it done.

- Mental models – We need to explore our personal mental models to understand the subtle effect they have on our behaviour.

- Shared vision: The vision of where we want to be in the future is discussed and communicated to all. It provides guidance and energy for the journey ahead.

- Team learning – We learn together in teams. This involves a shift from a spirit of advocacy to a spirit of enquiry.

- Systems thinking – We look at the whole rather than the parts. This is what Senge (1990) calls the Fifth discipline‖. It is the glue that integrates the other four into a coherent strategy. For an alternative approach to the learning organization, see Garratt (1987).

Thomas A. Stewart, for example, uses the term **intellectual capital** to describe the investment an organization makes in knowledge. It is composed of human capital (the knowledge inside the heads of employees), customer capital (the knowledge inside the heads of customers that decide to buy from you), and structural capital (the knowledge that resides in the company itself). Manuel Castells describes a **network society** characterized by: globalization, organizations structured as a network, instability of employment, and a social divide between those with access to information technology and those without.

Moore (1991) also detected a shift in the nature of competition. In industries with high technology content, technical standards become established and this gives the dominant firm a near monopoly. The same is true of networked industries in which interoperability requires compatibility between users. An example is word processor documents. Once a product has gained market dominance, other products, even far superior products, cannot compete. Moore showed how firms could attain this enviable position by using E.M. Rogers five stage adoption process and focusing on one group of customers at a time, using each group as a base for marketing to the next group. The most difficult step is making the transition between visionaries and pragmatists (See Crossing the Chasm). If successful a firm can create a bandwagon effect in which the momentum builds and its product becomes a *de facto* standard.

Evans and Wurster describe how industries with a high information component are being transformed. They cite Encarta's demolition of the Encyclopædia Britannica (whose sales have plummeted 80% since their peak of $650 million in 1990). Encarta's reign was speculated to be short-lived, eclipsed by collaborative encyclopedias like Wikipedia that can operate at very low marginal costs. Encarta's service was subsequently turned into an on-line service and dropped at the end of 2009. Evans also mentions the music industry which is desperately looking for a new business model. The upstart information savvy firms, unburdened by cumbersome physical assets, are changing the competitive landscape, redefining market segments, and dis-intermediating some channels. One manifestation of this is personalized marketing. Information technology allows marketers to treat each individual as its own market, a market of one. Traditional ideas of market segments will no longer be relevant if personalized marketing is successful. The technology sector has provided some strategies directly. For example, from the software development industry agile software development provides a model for shared development processes.

Access to information systems have allowed senior managers to take a much more comprehensive view of strategic management than ever before. The most notable of the comprehensive systems is the balanced scorecard approach developed in the early (Kaplan &

Norton, 1992). It measures several factors financial, marketing, production, organizational development, and new product development to achieve a 'balanced' perspective.

Knowledge Adaptive Strategy

Most current approaches to business "strategy" focus on the mechanics of management e.g., Drucker's operational "strategies" and as such are not true business strategy. In a post-industrial world these operationally focused business strategies hinge on conventional sources of advantage have essentially been eliminated:

- Scale used to be very important. But now, with access to capital and a global marketplace, scale is achievable by multiple organizations simultaneously. In many cases, it can literally be rented.

- Process improvement or ―best practices‖ were once a favored source of advantage, but they were at best temporary, as they could be copied and adapted by competitors.

- Owning the customer had always been thought of as an important form of competitive advantage. Now, however, customer loyalty is far less important and difficult to maintain as new brands and products emerge all the time.

In such a world, differentiation, as elucidated by Michael Porter (1996), Botten and McManus () is the only way to maintain economic or market superiority (i.e., comparative advantage) over competitors. A company must OWN the thing that differentiates it from competitors. Without IP ownership and protection, any product, process or scale advantage can be compromised or entirely lost. Competitors can copy them without fear of economic or legal consequences, thereby eliminating the advantage.

This principle is based on the idea of evolution: differentiation, selection, amplification and repetition. It is a form of strategy to deal with complex adaptive systems which individuals, businesses, the economy are all based on. The principle is based on the survival of the "fittest". The fittest strategy employed after trial and error and combination is then employed to run the company in its current market. Failed strategic plans are either discarded or used for another aspect of a business. The trade-off between risk and return is taken into account when deciding which strategy to take. Cynefin model and the adaptive cycles of businesses are both good ways to develop KAS, reference Panarchy and Cynefin (). Analyze the fitness landscapes for a product, idea, or service to better develop a more adaptive strategy.

(For an explanation and elucidation of the "post-industrial" worldview, see George Ritzer) a

1.3.2a: STRATEGY AND STRATEGIC MANAGEMENT (Definitions and discussion of concepts)

The concept of strategy is central to understanding the process of strategic management. The term strategy'is derived from the Greek word ***strategos***, which means generalship – the actual direction of military force-as distinct from the policy governing its deployment. Therefore, the word 'strategy'literally means the art of the general. In business parlance, there is no definite meaning assigned to strategy. It is often used loosely to mean a number of things.

The following sections shall present some representative definitions and different perspectives on strategy. Here, you will get an overview of the complex terrain that the debate on strategy has traversed in the course of its development as a concept. Kazmi (2006) gave the following illustrations/examples of strategy in action:

- Rollatainers, after divesting a major stake in ITC, is contemplating an expansion strategy. The combined turnover of Rollatainers and ITC's packaging division, which is Rs 500 crore at present, is likely to touch Rs 1000 crore in the next five years.
- TTK Prestige is part of the diversified TTK Group. It is focusing on its core strength of manufacturing and marketing of kitchenware. It has a US-based subsidiary Mantra Inc which markets multicooking systems.
- Singer India, which has been associated with sewing machines, is entering the white goods and colour television market as part of its diversification strategy.
- Birla Trans-Asia Carpets is a sick unit from the Yash Birla group. As it is faced with excessive manpower and high interest costs, it is attempting a turnaround strategy by retrenching three-

fourth of its employees, importing synthetic carpets and tiles, and exporting to the US carpet markets.

- Kotak Mahindra Finance Limited is a major non-banking finance company (NBFC) that has experienced low profitability owing to the various problems faced by the NBFCs in India. It is planning to adopt a divestment strategy in wholesale corporate lending and focusing on new growth areas, such as wealth management, retail, insurance, and information services.

The above illustrations show how different companies reacted to their environment. In so doing, they adopted a course of action which seemed to be appropriate to them. Such a course of action may involve actions like expansion, diversification, focus, turnaround, stability or divestment. When an old established company which has been profitable in the past starts facing new threats in the environment – like the emergence of competitors it has to rethink the course of action it had been following. With such rethinking, new ways are devised to counter the threats. Alternatively, some new opportunities may emerge in the environment which had not been there in the past. In order to take advantage of these opportunities the company reassesses the approaches it had been following and changes its courses of action. These courses of action are what we may call strategies.

No doubt, strategy is one of the most significant concepts to emerge in the subject of management studies in the recent past. Its applicability, relevance, potential and viability have been put to severe tests. It has emerged as a critical input to organizational success and has come in handy as a tool to deal with the uncertainties that organisations face. It has helped to reduce ambiguity and provide a solid foundation as a theory to conduct business – a convenient way to structure the many variables that operate in the organizational context, and to understand their interrelationship. It has aided thinkers and practitioners to formulate their thoughts in an ordered manner and to apply them in practice. There have been several such benefits, yet there are some pitfalls too. It would be prudent on our part to realize that one should not blindly adhere to the postulations of strategy. This is likely to elicit a mature response so that the full potential of this powerful concept can be realized. It is also intended to provide a balanced understanding of the concept of strategy. Here are two points for our consideration to help tamper our enthusiasm while embracing the concept of strategy.

- The application of the concept of strategy to real-life situations may tend to oversimplify things. Actual situations are complex and contain several variables that are not amenable to structuring. The concept of strategy tends to distort reality and, as an abstraction of reality, it is anything but a true reflection of the actual situation. Of course, this limitation is not unique to strategy. It is present in any situation where modelling has to be resorted to in order to provide a structured understanding of reality. Just as several mathematical formulations start with a phrase that indicates that a certain number of variables are assumed to be constant.

- The application of the concept of strategy commits an organisation to a predetermined course of action. While this is essential to chart out the path ahead, it can often blind an organisation to emergent situations as it goes along the path. Rigidity can lead to an attitude of finality with regard to those situations that are actually not known at the time of startingthe journey. It might be better, thus, to move slowly, one step at a time, and keep in mind the maxim: look before you leap. One might say that this may already be known to perspective managers. Yet there is no harm in being cautious. Discretion is certainly the better part of valour‘.

Since strategy is the most important concept in the business policy course, next we shall study a few definitions of strategy given by different authors and derive certain conclusions from them.

Defining and Explaining Strategy

Management is an art as well as science (Kazmi, 2006). Many of the concepts used in building management theory have been derived from practice. Unlike the pure sciences which have their foundation in experimental research, management studies draw upon the practical experiences of managers in defining concepts. Business policy is rooted in the practice of management and has passed through different phases before taking its shape in the present form of strategic management. One of the earliest contributors to this young subject was Alfred D. Chandler.

Alfred D. Chandler (1962)

Chandler made a comprehensive analysis of interrelationships among environment, strategy, and organizational structure. He analysed the history of organizational change in 70 manufacturing firms in the United States. While doing so, Chandler defined strategy as: ―The determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals‖ (Chandler, 1962 cited in Kazmi, 2006). Note that Chandler refers to three aspects: Determination of basic long-term goals and objectives; adoption of courses of action to achieve these objectives; and allocation of resources necessary for adopting the courses of action.

Kenneth Andrews (1965)

Andrews belong to the group of professors at Harvard Business School who were responsible for developing the subject of business policy and its dissemination through the case study method. Andrew defines strategy as: The pattern of objectives, purposes, goals, and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be‖ (Andrews, 1965 cited in Kazmi, 2006). This definition refers to the business definition‘, which is a way of stating the current and desired future position of a company, and the objectives, purposes, goals, major policies and plans required to take the company from where it is to where it wants to be.

Igor Ansoff (1965)

Ansoff (1965) has been a prolific writer for the last three decades in the field of strategic management. In one of his earlier books, *Corporate Strategy* (1965), he explained the concept of strategy as: The common thread among the organisation‘s activities and product-markets ….that defines the essential nature of business that the organisation was or planned to be in future‖ (Ansoff, 1965).

Ansoff has stressed on the commonality of approach that exists in diverse organizational activities including the products and markets that define the current and planned nature of business.

William F. Glueck (1972)

Another well-known author in the area of strategic management was Glueck, who was a Distinguished Professor of Management at the University of Georgia till his death in 1980. He defined strategy precisely as: ―A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved‖ (Glueck, 1972). The three adjectives which Glueck has used to define a plan make the definition quite adequate. Unified' means that the plan joins all the parts of an enterprise together; ‗comprehensive' means it covers all the major aspects of the enterprise, and ‗integrated' means that all parts of the plan are compatible with each other.

Henry Mintzberg (1987)

Mintzberg of McGill University is a noted management thinker and prolific writer on strategy. He advocates the idea that strategies are not always the outcome of rational planning. They can emerge from what an organisation does without any formal plan. He defines strategy as: ―a pattern in a stream of decisions and actions‖ (Mintzberg, 1987). Mintzberg distinguishes between intended strategies and emergent strategies. Intended strategies refer to the plans that managers develop, while emergent strategies are the actions that actually take place over a period of time. In this manner, an organisation may start with a deliberate design of strategy and end up with another form of strategy that is actually realized.

Michael E. Porter (1996)

Michael Porter of the Harvard Business School has made invaluable contributions to the development of the concept of strategy. His ideas on competitive advantage, the five-forces model, generic strategies, and value chain are quite popular. He opines that the core of general management is strategy, which he elaborates as developing and communicating the company‘s unique position, making trade-offs, and forging fit among activities‖ (Porter, 1996).

Strategic position is based on customers‘ needs, customers‘ accessibility, or the variety of a company‘s products and services. A company‘s unique position relates to choosing activities that are different from those of the rivals, or to performing similar activities in different ways. However, a sustainable strategic position requires a trade-off when the activities that a firm performs are incompatible. Creation of it fit among the different activities is done to ensure that they relate to each other.

It must be noted that the different approaches referred to above to define strategy cover nearly a quarter of a century. This is an indication of what a complex concept strategy is and how various authors have attempted to define it. To put it in another way, there are as many definitions as there are experts. The same authors may change the approach they had earlier adopted. Witness what Ansoff said 19 years later in 1984 (his earlier definition is of 1965): Basically, a strategy is a set of decision –making rules for the guidance of organizational behavior‖ (Porter, 1996).

We have tried to give you an assortment of definitions out of the many available. Rather than an assortment, it may be more appropriate to call this section a bouquet of definitions and explanations of strategy. Each flower (definition) is resplendent by itself yet contributes synergistically to the overall beauty of the bouquet. The field of strategy is indeed fascinating, prompting an author to give the title. What is Strategy and does it matter? to his thought-provoking book (Porter, 1996). Drucker goes to the extent of terming the strategy of an organisation as its theory of the business‖ (Porter, 1996).

By means of the deeper insight that the authors have developed through years of experience and thinking, they have attempted to define the concept of strategy with greater clarity and precision. This comment is valid for most of the concepts in strategic management since this discipline is in the process of evolution and a uniform terminology is still evolving. By combining the above definitions we do not attempt to define strategy in a novel way but we shall try to analyse all the elements that we have come across. We note that strategy is:

- a plan or course of action or a set of decision rules forming a pattern or creating a common thread;
- the pattern or common thread related to the organisation‘s activities which are derived from its policies, objectives and goals;
- related to pursuing those activities which move an organisation from its current position to a desired future state;
- concerned with the resources necessary for implementing a plan or following a course of action; and
- connected to the strategic positioning of a firm, making trade-offs between its different activities, and creating a fit among these activities.

1.3.2b: STRATEGIC MANAGEMENT

Glueck (1984) defines strategic management as a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives. As visualized by Glueck, cited in Kazmi, (2006), the end result of strategic management is a strategy or a set of strategies for the organisation. Hofer et al., (1984) consider strategic management as the process which deals with the fundamental organizational renewal and growth with the development of strategies, structures, and systems necessary to achieve such renewal and growth, and with the organizational systems needed to effectively manage the strategy formulation and implementation processes.

Firstly, these authors include two sub-processes within the overall strategic management process. Through the formulation and implementation sub-processes strategies, structures, and systems are developed to achieve the objectives of organizational renewal and growth. Secondly, the strategic management process is also considered as the managing of the organizational systems which are required for strategic management. For instance, the administrative arrangements necessary for the formulation and implementation of strategies would also be included in the process of strategic management.

Ansoff (1984) states that strategic management is a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way that will assure its continued success and make it secure from surprises‖. In this definition the emphasis is on the environment-organisation relationship for the purpose of achieving the objective of continued success and remaining protected from environmental surprises through the adoption of a systematic approach to general management.

Sharplin (1985) defines strategic management as the formulation and implementation of plans and carrying out of activities relating to the matters which are of vital, pervasive or continuing importance to the total organisation. This is an all-encompassing view of strategic management and considers all plans and activities which are important for an organisation. Note that all the four definitions that we have quoted above are from the early 1980s – the period when strategic management was being recognized as a separate discipline which deals with the fundamental issues related to the existence, growth and profitability of organisations.

The last definition, that we quote next, is of a recent origin and emphasizes the elements in the process of strategic management. It states that the main end is the satisfaction of stakeholders of the organisation. The stakeholders are groups or individuals who can significantly affect or be affected by an organisation's activities. Harrison and John (1998) define strategic management as the process through which organisations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to help achieve established goals, and execute these strategies, all in an effort to satisfy key organizational stakeholders. We observe that different authors have defined strategic management differently. Yet there are several common elements in the way it is defined and understood.

Strategic management is considered as either decision-making and planning or a set of activities related to the formulation and implementation of strategies to achieve organizational objective. In strategic management the emphasis is on those general management responsibilities which are essential to relate the organisation to the environment in such a way that its objectives may be achieved.

In terms of limitations of strategic management, a sense of direction is important, it can also stifle creativity, especially if it is rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia.

Many theories of strategic management tend to undergo only brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias (itself an area of research in strategic management). Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism or faddishness can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances. See business philosophies and popular management theories for a more critical view of management theories.

Hamel (2000) coined the term **strategic convergence** to explain the limited scope of the strategies being used by rivals in greatly differing circumstances. He lamented that strategies converge more than they should, because the more successful ones are imitated by firms that do not understand that the strategic process involves designing a custom strategy for the specifics of each situation. Charan () aligning with a popular marketing tagline, believes that strategic planning must not dominate action. "Just do it!" while not quite what he meant, is a phrase that nevertheless comes to mind when combating analysis paralysis.

- **What are the limitations of the concept of strategic management.**

Self-Assessment Exercises 1

I. Define the concepts of strategy and strategic management.

2. What are the limitations of the concept of strategic management?

2.3.3: SCOPE OF STRATEGIC MANAGEMENT

Organisations are the totality of people including managers and their behaviors which make up organizational behavior. Strategies address the organization and require operational execution. For the purpose of understanding how to strategically manage an organization, these are not disciplines which can be addressed separately: They are connected into one discipline-now answering the concept of strategic management.

Strategic management is important as there is nothing associated with a business organization outside the purview of strategic management, and so, it represents the totality of the management of the organization. While strategic scope addresses the products and services organisations intend to offer over a particular period of time, and shows where, and the target markets where the goods will be sold, strategic management scope is the integration of activities that address the products/services organisations plan to offer over a particular period of time considering resources at their disposal, and the target markets to be reached, and then, the coordination of the entire managerial processes that are involved for competitive sustainability. Strategic management can be said to belong to both the art and the science through the process of formulating, implementing, and evaluating cross-functional decisions that enhance organizational accomplishment capabilities.

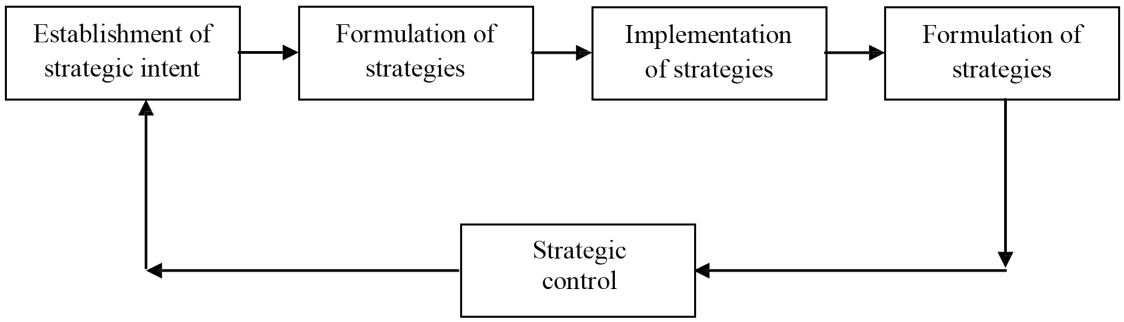
1.3.4: PHASES IN STRATEGIC MANAGEMENT

The definitions quoted above give us the idea that strategic management as a process consists of different phases which are sequential in nature. Most authors agree that there are four essential phases in the strategic management process, though they may differ with regard to its sequence, emphasis, or nomenclature. These four phases could be encapsulated as follows:

1. Establishing the hierarchy of strategic intent;
2. Formulation of strategies;
3. Implementation of strategies; and
4. Performing strategic evaluation and control.

These four phases are considered as sequentially linked to each other and each successive phase provides a feedback to the previous phases. The phases in strategic management are depicted in the figure below:

Figure showing phases in the Strategic Management Process:



However, in practice, the different phases of strategic management may not be clearly differentiable from each other. In fact, we prefer to call them phases rather than stages or steps (as some authors do) to signify that the different phases, at the interface, may exist simultaneously, and that the strategic activities gradually emerge in one phase to merge into the following phase. The feedback arising from each of the successive phases is meant to revise, reformulate or redefine the previous phases, if necessary. Such a representation yields a dynamic model of strategic management which takes into account the emerging factors as the process moves on.

1.4 SUMMARY

Strategic management can be defined as a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives. Strategic management is important as there is nothing associated with a business organization outside the purview of strategic management, and so, it represents the totality of the management of the organization. These four phases of strategic management are: Establishing the hierarchy of strategic intent; Formulation of strategies; Implementation of strategies; and Performing strategic evaluation and control.

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1.6 POSSIBLE ANSWERS TO SAES

1. Define the concepts of strategy and strategic management

The pattern of objectives, purposes, goals, and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be. (Andrews, 1965 cited in Kazmi, 2006). This definition refers to the business definition', which is a way of stating the current and desired future position of a company, and the objectives, purposes, goals, major policies and plans required to take the company from where it is to where it wants to be while strategic management is the process which deals with the fundamental organizational renewal and growth with the development of strategies, structures, and systems necessary to achieve such renewal and growth, and with the organizational systems needed to effectively manage the strategy formulation and implementation processes.

2. Strategic management can stifle creativity, especially if it is rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia. Many theories of strategic management tend to undergo only brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias (itself an area of research in strategic management). Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism or faddishness can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances.

UNIT 2: STRATEGIC MANAGEMENT PROCESS AND THE STRATEGISTS

Unit Structure

2.1 INTRODUCTION
2.2 LEARNING OUTCOMES
2.3 Strategic management process and the strategists
2.3.1 Strategic management process and its phases
2.3.2 Strategic management model
2.3.3 Strategists and their roles in strategic management
2.3.4 Criteria for assessing strategic alternatives
2.4 SUMMARY
2.5 REFERENCES AND FURTHER READING
2.6 POSSIBLE ANSWERS TO SAEs

INTRODUCTION

In the last unit, we discussed strategy and strategic management. We defined the concept of strategy and then, strategic management. Here, we shall focus on issues like strategic management process and its phases, strategic management model, strategists and their roles in strategic management, criteria for assessing strategic alternatives.

In this unit, we shall discuss strategic management process and its phases, strategic management model, strategists and their roles in strategic management, and criteria for assessing strategic alternatives.

2.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- Understand strategic management process and its phases
- strategic management model;
- strategists and their roles in strategic management;
- criteria for assessing strategic alternatives.

2.3 STRATEGIC MANAGEMENT PROCESS AND THE STRATEGISTS

2.3.1: STRATEGIC MANAGEMENT PROCESS AND ITS PHASES

Each phase of the strategic management process consists of a number of elements which are discrete and identifiable activities performed in logical and sequential steps. As many as twenty different elements could be identified in the models provided by various authors. From the literature on business policy, we note that most or all of the following activities are considered as part of the strategic management process.

(1) Establishing the hierarchy of strategic intent:

(a) creating and communicating a vision;
(b) designing a mission statement;
(c) defining the business; (d) setting objectives;

(2) Formulation of strategies:

(e) performing environmental appraisal;
(f) doing organizational appraisal;
(g) considering corporate-level strategies;
(h) considering business-level strategies;
(i) undertaking strategic analysis;
(j) exercising strategic choice;
(k) formulating strategies;
(l) preparing a strategic plan;

(3) Implementation of strategies:

(m) activating strategies;
(n) designing structures and systems;
(o) managing behavioural implementation;
(p) managing functional implementation;
(q) operationalising strategies;

(4) Performing strategic evaluation and control:

performing strategic evaluation; (s) exercising strategic control; and (t) reformulating strategies.

2.3.2: STRATEGIC MANAGEMENT PROCESS MODEL

The process of strategic management is depicted through a model which consists of different phases, each phase having a number of elements. As earlier stated, most authors agree on dividing the strategic management process into four phases consisting of about 20 elements. The models of strategic management that we have adopted in this course are provided in figures 1 and 2 below:

In the first figure, we provide a vertical representation of a comprehensive model of the strategic management process. In second figure, we depict the process laterally and provide a working model. Our purpose in additionally giving a working model, devoid of the complexity observed in the comprehensive model, is to assist you in remembering and recalling it with ease. The remainder of this discourse will deal with the various elements of the strategic management process. Here, we present a bird‘s-eye view of the different elements of the process.

Figure 1 Comprehensive Model of Strategic Management Process

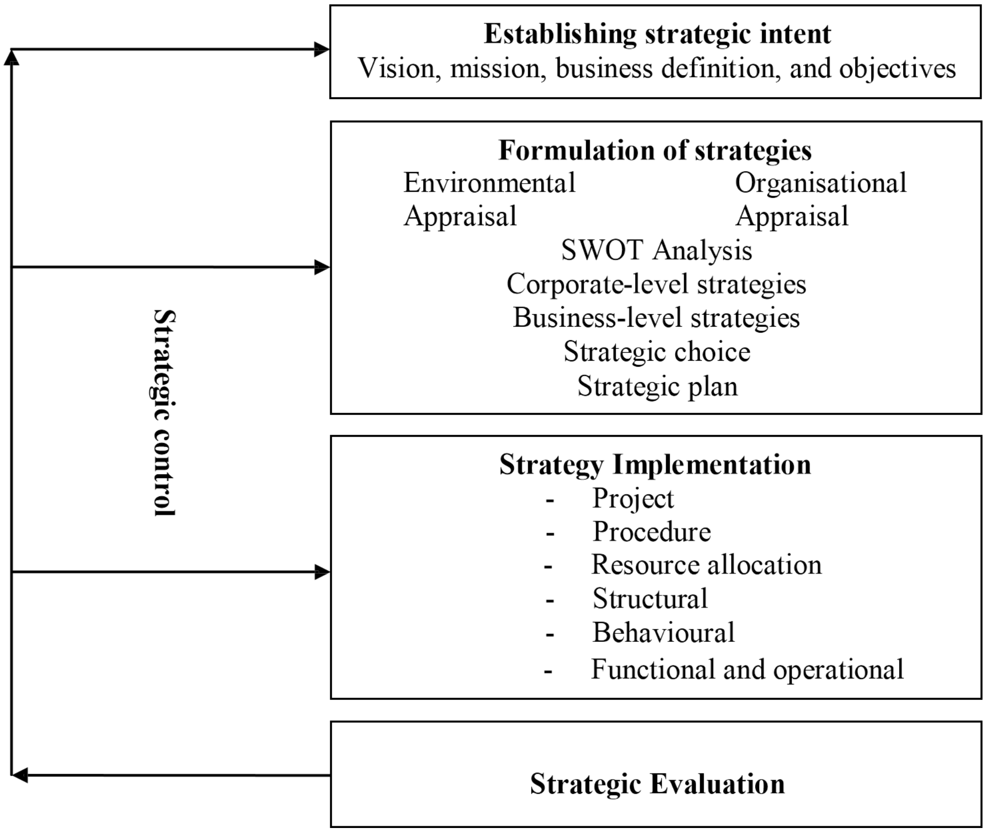
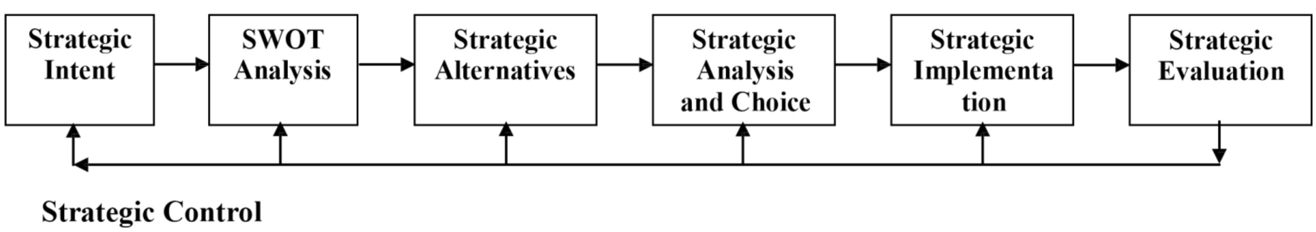


Figure 2 Working Model of Strategic Management Process



1. The hierarchy of strategic intent lays the foundation for the strategic management of any organisation. In this hierarchy, the vision, mission, business definition, and objectives are established. The strategic intent makes clear what an organisation stands for. The element of vision in the hierarchy of strategic intent serves the purpose of stating what an organisation wishes to achieve in the long run. The mission relates an organisation to society. The business definition explains the businesses of an organisation in terms of customer needs, customer groups, and alternative technologies. The objectives of an organisation state what is to be

achieved in a given time period. These objectives then serve as yardsticks and benchmarks for measuring organisational performance.

2. Environmental and organisational appraisal helps to find out the opportunities and threats operating in the environment and the strengths and weaknesses of an organisation in order to create a match between them. In such a manner, opportunities could be availed of and the impact of threats neutralized in order to capitalize on the organisational strengths and minimize the weaknesses.

3. Strategic alternatives and choices are required for evolving alternative strategies out of the many possible options, and choosing the most appropriate strategy or strategies in the light of environmental opportunities and threats and corporate strengths and weaknesses. Strategies are chosen at the corporate-level and the business-level. The process used for choosing strategies involves strategic analysis and choice. The end result of this set of elements is a strategic plan which can be implemented.

4. For the implementation of a strategy, the strategic plan is put into action through six sub-processes: project implementation, procedural implementation, resource allocation, structural implementation, behavioural implementation, and functional and operational implementation. Project implementation deals with setting up the organisation. Procedural implementation deals with different aspects of the regulatory framework within which the organisations have to operate. Resource allocation relates to the procurement and commitment of resources for implementation.

   The structural aspects of implementation deal with the designing of appropriate organisational structures and systems, and reorganizing to match the structure to the needs of the strategy. The behavioural aspects consider the leadership styles for implementing strategies and other issues like corporate culture, corporate politics and use of power, personal values and business ethics, and social responsibility. The functional aspects relate to the policies to be formulated in different functional areas. The operational implementation deals with the productivity, processes, people, and pace of implementing the strategies. The emphasis in the implementation phase of strategic management is on action.

The last phase of strategic evaluation appraises the implementation of strategies and measures organisational performance. The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategies may be reformulated, if necessary.

❖ **Explain the phases of strategic management through its conceptual framework**

2.3.3: STRATEGISTS AND THEIR ROLES IN STRATEGIC MANAGEMENT

Strategists are individuals or groups who are primarily involved in the formulation, implementation, and evaluation of strategy. In a limited sense, all managers are strategists. There are persons outside the organisation who are also involved in various aspects of strategic management. They too are referred to as strategists. We can identify nine strategists who, as individuals or in groups, are concerned with and play a role in strategic management. In this section, we shall describe the roles of these strategists.

(i) Role of Board of Directors

The ultimate legal authority of an organisation vests in the board of directors. The owners of the organisation – shareholders, controlling agencies, the government, financial institutions, the holding company or the parent company – elect and appoint the directs on the board. The board is responsible to them for the governance of the organisation. As directors, the members of the board are responsible for providing guidance and establishing the directives according to which the managers of the organisation can operate. The board exercises authority according to the memorandum of association and articles of association of that company. Legally, they have to conform to the various provisions of the Companies and Allied Matters Act 1990. Apart from the legal framework, the board has to act according to the policies, rules, procedures, and conventions of the organisation.

In practice, however, there is a wide difference between the roles played by the board in various types of organisations. These differences may arise due to the ownership patterns in public and private sector companies. Even within these sectors there might be variations. Private sector companies which are family-owned differ from multinationals. Further, professionally-managed companies may differ from family-owned concerns.

By definition, the board is only required to direct. But many operational matters of vital significance, like technology collaborations, new product development, senior management appointments, and so on, may also be referred to the board. The directing functions of the board have certain formal and informal components (Chandler, 1962). Formally, the board is involved in reviewing and screening executive decisions in the light of their environmental, business, and organisational implications. Informally, the board seeks to direct the organisation's activities so that they are in concordance with the prevailing social, economic, and political milieu. Because the board is considered a vital link between the environment and the organisation, it usually does not concern itself with operational decision-making.

In strategic management, the role of the board is to guide the senior management in setting and accomplishing objectives, reviewing and evaluating organisational performance, and appointing senior executives. The function of the board is usually seen in terms of setting the strategic direction, which involves establishing objectives and strategy, and subsequently monitoring and reviewing achieving (Andrews, 1973). However, there is no clarity regarding the exact role that the board should play in managing the affairs of an organisation. Much depends on the relative strength, in terms of the power wielded by the board and the chief executive. Where there is a high level of clarity regarding their respective roles, the relationship between the board and the chief executive is cordial and the functioning of the board is smooth. Where such clarity is low, problems do occur.

The role of the board of directors has come under intense scrutiny in recent times leading to the emergence of the issue of corporate governance, a system by which corporate entities are directed and controlled. This means the governance of a company by its board of directors. It relates to the functioning of the board of a company and the conducting of the business internally and externally.

Globally, there has been much concern about the biased and, sometimes outright unethical practices adopted by publicly-held companies. In the UK, the Cadbury Committee (1992) and the Hampel Committee (1995) have gone into various aspects, specially the financial matters, related to the governance of the companies by its board. The reports prepared by these committees have generated a lot of interest worldwide.

(ii) Role of Chief Executive Officer (CEO)

The CEO is the most important strategist who is responsible for all aspects of strategic management, from, the formulation to the evaluation of strategy. The CEO is variously designated as the managing director, executive director, president or general manager in business organisations. As the chief strategist, the CEO plays a major role in strategic decision-making. Due to the importance accorded to the CEO many authors and researchers have attempted to define his/her roles, functions, and responsibilities. This is understandable since the CEO of an organisation plays the most crucial role in determining whether an organisation is successful or not. Peters and Waterman say that associated with almost every excellent company was a strong leader (or two) who seemed to have had a lot to do with making the company excellent in the first place‖ (Ansoff, 1965).

The role of CEO in strategic management is the most important among the roles played by different strategists. He/she is the person who is chiefly responsible for the execution of those functions which are of strategic importance to the organisation. In other words, a CEO performs the strategic tasks – actions which are necessary to provide a direction to the organisation so that it achieves its purpose. He/she plays a pivotal role in setting the mission of the organisation, deciding the objectives and goals, formulating and implementing the strategy and, in general, seeing to it that the organisation does not deviate from its predetermined path designed to move it from the position it is in to where it wants to be. In short, a CEO is primarily responsible for the strategic management of the organisation. Defining roles theoretically owing to the primacy attached to the chief executives, many authors, researchers and practitioners have attempted to study their roles. The different approaches that have been adopted to study the roles of CEOs may be broadly classified into two categories: the role-modelling approaches and the other approaches.

1. The role-modelling approaches attempt to describe the CEOs in terms of the different roles that they play in organisations. For instance, a CEO may be considered as:

- chief architect of organisational purpose, strategist or planner,
- organisational leader, organizer or organisation builder
- chief administrator, implementor or coordinator; and
- communicator of organisational purpose, motivator, personal leader or mentor.

2. The other approaches, directly or indirectly, attempt to describe the role of CEOs in terms of different parameters like:

- how time is spent;
- qualities and personalities;
- communication styles;
- demographic characteristic, such as, age, intelligence, education, functional background, experience, and so on;
- managerial values;
- managerial styles; and
- environment.

(iii) Role of Entrepreneurs

According to Drucker, the entrepreneur always searches for change, responds to it and exploits it as an opportunity‖ (Glueck, 1976). The entrepreneur has been usually considered as the person who starts a new business, is a venture capitalist, has a high level of achievement - motivation, and is naturally endowed with the qualities of enthusiasm, idealism, sense of purpose, and independence of thought and action. However, not all of these qualities are present in all entrepreneurs nor are these found uniformly. An entrepreneur may also demonstrate these qualities in different measures at different stages of life. Contrary to the generally accepted view of entrepreneurship, entrepreneurs are not to be found only in small businesses or new ventures. They are also present in established and large businesses, in service institutions, and also in the bureaucracy and government. By their very nature, entrepreneurs play a proactive role in strategic management. As initiators, they provide a sense of direction to the organisation, and set objectives and formulate strategies to achieve them. They are major implementers and evaluators of strategies. The strategic management process adopted by entrepreneurs is generally not based on a formal system, and usually they play all strategic roles simultaneously. Strategic decision-making is quick and the entrepreneurs generate a sense of purpose among their subordinates. The illustrations given below shall provide a glimpse of the entrepreneurs'role as strategists.

Profiles of three Successful CEOs

S/N	Factors	CEO A	CEO B	CEO C
1.	The company	Manages a well-established public sector monopoly using process technology, faces problems of stagnating production levels, technological obsolescence and low worker morale.	Manages a private sector company based on mass production technology; is market leader and operates in a competitive environment, worker productivity is high but organisational loyalty is low.	Manages a highly diversified multi- plant multi-product, multinationa company; has higl research potential; goo marketing network emphasis o teamwork and maintaining goo organisational culture, see as a slow-moving, ris averse company.
2.	The Person:			

	Personal traits	In the group of 60 – 65 years; has a technical background; has risen from the ranks; possesses qualities of intelligence and selflessness; is principled and a man of convictions; has regular habits; spends leisure time reading; neglect family life.	In the age group of 50 -55 years; has technical and managerial background; comes from a business family; possesses qualities of foresight, determination, openness, honesty and fairness, has high aspirations, is principled, impatient, drives himself and others too hard, unforgiving, dedicated to family but finds little time for it.	In the age group of 50 – 5 years; has a scientif background; comes fro middle class family, simp and modest, family ma possesses qualities of hones and fairness; trave frequently; keeps in touc with the environmen publicity-shy; has a dee sense of patriotism and philosophical attitu towards life.
	Managerial qualities	Could be described as a motivator, leader, communicator, visionary and institution builder, is able to create rapport with the government; successful in managing interface between his company and concerned bureaucrats and politicians.	Quick decision-maker; has high business acumen; is an effective and dedicated leader; does clear thinking and has an eye for detail; is influential in government circles.	Adopts a scientific-ration approach, professiona keeps in touch with mark conditions; maintains goo relations with peers an subordinates; believes delegation; has good rappo with government.
	Pre-dominant management style	Motivational style; effectively manages change; believes in open communication and environment; adopts a systematic planned approach to strategic business thinking.	Believes in centralized decision-making; does strategic planning personally; closely	Professional style; believ in people and has faith subordinates; maintai close touch with compan believes in continuity; adop stability approach in strateg

			supervises operational areas.	formulation.

Source: Based on Azhar Kazmi, Monograph on Roles and Responsibilities of Chief Executives (Aligarh: Department of Business Administration, Aligarh Muslim University, Aligarh, 1988).

- K. C. Raghunathan, managing director of SIP Resins Limited, and K C Sukumar, joint managing director are brothers who moved from their traditional family businesses of construction, transport, money lending, and so on to the manufacture of PVC resins. Quick to react to a business opportunity (they got the idea while on a visit to an exhibition), they set up a small-scale PVC resin compounding unit after winding up their family business. Overcoming many hurdles in production and marketing, these two entrepreneurs finally succeeded in creating a 25 percent share in a market dominated by a multinational, Hindustan Ciba-Giegy Limited by 1986 – 87. When the turnover crossed Rs 6 crores, they decided to go public in order to finance their future expansion plans.

- K. V. Kamath, CEO of ICICI, who had earlier worked as a leasing specialist with the Asian Development Bank (ADB) was the head of a small team engaged in the formulation and implementation of a long-range strategic plan at the ICICI. As a part of the new directions provided by N. Vaghul, chairman and managing director of ICICI, Kamath played an active role by taking a number of strategic initiatives and identifying new businesses in his position as the Deputy General Manager for corporate planning and policy.

- In the traditional field of banking where there is little scope for innovation and entrepreneurship, S. Kumarasundaram, as the chairman of the Bank of Madura Limited,, and after his death in 1986, the new chairman, S.V. Shanmugavadivelu, provide an excellent example of the role of entrepreneur as strategists. They were not entrepreneurs in the generally accepted sense, asw these persons headed a bank which had been set up in 1943. They were responsible for providing a sense of direction, setting long-term strategies, improving systems and customer service, consolidation of position, organizational restructuring, and demarcating decision-making authority at various levels.

- Kiran Mazumdar, a young entrepreneur, set up an export-oriented unit manufacturing a range of enzymes. As an expert in brewing technology, Mazumdur entered the field of biotechnology after experiencing problems in getting a job. Later, she set up another plant for manufacturing two new enzymes created by her own research and development (R&D) department. As managing director, Mazumdar was actively involved in all aspects of policy formulation and implementation for her companies.

(iv) Role of Senior Management

The senior (or top) management consists of managers at the highest level of the managerial hierarchy. Starting from the chief executive to the level of functional or profit-centre heads, these managers are involved in various aspects of strategic management. Some of the members of the senior management act as directors on the board usually on a rotational basis. All of them serve on different top-level committees set up by the board to look after matters of strategic importance and other policy issues such as: policy formulation, policy implementation, policy evaluation, and new product development. On the whole, senior managers perform a variety of roles by assisting the board and the chief executive in the formulation, implementation, and evaluation of strategy. Occasionally, they come together in the form of different types of committees, task forces, work groups, think tanks, management teams, and so forth, to play a very important role in strategic management. One may observe how senior managers act as strategists from the examples given below.

- Strategic planning at MRF Limited used senior management expertise by dividing them into five groups dealing with products and markets, environment, technology, resources, and manpower. Each group had a leader who helped to prepare position papers for presentation to the board. The executive directors in the company were actively involved in SWOT analysis through the help of managers and assistant managers.

- At Voltas, the implementation of strategies and plans was done through a corporate executive committee headed by the president and consisting of senior vice-presidents and vice- presidents from different functional areas.

- In family-owned concerns, the manner in which senior managers are involved in strategic management varies. Where these managers are family members, they constitute an informal family council, as in Lohia Machines of the Singhania group. The professional managers at senior levels may be involved in the implementation of strategies as in the case of Arvind Mills of the Lalbhai group. Others like the Mahindra group have provided a great deal of autonomy to their senior executives in all aspects of strategic management.

- In the early 1970s, under the chairmanship of R.K. Talwar, the State Bank of India (SBI) realized the importance of decentralized planning. The bank's central office at Bombay exercised strategic control and generated broad policy guidelines. The general managers of planning department at 13 local head offices had development managers in charge of different market segments. Lower down in the hierarchy, at the regional office levels, development officers were in charge of business planning for industry and agriculture.

(v) Role of Corporate Planning Staff

Hussey (1974) enlisted the many and varied principal responsibilities of corporate planners. Essentially, the corporate-planning staff plays a supporting role in strategic management. It assists the management in all aspects of strategy formulation, implementation and evaluation. Besides this, they are responsible for the preparation and communication of strategic plans, and for conducting special studies and research pertaining to strategic management. It is important to note that the corporate planning department is not responsible for strategic management and usually does not initiate the process on its own. By providing administrative support, it fulfills its functions of assisting the introduction, working, and maintenance of the strategic management system.

(vi) Role of Consultants

Many organisations which do not have a corporate planning department o wing to reasons like small size, infrequent requirements, financial constraints, and so on, take the help of external consultants in strategic management. These consultants may be individuals, academicians or consultancy companies specializing in strategic management activities. According to the Management Consultants Association of India, management consultancy is a professional service performed by specially trained and experienced persons to advise and assist managers and administrators to improve their performance and effectiveness and that of their organisation (Drucker, 1985). Among the many functions that management consultants perform, corporate strategy and planning is one of the important services rendered. The main advantages of hiring consultants are: getting an unbiased and objective opinion from a knowledgeable outsider, cost - effectiveness, and the availability of specialists' skills. According to a senior consultant of a large consultancy firm, the trend is that family-owned companies and the public sector are relying moiré heavily on consultancy services than the multinationals‖. There are many consultancy organisations, large and small, that offer consultancy services in the area of strategic management in India. Instances of companies seeking the help of consultants in various strategic exercises such as diversification, restructuring, and so on, are legion.

Besides, the Indian consultancy firms, such as, A.F. Ferguson, S.B. Billimoria and several others, now there are many foreign consultancy firms operating in India. Some of the better-known consultancy firms and the services they offer are: McKinsey and Company, which specializes in offering consultancy in the areas of fundamental change management and strategic visioning; Anderson Consulting, which is in business restructuring, and infotech and systems; Boston Consulting that helps in building competitive advantage; and KPMG Peat Marwick that is in strategic financial management and feasibility studies for strategic implementatio n. It should be noted that consultants do not perform strategic management; they only assist the organisations and their managers in strategic management by working on specific, time-bound consultancy assignments.

(vii) Role of Middle-level Managers

The major functions of middle-level managers relate to operational matters and, therefore, they rarely play an active role in strategic management. They may, at best, be involved as sounding boards‘ for departmental plans, as implementers of the decisions taken above, followers of policy guidelines, and passive receivers of communication about functional strategic plans. As they are basically involved in the implementation of functional strategies, the middle-level managers are rarely employed for any other purpose in strategic management. This does not, however, preclude the possibility of using their expertise. Many of the examples that we have provided in the previous sub-sections show that managers and assistant managers can also contribute to the generation of ideas, the development of strategic alternatives, the refinement of business, functional and development plans, target-setting at departmental levels, and for various other purposes. The importance of the middle management cadres lies in the fact that they form the catchment areas for developing future strategists for the organisation.

(viii) Role of Executive Assistant

The emergence of executive assistants in the managerial hierarchy is a relatively recent phenomenon. An executive assistant is a person who assists the chief executive in the performance of his duties in various ways. These could be: to assist the chief executive in data collection and analysis, suggesting alternatives where decisions are required, preparing briefs of various proposals, projects and reports, helping in public relations and liaison functions, coordinating activities with the internal staff and outsiders, and acting as a filter for the information coming from different sources. Among these ―the most important and what one manager labels the _bread and butter role‘ of EA (executive assistants) could be that of corporate planners‖ (Business India, 1986). The reason being that the increasing complexity of business and strategic decision-making has led to a situation where ―it is the function of the executive assistant to monitor the changing context and evolve strategies in tandem with senior management‖. But in companies where a corporate planning department exists, this function is not assigned to the executive assistants. Since executive assistants assist the chief executive they help to optimize their time utilization. In terms of skills and attitudes, the requirements for an executive assistant include a generalist‗s orientation, a few years line experience, exposure to different functional areas, excellent written and oral communication ability, and a pleasing personality. Generally the qualification required is an MBA or a CA. The position of an executive assistant offers a unique advantage to young managers as nowhere else can he or she gain a comprehensive view of the organisation, which can help in career planning and development, and rapid advancement to the senior levels of management.

2.3.4 Criteria for Assessing Strategic Alternatives

Strategic alternatives focus on the different opportunities or escape routes available for an organization that is expanding or facing a challenging period in a particular environment. According to Glueck and Jauch cited in Agulanna and Madu (2008), strategic alternatives center on proffering solutions to challenging situations with a view to continuing or changing the mode of operation of a business or the product/service via refocusing the business by targeting new markets and so on. Organizations do embark on assessing strategic alternatives so as to improve the efficiency and effectiveness with which the organisation accomplishes its corporate objectives in its chosen business sector.

Available alternatives represent the ways out of an unwanted situation in the competitive space into which organisations do find themselves either consciously or unconsciously from time to time. Most of these challenges are caused as a result of issues that are external to the organization and over which the organization has limited control (Okah, Okpara & Ugwuegbu, 2019). So many factors have to be put into consideration when considering which of the master business strategies to adopt. According to Aluko, Odugbesan, Gbadanosi, and Osuagwu (2004) criteria for assessing strategic alternatives are as follows:

- Internal consistency: That is, the alternative strategy under consideration must be internally consistent and must not conflict with or be at loggerhead with the policy which represents the guide to actions and decision making in the organization.
- Environmentally compliant: The alternative strategy must consider the different elements and proxies in both the internal and external business environment. While the structure, culture and resources are being taken care of, the external opportunities and threats have to be factored into the arrangement as well.

- Appropriateness of strategy: The alternative strategy for consideration must align and be a supportive one, most especially in terms of available human and material resources.

- Acceptable risk level: The risk level of the alternative strategy under consideration must be measured and ascertained to be at acceptable range i.e. at a level that can be conveniently managed.

- Workability: Alternative strategy that is being considered must be practicable and capable of blending with installed facilities and capabilities and must not be divergent with established structures.

- Must be time conscious: Time is of essence. The alternative strategy must not be a time-consuming one and should be able to offer solutions to current challenges taking into considerations the expectations of stakeholders especially the distributors and other customers.

- Ethical in nature: The new strategy to be considered must not run contrary to ethical principles whether marketing or other trade ethics, most especially those that are aimed at damaging a particular brand with a view to gaining attention for a particular product in the market.

- Evaluation and implementation criteria: Another important criteria is that for the new alternative strategy to stay, it must be capable of being easily implemented and evaluated for future decision-making.

Meanwhile, Oyedijo (2004) added that in terms of strategic alternative and choice, the needs of the customers should take the lead along with the particular group to satisfy i.e. whether the market is to be segmented and the particular segment to serve and the customer needs to be satisfied i.e. the distinctive competencies to be engaged to explore and be competitive.

- **State and discuss the various criteria for assessing strategic options in the midst of challenges in organisations.**

- **Discuss the roles of middle level managers**

Self-assessment exercises 2

1. State the similarities and differences in the roles of the following:
(a) Board of Director
(b) Chief Executives Officers
(c) Entrepreneurs.
2. Distinguish between the roles of a C.E.O. and a functional manager in strategy execution.

2.4 SUMMARY

Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of relevant courses of action and the allocation of resources to pursue and achieve these goals. Formulation of strategy goes through a process while some factors needed to be taken into consideration in the course of formulating strategy. There are reasons and advantages which necessitate the use of strategy, and strategy assumes various forms such as corporate strategy, business strategy, operational strategy, functional strategy and grand strategy. In this unit, we have discussed historical development of Strategic management, concept of strategy and strategic management, its scope, phases of strategic management, strategic management process and its phases, the strategic model and then, strategists and their roles.

In the next study unit, you will be taken through discussion on strategy decision-making.

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2.6 POSSIBLE ANSWERS TO SAEs

While the ultimate legal authority of an organisation vests in the board of directors who are the owners of the organisation and are the shareholders, controlling agencies, the government, financial institutions, the holding company or the parent company – elect and appoint the directs on the board. The board is responsible to them for the governance of the organisation. As directors, the members of the board are responsible for providing guidance and establishing the directives according to which the managers of the organisation can operate. The board exercises authority according to the memorandum of association and articles of association of that company; the CEO is the most important strategist who is responsible for all aspects of strategic management, from, the formulation to the evaluation of strategy. The CEO is variously designated as the managing director, executive director, president or general manager in business organisations. As the chief strategist, the CEO plays a major role in strategic decision-making. Due to the importance accorded to the CEO many authors and researchers have attempted to define his/her roles, functions, and responsibilities.

The entrepreneur always searches for change, responds to it and exploits it as an opportunity‖ (Glueck, 1976). The entrepreneur has been usually considered as the person who starts a new business, is a venture capitalist, has a high level of achievement - motivation, and is naturally endowed with the qualities of enthusiasm, idealism, sense of purpose, and independence of thought and action. However, not all of these qualities are present in all entrepreneurs nor are these found uniformly. An entrepreneur may also demonstrate these qualities in different measures at different stages of life. Contrary to the generally accepted view of entrepreneurship, entrepreneurs are not to be found only in small businesses or new ventures. They are also present in established and large businesses, in service institutions, and also in the bureaucracy and government. By their very nature, entrepreneurs play a proactive role in strategic management.

UNIT 3: STRATEGIC DECISION MAKING AND THEORIES OF STRATEGIC MANAGEMENT

Unit Structure

3.1 INTRODUCTION
3.2 LEARNING OUTCOMES
3.3 Strategic decision making and theories of strategic management
3.3.1 Strategic Decision Making
3.3.2 Issues in Strategic Decision-making
3.3.3 Generic theories of Strategy
3.3.4 Other schools of thoughts on strategic formulation
3.4 SUMMARY
3.5 REFERENCES/FURTHER READINGS
3.6 POSSIBLE ANSWERS TO SAEs

3.1 INTRODUCTION

In the last unit, we discussed historical development of Strategic management, concept of strategy and strategic management, its scope, phases of strategic management, strategic management process and its phases, the strategic model and then, strategists and their roles. In this unit, you will be taken through discussions on strategic decision-making, issues in strategic management and theories of strategic management.

3.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- Explain strategic decision making;
- Discuss issues in strategic decision-making; and
- Enumerate and discuss theories and the various schools of thought on strategic formation.

3.3 STRATEGIC DECISION MAKING AND THEORIES OF STRATEGIC MANAGEMENT

3.3.1 STRATEGIC DECISION-MAKING

Decision-making is the most important function of any manager. Strategic decision-making is the prominent task of the senior management. Both kinds of decision-making are essentially the same. The difference lies in the levels at which they operate. While decision-making pertains to all managerial functions, strategic decision-making largely relates to responsibilities of the senior management. Strategic decision-making is the process by which organisations take long term and futuristic positions that ultimately lead to the accomplishments of set goals and objectives. Its uniqueness is built in its **rareness** i. e. unusual, unique, and unprecedented; **consequential** i.e. it does gulp a lot of resources in terms of finance and human commitment; **directive**- it does set precedents for lesser decisions and future actions throughout the organisations (Wheeler et al., 2018).

In terms of conventional decision-making, most people agree that decision-making is the process of selecting a course of action from among many alternatives. The process works somewhat like this:

- objectives to be achieved are determined;
- alternative ways of achieving the objectives are identified;
- each alternative is evaluated in terms of its objective-achieving ability; and
- the best alternative is chosen.

The end result of the above process is a decision or a set of decisions to be implemented. Such a process of decision-making is deceptively simple. In practice decision-making is a highly complex phenomenon. The first set of problems encountered in decision-making is related to objective-setting. Second, the identification of alternatives is a difficult task. How to test the objective-achieving ability of each alternative is easier said than done, and, lastly, choosing the best alternative is a formidable task too.

However, Mulcaster (2008) argues that while much research and creative thought has been devoted to generating alternative strategies, too little work has been done on what influences the quality of strategic decision making and the effectiveness with which strategies are implemented. For instance, in retrospect it can be seen that the financial crisis of 2008–9 could have been avoided if the banks had paid more attention to the risks associated with their investments, but how should banks change the way they make decisions to improve the quality of their decisions in the future? Mulcaster's managing forces framework addresses this issue by identifying 11 forces that should be incorporated into the processes of decision making and strategic implementation. The 11 forces are: Time; Opposing forces; Politics; Perception; Holistic effects; Adding value; Incentives; Learning capabilities; Opportunity cost; Risk; Style—which can be remembered by using the mnemonic 'TOPPHAILORS'

Meanwhile, Wheeler et al., (2018) listed **strategic decision-making process** as follows:

- Evaluating current performance results;
- Reviewing of corporate governance;
- Scanning and assessing internal corporate environment;
- Analysing strategic factors
- Generating, evaluating, and selecting the best alternatives of strategies
- Implementing selected strategies
- Evaluating implemented strategies.

Strategic Decision-making- A practical analogy

As indicated above, the problems encountered in decision-making are experienced by all managers in the course of their day-to-day activities. On the other hand, strategic tasks are by their very nature complex and varied. Decision-making in performing strategic tasks is, therefore, an extremely difficult, complicated and, at times, intriguing and enigmatic process. Kazmi (2006) provides an illustration of a company‘s managing director revealing his thoughts with regard to the strategic decisions related to growth objectives and the intended strategy. This illustration is indicative of the complexity of strategic decision-making.

Strategic Decision-making at Zodiac Clothing:

Zodiac, with its _classic business statement', is one of the strongest brands in shirts and ties in India. Anees Noorani, the managing Director of Zodiac Clothing Company, answered an interviewer's queries on the prospects for his company and the intended strategy. Zodiac is aiming at a growth of 20 percent in the topline (premium) segment and 35 percent in the bottomline segment of branded garments. The reason for the strategic decision to set these objectives is that the Indian markets are now ready for branded garments. Foreign brands have made an entry into the market and retailing is on the rise. The company is perceived to have the necessary infrastructure in terms of manufacturing, distribution and logistics to take advantage of the emerging opportunities. From a dominant position in the export market it is now focusing on the domestic market. Another significant strategic decision has been the company's reverse backward integration. This means that Zodiac no longer wants to produce fabric for its garments. It wishes to have the flexibility of outs ourcing for a changing product mix dictated by fashion. Motivate by this logic, it has abandoned its plans for manufacturing cloth for its garments. Rather, it would like to extend its product range to producing branded trousers.

Source: Adapted from ―We expect to grow at 20 percent‖, An interview, Business Standard (The Smart Investor),
September 13, 1999, p. 16 (quoted in Kazmi, 2006)

In the process of strategic management the basic thrust of strategic decision-making is to make a choice regarding the courses of action to adopt. Thus, most aspects of strategy formulation rest on strategic decision-making. The fundamental strategic decision relates to the choice of a mission. In other words, the answers to questions like what is our business? what will it be?, and what should it be?' – are the basic concerns in strategic management. With regard to objective-setting, the senior management is faced with alternatives regarding the different yardsticks to measure performance. Finally, at the level of choosing a strategy, the senior management chooses from among a number strategic alternatives in order to adopt one specific course of action which would make the company achieve its objectives and realize its mission.

Apart from the fundamental decisional choice, as pointed above, there are numerous occasions when the senior management has to make important strategic decisions. Environmental threats and opportunities are abundant; that the senior management focuses its attention on only a few of those. Likewise, there are many company strengths and weaknesses; the senior management considers only a limited number at any given time. With regard to resource allocation, the management faces a strategic choice from among a number of alternatives that it could allocate resources to. Thus, strategic decision-making forms the core of strategic management.

3.3.2: ISSUES IN STRATEGIC DECISION-MAKING

As strategic decision-making is a complex process, it is difficult to perform, it is incomprehensible; and cannot be analysed and explained easily. Decision-makers are unable to describe the exact manner in which strategic decisions are made. Like the working of the human mind, strategic decision-making is fathomless. And rightly so, for it is based on complex mental processes which are not exposed to the view. While commenting on the nature of strategic decision-making Henry Mintzberg says that the key managerial processes are enormously complex and mysterious, drawing on the vaguest of information and using the least articulated of mental processes. These processes seem to be more relational and holistic than ordered and sequential, and more intuitive than intellectual.

For these reasons, no theoretical model, however painstakingly formulated, can adequately represent the different dimensions of the process of strategic decision-making. Despite these limitations, we can still attempt to understand strategic decision-making by considering some important issues related to it. We shall deal with six such issues below:

1. *Criteria for decision-making*. The process of decision-making requires objective-setting. These objectives serve as yardsticks to measure the efficiency and effectiveness of the decision-making process. In this way, objectives serve as the criteria for decision-making. There are three major viewpoints regarding setting criteria for decision-making:

(a) The first is the concept of maximization. It is based on the thinking of economists who consider objectives as those attributes which are set at the highest point. The behavior of the firm is oriented towards achieving these objectives and, in the process, maxismising its returns.

(b) The second view is based on the concept of satisficing. This envisages setting objectives in such a manner that the firm can achieve them realistically through a process of optimization.

(c) The third viewpoint is that of the concept of incrementalism. According to this view, the behavior of a firm is complex and the process of decision-making, which includes objective-setting, is essentially a continually-evolving political consensus-building. Through such an approach, the firm moves towards its objectives in small, logical and incremental steps.

2. *Rationality in decision*-making. In the context of strategic decision-making, rationality means exercising a choice from among various alternative courses of action in such a way that it may lead to the achievement of the objectives in the best possible manner. Those economists who support the maximizing criterion consider a decision to be rational if it leads to profit maximization. Behaviourists, who are proponents of the satisfying concept, believe that rationality takes into account the constraints under which a decision-maker operates. Incrementalists are of the opinion that the achievement of objectives depends on the bargaining

3. Process between different interested coalition groups existing in an organisation, and therefore a rational decision-making process should take all these interest into consideration.

4. *Creativity in decision-making*. To be creative, a decision must be original and different. A creative strategic decision-making process may considerably affect the search for alternatives where novel and untried means may be looked for and adopted to achieve objectives in an exceptional manner. Creativity as a trait is normally associated with individuals and is sought to be developed through techniques such as brainstorming. You may recall that one of the attitudinal objectives of a business policy course is to develop the ability to go beyond and think, which, in other words, is using creativity in strategic decision-making.

5. *Variability in decision-making*. It is a common observation that given an identical set of conditions two decision-makers may reach totally different conclusions. This often happens during case discussions too. a case may be analysed differently by individuals in a group of learners, and, depending on the differing perceptions of the problem and its solutions, they may arrive at different conclusions. This happens due to variability in decision-making. It also

suggests that every situation is unique and there are no set formulas that can be applied in strategic decision-making.

6. Person-related factors in decision-making. There are a host of person-related factors that play a role in decision-making. Some of these are age, education, intelligence, personal values, cognitive styles, risk-taking, and creativity. Attributes like age, knowledge, intelligence, risk-taking ability, and creativity are generally supposed to play a positive role in strategic decision-making. A cognitive style which enables a person to assimilate a lot of information, interrelate complex variables, and develop an integrated view of the situation is specially helpful in strategic decision-making. Values, as enduring prescriptive beliefs, are culture-specific and important in matters of social responsibility and business ethics – issues that are important to strategic management.

7. Individual versus group decision-making: Owing to person-related factors, there are individual differences among decision-makers. These differences matter in strategic decision-making. An organisation, as it possesses special characteristics, operates in a unique environment. Decision-makers who understand an organisation‘s characteristics and its environment are in a vantage position to undertake strategic decision-making. Individuals such as chief executives or entrepreneurs play the most important role as strategic decision- makers. But as organisations become bigger and more complex, and face an increasingly turbulent environment, individuals come together in groups for the purpose of strategic decision-making. We will be referring to many such groups when we deal with the role of strategists in the last section of this unit.

Strategic decision-making leads to the formation of strategies. On the basis of an understanding of the nature of strategic decision-making and the issues related to it, let us now move ahead to study the different perspectives on strategy.

Self-Assessment Exercises 1

1. Discuss the issue of variability in decision-making in relation to policy making in organizations
2. Strategic decision-making involves a process: Define strategic decision-making and state why it is important in organisations.

3.3.3: GENERIC THEORIES OF STRATEGY

Four basic assumptions of strategy have been identified. According to Oyedijo (2004), we have the rational, the fatalistic, the pragmatic and then, the relativist perspectives into strategic management. Their different implications as to how to go about conducting strategy is unique.

(i)The classical theory of strategy

The rational perspective which developed its strength from the classical school supports profitability. The school of thought is of the opinion that profitability is the determinant of success in business and that, rational planning should be engaged in for the purpose of accomplishing it, since, to them, it is the ultimate and it overrides every other objective. The supporters of this school are Ansoff (1965), Chandler (1962), and Sloan (1963). According to these scholars, features of the classical approach include:

- Attachment to rational analysis
- Separation of strategy conception from strategy execution
- The commitment to profit maximization

The trust of the classical school favours strategy that is formal, explicit and unequivocally in support of profitability. In terms of the classical school, strategic success or failure is arrived at internally by the existence or non-existence and the quality of the planning system in an organization. To the classical school, strategy represents a rational and deliberate calculation and analysis designed to explore maximum return on investment and then, secure hyper-competitive advantage. Proponents of this school believe that, in terms of strategy, good planning is needed to be able to explore both the internal and external business environments i.e. objective rather than subjective decisions are very germane and incontestable when it comes to making it big and differentiate one's brands from others in the market for long-term survival and competitive sustainability.

(ii) The evolutionary theory of strategy

The set of theorists in this school did not believe in the ability of chief executives/top management to plan and decide in the ultimate interest of the organization. The school of thought is in support of determination of profitability by the market forces. Instead of advocating for rational planning techniques, they argue that whatever methods managers embrace, it will only be in favour of industry leaders. The school is of the opinion that, managers don't have to be rational in their decisions because evolution takes natural view of cost-benefit relationship (Einhorn & Hogarth, 1988).

It was the opinion of the proponents that long-term survival and sustainability cannot be planned for because the environment is porous, highly unpredictable and dynamic, and that only organisations that do emphasize profitability will continue to survive and that others that are powerless to adjust to the dictate of the season risk going down and into extinction. By the submission of this school, the market, and not the managers has a say in the survival of organisations, and that winning strategies emerge based on natural choices made by managers occasioned by their recognition of environmental demands and peculiarities. Managers are thus, enjoined to focus on routine practices for viability reasons while prospective alternatives/options are kept around/open. In the 1980s, business environments became more dynamic. It thus became key to "sink or swim", and adapt to the needs, challenges and rigours of one's business landscape.

In this sense, evolutionary strategic management is essentially Darwinist, and follows a classical Darwinian path. Organisations must develop or nurture traits that will help them survive and prosper within their given markets. If they do not, they will perish. A major facet of evolutionary strategic management is a population ecology model, in which firms in an industry are seen akin to a population of animals. Evolutionary strategy stems from an inability to track properly complex environments. If an industry has continuously changing factors, rational planning (as per the Classical school) is futile. An organisation holds no choice but to "adapt or die".

(iii) The processual theory of strategy

Regarding processualists, both organisations and markets are finding themselves in imperfect situations from which strategies emerge with much confusion and in small steps. The school emphasizes an unpredictable imperfect nature of all human life pragmatically embracing strategy to the fallible processes of both organisations and markets.Long-range planning is useless as far as the processual theory is concerned because the processes of both organisations and markets are imperfect and so, organizational processes and markets cannot accommodate the strategizing of classical theory or survivalism of the evolutionists.

According to Whittington (2001), the advent of stagflation in the 1970s brought along with it rising trade union actions in some countries, wide-scale regional conflicts, rising oil prices, etc. it became apparent that firms needed to balance numerous stakeholder standpoints. A rational planning model could not be exercised, if internal (and sometimes external) powers needed to be heeded, consulted and even accommodated to processual strategic management thus emphasises politics, in terms of resolving/managing internal conflicts and reaching compromises in strategic decision-making. Internal politics may be required for the following purposes. Some SBUs/functional areas may require more resources, or be competing for the same items from top management. An SBU/functional area could be headed by a powerful manager, who by virtue of his or her influence can impede general strategic actions

(iv) Systematic theory of strategy

In recent years, there has been greater emphasis on consumer rights and the general social responsibility of companies. Consumers are now expecting firms to act responsibly in their business operations, and to take heed of numerous needs in this process. It can be said, consequent from this eventuality, that firms operate in a connected fashion with their communities and societies, and necessarily impact and "give and take" from such bodies. Systemic strategy views the organisation as an open system, in that it takes inputs from society and imparts outputs into it. It thus is an integral and interconnected facet of the wider society, and not an entity distinct from it. A rational planning model is not seen as optimal, as it detracts from attuning to the needs of the community and the wider society a firm engages in.

This is anchored on a relativist view of management. The approach, according to Oyedijo (2004), the ends and the means of strategy are connected to the cultures and powers of the local systems in which it takes place. The modes of strategy are deeply included in particular social systems and their processes and objectives may be perfectively rational according to the criteria of the locally dominant groups.

3.3.4: OTHER SCHOOLS OF THOUGHT ON STRATEGY FORMATION

The subject of strategic management is in the midst of an evolutionary process. In the course of its development, several strands of thinking are emerging which are gradually leading to a convergence of views. This is a subtle indication of the maturing of this subject. We now have a wealth of insight into the complexities of strategic behavior – the observable characteristics of the manner in which an organisation performs decision-making and planning functions with regard to the issues that are of strategic importance to its survival, growth and profitability. Strategic decision-making is the core of managerial activity; strategic behavior is its manifestation, while the outcome is the formation of strategy.

Here, in this section, we dwell upon the compendium of various perspectives to strategic formation that have evolved over a period of time. Several persons, among whom are the doyens in the field of strategy, have contributed to the formulation of these perspectives. These offer the reader, a meaningful insight into the development of the concept of strategy. Indeed, Mintzberg and his associates, from whose writings these perspectives have been adopted here, call them the ten (10) schools of thought on strategy formation.

The schools of thought can be classified under three groups as below:

The Prescriptive Schools

1. Design school where strategy formation is a process of conception
2. Planning school where strategy formation is a formal process
3. Positioning school where strategy formation is an analytical process.

The Descriptive Schools

4. Entrepreneurial school where strategy formation is a visionary process
5. Cognitive school where strategy formation is a mental process
6. Learning school where strategy formation is an emergent process
7. Power school where strategy formation is a negotiation process
8. Cultural school where strategy formation is a collective process

9. Environmental school where strategy formation is a reactive process

The Integrative School

10. Configuration school where strategy formation is a process of transformation.

Given below is a description and explanation of each school of thought.

1. *The design school*, which perceives strategy formation as a process of conception developed mainly in the late 1950s and 60s. Under this school, strategy is seen as something unique which is in the form of a planned perspective. The CEO as the main architect guides the process of strategy formation. The process of strategy formation is simple and informal and based on judgement and thinking. The major contributors to the design school are Selznick (1957) and Andrews (1965).

2. *The planning school*, which perceives strategy formation as a formal process developed mainly in the 1960s. Under this school, strategy is seen as a plan divided into sub-strategies and programmes. The lead role in strategy formation is played by the planners. The process of strategy formation is formal and deliberate. The major contributor to the planning school is Ansoff (1965).

3. *The positioning school*, which perceives strategy formation as an analytical process developed mainly in the 1970s and 80s. Under this school, strategy is seen as a set of planned generic positions chosen by a firm on the basis of an analysis of the competition and the industry in which they operate. The lead role in strategy formation is played by the analysts. The process of strategy formation is analytical, systematic and deliberate. The major contributors to the positioning school are Schendel and Hatten (1970s), Porter (1980s).

4. *The entrepreneurial school*, which perceives strategy formation as a visionary process developed mainly in the 1950s. Under this school, strategy is seen as the outcome of a personal and unique perspective often aimed at the creation of a niche. The lead role in strategy formation is played by the entrepreneur/leader. The process of strategy formation is intuitive, visionary,

and largely deliberate. The major contributors to the entrepreneurial school are Schumpeter (1950s), Cole (1959) and several others, most of whom are economists.

5. *The cognitive school*, which perceives strategy formation as a mental process, developed mainly in the 1940s and 50s. Under this school strategy is seen as an individual concept that is the outcome of a mental perspective. The lead role in strategy formation is played by the thinker-philosopher. The process of strategy formation is mental and emergent. The major contributors to the cognitive school are Simon (1947 and 1957), and March and Simon (1958).

6. *The learning school*, which perceives strategy formation as an emergent process has had a legacy from the 1950s through the 1990s. Under this school, strategy is seen as a pattern that is unique. The lead role is played by the learner within the organisation whoever that might be. The process of strategy formation is emergent, informal and messy. The major contributors to the learning school are Lindblom (1959, 1960), Cyert and March (1963), Weick (1969), Quinn (1980), Senge (1990), and Prahalad and Hamel (early 1990s).

7. *The power school*, which perceives strategy formation as a negotiation process, developed mainly during the 1970s and 80s. Under this school, strategy is seen as a political and cooperative process or pattern. The lead role in strategy formation is played by any person in power (at the micro level) and the whole organization (at the macro level). The process of strategy formation is messy, consisting of conflict, aggression and cooperation. At the micro level the process of strategy formation is emergent while at the macro level it is deliberate. The major contributors to the power school are Allison (1971), Pfeffer and Salancik (1978), and Astley (1984).

8. *The cultural school*, which perceives strategy formation as a collective process developed mainly in the 1960s. Under this school, strategy is seen as a unique and collective perspective. The lead role in strategy formation is played by the collectivity displayed within the organisation. The process of strategy formation is ideological, constrained, collective and deliberate. The major contributors to the cultural school are Rhenman and Normann (1960).

9. *The environmental school*, which perceives strategy formation as a reactive process, developed mainly in the late 190s and 70s. Under this school, strategy is seen as something generic occupying a specific position or niche in relation to the environment. The lead role in strategy formation is played by the environment as an entity. The process of strategy formation is passive and imposed, and hence, emergent. The major contributions to the environmental school are Hannan and Freeman (1977) and contingency theorists like Pugh et. al. (1970).

10. *The configuration school*, which perceives strategy formation as a transformation process developed during the 1960s and 70s. Under this school, strategy is viewed in relation to a specific context and thus could be in a form that corresponds to any process visualized under any of the other nine schools. The lead role may be played by any actor identified in the other nine schools. The process of strategy formation is integrative, episodic and sequential. In addition, the process could incorporate the elements pointed out under the other nine schools of thought. The major contributors to the configuration school are Chandler (1962), Mintzberg and Miller (1970), and Miles and Snow (1978).

❖ **Discuss the various schools of thoughts identified with strategic management**

3.4 SUMMARY

The unit discussed strategic decision-making; issues in strategic decision-making; and enumerated and discussed the various schools of thought on strategic formation. Here, you were told how strategies can be formulated at different levels in an organisation. Ten schools of thought on strategy formulation have been reviewed to provide you with a panoramic view of this interesting subject. The schools are divided into three groups: the prescriptive school consists of the design planning, and positioning schools. The descriptive school consists of the entrepreneurial, cognitive, learning, power, cultural, and environment process schools. The integrative school includes the configuration school where strategy formation is a process of transformation. In the next unit, you will learn about the phases of strategic management and their relationships with different levels of strategy; the different levels of strategy- corporate level strategy, business level strategy (SBUs), functional level strategy and operational level strategy.

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3.6 POSSIBLE ANSWERS TO SAEs

1. While decision-making pertains to all managerial functions, strategic decision-making largely relates to responsibilities of the senior management. Strategic decision-making is the process by

which organisations take long term and futuristic positions that ultimately lead to the accomplishments of set goals and objectives. Here, policies that ensure the accomplishment of long term and futuristic positions are taken into consideration. Its uniqueness is built in its rareness i. e. unusual, unique, and unprecedented; consequential i.e. it does gulp a lot of resources in terms of finance and human commitment; directive- it does set precedents for lesser decisions and future actions throughout the organizations.

2. Strategic decision-making is the process by which organisations take long term and futuristic positions that ultimately lead to the accomplishments of set goals and objectives. Strategic decision-making process as follows: Evaluating current performance results; Reviewing of corporate governance; Scanning and assessing internal corporate environment; Analysing strategic factors: Generating, evaluating, and selecting the best alternatives of strategies: Implementing selected strategies: Evaluating implemented strategies.

3. Internal consistency: That is, the alternative strategy under consideration must be internally consistent and must not conflict with or be at loggerhead with the policy which represents the guide to actions and decision making in the organization.

- Environmentally compliant: The alternative strategy must consider the different elements and proxies in both the internal and external business environment. While the structure, culture and resources are being taken care of, the external opportunities and threats have to be factored into the arrangement as well.
- Appropriateness of strategy: The alternative strategy for consideration must align and be a supportive one, most especially in terms of available human and material resources.
- Acceptable risk level: The risk level of the alternative strategy under consideration must be measured and ascertained to be at acceptable range i.e. at a level that can be conveniently managed.
- Workability: Alternative strategy that is being considered must be practicable and capable of blending with installed facilities and capabilities and must not be divergent with established structures.
- Must be time conscious: Time is of essence. The alternative strategy must not be a time-consuming one and should be able to offer solutions to current challenges taking into considerations the expectations of stakeholders especially the distributors and other customers.

- Ethical in nature: The new strategy to be considered must not run contrary to ethical principles whether marketing or other trade ethics, most especially those that are aimed at damaging a particular brand with a view to gaining attention for a particular product in the market.
- Evaluation and implementation criteria: Another important criteria is that for the new alternative strategy to stay, it must be capable of being easily implemented and evaluated for future decision-making.

4. Schools of thought

The rational school of thought- The classical theory of strategy.

The fatalistic school of thought- The evolutionary theory of strategy.

The pragmatic- The processual theory of strategy

The relativist- Systematic theory of strategy.

Others: The prescriptive schools

The descriptive schools

The integrative school

UNIT 4 LEVELS OF STRATEGY

Unit Structure

4.1 INTRODUCTION
4.2 LEARNING OUTCOMES
4.3 Levels of strategy
4.3.1 Phases of strategic management and their relationships with different levels of strategy
4.3.2 Corporate level Strategy
4.3.3 Business level Strategy (SBUs)
4.3.4 Functional level Strategy Management
4.3.5 Operational level Strategy
4.4 SUMMARY
4.5 REFERENCES/FURTHER READING
4.6 POSSIBLE ANSWERS TO SAEs

4.1 INTRODUCTION

In the last unit, we defined and explained strategic decision making, its process; discussed issues in strategic decision-making; and enumerated and discussed the various schools of thought on strategic formation. In this unit, you will learn about phases of strategic management and their relationships with different levels of strategy;the different levels of strategy- corporate level strategy, business level strategy (SBUs), functional level strategy and operational level strategy.

4.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- Understand the different phases of strategic management and their relationships with different levels of strategy
- Define, explain and discuss the term corporate level strategy
- Define, explain, discuss the term business level strategy;
- Define, explain and discuss the term functional level strategy
- Define, explain and discuss the term operational level strategy

4.3 LEVELS OF STRATEGY

4.3.1 PHASES OF STRATEGIC MANAGEMENT AND THEIR RELATIONSHIPS WITH DIFFERENT LEVELS OF STRATEGY

According to Wheelen, Hunger, Hoffman, and Bamford (2018), there are four phases that strategic management passed through; the first one being the:

Basic financially-focused planning: This is usually a short term plan and runs within a year or at most one year. It is used to emanate from the managers in terms of budget. Here, analysis is scanty, are internally-focused, internally-driven and devoid of external inputs except the ones supplied by sale representatives. However, this time consuming and has been found to be wasteful in terms of production time that suffers. It should be noted that at this stage, a single plant, one product and business level strategy though a one man show was often exhibited. There was an extent to which this was able to stand the test of time.

Forecast-focused planning: It offers a bit of an improvement on the first phase due to a longer year plan. This stage combines internal realities and external realities in a bid to finding solution to the inadequacies of the first stage based on adhoc arrangements and then, assess the situation of things base on that. Meanwhile, just like the first phase, it is time consuming, promotes rivalries among functional managers and units who are contesting for scarce resources on ground, and a lot of time is often wasted in sorting issues out during meetings. This phase is between the first 3 to the 5 years. This is a gradual shift towards entrenching a corporate dimension into strategic management with a view to incorporating a larger vision, mission and objective of an organization with variety of brands.

Externally-focused planning: A strategic planning system that was suggested and adopted by managers to address the setbacks suffered in the second phase as a result of different political and rivalries suffered by corporations. Here, strategic moves were made to make the strategy a market compliant one by ensuring that lower-level managers no longer chair planning units rather, contracted out to consultants and thus, an improvement in competitive intelligence units. Top-level executives gather together yearly, led by intrapreneurs to evaluate current strategic plan and update the lower-management levels of the way forward. This is more or less a corporate level approach to addressing corporate challenges considering the horizontal and vertical approach that involved all and sundry in the organization.

Strategic management focused: Here, emphasize is on probable scenarios and contingency strategies. Every hand must be on deck to ensure results are accomplished. Strategic thinking now takes the place of strategic planning across the functional areas of the organization. Everyone including lower-level employees now have access to strategic information and both internal and external consultants are now being engaged along with inputs from everyone in the organization. Everyone now sees him/herself as relevant in the scheme of things. At this level, adopted strategies may emanate from any of the units even though the top management level initiated the planning process.

4.3.2 CORPORATE LEVEL STRATEGY

In most (large) corporations there are several levels of management. Corporate strategy is the highest of these levels in the sense that it is the broadest – applying to all parts of the firm while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are typically business-level competitive strategies and functional unit strategies. Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "which businesses should we be in?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the corporation as a whole?"These strategies are plans formulated to carry out values and performance objectives of a company. These plans become more specific and detailed the lower the organisational level. Corporate strategy is the art of using organisational resources to render the goals defined by the organisation with minimum risk. Corporate strategy also involves marshalling the available resources for definite missions and planning alternative strategies in anticipation of changing contingencies and creating flexible conditions in structure and employee attitudes favourable towards achieving the corporate goal. The corporate strategy defined a company‘s general posture in the broad economy. The business strategy outlined the competitive posture of its operations within the domestic movie exhibition industry. But to increase the likelihood that these strategies will be successful, more specific guidelines are needed for the business‘s operating components.

So crucial questions addressed by corporate-level strategy, among other possibilities may include:

1. What should be the scope of operations; i.e.; what businesses should the firm be in? And where should it be in business?
2. How should the organization allocate its resources its various existing lines of business or business units?
3. What level of diversity should exist in the business as it moves into the future? Are there other activities the enterprise should be in or are there current activities that should be targeted for stopped or sold off to others?

4. What should be the nature of this diversity or how diversified should the organization be? Should it diversify in similar product or service markets, or into completely different areas; becoming a more conglomerate entity.
5. How should the firm be organized? What will be the boundaries of the enterprise? How will these boundaries impact relationships among parts of the business, with suppliers, customers and other interest groups? How will the organizational functions such as product development, production, distribution finance, marketing, sales customer service, etc. fit together? Are the responsibilities for each business unit clearly identified and is accountability established? Which will be carried out in-house, and which will be contracted out?
6. Should the firm enter into cooperative, mutually-beneficial relationships or alliances with others? If so, on what basis? If not, what impact might this have on future organizational performance?

As these questions show, corporate strategies address the long-term direction for the organization as a whole. Corporate strategies deal with plans for the entire organization and change as the capabilities of the organization develop and as the environment of the organization changes.

Top management has primary decision making responsibility in developing corporate strategies and these managers are directly responsible to providers of capital to the organization, whether shareholders, donors, members, and so on depending on the type of organization . The role of the governing board of is to ensure that top managers actually act to address these owner or primary beneficiary interests.

4.3.3 BUSINESS LEVEL STRATEGY (SBUs)

Business strategy is a strategy designed to position the strategic business unit in a diversified corporation. Each firm formulates a business strategy in order to achieve a sustainable competitive advantage. Business level strategy refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates either cost leadership, differentiation, or focus to achieve a sustainable competitive advantage and long-term success. These three rules are also known as Porter's three generic Strategies; this concept can be applied to any size or form of business. Porter considered this concept as tradeoff strategy and argued that a person or company must only choose one strategy or risk having no strategy at all. Alternatively, according to Chan and Mauborgne an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the previous value-cost trade off by simultaneously pursuing both differentiation and low cost.

- **Discuss the uniqueness of the strategic management among the four phases of strategy evolution.**

4.3.4 FUNCTIONAL LEVEL STRATEGY

A functional strategy is the short-term game plan for a key functional area *within* a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future. Thus, functional strategies clarify the business strategy, giving specific, short-term guidance to operating managers. Functional strategies must be developed in the key areas of marketing, finance, production, operations, research and development, and personnel. They must be consistent with long-term objectives and grand strategy. Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company (e.g., marketing, finance, production, etc.) to pursue the business strategy in daily activities. Functional strategiesinclude marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department‘s functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or SBUs. A **strategic business unit** is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters. A technology strategy, for example, although it is focused on technology as a means of achieving an organization's overall objective(s), may include dimensions that are beyond the scope of a single business unit, engineering organization or IT department.

4.3.5 OPERATIONAL LEVEL STRATEGY

The concept of operational strategy was popularized and encouraged by Peter Drucker (1954) in his theory of management by objectives. This is needed for the day-to-day operational activities in the organisation. It must operate within the budget and cannot create a budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies. Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process.

This notion of strategy has been captured under the rubric of **dynamic strategy**, popularized by Carpenter and Sanders's textbook. This work builds on that of Brown and Eisenhart () as well as Christensen and portrays firm strategy, both business and corporate, as necessarily embracing ongoing strategic change, and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets.

Self-Assessment Exercise 1

- What do you understand by corporate level strategy and what features differentiate it from the SBUs' strategy?
- Discuss what should be the main focus of the corporate strategy.

4.4 SUMMARY

This unit has provided an overview on the phases of strategic management and their relationships with different levels of strategy; the different levels of strategy- corporate level strategy, business level strategy (SBUs), functional level strategy and operational level strategy have been discussed with their peculiarities. In this unit, we discussed the phases of strategic management and their relationships with different levels of strategy; the different levels of strategy- corporate level strategy, business level strategy (SBUs), functional level strategy and operational level strategy. The next unit would discuss the generic strategies and the determinants of success of strategies in organisations.

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4.6 POSSIBLE ANSWERS TO SAEs

1. Corporate strategy is the highest of these levels in the sense that it is the broadest – applying to all parts of the firm while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are typically business-level competitive strategies and functional unit strategies. Corporate strategy refers to the overarching strategy of the diversified firm. Strategic business unit is a subset of the corporate level strategy and refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation.

2. Operational level strategy is needed for the day-to-day operational activities in the organisation. It must operate within the budget and cannot create a budget.
Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies. Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Features of operational level strategy: Lower-management focused, feeders to middle-level management, ained at execution of objectives, directed by teamleaders and supervisors who report to departmental managers.

3. Corporate strategy is the art of using organisational resources to render the goals defined by the organisation with minimum risk. Corporate strategy also involves marshalling the available resources for definite missions and planning alternative strategies in anticipation of changing contingencies and creating flexible conditions in structure and employee attitudes favourable towards achieving the corporate goal. Corporate-level strategy addresses questions like: What should be the scope of operations; i.e.; what businesses should the firm be in? And where should it be in business? How should the organization allocate its resources its various existing lines of business or business units? What level of diversity should exist in the business as it moves into the future? Are there other activities the enterprise should be in or are there current activities that should be targeted for stopped or sold off to others?

Others include what should be the nature of this diversity or how diversified should the organization be? Should it diversify in similar product or service markets, or into completely different areas; becoming a more conglomerate entity. How should the firm be organized? What will be the boundaries of the enterprise? How will these boundaries impact relationships among parts of the business, with suppliers, customers and other interest groups? How will the organizational functions such as product development, production, distribution finance, marketing, sales customer service, etc. fit together? Are the responsibilities for each business unit clearly identified and is accountability established? Which will be carried out in-house, and which will be contracted out?

UNIT 5 GENERIC STRATEGIES

Unit Structure

5.1 INTRODUCTION
5.2 LEARNING OUTCOMES
5.3 Generic strategies
5.3.1 Cost leadership Strategy
5.3.2 Differentiation Strategy
5.3.3 Focus Strategy
5.4 SUMMARY
5.5 REFERENCES/FURTHER READINGS
5.6 POSSIBLE ANSWERS TO SAEs

5.1 INTRODUCTION

In the last unit, we discussed phases of strategic management and their relationships with different levels of strategy; the different levels of strategy- corporate level strategy, business level strategy (SBUs), functional level strategy and operational level strategy were equally discussed. In this unit, we shall discuss the different generic strategies, and then, the determinants of success of strategies in organisations.

5.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- explain cost leadership strategy
- explain differentiation strategy
- explain focus strategy
- explain grand strategies (master business strategies)
- discuss determinants of success of strategies in organisations.

5.3 GENERIC STRATEGIES

5.3.1 COST LEADERSHIP STRATEGY

As far as the cost leadership strategy is concerned, the main objective is to make a difference through low costs and be able to produce or render services at a cheaper rates compare to others in the same business using a set of functional policies that are fully in support of maximization of economic efficiency and create room for the achievement of superior profitability. According to Oyedijo (2004), regarding the cost leadership strategy 'low cost relative to competitors is the focus of the firm's whole strategy, though low cost is not so rigidly pursued that firm's product offering loses its competitiveness as concerns those product attributes which buyers value highly such as optional performance features, rapid delivery, spare parts availability, low maintenance\, reliability, technical assistance and support'.

Cost leadership can aid in accomplishing competitive advantage via:

- The construction of the most efficient scale facilities and plants and so, achieving sizeable economies of scale.
- Implementing and concentrating on cost-reducing technological advantages, and developing distinctive competencies in manufacturing and material management that minimize waste.
- Maintenance of a tight control on overhead and other administrative types of fixed costs.
- Vigorous pursuit of cost reductions from experience.
- Improvement in capacity utilization and reductions in work in progress and in waste.
- Integrating operations vertically, either backward or forward or through horizontal integration, either to the right or to the left.

Advantages of least cost strategy:

In relation to competitors;

- The cost leader is in position to charge a low and fair prices than others whose products are serving the same market.

In relation to bargaining power of powerful buyers;

- The cost leader is less concerned by the fall in the price it can charge for its products since powerful customers will rarely be able to bargain prices below the survival level of the next most efficient organization i.e. pressures from buyers for price reduction are likely to be weak as customers unlikely to be able to get a better deal from the cost leader's rivals.

In relation to bargaining power of powerful suppliers

- The low cost producer is less disturbed compare to its rivals whenever there is an increase in the price of inputs if there are powerful suppliers who are bent on such price increases. The level of efficiency the low cost leader has garnered over the years is enough a muscle to withstand the increases in the costs of purchased materials and so, protecting it more than its rivals from dictators in the supplier markets.

In relation to potential new entrants

- This is capitalizing on the low-cost strength of the cost leader discouraging new and potential entrants from flooding the market. The leader is always in a vantage position because having the lowest costs not only acts as a barrier for a new entrant most especially if the new entrant is contesting on price note.

In relation to threat of substitute products

- The low-cost leader can frustrate any attempt by substitute products by further reducing its price to compete with them and by so doing retain a large portion of the market.

❖ **What do you understand by cost leadership strategy and how can it assist in accomplishing competitive advantages over others in the same industry?**

5.3.2 DIFFERENTIATION STRATEGY

Here, the main focus of the strategy is to differentiate its offering and distinguish it from others serving the same purpose outside there in the same market. Differentiation strategy offers the advantage of raising the price bar more than the additional value created by the extra-ordinary addition with the ultimate aim of exploring an upward swing in profitability.

Advantages of differentiation are as follows:

- It enables organisations to be protected from the strategies of suppliers, because through it, the organisation is able to establish customers' loyalty or preference for its brand or model and quite often such customers are willing to pay a little more for the product.

- The strategy of differentiation puts a seller in a better economic position to negotiate with dictators in the supply market and so, charge a higher price and earn bigger margin in return.
- A result-oriented differentiation strategy most of the time cut to a barest minimum a sort of head-on rivalry among competitors parading very close brands in the same market.
- It strengthens a company product against incessant switching because switchers may need to pay additional cost and still don't have value for their money at the end of the day.
- Via loyalty that have been built over the years, product differentiation reduces the bargaining power of large buyers because they may be forced to buy a product they are used to rather than those of rivals which are considered inferior and unattractive.

5.3.3 FOCUS STRATEGY

The organization aims at exploring the twin advantages embedded in low cost leadership and product differentiation for the purpose of catering for a small portion of the market instead of targeting the entire or a large market. How well this strategy goes or is productive and profitable is determined by the different segmentation strategy employed and how appropriate they are as far as the particular segmented market is concerned.

Advantages of focus strategy are as follows:

- Rival firm‘s ability to serve to compete in the same market is less considering the small portion targeted by the strategist.
- Distinctive competence always come to play in this instance, and this helps in generating superior competitive edge and then, making penetration into the niche market unattractive.
- Not always easy to break into the distinctive competence of the focused firm, and so it remains a hurdle that must be overcome.
- Focus strategists are partially insulated from the bargaining advantage of powerful customers because of the reluctance of the customers to shift their business to firms with lesser capabilities to serve their specialized needs.

Self-Assessment Exercises 1

1.Distinguish between differentiation strategy and focus strategy 2. Discuss the benefits derivable from focusing on a small portion of a market.

5.4 SUMMARY

As far as the cost leadership strategy is concerned, the main objective is to make a difference through low costs and be able to produce or render services at a cheaper rates compare to others in the same business using a set of functional policies that are fully in support of maximization of economic efficiency and create room for the achievement of superior profitability, while as far as differentiation strategy is concerned, the focus is on differentiating offerings and distinguishing it from others serving the same purpose outside there in the same market. Focus strategy aims at exploring the twin advantages embedded in low cost leadership and product differentiation for the purpose of catering for a small portion of the market instead of targeting the entire or a large market.

5.5 REFERENCES/FURTHER READINGS

Aluko, M., Odugbesan, O., Gbadamosi, G., & Osuagwu, .L. (2004). *Business policy and strategy* (3rd ed.). Lagos, Longman Nigeria Plc.

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5.6 POSSIBLE ANSWERS TO SAEs

1. While as far as differentiation strategy is concerned, the focus is on differentiating offerings and distinguishing it from others serving the same purpose outside there in the same market, focus strategy aims at exploring the twin advantages embedded in low cost leadership and product differentiation for the purpose of catering for a small portion of the market instead of targeting the entire or a large market.

2. Benefits derivable from focusing on a small portion of a market include:

- Rival firm‘s ability to serve to compete in the same market is less considering the small portion targeted by the strategist.

- Distinctive competence always come to play in this instance, and this helps in generating superior competitive edge and then, making penetration into the niche market unattractive.
- Not always easy to break into the distinctive competence of the focused firm, and so it remains a hurdle that must be overcome.
- Focus strategists are partially insulated from the bargaining advantage of powerful customers because of the reluctance of the customers to shift their business to firms with lesser capabilities to serve their specialized needs.

UNIT 6 GRAND STRATEGIES

Unit Structure

6.1 Introduction
6.2 Learning Outcomes
6.3 Grand Strategies
6.3.1 Master Business Strategies
6.3.2 Determinants of Success of Strategies in Organisations
6.4 Summary
6.5 References/Further Readings
6.6 Possible Answers To SAEs

6.1 INTRODUCTION

In the last unit, we discussed generic strategies and the different levels of strategy- corporate level strategy, business level strategy (SBUs), functional level strategy and operational level strategy were equally discussed. In this unit, we shall discuss the different grand strategies (intensive strategy, integration strategy, and diversification strategies), and then, the determinants of success of strategies in organisations.

6.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- define, explain and discuss Grand Strategies (Master Business Strategies)
- discuss determinants of success of strategies in organisations.

6.3 GRAND STRATEGIES

6.3.1 Master business strategies

Grand strategies which are also known and called master business strategies are intended to provide basic direction for strategic actions. Therefore, they are seen as the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. More often than not, grand strategies indicate how long-range objectives will be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides major actions. A principal grand strategy could serve as the basis for achieving major long-term objectives such as single business concentration, market development, product development, innovation, horizontal integration, vertical integration, joint venture, concentric diversification, conglomerate diversification, retrenchment/turnaround, divestiture and liquidation. A company which is involved with multiple industries, businesses, product lines, or customer groups uses several grand strategies. Such grand strategies are discussed below with examples to indicate some of their relative strengths and weaknesses

Fourteen strategies have been put forward by David (1991) as cited by Aluko et al., (2004). Though grouped into four broad levels of integration strategies; diversification strategies; intensive strategies and other strategies, have been found to be appropriate and can be of immense benefits to a company operating in a dynamic and a highly unpredictable business terrain like Nigeria.

Integration strategies: This has been categorized into forward integration; backward integration and horizontal integration. The three categories of integration are good at making business firms remain on top of their competitors via introduction of a cost-effective techniques and also, to manage the distributors and suppliers by having alternatives and options in case of price threat. While forward integration entails gaining increased control over distributors or retailers, backward integration seeks to ensure superior control over firm’s suppliers. Horizontal integration is a strategy of seeking ownership and control over a company’s competitors.

Intensive strategies: Categorically, this can be divided into market penetration; market development; and product development. While market penetration aims at boosting the presence of a particular offering through increase in market share/portion in a particular market; market development entails introducing a product or service to a new geographical environment/area with a view to familiarizing the product to the market and begin newly; product development involves improving on a present offering/product. This often involves heavy investment in research and development.

Diversification strategies: Strategies here include concentric diversification; horizontal diversification and conglomerate diversification. While concentric diversification entails adding new, but related, products or services and appropriate when a business competes in a dormant industry-adding lubricants to selling of PMS etc., horizontal diversification involves adding new, unrelated products or services in the interest of present customers-a petrol station that sets up a grocery division is practicing horizontal diversification. Furthermore, on the issue of related and unrelated diversification, in terms of related, a firm in control of more than one line of business could be said to be involved in related businesses where resources used to accomplish result in one can as well be used to execute the other (most businesses do embark on this to further explore technological and marketing synergy). Unrelated diversification takes the form of delving into areas of businesses that are not related to the existing businesses. Conglomerate diversification involves adding new, related products/services and most appropriate in a declining industry.

Joint venture strategy:

Here, two or more business organisations gather their resources to take advantage of some opportunities that just one of them might not have been able to explore**.** The distinctive competencies of the consortium do complement one another in the drive to delivering on the expectations of the contractor. This is good when the project is a profitable one but will demand huge resources and very high risks. As a small company eying a big profitable project, one can collaborate to be able to compete with giants in an industry.

Retrenchment strategy:

This is embraced by business organisations to cut down expenses/cost and through selling of assets to be able to reduce effects of poor sales and returns on capital employed.

Divestiture:

Involves putting a wing or a part of an organization on sale either to raise capital for a prospective business or to meet up with a strategic decision. Most businesses or parts that are put on sale are no longer meeting up in terms of profitability, or, are gulping so much in terms of maintenance of facilities involved.

Liquidation:

This involves exchanging through sale an organisation's assets for its tangible value. This strategy is often embraced where the business can no longer sustain itself as a result of which huge loss is being recorded/reported.

Combination:

This is a situation where two or more strategies are combined at a time to compete in an industry. Though it involves huge capital combining strategies, it is advisable in order to compete favourably in a dynamic and highly unpredictable environment.

- ❖ **Distinguish between intensive strategies and integration strategies with examples.**

6.3.2 FACTORS DETERMINING THE SUCCESS OF STRATEGIES IN ORGANISATIONS

Factors that determine successful execution of strategies in organisations are its clarity; suitability and environment fit; feasibility/affordability; acceptability/desirability; internal consistency; sustainability of competitive advantage; and timeliness. According to Aluko et al., (2004) and Oyedijo (2004), for strategies to be successful in organisations, they have to be fashioned in a way that will ensure:

(i). Clarity**:** Successful strategies are stated in clear terms and clear enough to ensure coherence with goals and objectives and must be written down and the figures of expression must be precise, unambiguous and straightforward.

(ii). Suitability and environment fit

The main trust of this point is whether a strategy considers both the internal and external environmental realities in which the company is operating or wishes to explore. In clear terms, the strategy must take the position of an adaptive response to external realities as they unfold and to the critical changes happening within the company. Adopted strategy must align and must be consistent with the realities of the environment, its resources and values of the company and its mission.

A strategy stands to be accepted where:

- Its goals and policies exploit the opportunities in the industry environment;
- Its goals and objectives deal with industry threats;
- The strategy capitalizes and builds on the company's strengths, core competencies and opportunities;
- It considers the peculiarities in the cultural and political environments and integrate these into the strategy.
- It takes into consideration the ability of the environment to absorb the actions in terms of timing of the goals and policies of the company

(iii). Feasibility

The successful strategy is the one with built-in resources i.e. consciously and deliberately added strengths, buffers, and enough rooms for flexibility and adjustments. According to Aluko et al., (2004), "Reserve capabilities, planned maneuverability and repositioning allow a manager to use minimum resources while keeping competitors at a relative disadvantage". Flexibility avails the strategists opportunities to reintroduce and marshal the same set of forces/tactics to selected positions at different occasions.

(iv). Acceptability/desirability

Successful strategies are known to have been accepted by all and sundry in organisations irrespective of their levels. For strategy to be successful and accomplish its ultimate goal, all hands must be on deck. Every top management staff should be made to have his inputs, and both the middle-level managers and operational level managers (supervisors, foreman and team leaders) and the production operatives should be carried along through adequate training to achieve results and avoid sabotage. Oyedijo (2004) opined that other stakeholders should be carried along as well-the shareholders, the government, the customers, suppliers and other interested parties should be involved. Three criteria have been put forward as criteria for evaluating the level of positive prospect/acceptability of a strategy and they are:

- Likely return on investment from a particular strategy in terms of growth and financial/nonfinancial performances.

- Degree of risk which the organization faces in pursuing a particular strategy particularly financial risks.
- Reactions of stakeholders and the effects of the strategy on the company's environment.

(v). Internal consistency

This has to do with the level of consistency of strategy with the goals and policies as set by the company and the relationship of the strategy to other firm strategies. A strategy stands to be accepted whenever:

- It is in line with company's vision and objectives.
- The goals of the strategy are mutually accomplishable
- The main operating policies of the strategy reinforces one another.

(vi).Sustainability of competitive advantage:

This refers to the level at which competitors can react to the strategy: In terms of sustainability, a strategy is deemed sustainable where:

- The strategy is hard to imitate by competitors
- The company can add the element of surprise in the strategy
- The strategy includes a differential advantage and provides for the creation and maintenance of a sustainable competitive advantage or a kind of capability that stand it out among others.

(vii). Timeliness

This is considering the timing of the strategy, and that, whether it is the right time of adoption and execution. Thereis always the best time for activities, and so, same apply to strategy. A proposed strategy should be accepted if the strategic window is open and the market is well ready to absorb it. In addition to this, strategists must be quick in their actions and be swift enough not to be overtaken be smart competitors.

- **Self-Assessment Exercises**

1.Discuss joint venture strategy and why it might be the best option in some cases.
2. Itemise and discuss factors that determine successful execution of strategies in organizations.
different strategies to compete for positions in an industry?
3.What is combination strategy and why is it advisable to embrace it as a competitive strategy at times?

This unit discussed the various generic strategies of cost leadership strategy, differentiation strategy, focus strategy, grand strategies (MBS) and determinants of successful strategies in organisations.

6.4 SUMMARY

In this unit, a grand strategy which is a comprehensive general approach that guides major actions was discussed. A principal grand strategy could serve as the basis for achieving major long-term objectives such as single business concentration, market development, product development, innovation, horizontal integration, vertical integration, joint venture, concentric diversification, conglomerate diversification, retrenchment/turnaround, divestiture and liquidation. Also, factors that determine successful execution of strategies in organisations which include clarity; suitability and environment fit; feasibility/affordability; acceptability/desirability; internal consistency; sustainability of competitive advantage; and timeliness were discussed and explained.

6.5 REFERENCES/FURTHER READINGS

Aluko, M., Odugbesan, O., Gbadamosi, G., & Osuagwu, .L. (2004). *Business policy and strategy* (3rd ed.). Lagos, Longman Nigeria Plc.

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6.6 POSSIBLE ANSWERS TO SAEs

1. Joint venture strategy is good when the project is a profitable one but will demand huge resources and very high risks. As a small company eying a big profitable project, one can collaborate to be able to compete with giants in an industry. Regarding master business strategies, what strategy would you suggest for a financially-weak organization in its bid to accomplish a project that is capital-intensive?

2. Factors that determine successful execution of strategies in organisations are its clarity; suitability and environment fit; feasibility/affordability; acceptability/desirability; internal consistency; sustainability of competitive advantage; and timeliness.

3. Combination strategy is a situation where two or more strategies are combined at a time to compete in an industry. Though it involves huge capital combining strategies, it is advisable in order to compete favourably in a dynamic and highly unpredictable environment.

UNIT 7: STRATEGIC MANAGEMENT IN GENERIC TYPES OF INDUSTRY ENVIRONMENT, AND COMPETITIVE SITUATIONS

CONTENTS

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7.2 LEARNING OUTCOMES
7.3 Strategic management in generic types of industry environment, and competitive situations
7.3.1 Strategies for competing in young, emerging and growing industries
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7.3.3 Strategies appropriate for industry leaders
7.3.4 Competitive strategies for runner-ups
7.3.5 Competitive strategies for weak operators
7.4 SUMMARY
7.5 REFERENCES/FURTHER READINGS
7.6 POSSIBLE ANSWERS TO SAEs

7.1 INTRODUCTION

In the last unit, we discussed the various generic strategies of cost leadership strategy, differentiation strategy, focus strategy and their advantages to the various parties at the center of the discussion i. e. those at the top management level, the middle managers and those at the operational level. Also, grand strategies (MBS) and determinants of successful strategies in organisations were discussed. In this unit, we shall discuss strategic management in generic types of industry environments, and competitive situations.

7.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- state and explain strategies for competing in young, emerging and growing industries
- state and explain different strategies for competing in the international environment;
- state and explain different appropriate strategies for industry leaders;
- discuss, explain and state competitive strategies for runner-up firms;
- discuss, explain and state competitive strategies for weak operators;

7.3 STRATEGIC MANAGEMENT IN GENERIC TYPES OF INDUSTRY ENVIRONMENT, AND COMPETITIVE SITUATIONS

7.3.1 Strategies for competing in young, emerging and growing industries

According to Porter (1980) emerging industries are newly established industries that have been created by technological innovations, adjustments in relative cost relationships, emergence of new consumer needs/wants, or other economic and sociological changes that promote a new product/service to the level of a potentially viable business opportunity. An emerging or embryonic industry is typically the result of the innovative performances of leading companies who act as the first movers in a new market. The high profits that go to innovative, first-moves usually catch the attention of other companies who then become attracted to the industry as innovators.

The important feature of an emerging industry from the point of view of formulating a strategy is that there are no rules of the game. Imitation of innovation have been found to be inevitable, so, the critical strategic issues for an innovating company in young or embryonic industry is not how to protect its innovation but how to finance the start- up phase (Oyedijo, 2004). What market segments to go after and how to explain its innovation and build an enduring long-run competitive advantage. This advantage can be secured if the competitive strategies are keyed either to low-cost or to differentiation. Focusing is suitable when finances are limited and the industry has too many technological frontier to pursue at once. A financially weak innovating company can develop and market its innovation jointly with other companies through a strategic alliance or joint venture or license the innovation to others and let them develop the market.

The following growth-stage strategy guidelines can be used by firms operating in a young, embryonic, emerging industry to secure a leading industry position (Kotler, 1997)

1. Employ a bold, creative entrepreneurial strategy to win the early race for industry leadership by entering the industry very early. Because an emerging industry has no established rules of the game and industry participants often try a variety of strategic approaches, a venturesome pioneering firm with a bold entrepreneurship, a willingness to pioneer and take risks and a

powerful strategy can shape the rules, gain first- mover advantages and become the industry leader. Early entry is important in an industry where:

i) Customer loyalty will be great so that benefits will accrue to the firm that sells to the customer first.

ii) Absolute cost advantages can be gained by early commitment to suppliers of raw materials, distribution channels, and other members of the trade.

2. Perfect the technology, improve product quality and develop attractive performance features.
3. Move to compare any first-mover, early entry advantages associated with adding more models, better product styling, early commitment to technologies and suppliers of raw materials, experience curve effects and new distribution channels.
4. Search out new customer group, new geographical areas to enter, and new user applications. Make it easier and cheaper for first-time buyers to try the industry's new product.
5. Use low price and price-cuts to attract price-sensitive buyers into the market.
6. After using advertising to build product awareness, shifts to emphasis to the creation of increased frequency of use and brand loyalty.
7. When technological uncertainty clears in the industry and a "dominant" technology emerges, move quickly to pioneer the "dominant design".
8. Prepare for the entry of powerful competitors by forecasting:

   i) Who the probable entrants will be (based on present and future entry barriers), and

   ii) The types of strategies they are likely to use.

7.3.2 STRATEGIES FOR COMPETING IN INTERNATIONAL MARKETS

Companies' decision to exploit international opportunities is due to their ambition:

1. To search for new markets
2. To achieve economies of scale
3. To gain access to raw materials that are available in other countries
4. To earn a greater return from its distinctive competences
5. To realise location economies by dispersing individuals value creation activities to those locations where they can be performed most effectively

.

- **Reasons for going abroad**

1. When a company's domestic market is saturated,
2. When its industry has reached maturity and decline at home; and
3. When it faces heavy competitive pressures at home which it finds difficult to match or overcome.

Strategic options open to international firms

Companies seeking to enter and compete in the international environment can make use of any/combination of the following five strategies (Oyedijo, 2004).

1. **Licensing and franchising:**

   The company can reach a licensing or franchising agreement with international firms to engage its technology or name to produce and distribute its products. Licensing is most ideal whenever the pressures are much for local responsiveness and low pressures for cost reduction.

2. **Export strategy:** The company manufactures its products in one country (home country) and exports the goods to foreign markets using the company's own or foreign-controlled distribution channels. An export strategy is most suitable when there are high pressures for cost reductions and low pressures for local responsiveness.
3. **Multi country or multi domestic strategy based on product differentiation;** The company can customise both its product offering and its marketing strategy to suit different national conditions. The aim is to achieve maximum local responsiveness both to buyer needs and competitive conditions in each country where the company operates.
4. **Global low- cost strategy**; The company can pursue a low- cost strategy in most or all strategically important markets of the world. This strategy involves the concentration of production, marketing, and R&D activities in a few favourable locations and the marketing of a standardised product world wide from that location to reap the maximum benefits from the economies of scale that underline the experience curve.
5. **Global focus strategy**: The company can choose to serve the same identifiable niche in each of many strategically important country markets. The strategy involves the production and marketing of the same standardised types of goods to the same market segment in different

countries. Strategic actions are co- ordinated globally to achieve a consistently focused approach in each country market.

7.3.3 STRATEGIES APPROPRIATE FOR INDUSTRY LEADERS

According to Oyedijo (2004), companies that enjoy a strong position and a well-known reputation as the acknowledge market leaders in their industriesare referred to as industry leaders. Market leaders usually have the largest Market share in their relevant product markets. Their superiority is determined by their influences on price changes, new product introductions, distribution coverage, and promotional intensity. Just because a leader or dominant firm controls the behaviour of all the competitors and has a wide choice of Strategic options, it is an orientation point for competitors a company to either challenge, imitate or avoid. Industry leaders and dominant firms do engage any/combination of the following competitive strategies proposed by Kotler (1997), Porter(1985), and Macmillian (1982) to remain one:

1. **Stay on the offensive strategy:** This strategy is anchored on the belief that a good offence is the best defence. Offensive Leadership strategy make use of the following tactical moves:

- Being the first company to build a sustainable competitive advantage and a solid reputation as the market Leader as a result of being the first to build a competitive advantage the company takes the Oyster and leave the shell for its late comer competitors.
- Pursuing a program of continuous process improvement and Innovation relentlessly.
- becoming the source of new products, better performance features, quality enhancement, improved customer service and ways to cut production costs. This enable a leader to avoid complacency and keeps rivals on the defensive, guessing and scrambling to keep up.
- Taking the initiative to expand total industry market by discovering new uses for the products attracting new users and promoting more frequent use of the product.

2. **Fortify and defend strategy:** the purpose of this strategy is to raise entry entry cost and barrier potential new entrants and to make it harder for challenges to gain ground. The goals of the

strategy are to hold onto present market share, strengthen current market position and pocket whatever competitive advantage the firm has.

3. **A firm can fortify and defend its position by making the following tactical moves:**

- By raising the cost of competition for new entrants and challengers via increased budget for advertising, customer service, and R&D
- By introducing more of the company's own brand to match the attributes of the products of challengers firms.
- By adding new features to the product to strengthen brand loyalty and make it harder or more costly for customers to switch to rival brands.
- By broadening the product line to close off possible vacant niches for competitors to slip into.
- By keeping price reasonable and quality high
- By building new capacity ahead of market demand to try to block the market expansion potential of smaller competitors.
- By signing exclusive Contracts with the best suppliers and dealers/ distributors

4. **Follow- the- leader strategy:** The goal of this strategy is to enforce an unwritten tradition that the smaller firms must follow the market leader in adjusting prices up or down. The objective is to forestall the smaller firms from taking any initiative or unilateral action that can mess up the market thereby rocking the boat for the leader. The leader literary assumes the role of industrial policeman and uses its enormous competitive strength and leadership position to thwart and discourage potential new entrants And would-be challengers from mounting an offensive attack on the position of the leader. The following actions can be taken by a leader to police the industry.

- Meeting all price cuts with even larger and more heavy handed retaliatory cuts if necessary.
- Intensifying promotional campaigns and advertising when challengers make threatening moves to gain market share
- Using sales people to bad mouth the aggressor's product.
- Pressuring distributors not to carry rivals' products.

All the foregoing measures can be used to bully aggressive small rivals into playing follow-the-leader.

7.3.4 COMPETITIVE STRATEGIES FOR RUNNER-UPS

Runner- up firms are companies that are placed in the second line market positions in their industries e.g 7up/Pepsi soft drinks compare to Cocacola. They occupy the next- in- line market position to the industry leader(s). The basic strategic issue facing a runner- up firm is to improve its market share or defend its market position against shrinking. The two strategic options here are:

i) To challenge the leaders through offensive strategies targeted at gaining market share and a stronger market position; or

ii) To follow the leader and coast along by seeking to maintain the current second line position as long as it still offers adequate profits.

The main strategic options that are available to a runner- up firm are as follows:

1) Ma**rket-challenger strategy:** A runner- up leader firm can build its market share by challenging the industry leader. Although this is usually difficult, the runner- up firm can build market share in the following ways:

- By using differentiation strategies based on quality, technological superiority, better customer service, best- cost, or innovation.

2) **Vacant niche strategy**: This is a type of focus strategy and it involves focusing on customer or end-use applications that major firms have bypassed or neglected.A good vacant niche must have the following attributes:

- It must be sufficient in size and scope to be profitable
- It must have some growth potential
- It must be well suited to a firms own capabilities and skills.

3) **Specialist strategy**: This is also a type of focus strategy which involves concentrating on one market segment, a single product, a particular end- use, or a special customer group.

4) **Ours- is- better- than- their's strategy**: This strategy aims to build competitive advantage by focusing on quality- conscious and performance oriented buyers to whom the firm's product is presented as "superior product".
5) Guppy or growth via acquisition strategy: In this " Swallow up" approach, a financially strong runner up firm attempts to grow by swallowing up or acquiring weaker rivals.

7.3.5 COMPETITIVE STRATEGIES FOR WEAK OPERATORS

A company/business can be said to be weak if it is in a declining competitive position i.e. no longer making any difference in terms of competition and returns on capital invested. The strategic options open to such companies include:

- **Strategic offensive or grow and build strategy**: If the company has enough resources, it can pursue a modest grow and build strategy based on either low cost products or "new" differentiation themes. The purpose is to make the company a respectable market contender by moving up a ladder or two in the industry hierarchy.

- **Hold and maintain strategy**: This is an aggressive defensive strategy involving the use of the present strategy but with a hard fight to keep the company's sales, market share, profitability and competitive position at the prevailing levels.

- **Abandonment strategy**: This involves getting out of the business either by selling out to another firm or by closing down operations if nobody is willing to buy the firm. A company can opt for immediate abandonment strategy if it considers that the industry is no longer attractive to it or it lacks the strategic advantage to remain competitive and profitable in the industry.

- **Harvesting strategy**: This involves keeping reinvestment in the business to a bearest minimum and maximizing short terms returns in preparation for a gradual and smooth exit. This is the process of phasing down of capital invested in a particular portfolio and then sacrificing market position to to gain short term financial benefits. The bottom line as far as this strategy is concerned is disposing the declined business at the largest possible large harvest for possible reinvestment in another promising dream product/service.

Ways of harvesting

(i). Reduce operating budgets to a rock- bottom, bare- bones levels;

(ii). Pursue stringent internal cost control

(i) Raise prices gradually and cut promotional expenses in the same way

(iv).Reduce quality and shrink product attributes in ways that are not very discernible to customer

(v). Cut down expenses on equipment maintenance

❖ **Distinguish between a runner-up and the weak competitor through the strategic options available to them?**

• **Self-Assessment Exercises**

1. Discuss strategic options available to a company when it is experiencing decline in its position. 2. Explain harvesting as a strategy and discuss ways of harvesting for competitiveness.

7.4 SUMMARY

We learnt from the discussion in this unit strategies for competing in young, emerging and growing industries, strategies for competing in the international environment, appropriate strategies for industry leaders; competitive strategies for runner-up firms; and competitive strategies for weak operators. In this unit, we have learnt various strategies for competing in young, emerging and growing industries, different strategies for competing in the international environment; appropriate strategies for industry leaders; competitive strategies for runner-up firms; and competitive strategies for weak operators. In the next unit, we shall examine hierarchy of strategic intent (strategic intent, vision, mission statement, business definition, goals and objectives).

7.5 REFERENCES/FURTHER READINGS

Aluko, M., Odugbesan, O., Gbadamosi, G., & Osuagwu, .L. (2004). *Business policy and strategy* (3rd ed.). Lagos, Longman Nigeria Plc.

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7.6 POSSIBLE ANSWERS TO SAEs

1. A company/business can be said to be weak if it is in a declining competitive position i.e. no longer making any difference in terms of competition and returns on capital invested. The strategic options open to such companies include:

- Strategic offensive or grow and build strategy: If the company has enough resources, it can pursue a modest grow and build strategy based on either low cost products or "new" differentiation themes. The purpose is to make the company a respectable market contender by moving up a ladder or two in the industry hierarchy.
- Hold and maintain strategy: This is an aggressive defensive strategy involving the use of the present strategy but with a hard fight to keep the company's sales, market share, profitability and competitive position at the prevailing levels.
- Abandonment strategy: This involves getting out of the business either by selling out to another firm or by closing down operations if nobody is willing to buy the firm. A company can opt for immediate abandonment strategy if it considers that the industry is no longer attractive to it or it lacks the strategic advantage to remain competitive and profitable in the industry.

2. Harvesting strategy involves keeping reinvestment in the business to a bearest minimum and maximizing short terms returns in preparation for a gradual and smooth exit. This is the process of phasing down of capital invested in a particular portfolio and then sacrificing market position to

to gain short term financial benefits. The bottom line as far as this strategy is concerned is disposing the declined business at the largest possible large harvest for possible reinvestment in another promising dream product/service.

Ways of harvesting

(i). Reduce operating budgets to a rock- bottom, bare- bones levels;

(ii). Pursue stringent internal cost control

(ii) Raise prices gradually and cut promotional expenses in the same way

(iv).Reduce quality and shrink product attributes in ways that are not very discernible to customer

(v). Cut down expenses on equipment maintenance

MODULE 3: STRATEGY FORMULATION AND APPRAISAL IN ORGANISATIONS

Unit 1 Hierarchy of Strategic Intent I
Unit 2 Hierarchy of Strategic Intent 2
Unit 3 Concept of Environment
Unit 4 Environmental scanning and appraisal
Unit 5 Organisational appraisal
Unit 6 Strategic analysis and strategic choice
Unit 7 Portfolio planning approaches

UNIT 1: HIERARCHY OF STRATEGIC INTENT (1)

Unit Structure

1.1 Introduction
1.2 Learning Outcomes
1.3 Hierarchy of strategic intent (1)
1.3.1 Definition of Strategic Intent
1.3.2 Vision
1.3.3 Mission Statement
1.3.4 Business Definition
1.4 SUMMARY
1.5 References/Further Reading
1.6 Possible Answers To SAEs

1.1 INTRODUCTION

- In the last unit, we discussed the various strategies for competing in young, emerging and growing industries, different strategies for competing in the international environment; appropriate strategies for industry leaders; competitive strategies for runner-up firms; and competitive strategies for weak operators. In this unit, we shall introduce you to the first phase of the strategic management process, that is, the hierarchy of intent.

1.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- explain the concepts of strategic intent, stretch, leverage and fit;
- describe evaluate the concept of vision and mission in business
- describe the role, process and characteristics of objectives
- distinguish between well-formulated and badly-formulated objectives;

. 1.3 HIERARCHY OF STRATEGIC INTENT (1)

Strategic intent is a high-level statement of the means by which your organization will achieve its vision. It is a statement of design for creating a desirable future (stated in present terms). Putting it simple, a strategic intent is your company's vision of what it wants to achieve in the long term. In complex science terms, strategic intent is decomposition of exploration rules into the next level of detail, the linkages to the exploration rules and the transition rules that define how it will migrate from its current design and ecosystem to a future business design and ecosystem. At the same time, strategic intent is more than simply unfettered ambition. (Many companies possess an ambitious strategic intent yet fall short of their goals). The concept also encompasses an active management process that includes: focusing the organisation‘s attention on the essence of winning, motivating people by communicating the value of the target; leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocations.

1.3.1 Definition of Strategic Intent

By strategic intent, we refer to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. Broadly stated, these could be in the form of a vision and mission statement for the organisation as a corporate whole. At the business level of a firm these could be expressed as the business definition. When stated in precise terms, as an expression of the aims to be achieved operationally, these may be the goals and objectives. To understand Strategic Intent, Hamel and Prahalad coined the term strategic intent‘ which they believe is an obsession with an organisation – an obsession with having ambitious that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation while sustaining that obsession in the quest for global leadership. They explain the term strategic intent‘like this: On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress. At the same time, strategic intent is more than simply unfettered ambition.

The concept also encompasses an active management process that includes: focusing the organisation‘s attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations‖ . They quoted several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intent – as evident from their path-breaking article, published in 1989 in the Harvard Business Review – seems to have been proposed by them to explain the lead taken by Japanese firms over their American and European counterparts. Yet, strategic intent has wider implications and carries a lot of meaning for the strategic management of firms. There is merit in their view as business groups and companies, which have aspired for global leadership can be found in the Indian context too (Azhar, 2002).

Regarding the concepts of Stretch, Leverage and FitSubsequent to the idea of strategic intent, Hamel and Prahalad had added the dual concepts of stretch‘ and leverage‘. Stretch is a misfit between resources and aspirations‖ (Hamel and Prahalad, 1989). Leverage refers to concentrating, accumulating, complementing, conserving, and recovering resources in such a manner that a meagre resource base can be stretched to meet the aspirations that an organisation dares to have. The idea of stretch is diametrically opposite to the idea of fit‘ that means positioning the firm by matching its organisational resources to its environment. The strategic fit is central to the strategy school of positioning where techniques such as SWOT analysis are used to assess organisational capabilities and environmental opportunities. Strategy then becomes a compromise between what the environment has got to offer in terms of opportunities and the counteroffer that the organisation makes in the form of is capabilities. The ideas of stretch and leverage belong appropriately to the learning school of strategy where the capabilities are not seen as constraints to achieving, and the environment is perceive not as something which is considered as given but as something which can be created and moulded. You would appreciate that the idea of strategic intent could work in both cases though it might be perceptively different in terms of the levels at which aspirations are set. Under fit, the strategic intent would seem to be more realistic; under stretch and leverage it could be idealistic. Yet, in both cases, it is essentially a desired aim to be achieved.

We can therefore define strategic intent as the hierarchy of intentions ranging from a broad vision through mission and business definition down to specific objectives and goals. Vision is at the top level of the hierarchy of strategic intent and that is what we try to understand in the next section.

1.3.2 Vision

Aspirations, expressed as strategic intent, should lead to an end; otherwise they would just be castles in the air. That end is the vision of an organisation or an individual. It is what the firm or a person would ultimately like to become. For instance, some of you, say in 10 years, or may be even earlier, would like to become general managers managing an SBU in a large, diversified multinational corporation. Or some others among you would like to believe that you will be an entrepreneur in 10 – 15 years owning your own company dealing with IT services and employing cutting-edge technology to serve a global clientele. A firm thinks like that too.

1.3.2a Understanding Vision

A vision is more dreamt of than it is articulated. This is the reason why it is difficult to say what vision an organisation has. Sometimes it is not even evident to the entrepreneur who usually thinks of the vision. By its nature, it could be as hazy and vague as a dream that one experienced the previous night and is not able to recall perfectly in broad daylight. Yet it is a powerful motivator to action. And it is from the actions that a vision could often be derived (Azhar, 2002). Henry Ford wished to democratize the automobile when he visualized that an affordable vehicle could be available for the masses. Walt Disney probably wanted to make people happy. In terms of definition vision has been defined in several different ways. Kottre (1990) defines it as a description of something (an organisation, corporate culture, a business, a technology, an activity) in the future‖. El-Namaki (1992) considers it as a mental perception of the kind of environment an individual, or an organisation, aspires to create within a broad time horizon and the underlying conditions for the acutalisation of this perception‖. Miller and Dess (1966) view it simply as the category of intentions that are broad, all-inclusive, and forward thinking‖. The common strand of thought evident in these definitions and several others available in strategic management literature relates to _vision' being future aspirations that lead to an inspiration to be the best in one's field of activity.

1.3.2b Benefits of Having a Vision

Parikh and Neubauer (1993) point out the several benefits accruing to an organisation having a vision. Here is what they say:

- Good visions are inspiring and exhilarating;
- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be;
- Good visions help in the creation of a common identity and a shared sense of purpose;
- Good visions are competitive, original and unique. They make sense in the marketplace as they are practical;
- Good visions foster risk-taking and experimentation;
- Good visions foster long-term thinking;
- Good visions represent integrity, they are truly genuine and can be used for the benefit of people.

1.3.2c The Process of Envisioning

The process of envisioning is a difficult one as we see from what Collins and Porras (1996) have to say about it. According to them, a well-conceived vision consists of two major components: core ideology and envisioned future. The core ideology defines the enduring character of an organisation that remains unchangeable as it passes through the vicissitudes of vectors, such as, technology, competition, or management fads. The core ideology rests on the core values (the essential and enduring tenets of an organisation) and core purposes (an organisation's reason for being). The envisioned future too consists of two components: a 10 – 30 years audacious goal, and a vivid description of what it will be like to achieve that goal. The process of envisioning is indeed fascinating.

Figure 1: showing the Process of envisioning

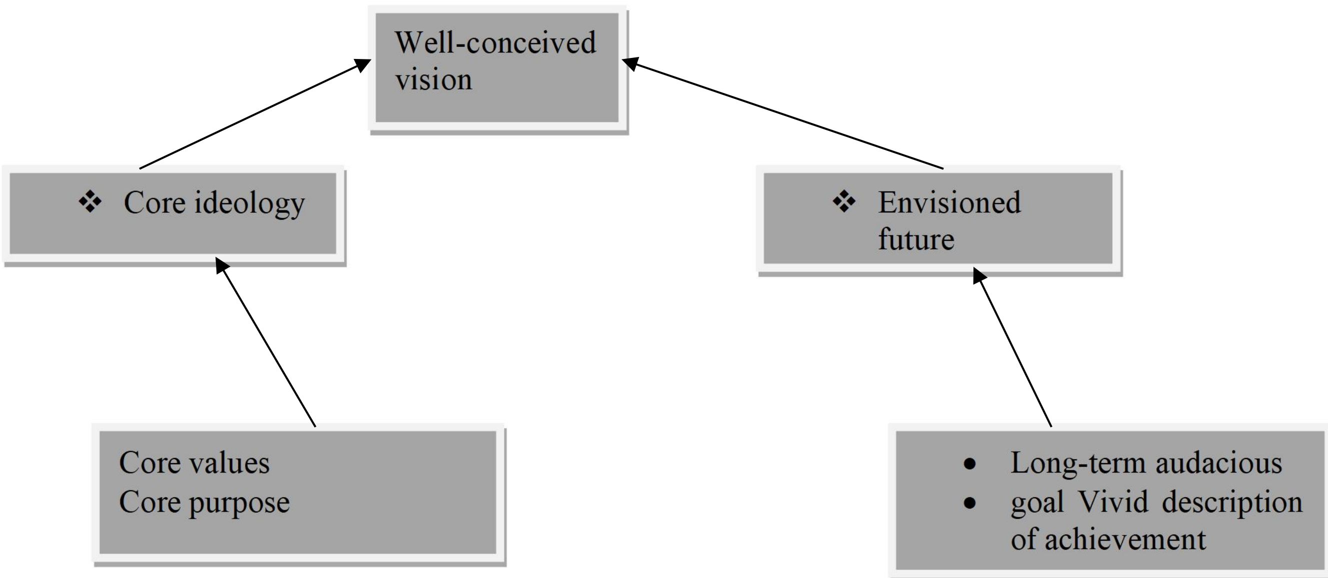


Fig 1: Source: Based on ideas in J. Parikh and F. Neubauer, ‗Corporate Visioning' International Review of Strategic Management. Vol. 4, Ed; D.E. Hussey, West Sussex, England, John Wiley & Sons, 1993, pp. 109 – 111.

From vision, we now move on to the second level of strategic intent that is the mission.

❖ **Give brief explanations of each of these concepts: (a) stretch, (b) leverage, and (c) fit.**

1.3.3 Mission **(definition and discussion)**

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organisation. Thompson (1997) defines mission as the essential purpose of the organisation, concerning particularly why it is in existence, the nature of the businesses it is in, and the customers it seeks to serve and satisfy‖. Hunger and Wheelen (1999) say that mission is the ―purpose or reason for the organisation's existence‖. This an indication that there is not much difference of opinion about he definition of mission. Yet, one finds instances of organisations confusing mission with vision or objectives. In strategic management literature, mission occupies a definite place as a part of strategic intent.

While the essence of vision is a forward-looking view of what an organisation wishes to become, mission is what an organisation is and why it exists. Several years ago, Peter F. Drucker raised important philosophical questions, though simply worded, are in reality the most fundamental questions that any organisation can put to itself. The answers are based on the analysis of the underlying needs of the society that any organisation serves to fulfill. The satisfaction of that need is, then, the business of the organisation. Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission. Mission is a statement which defines the role that an organisation plays in a society. It refers to the particular needs of that society, for instance, its information needs. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner. Both have different objectives but an identical mission.

1.3.3a How are Mission Statements Formulated?

Most organisations derive their mission statements from a particular set to tasks they are called upon to perform in the light of their individual, national or global priorities. Several organisations, set up owe their existence to their prime movers. Mission statements, whether derived from set priorities or not, could be formulated either formally or informally. Usually, entrepreneurs lay down the corporate philosophy which an organisation follows in its strategic and operational activities. Such a philosophy may not be consciously and formally stated but may gradually evolve due to the entrepreneur‘s actions. Generally, an entrepreneur has a perception of the type of organisation that he wants his company to be. Mission statements could be formulated on the basis of the vision that an entrepreneur decides on in the initial stages of an organisation‘s growth.

Major strategists could also contribute to the development of a mission statement. They do this informally by lending a hand in the creation of a particular corporate identity or formally through discussions and the writing down of a mission statement. Chief executives play a major role in formulating a mission statement both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management. Consultants may also be called upon to make an in-depth analysis of the organisation to suggest an appropriate mission statement.

A mission statement, once formulated, should serve an organisation for many years. But a mission may become unclear as the organisation grows and adds new products, markets and technologies to its activities. Then the mission has to be reconsidered and reexamined to either change or discard it, and evolve a fresh statement of organisational mission.

1.3.3b Characteristics of a Mission Statement

Organisations legitimize themselves by performing some functions which are valued by society. A mission statement defines the basic reason for the existence of that organisation. Such a statement reflects the corporate philosophy, identity, character, and image of an organisation. It may be defined explicitly or could be deduced from the management‘s actions, decisions, or the chief executive‘s press statements. When explicitly defined it provides enlightenment to the insiders and outsiders on what the organisation stands for. In order to be effective, a mission statement should possess the following seven characteristics:

1. *It should be feasible*. A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable – its followers must find it to be credible. But feasibility depends on the resources available to work towards a mission.

2. *It should be precise*. A mission statement should not be so narrow as to restrict the organisation‘s activities nor should it be too broad to make itself meaningless. For instance, _Manufacturing bicycles‘ is a narrow mission statement since it severely limits the organisation‘s activities, while _mobility business‘ is too broad a term as it does not define the reasonable contour within which the organisation could operate.

3. *It should be clear*. A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organisations do adopt such statements but probably they do so for emphasizing their ident ity and character. To be useful, a mission statement should be a clear enough to lead to action.

4. *It should be motivating*. A mission statement should be motivating for members of the organisation and of society, and they should feel it worthwhile working for such an organisation or being its customers. A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients. Customer service, therefore, is an important purpose for a banking institution.

5. *It should be distinctive*. A mission statement which is indiscriminate is likely to have little impact. If all textile manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But if one defines it as providing textiles that would provide _value for money, for years' it will create an important distinction in the public mind.

6. *It should indicate major components of strategy*. A mission statement, along with the organisational purpose should indicate the major components of the strategy to be adopted. The mission statement should indicate a combination of stability, growth and diversification strategies in the future.

7. *It should indicate how objectives are to be accomplished*. Besides indicating the broad strategies to be adopted, a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished. The mission statement should deal with the objectives to be achieved within a given time period.

In day-to-day decision-making, managers are not concerned about survival and, therefore, do not actively think about their organisation's mission for society. Thus, a mission statement becomes an ideology that can be used occasionally for legitimization. But, for strategic decision-making it is important to consider the mission in each phase of the strategic management process.

A helpful approach to defining as well as refining a mission statement is to define the business itself.

Self Assessment Exercise 1

1.What are the possible pitfalls of not having a vision for an organisation?
2. Define mission' in your own words.
3. Mention the characteristics of a good mission statement.

1.3.4 Business Definition

Understanding business is vital to defining it and answering the question: What is our business?' It could also be a pointer to the answers to the questions: What will it be?' and What should it be?' Mission statements can use the ideas generated through the process of understanding and defining business. A watch manufacturing company may call itself the _timekeepers to the nation'. The following illustrative diagram can be helpful in understanding business. In this diagram, we have attempted to relate societal needs to the business of timekeeping. Each successive step provides alternative ways through which the timekeeping needs of the society could be satisfied. Consider the following illustrative examples:

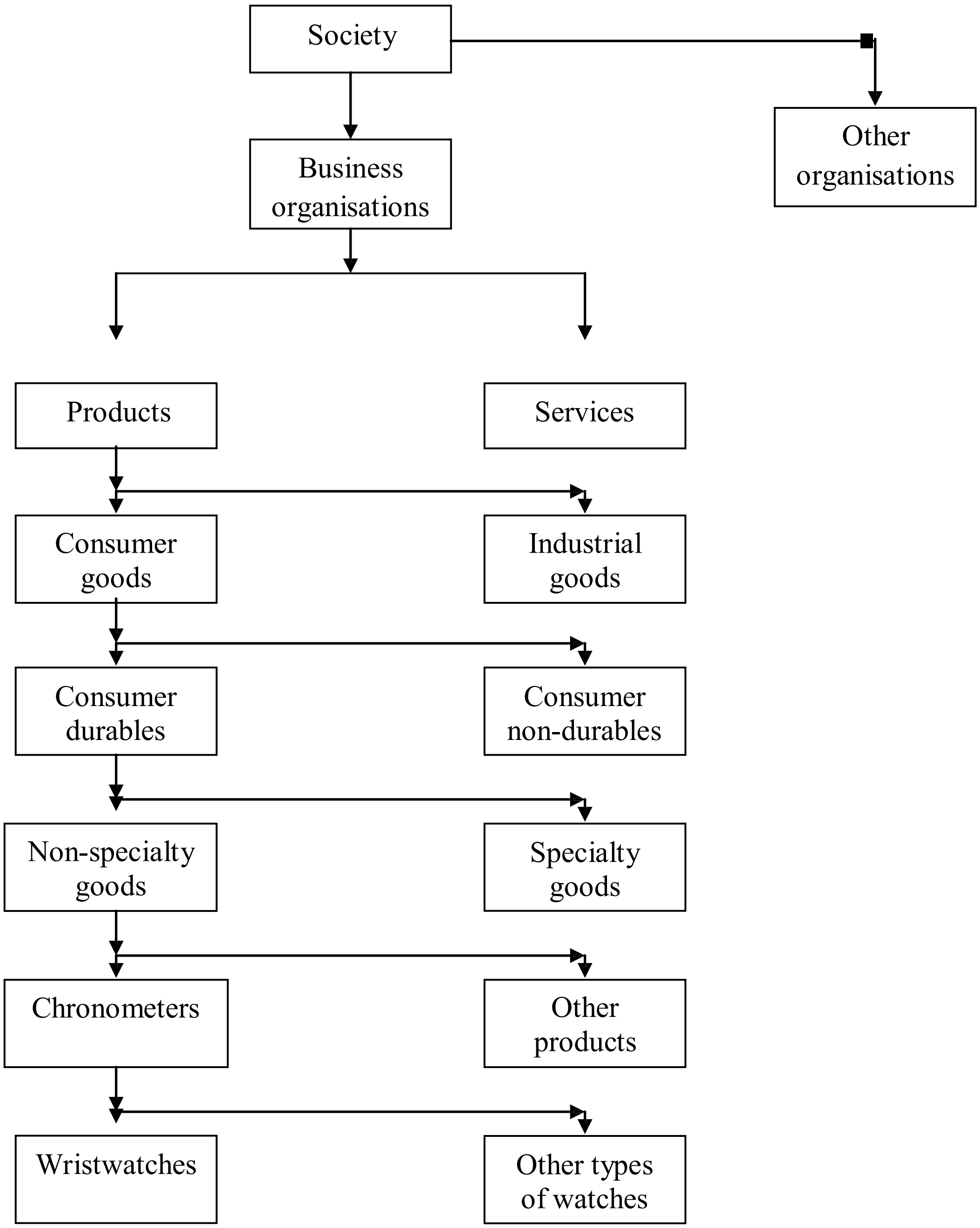
- Wristwatches could be of different types, for example, ladies', men's, children's, and sports watches. Ladies' wristwatches could be either utility or ornamental watches.
- Other types of watches could be timepieces, wall clocks, and pocket watches.
- Other products could be an hourglass or a sundial.
- Specialty watches could be video-timers, calculator watches, and car clocks.
- Consumer non-durables could be time-punching machines and stop watches.
- Services could be telephone or teletext time services.
- Other organisations which roughly meet the timekeeping needs could be, for instance, a church bell chiming at appointed hours, or a call to the faithful from mosques.

All the above options or their combinations, lead to the satisfaction of the timekeeping needs of a society. Four other variables are useful in understanding the business of timekeeping. These are:

1. The functions which watches can perform, such as, providing the time, day, date, and direction.
2. Customer needs satisfied by actions like finding time, recording time, using watches as fashionable accessories, and presenting them as gift items.
3. End usages, like, direct use by customers, and indirect use, as subassemblies in the form of watch and clock movements, by industry.
4. The technology used, based on mechanical, quartz digital or quartz analog manufacturing.

All the above options and variables are, however, relevant to the current _state of the art'. The timekeeping business could change radically if a breakthrough occurs any time in the future. For instance, if it could somehow be possible to embed sensors in the human brain that would enable a person to just know and feel the time rather than finding time by looking at a watch, timekeeping could become just another neurological function. The implications of such a breakthrough for society and business are exciting. Naming just two of these, we could say that visually-challenged persons could benefit a lot by such a technological advancement, and the business of timekeeping would never be the same: all timekeeping equipment that we use today could face the risk of becoming redundant. The business of timekeeping is, therefore, certainly not making more, better, sophisticated and a variety of watches but providing the means – whatever they might be – to simply know the time.

Graphical Picture

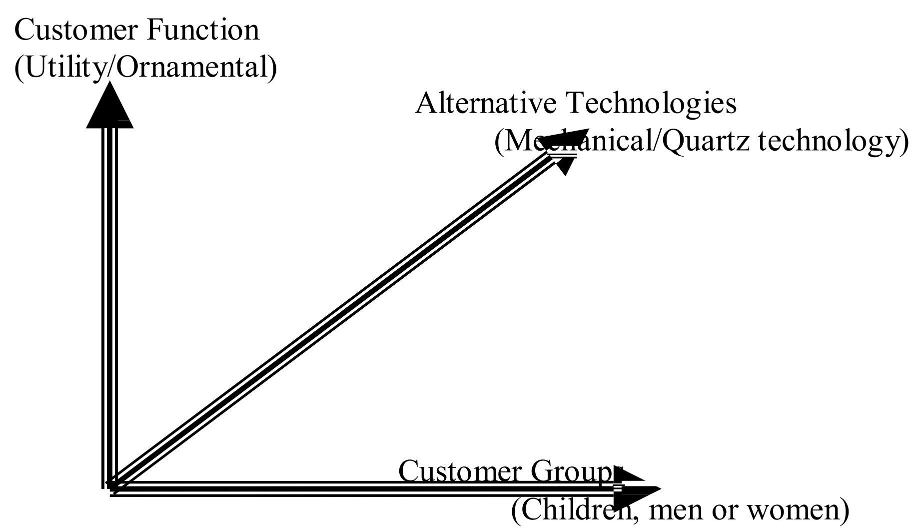


Drawing an example from the above graphical picture, it can be said that a particular company providing only ladies wristwatches of utility and ornamental types using the quartz analogue technology could define its business in one way. Another company, a government supplier, may choose to make mechanical wall clocks. Both the companies are in the timekeeping business but they cater to different customer groups, provide different customer functions, and use alternative technologies.

1.3.4a Dimensions of Business Definition

In a path-breaking analysis, Derek Abell suggests defining business along the three dimensions of customer groups, customer functions, and alternative technologies. Customer groups relate to who‘ is being satisfied, customer needs describe what‘s being satisfied, and alternative technologies means how‘ the need is being satisfied. The figure below presents a diagrammatic view of these three dimensions.

Figure: Abell‟s Three Dimensions for Defining a Business



Customer groups are created according to the identity of the customers. Customer functions are based on what the products or services provide to the customers. Alternative technologies describe the manner in which a particular functional can be performed for a customer.

Applying Abell‘s three-dimensional model to the illustration of timekeeping business, we could identify the three dimensions as follows:

1. Customers groups are individual customers and industrial users.
2. Customer functions are of finding time, recording time, using watches as a fashionable accessory, and as a gift item.
3. Alternative technologies are of the mechanical, quartz digital, and quartz analogue types.

Such a clarification helps in defining a business explicitly. A clear business definition is helpful for strategic management in many ways. For instance, a business definition can indicate the choice of objectives, help in exercising a choice among different strategic alternatives, facilitate functional policy implementation, and suggest appropriate organisational structure. A watch manufacturer who makes ladies watches of the utility type could extend its business definition along the customer dimension and make ornamental watches also. It could also diversify further by moving into the manufacture of wall clocks. Having decided to manufacture ornamental watches may require a production-to-order system of manufacturing. Technological choice will vary from making mechanical hand-wound watches to making battery-operated quartz digital watches, which are two entirely different processes. We could, of course, go on pointing out various other implications of defining a business along these three dimensions. In sum, we can observe that the model provides powerful insights into understanding and defining business.

1.3.4b Levels at which Business could be Defined

Like strategy, business could either be defined at the corporate-or SBU-levels. A single-business firm is active in just one area so its business definition is simple. A large conglomerate operating in several businesses would have a separate business definition for each of its businesses. Rather, as Hill and Jones (1998) suggest, a diversified company's business is to manage a collection of businesses. The important question here is how a corporate business adds value to the constituent businesses of that company.

At the corporate level, the business definition will concern itself with the wider meaning of customer groups, customer functions, and alternative technologies. A highly diversified company organised on a divisional basis could benefit by having a business definition covering all the three definitions. Each division could again have more accurate business definition at the SBU-level. For example, Voltas Limited broadly performs the customer functions of trading and manufacturing a large variety of items from agro-industrial pumps to textile machinery, catering to two broad customer groups of individual and institutional customers, and using diverse technologies for manufacturing switchgears and transformers as well as pesticides. In fact such is the diversity in its operations, that observers attribute many problems that occur at Voltas to a hazy and ill-defined business definition.

When a company takes up activities outside the domain of its business definitions, it generally faces the accompanying risk of adding new businesses, divisions or products unrelated to its present activities and at variance with its corporate identity. This crisis of identity is a serious problem which results either in inefficiency or ineffectiveness. On the other hand, if the various acquisition, growth and diversification plans of a company are linked through a business definition, it results in a considerable amount of synergy (more commonly known as _the two - plus-two-is-equal-to-five effect‘). An example of such a company is ITC Limited, which believes in the professional management of planned growth‘ through a pursuit of excellence‘ by operating in the areas of agro-industry, packaging and printing, pulp and paper – seemingly diverse but intrinsically related to its main activity of cigarette manufacturing. Incidentally, ITC defines its SBU-level mission for its cigarette division as _making a quality product that will offer the smoker satisfaction at a price he can afford‘.

- ❖ **Explain the three dimensions of a business definition.**

1.3.4c Business Model

The Internet boom and bust of the 1990s revitalized the term business model‘. Though not expressing a novel thought, it has become quite a popular term now and used frequently to express a number of ideas, among them creation and marketing of value‘ being the major theme. The success of Wal-Mart as a retailer, Google as a search engine, Dell Computers as an Internet - based marketer or Amazon.com as a virtual book seller is attributed to their respective business models.

Colloquially, business models are often expressed in the form of a question: how does the organisation make money? E-newspapers are able to offer free Internet editions on account of the online advertisement revenues they earn from the advertisers. A *kirana dukan* (provision store) owner buys commodities and products at a price and then, applying a mark-up, sells them at retail prices thus earning revenue and profit. Budget airlines share certain features such as e-ticketing, no-frills service and uniformity in the types of planes used. Each of these organisations is using a particular business model.

Formally, a business model could be defined as a representation of a firm‘s underlying core logic and strategic choices for creating and capturing value within a value network. Business models have an intimate relationship with the strategy of an organisation. Strategies result in choices; a business model can be used to help analyse and communicate these strategic choices. Companies in the same industry, competing with each other, can rely on different models as a matter of strategic choice. Tata Consultancy Services adopts a traditional fixed- price, fixed-timebusiness model, where payments by clients are based on time related milestones. Infosys and Wipro have a time and material business model where clients pay on an ongoing basis, depending on the amount of work done rather than the time elapsed.

From the abstraction that strategies actually are, business models are down-to-earth prescriptions to implement the strategies. Strategies are not expected to answer the question: how to make money? Business model can enable us to do precisely that. The vision, mission, business definition, product/service concept and business model serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realize its vision and mission and achieve its strategic intent, any organisation will have to set goals and objectives to be pursued in the medium and short run.

Self Assessment Exercise 2

1. Explain the three dimensions of a business definition.
2. What do you understand by business model and what has it got to do with accomplishment of organizational goals?

1.4 SUMMARY

Strategic intent is your company's vision of what it wants to achieve in the long term. In complex science terms, strategic intent is decomposition of exploration rules into the next level of detail, the linkages to the exploration rules and the transition rules that define how it will migrate from its current design and ecosystem to a future business design and ecosystem. The concept also encompasses an active management process that includes: focusing the organisation's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations. strategic intent as the hierarchy of intentions ranging from a broad vision through mission and business definition down to specific objectives and goals.

1.5 REFERENCES/FURTHER READING

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1.6 POSSIBLE ANSWERS TO SAEs

1. Business can be defined along the three dimensions of customer groups, customer functions, and alternative technologies. Customer groups relate to who‘ is being satisfied, customer needs describe what‘s being satisfied, and alternative technologies means how‘ the need is being satisfied.

2. Business model could be defined as a representation of a firm‘s underlying core logic and strategic choices for creating and capturing value within a value network. Business models have an intimate relationship with the strategy of an organisation. Strategies result in choices; a business model can be used to help analyse and communicate these strategic choices. Companies in the same industry, competing with each other, can rely on different models as a matter of strategic choice. Tata Consultancy Services adopts a traditional fixed- price, fixed-timebusiness model, where payments by clients are based on time related milestones. Infosys and Wipro have a time and material business model where clients pay on an ongoing basis, depending on the amount of work done rather than the time elapsed.

Business models are down-to-earth prescriptions to implement the strategies. Strategies are not expected to answer the question: how to make money? Business model can enable us to do precisely that. The vision, mission, business definition, product/service concept and business model serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realize its vision and mission and achieve its strategic intent, any organisation will have to set goals and objectives to be pursued in the medium and short run.

UNIT 2: HIERARCHY OF STRATEGIC INTENT (2)

Unit Structure

2.1 Introduction
2.2 Learning Outcomes
2.3 Hierarchy of strategic intent (2)
2.3.1 Product/Service Concept
2.3.2 Goals and Objectives
2.3.3 Critical Success Factors
2.3.4 Key Performance Indicators (KPIs)
2.4 SUMMARY
2.5 References/Further Reading
2.6 Possible Answers to SAEs

2.1 INTRODUCTION

In the last unit, we discussed the first phase of hierarchy of strategic intent which focused on sub-themes such as vision, mission statement, and business definition. In this unit, we shall discuss the second phase of the strategic management process and comprehensively explain Product/Service Concept; Goals and Objectives; Critical Success Factors; and Key Performance Indicators (KPIs).

2.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- explain the concepts of product/service from an organisation's perception
- describe the concept of goals and objectives in business
- analyse critical success factors in businesses
- explain the concepts of Key Performance Indicators (KPIs).

2.3 HIERARCHY OF STRATEGIC INTENT (2)

2.3.1 The Product/Service Concept

Like the business definition, an explicit product/service concept could have far-reaching implications for strategic management. A product/service concept is the manner in which a company perceives its product or service. Such a perception is based on how the product or service provides functions that satisfy customer needs.

A product/service concept, when defined carefully and innovatively, can prove to be of significant worth to strategists in different phases of strategic management. An explicit business definition and product/service concept are powerful tools for strategic management.

The vision, mission, business definition, and product/service concept serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realise its mission and to achieve its intent, any organisation will have to set goals and objectives to be pursued in the short run. The section deals with objectives and goals.

2.3.2 Goals and Objectives

Goals denote what an organisation hopes to accomplish in a future period of time. They represent a future state or an outcome of the effort put in now. A broad category of financial and non-financial issues are addressed by the goals that a firm sets for itself.

Objectives are the ends that state specifically how the goals shall be achieved. They are co ncrete and specific in contrast to goals which are generalised. In this manner, objectives make the goals operational. While goals may be qualitative, objectives tend to be mainly quantitative in specification. In this way they are measurable and comparable. In strategic management literature, there has been confusion with regard to the usage of these terms: goals and objectives. The meaning assigned to these terms is sometimes in contrast to what we have adopted here. Also, often they are used interchangeably. Goals connote the broader sense of the term objectives. However, we would prefer to use only the term objective to denote both. After all, it must be remembered that objectives are the manifestations of goals, whether quantified and specifically stated or not. Besides, it is more convenient to use one term rather than both every time one refers to a future state or the outcome of an effort. Any organisation shall always have a potential set of goals. It has to exercise a choice from among these goals. This choice must be further elaborated and expressed in terms of operational and measurable objectives.

2.3.2a Roles of Objectives

Objectives play an important role in strategic management. We could identify the various facets of such a role as shown below:

- *Objectives define the organisation's relationship with its environment*. By stating its objectives, an organisation commits itself to what it has to achieve for its employees, customers and society at large.
- *Objectives help an organisation to pursue its vision and mission*. By defining the long-term position that an organisation wishes to attain and the short-term targets to be achieved, objectives help an organisation in pursuing its vision and mission.

- *Objectives provide the basis for strategic decision-making*. By directing the attention of strategists to those areas where strategic decisions need to be taken, objectives lead to desirable standards of behaviour and, in this manner, help to coordinate strategic decision- making.

- *Objectives provide the standard for performance appraisal*. By stating the targets to be achieved in a given time period and the measures to be adopted to achieve them, objectives lay down the standards against which organisational as well as well individual performance could be judged. In the absence of objectives, an organisation would have no clear and definite basis for evaluating its performance.

Managers who set objectives for themselves and their organisations are most likely to achieve them than those who do not specify their performance targets.

2.3.2b Characteristics of Objectives

Objectives, as measures of organisational behaviour and performance, should possess certain desirable characteristics in order to be effective. Given below are seven such characteristics.

1. *Objectives should be understandable*. Because objectives play an important role in strategic management and are put to use in a variety of ways, they should be understandable to thosewho have to achieve them. A chief executive who says that ‗something ought to be done to set things

right‘ is not likely to be understood by his managers. Subsequently, no action will be taken, or even a wrong action might be taken.

2. *Objectives should be concrete and specific*. To say that our company plans to achieve a 12 percent increase its sales‘ is certainly better than stating that our company seeks to increase its sales‘. The first statement implies a concrete and specific objective and is more likely to lead and motivate the managers.
3. *Objectives should be related to a timeframe*. If the first statement given above restated as our company plans to increase its sales by 12 percent by the end of two years‘, it enhances the specificity of the objective. If objectives are related to a timeframe, then managers know the duration within which they have to be achieved.
4. *Objectives should be measurable and controllable*. Many organisations perceive themselves as companies which are attractive to work for. If measures like the number and quality of job applications received, average emoluments offered, or staff turnover per year could be devised, it would be possible to measure and control the achievement of this objective with respect to comparable companies in a particular industry, and in general.
5. *Objectives should be challenging*. Objectives that are too high or too low are both demotivating and, therefore, should be set at challenging but not unrealistic levels. To set high sales targets in a declining market does not lead to success. Conversely a low sales target in a burgeoning market is easily achievable and, therefore, leads to a suboptimal performance.
6. *Different objectives should correlate with each other*. Organisations set many objectives in different areas. If objectives are set in one area disregarding the other areas such an action is likely to lead to problems. A classic dilemma in organisations, and a source of interdepartmental conflicts, is setting sales and production objectives. Marketing departments typically insist on a wider variety of products to cater to a variety of market segments while production departments generally prefer to have greater product uniformity in order to have economies of scale. Obviously, tradeoffs are required to be made so that different objectives correlate with each other, are mutually supportive, and result in synergistic advantages. This is especially true for organisations which are organised on a profit-centre basis.
7. *Objectives should be set within constraints*. There are many constraints internal as well as external which have to be considered in objective-setting. For example, resource availability is

an internal constraint which affects objective-setting. Different objectives compete for scarce resources and tradeoffs are necessary for optimum resource utilisation. Organisations face many external constraints like legal requirements, consumer activism and environmental protection. All these limit the organisation's ability to set and achieve objectives.

We will further examine a few issues relevant to object ives, in order to understand this complex process.

2.3.2c Issues in Objective-Setting

There are many issues which have a bearing on different aspects of objective-setting. Here we shall deal with six such issues (Azhar, 2002).

1. *Specificity*. Objectives may be stated at different levels of specificity. At one extreme, they might be very broadly stated as goals while at the other they might be specifically stated as targets. Many organisations state corporate as well as general, specific, functional, and operational objectives. Note that specificity is related to the organisational levels for which a set of objectives has been stated. The issue of specificity is resolved through stating objectives at different levels, and prefixing terms
2. *Multiplicity*. Since objectives deal with a number of performance areas, a variety of them have to be formulated to cover all aspects of the functioning of an organisation. No organisation operates on the basis of single or a few objectives. The issue of multiplicity deals with different types of objectives with respect to organisational levels (e.g. higher or lower levels), importance (e.g. primary or secondary), ends (e.g. survival or growth), functions (e.g. marketing or finance), and nature (e.g. organisational or personal). Too few or too many objectives are both unrealistic. Organisations need to set adequate and appropriate objectives so as to cover all the major performance areas.
3. *Periodicity*. Objectives are formulated for different time periods. It is possible to set long- term, medium-term and short-term objectives. Generally, organisations determine objectives for the long-and short-term. Whenever this is done, objectives for different time periods have to be integrated with each other. Long-term objectives are, by nature, less certain, and are therefore stated in general terms. Short-term objectives, on the other hand, are relatively more certain, specific, and comprehensive. One long-term objective may result in several short-term

objectives; many short-term objectives converge to form a long-term objective. For example, a long-term objective may be continual profitability. Short-term objectives which support continual profitability may be the return on investment, profit margin, return on net worth, and so on, computed on an annual basis.

4. *Verifiability*. Each objective has to be tested on the basis of its verifiability. In other words, it should be possible for a manager to state the basis on which to decide whether an objective has been met or not. Only verifiable objectives can be meaningfully used in strategic management. Related to verifiability is the question of quantification. A definite way to measure any objective is to quantify it. But it may be neither possible nor desirable to quantify each and every objective. In such cases, qualitative objectives have to be set. These objectives could also be verified but not to the degree of accuracy possible for quantitative objectives. For example, a qualitative objective may be stated as – to create a congenial working environment within the factory. In order to make such an objective verifiable; the value judgement of informed experts – both insiders and outsiders – could be used. A few quantitative measures could also be devised which can serve as indicators of a congenial working environment. Some of these could be staff turnover, absenteeism, accident rates, productivity figures, and so forth. In general, it can be said that the issue of verifiability could be resolved through a judicious use of a combination of quantitative and qualitative objectives.
5. *Reality*. It is a common observation that organisations tend to have to sets of objectives – official and operative. Official objectives are those which organisations profess to attain while operative objectives are those which they seek to attain in reality. Probably no one would be in a better position to appreciate the difference between these two objectives than a harried client of a public sector bank who, on being maltreated by an arro gant bank employee, looks up to find a poster of a smiling and beautiful girl with folded hands looking down at him. The poster carries the caption: Customer service with a smile!‘ Many organisations state one of their official objectives as the development of human resource. But whether it is also an operative objective depends on the amount of resources allocated to human resource development.
6. *Quality*. Objectives may be both good and bad. The quality of an objective can be judged on the basis of its capability to provide a specific direction and a tangible basis for evaluating performance. An example of a bad objective is: ‗To be the market leader in our industry‘. It is insufficient with respect to its measurability. To restate the same objective as: ‗To increase

market share to a minimum of 40 percent of the total with respect to Product A over the period of the next two years and to maintain it thereafter' turns it into a good objective since it is specific, relates to performance, is measurable, and provides a definite direction.

Recapitulating what we have said in this and the previous subsection, it can be stated that objectives have a number of characteristics and a variety of issues are involved in setting those. The determination of objectives is, therefore, a complex task. Further, two important questions need to be asked: what objectives are to be chosen for achievement and how are they to be determined. We attempt to answer the first question in the following subsection and the second in the next.

2.3.2d What Objectives are Set?

To put it straight, objectives have to be set in all those performance areas which are of strategic importance to an organisation. In general, according to Drucker, objectives need to be set in the eight vital areas of *market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility*. A prescriptive approach, such as the one suggested by Drucker, is based on those strategic factors which are supposedly vital for all types of organisations. But in practice organisations differ widely with regard to the objectives that they choose to set. Research studies, based on a survey of a large number of companies, too lead to a set of objectives that the companies determine for themselves. But even here, the list of objectives is more of a least common denominator rather than a true reflection of the objectives that the companies actually set for themselves.

To illustrate this point, we shall consider one such study in the Indian context. B.R. Singh, who has studied 28 large companies, each having a turnover of more than Rs 50 crore at the time of the study, reports that the objectives were set in areas like;

- profit (return on investment, return on shareholder's capital, net profits as a percentage of sales);
- marketing (increase in sales volume, market development for existing products, new product development, reduction in marketing cost, improving customer service);
- growth (output, sales turnover, investment);

- employees (industrial relations, welfare and development);
- social responsibility (community service, rural development, auxiliary industry development, family welfare).

Consider the following examples of objective-setting by different types of organisations. We are not including the usual financial parameters used to judge performance to provide you with an idea of how the context could dictate the criteria for objective-setting.

- Two wheeler companies can use measures of performance such as the number of vehicles manufactured per annum, market share in percent, level of indigenization achieved in percent, average cost per vehicle and fuel efficiency achieved in kilometers per litre. Advertising agencies set objectives in terms of billings achieve din naira per year.

- For steel manufacturing companies, a basic measure is the quantity of saleable steel, both in terms of installed capacity and actual production leading to capacity utilization in percent. Another operational measure is energy consumed per tonne of saleable steel.

- Insurance companies may set objectives in terms of the number of policies executed, sum assured, and expense-income ratio. Social objectives could be measured in terms o f the percentage of insurable population covered and an investment mix consisting of government securities, social schemes, and corporate securities.

- Railways are basically concerned with objectives in the area of passenger traffic and freight handling. Passenger traffic is indicated by the volume of traffic handled in terms of the number of passengers and the number of seats and berths available. Freight traffic is in terms of the volume of traffic handled, expressed in weight and utilization percent of wagons and locomotives.

Hotels may set objectives in terms of the number of rooms‘ available, occupancy rate, and cost per room. Subjective measures are maintaining the quality of hotel properties and the quality of customer service provided.The question that now remains to be addressed is how are the objectives to be formulated. The next subsection takes up this issue.

2.3.2e How are Objectives Formulated?

From the foregoing discussion, it is clear that organisations need to set objectives at differe nt levels, of various types and for different time periods, and that such objectives should possess certain desirable characteristics and should resolve certain issues before being used. The question that we now face is: how are objectives formulated? For an answer, we shall consider the factors that have to be taken into account for the formulation of objectives.

Glueck identifies four factors that should be considered for objective-setting. These factors are: *the forces in the environment, realities of an enterprise's resources and internal power relationships, the value system of top executives, and awareness by management of the past objectives of the firm*. Here is a description of each of these factors.

1. *The forces in the environment*. These take into account all the interests – sometimes coinciding but often conflicting – of the different stakeholders in an organisation. Each group of stakeholders, whether they are company employees, customers, or the government, put forward a set of claims or have expectations that have to be considered in setting objectives. It is important to note that the interests of various stakeholders may change from time to time, necessitating a corresponding shift in the importance attached to different objectives.
2. *Realities of enterprise's resources and internal power relationships*. This means that objective are dependent on the resource capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resources, both material and human, place restrictions on the objective-achieving capability of the organisation and these have to be considered in order to set realistic objectives. Internal power relationships have an impact on objectives in different ways. A dominant group of strategists such as the board of directors, or an individual strategist, such as, a chief executive, may wield considerable power to set objectives in consonance with their respective views. Again, since power configurations within a firm are continually changing, the relative importance attached to different objectives may also vary over a period of time.
3. *The value system of the top executives*. This has an impact on the corporate philosophy that organisations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or

undesirable. This applies to the choice of objectives too. for example, entrepreneurial values may result in prominence being given to profit objectives while a philanthropic attitude and values of social responsibility may lead to the setting of socially- oriented objectives.

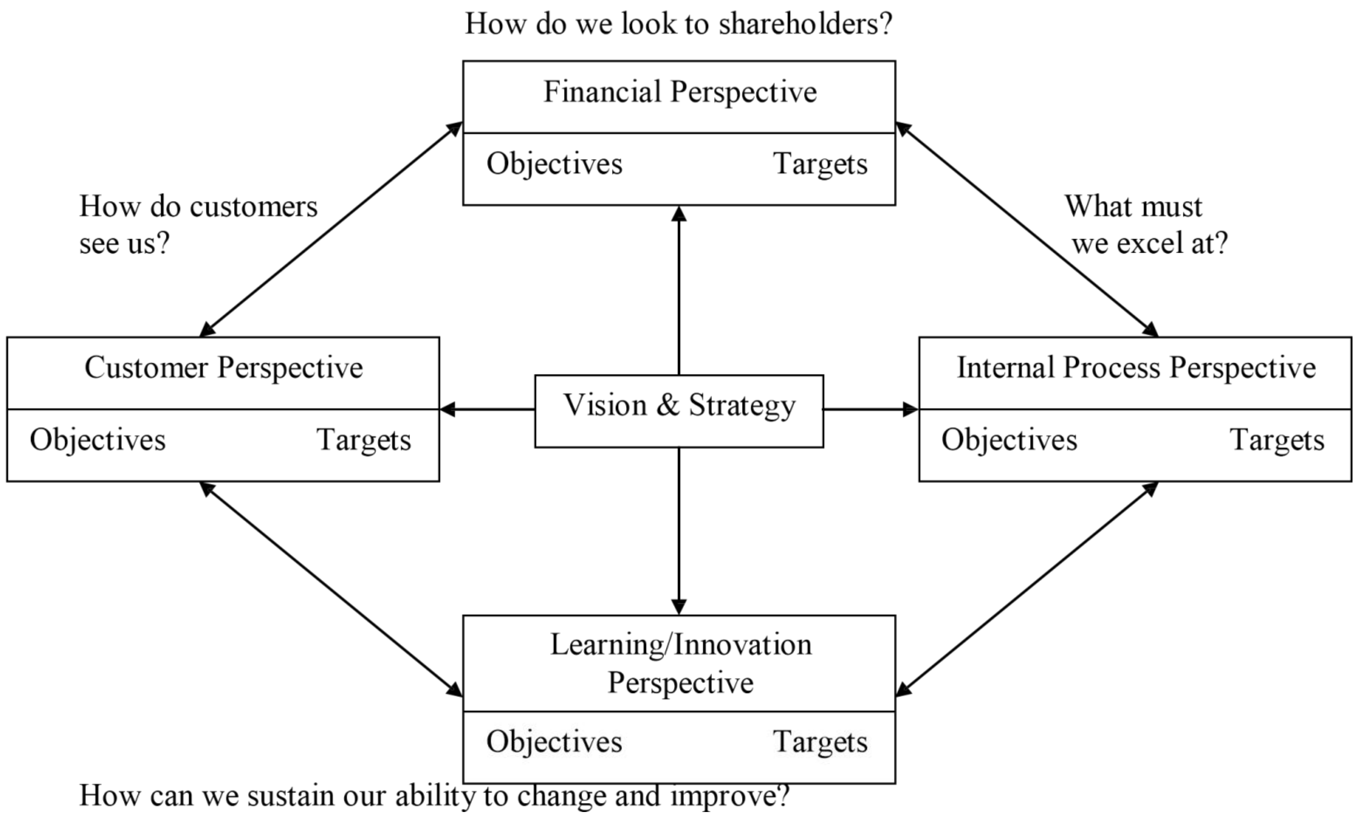
4. *Awareness by management*. Awareness of the past objectives and development of a firm leads to a choice of objectives that had been emphasized in the past due to different reasons. For instance, a dominant chief executive lays down a set of objectives and the organisation continues to follow it, or deviates marginally from it in the future. This happens because organisations do not depart radically from the paths that they had been following in the recent past. Whatever changes occur in their choice of objectives take place incrementally in an adaptive manner.

5. Keeping in view the four factors described above, we observe that objective-setting is a complex task which is based on consensus-building and has no precise beginning or end. Vision and mission provide a _common thread‘ to bind together the different aspects of the objective-setting process by providing a specific direction along which an organisation can move.

2.3.2f Balanced Scorecard Approach to Objectives-setting

The performance management system called balanced scorecard, developed by Robert S. Kaplan and David Norton of Harvard Business School, seeks to do away with the undue emphasis on short-term financial objectives and seeks to improve organizational performance by focusing attention on measuring and managing a wide range of non-financial, operational objectives. Later, the system application was enlarged to include its usage as a comprehensive strategic planning technique. In doing so, the balance scorecard approach advocates a top-down approach to performance management, starting with strategic intent being expressed through the organisation, down to operationally relevant targets.

Figure shows the Balance Scorecard Model



Source: Based on R.S. Kaplan and D.P. Norton, The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan and D.P. Norton, The Balanced Scorecard: Translating Strategies into Action, Boston, Harvard Business School Press, 1996.

The balance scorecard model requires an evaluation of organizational performance from four different perspectives.

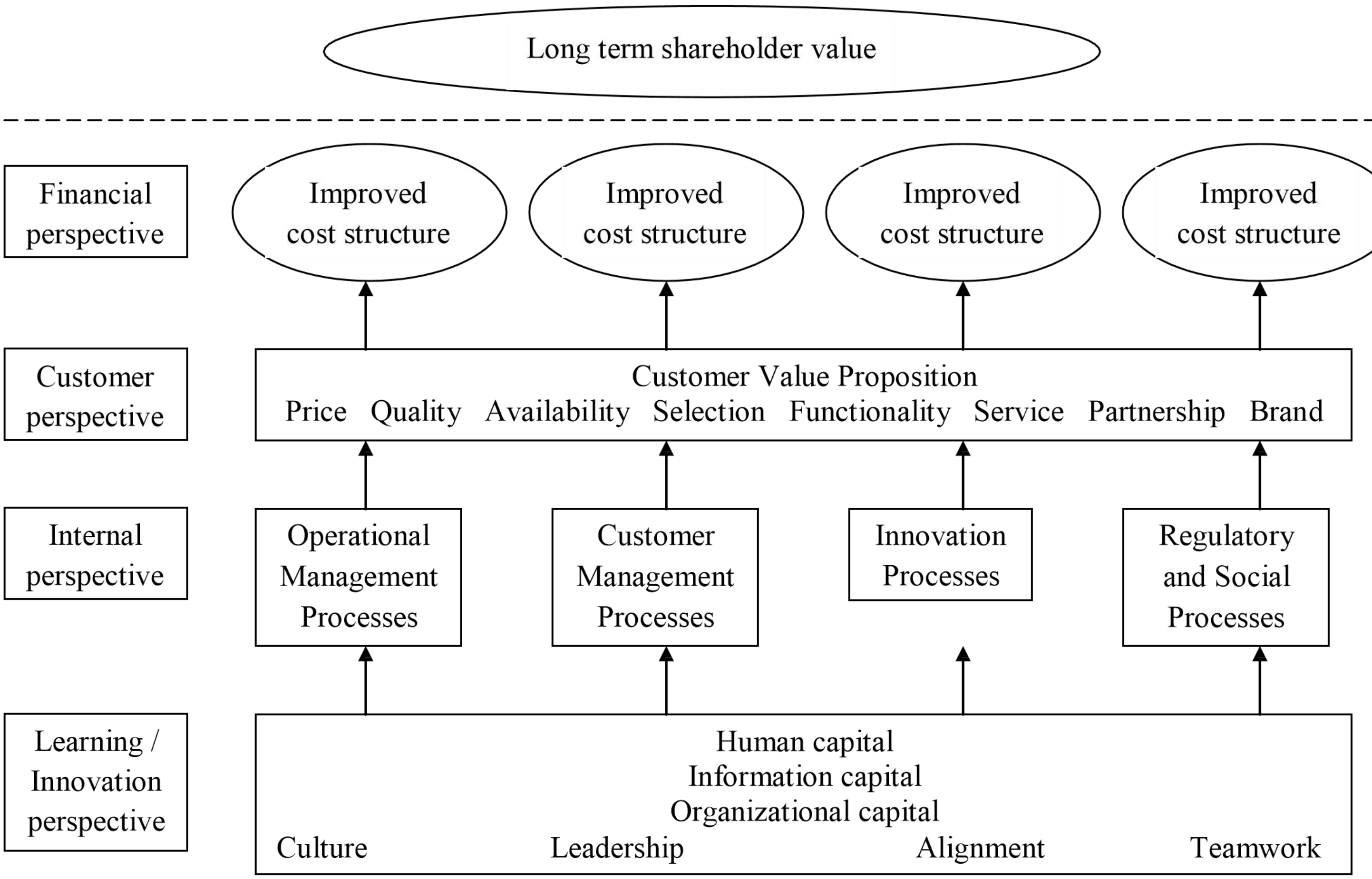
Financial Perspective. This perspective considers the financial measures arising from the strategic intent of the organisation. Examples of such measures are revenues, earnings, return on capital and cash flow.

Customer Perspective. This perspective measures the ability of the organisation to provide quality goods and services, effective delivery and overall customer satisfaction. Examples of such measures are market share, customer satisfaction measures and customer loyalty.

Internal Businesses Perspective. Internal business processes are the mechanisms through which performance expectations are achieved. The internal business perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organizational objectives and customers expectations, organisations must identify the key business processes at which they must excel. Examples of such measures are productivity indices, quality measures and efficiency.

Learning and Growth Perspective. This perspective focuses on the ability of the organisation to manage its businesses and adapt to change. In order to face the challenges of changes in the environment and customer expectations, organisations take on new responsibilities that require its employees to develop new skills and capabilities. Examples of such measures are morale, knowledge, employee turnover, usage of best practices, share of revenue from new products and employee suggestions. Kaplan and Norton used the technique of strategy maps that provide a visual representation of the organisation's strategy. In such maps, the four perspectives were connected to each other in a _cause and effect' fashion, thus making clear the relationship of all the strategic objectives to the strategic intent of the organisation. A typical strategic map is shown in the figure below.

Figure showing a typical strategy map



Source: Based on R.S. Kaplan and D.P. Norton. The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan and D.P. Norton, The Balanced Scorecard: Translating Strategies into Action, Boston, Harvard Business School Press, 1996.

The purpose here is to note that objective-setting can use the balanced scorecard approach. The four perspectives above can help an organisation to set objectives. The utility of the balanced scorecard approach lies in the prioritisation of key strategic objectives that can be allocated to each of these four perspectives and the identification of associated measures that can be used to evaluate organizational progress in meeting the objectives.

In practice, the balanced scorecard approach works something like this:

1. The development of the scorecard begins with the establishment of the organisation's strategic intent, including the vision and mission.

2. Next, the design of the balanced scorecard is determined by identifying the specific measures related to the four perspectives.

3. The following step involves mapping the strategy through the identification of organizational activities that are derived from the strategies. For example, achieving financial growth may be expressed in terms of sales growth and revenue growth.

4. In the final stage, metrics that can be used to accurately measure the performance of the organisation in the specific areas are established. In the example above, metrics for revenue growth may be expressed in terms of sales to new customers, sales of new services or products or entry into new markets.

2.3.3 Critical Success Factors

Many of us occasionally ask ourselves questions like: What do we need to do in order to be successful in our studies? our career? our profession? our marriage? Similarly, managers too are concerned about identifying those critical factors which will lead to success for their organisations. Critical success factors (CSFs), sometimes referred to as strategic factors or key factors for success, are those which are crucial for organisational success. When strategists consciously look for such factors and take them into consideration for strategic management, they are likely to be more successful, while putting in relatively lesser effort.

Some of the important points that can be used in objective-setting as well as for exercising a strategic choice relative to critical success factors are:

1. A set of CSFs results from asking the question: what do we need to do in order to be successful in a particular context?

2. CSFs are based on practical logic, heuristic, or a rule of thumb rather than an elaborate procedure or an esoteric theoretical model.

3. CSFs are the result of long years of managerial experience, which leads to the development of intuition, judgement and a hunch that can be used in strategic decision-making.

4. An analysis of what relevant CSFs operate in a particular context could be based on the manager‘s statements, expert opinions and organisational success stories.

5. CSFs could also be generated internally through creative techniques such as brainstorming.

6. The use of CSFs in objective-setting and strategic choice distinguishes the successful organisations from the unsuccessful ones.

7. CSFs are used to pinpoint the key result areas, determining objectives in those areas, and devising measures of performance for judging the objective-achieving capability of any organisation.

Having seen what CSFs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. This is the subject matter of the last subsection in this unit. The binding together of the different levels of the hierarchy of strategic intent is facilitated by techniques such as the balanced scorecard that we would discuss next.

CSFs need key performance indicators in order to be measured.

2.3.4 Key Performance Indicators (KPIs)

Performance indicators are well understood as being metrics or measures in terms of which performance is measured, evaluated or compared. Key performance indicators (KPIs) are the metrics or measures in terms of which the critical success factors are evaluated. What makes the KPIs key‘ is their relationship to the CSFs and ultimately, to the vision of the organisation. An organisation might have the vision _to be the most profitable company in our industry‘. For making this vision operational, it needs to determine KPIs such as pre-tax profit or shareholder equity that measure profitability. In the case of this organisation, the percent of profit contributed to community causes will not be a relevant KPI. For an organisation, that states its vision ‗to be a responsible corporate citizen' the KPI of percent of profit contributed to community causes is appropriate.

Identification of which KPIs to use is important. A shoe manufacturing company that considers high manufacturing quality or cost efficiency as its critical success factors, has to think of metrics in terms of which it will measure these parameters. High manufacturing quality will have to be expressed in terms of an indicator such as recall rate after delivery, product reject rate, on-time delivery or number of complaints. The company has to determine which combination of metrics it would use to determine whether it is successful. KPIs thus help to quantify the critical success factors.

Selecting the right measures is vital for effectiveness. Even more importantly, the metrics must be built into a performance measurement system that allows individuals and groups to understand how their behaviours and activities are fulfilling the overall corporate goals. If a KPI is going to be of any value, there must be a way to accurately define and measure it. To Generate More Repeat Customers' may apparently seem to be impressive as an objective, but it could be inappropriate as a KPI without some way to distinguish between new and repeat customers. To Be The Most Popular Company' may not work if there is no way to measure the company's popularity or compare it to its competitors. If a company wishes to be an employer of choice' then a relevant KPI might be the number of voluntary resignations divided by the total number of employees at the beginning of the measurement period'. To make this KPI practical, the human resource management information system should be able to provide information required to measure on the basis of this metrics, otherwise the KPI itself becomes redundant.

Benefits of KPIs

KPIs have gained importance as well as popularity in the corporate world as they have several benefits. The major benefit in using KPIs is to help an organisation define and measure progress toward its objectives. KPIs give everyone in the organisation a clear picture of what is important and what they need to do to accomplish objectives. They are a helpful tool for organisations to motivate their employees towards achievement of its objectives. KPIs are applied in business intelligence to gauge business trends. Developments in the areas of business intelligence and business performance management are enabling the development of sophisticated information technology based tools such as dashboards that show organizational performance at a glance, in the form of visual charts and videos. KPIs can also be used for benchmarking the performance of an organisation over time and to compare its performance with rivals in the same industry.

Having seen what CSFs and KPIs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. An explicit structuring of the hierarchy of a strategic intent has important implications for strategic management. First, it serves as a charter of aims the organisation plans to achieve. Second, it is helpful in laying down the aims of different subsystems within an organisation. Third, it is a powerful means of communicating the organizational intent down the line. And, lastly, it ensures the creation of a result-oriented organizational system set to attain the mission and realise the vision of the organisation.

With the hierarchy of strategic intent, the organisation knows the answer to the question: What is to be achieved? The next important question is: What are the means to be adopted in order to realise the intent? The next part of this course will answer this question.

Summary – business models are often expressed in the form of a question: how does the organisation make money? Strategic result in choices; a business model can be used to help analyse and communicate these strategic choices. Business models are down-to-earth prescriptions to implement the strategies.

Self Assessment Exercise

1. Discuss five (5) important points that can be used in objective-setting as well as for exercising a strategic choice relative to critical success factors.
2. Explain the benefits derivable from adopting KPI

2.4 SUMMARY

Organisational performance is judged on the basis of key result areas which depend on an analysis of critical success factors for any organisation. The various components of strategic intent, as we know, are set at different levels. When placed at different levels and linked to each other, strategic intent takes the shape of a hierarchy. In this unit, we have defined the concept strategic intent; differentiated between vision, mission statement and business definition; explained product/service concept; distinguished between goals and objectives; discussed critical success factors. And explained the concept key performance indicators (KPIs).

2.5 REFERENCES/FURTHER READINGS

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2.6 POSSIBLE ANSWERS TO SAEs

Some of the important points that can be used in objective-setting as well as for exercising a strategic choice relative to critical success factors are:

- A set of CSFs results from asking the question: what do we need to do in order to be successful in a particular context?

- CSFs are based on practical logic, heuristic, or a rule of thumb rather than an elaborate procedure or an esoteric theoretical model.
- CSFs are the result of long years of managerial experience, which leads to the development of intuition, judgement and a hunch that can be used in strategic decision-making.
- An analysis of what relevant CSFs operate in a particular context could be based on the manager's statements, expert opinions and organisational success stories.
- CSFs could also be generated internally through creative techniques such as brainstorming.

2. The major benefit in using KPIs is to help an organisation define and measure progress toward its objectives.

- KPIs give everyone in the organisation a clear picture of what is important and what they need to do to accomplish objectives.
- They are a helpful tool for organisations to motivate their employees towards achievement of its objectives.
- KPIs are applied in business intelligence to gauge business trends. Developments in the areas of business intelligence and business performance management are enabling the development of sophisticated information technology based tools such as dashboards that show organizational performance at a glance, in the form of visual charts and videos.
- KPIs can also be used for benchmarking the performance of an organisation over time and to compare its performance with rivals in the same industry.

UNIT 3 CONCEPT OF ENVIRONMENT

Unit Structure

3.1 Introduction
3.2 Learning Outcomes
3.3 Concept of environment
3.3.1 The Environment
3.3.2 External and Internal Environment
3.3.3 Environmental analysis using SWOT
3.3.4 General and Relevant Environment
3.4 SUMMARY
3.5 References/Further Readings
3.6 Possible Answers to SAEs

3.1 INTRODUCTION

In this unit, we shall examine the environment, external and internal environment,\and the environmental analysis using SWOT; and the general and relevant environment.

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3.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- define the concept environment and its characteristics as it relates to business organisation;
- distinguish between external and internal environment;
- discuss SWOT analysis;
- differentiate between general and relevant environment;
- define and explain the concept environment sectors;
- Discuss environmental scanning and an appraisal of the Nigerian business environment.

3.3 CONCEPT OF ENVIRONMENT

The environment in which an organization exists could be broadly divided into two parts: the external and the internal environment. In this unit, we shall deal with the environment, external and internal environment, and the environmental analysis using SWOT; and the general and relevant environment. We shall start with attaining an understanding of the concept of environment. This will be done through: a description of four important characteristics of the environment, dividing the environment into its external and internal parts, observing how systematic approach like SWOT analysis can help in environmental appraisal, and classifying the external environment into two parts – the general and the relevant environment. We will now discuss how the external environment – especially that part which is more relevant to an organization – can be divided into different components. For the purpose of understanding and analysis, we have discussed eight components of the external environment: the market, technological, supplier, economic, regulatory, political, socio-cultural, and international environment. In the third section of this unit, we dealt with environmental scanning – the process through which strategists monitor the external environment and collect information for strategy formulation, and the methods and techniques for environmental scanning. Lastly, we describe the manner in which environmental appraisal takes place. We have pointed out the various factors that affect environmental scanning, how environmental issues can be identified, and the way in which environmental appraisal can be structured.

3.3.The Environment

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it (Aluko et al., 2004). Since the environment influences an organization in multitudinous ways, it is of crucial importance to understand it. The concept of environment can be understood by looking at some of its characteristics.

Characteristics of Environment

Business environment (or simply environment) exhibits many characteristics. Some of the important, and obvious, characteristics are briefly described here.

1. *Environment is complex*. The environment consists of a number of factors, events, conditions, and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex phenomenon relatively easier to understand in parts but difficult to grasp in its totality.

2. *Environment is dynamic*. The environment is constantly changing in nature. Due to the many and varied influences operating; there is dynamism in the environment, causing it to change its shape and character continuously.

3. *Environment is multi*-faceted. What shape and character an environment will assume depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is seen frequently when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

4. *Environment has a far-reaching impact*. The environment has a far-reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization in several different ways.

Since the environment is complex, dynamic, multi-faceted, and has a far-reaching impact, dividing it into external and internal components enables us to understand it better. But before we do that it is important to understand that strategic management is becoming increasingly conscious of the nature that affects organisations and environment. The traditional approach to strategic management has led to an emphasis on control, order, and predictability. But these are antithetical to the concept of organisations and environment as we now realize. The organisation and the environment are, in reality, more unpredictable, uncertain, and non-linear. The exhibit below presents an overview of the chaos theory and its application to strategic management.

Exhibit Chaos Theory in Strategic Management

Chaos theory, as proposed by Edward Lorenz and Mitchel Feigenbaum, postulates that at the root of all complex systems – whether they are organisations or the environment – lies a set of rules that provide a dynamic order to the surface complexity. These systems cannot be considered as linear systems where a simple cause-and-effect model can explain the behaviour of these systems. Rather, these systems are non -linear and dynamic in nature. Any change that takes place in the non-linear systems is chaotic. Chaos theory uses mathematical models, known as chaotic models, to interpret the process of non-linear and dynamic systems. The phenomenon of chaos is observed in a wide variety of processes – biological, sociological, economic, and meteorological. The applications of chaos theory in management may range from predicting market behaviour, financial forecasting, and anticipating competitive strategies. Organisations and environments, as these are also dynamic, ever- changing systems, display some of the characteristics of the living ecosystems making it possible to ap0ply the tenets of chaos theory to them.

While suggesting the use of chaos theory to strategic management, D. Levy gives the following reasons:

- Long-term planning is difficult;
- Industries do not reach a stable equilibrium;
- Dramatic changes can occur unexpectedly;
- Short-term forecasts and predictions of patterns can be made; Guidelines are needed to cope with complexity and uncertainty.

The lesson that students of strategic management need to learn is that, in a dynamic environment, it is suicidal for organisations to remain static. They have to forego keeping an internal orientation and attempt to change dynamically as the environment changes.

Source: D. Levy, ―Chaos theory and strategy: Theory, application and managerial implications‖, Strategic Management Journal, Vol. 13, 1992, pp. 111-125; D.N. Chorafas: Chaos Theory in the Financial Markets, Irwin, Chicago, 1994, and R.T. Pascale, M. Millemann and L. Gioja, Surfing the Edge of Chaos: The Laws of Nature and the New Laws of Business, Crown Business, 2000.

Let us go ahead to grapple with the complexity of the environment by dividing it into external and internal environments.

❖ **Discuss the concept of environment and its features**.

3.3.2 External and Internal Environment

The external environment includes all the factors outside the organisation which provide opportunities or pose threats to the organisation. The internal environment refers to all the factors within an organisation which impart strengths or cause weaknesses of a strategic nature.

The environment in which an organisation exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The four environmental influences could be described as follows:

1. *An opportunity* is a favourable condition in the organisation's environment which enables it to consolidate and strengthen its position. An example of an opportunity is a growing demand for the products or services that a company provides.
2. *A threat* is an unfavourable condition in the organisation's environment which creates a risk for, or causing damage to the organisation. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.
3. *Strength* is an inherent capacity which an organisation can use to gain strategic advantage. An example of a strength is superior research and development skills which can be used for new product development so that the company can gain a strategic advantage.
4. *A weakness* is an inherent limitation or constraint which creates strategic disadvantages. An example of a weakness is overdependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of opportunities and threats, and the internal environment, in terms of strengths and weaknesses, is crucial for the existence, growth, and profitability of any organisation. A systematic approach to understanding the environment is the SWOT analysis.

1. What do you understand by weakness and strength in relation to an organisation?
2. Discuss the concept of environment and its features.

3.3.3 Environmental analysis using SWOT

SWOT analysis, evolved during the 1960s at Stanford Research Institute, is a very popular strategic planning technique having applications in many areas including management. Organisations perform a SWOT analysis to understand their internal and external environments. Business firms undertake SWOT analysis to understand their external and internal environments. SWOT, which is the acronym for strengths, weaknesses, opportunities and threats, is also known as WOTS-UP or TOWS analysis. Through such an analysis, the strengths and weaknesses existing within an organisation can be matched with the opportunities and threats operating in the environment so that an effective strategic can be formulated. An effective organizational strategy, therefore, is one that capitalizes on the opportunities through the use of strengths and neutralizes the threats by minimizing the impact on weaknesses, to achieve predetermined objectives. A simple application of the SWOT analysis technique involves these steps:

1. Setting the objectives of the organisation or its unit;
2. Identifying its strengths, weaknesses, opportunities and threats;
3. Asking four questions:
   (a) How do we maximize our strengths?
   (b) How do we minimize our weaknesses?
   (c) How do we capitalize on the opportunities in our external environment? (d) How do we protect ourselves from threats in our external environment? 4. Recommending strategies that will optimize the answers from the four questions.

The SWOT analysis is usually done with the help of a template in the form of a four-cell matrix, each cell of the matrix representing the strengths, weaknesses, opportunities and threats. The analysis for preparing the SWOT matrix could be done by a group of managers in a workshop session. The session could use the brainstorming technique for generating ideas about the SWOT factors. A typical SWOT analysis matrix for a hypothetical organisation is shown in the figure below.

Figure showing a typical SWOT matrix

STRENGTHS	WEAKNESSES
Favourable location Excellent distribution network ISO 9000 quality certification Established R & D Centre Good management reputation	Uncertain cash flow Weak management information system Absence of strong USP for major product lines Low worker commitment
OPPORTUNITIES	**THREATS**
Favourable industry trends Low technology options available Possibility of niche target market Availability of reliable business partners	Unfavourable political environment Weak management information system Uncertain competitors' intentions Lack of sustainable financial backing

SWOT analysis has several benefits, among the major being:

- Simple to use;
- Flexible and can be adapted to varying situations;
- Leads to clarification of issues;
- Development of goal-oriented alternatives; Useful as a starting point for strategic analysis.

The following could be the pitfalls of using the SWOT analysis indiscriminately:

- Simplicity of use may turn to be simplistic by trivializing the reality that may be more complex than represented in the SWOT matrices.
- May result in just compiling lists rather than think about what is really important for achieving objectives.
- Usually reflects an evaluator's position and viewpoint that can be misinterpreted to justify a previously decided course of action, rather than be used as a means to open new possibilities.
- Chances exist where strengths may be confused with opportunities or weaknesses with threats.
- May encourage organisations to take a lazy course of action of looking for strengths that match opportunities rather than developing new strengths that could match the emerging opportunities.

The process of strategy formulation starts with, and critically depends on the appraisal of the external and internal environment of an organisation. In this unit, we will attempt to understand the external environment and, in the next unit, we will take up the internal environment for discussion.

3.3.4 General and Relevant Environment

As we said earlier, the external environment consists of all those factors which provide opportunities or post threats to an organisation. In a wider sense, the external environment encompasses a variety of factors, like: international, national and local economy; social changes; demographic variables; political systems; technology; attitude towards business; energy sources; raw materials and other resources; and many other macro-level factors. We could designate such a wider perception of the environment as the general environment. All organisations, in some way or the other, are concerned about the general environment. But the immediate concerns of any organisation are confined to just a part of the general environment which is of high strategic relevance to the organisation. This part of the environment could be termed as the immediately relevant environment, or simply, the relevant environment. The conception of the business environment of an organisation is presented in the diagram below.

Diagram showing the business environment of an organisation

A conscious identification of the relevant environment enables an organisation to focus its attention on those factors which are intimately related to its mission, purpose, objectives, and strategies. Depending on its perception of the relevant environment, an organisation takes into account those influences in its surrounding which have an immediate impact on its strategic management process. Having identified its relevant environment, an organisation can systematically appraise it and incorporate the results of such an appraisal in strategic planning. In order to cope with the complexity of the environment, it is feasible to divide it into different components or sectors.

3.4 SUMMARY

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it (Aluko et al., 2004). Since the environment influences an organization in multitudinous ways, it is of crucial importance to understand it. The concept of environment can be understood by looking at some of its characteristics. Characteristics of environment include: *Environment is complex*. *Environment is dynamic*. *Environment is multi*-faceted. *Environment has a far-reaching impact*. The environment has a far-reaching impact on organizations. Business firms undertake SWOT analysis to understand their external and internal environments. Through such an analysis, the strengths and weaknesses existing within an organisation can be matched with the opportunities and threats operating in the environment so that an effective strategic can be formulated. A simple application of the SWOT analysis technique involves these steps: Setting the objectives of the organisation or its unit; Identifying its strengths, weaknesses, opportunities and threats; Asking four questions: How do we maximize our strengths? How do we minimize our weaknesses? How do we capitalize on the opportunities in our external environment? (d) How do we protect ourselves from threats in our external environment?

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3.6 POSSIBLE ANSWERS TO SAEs

1. A systematic approach to understanding the environment is the SWOT (strengths, weaknesses, opportunities and threats) analysis. *Strength* is an inherent capacity which an organisation can use to gain strategic advantage. An example of a strength is superior research and development skills which can be used for new product development so that the company can gain a strategic advantage. *A weakness* is an inherent limitation or constraint which creates strategic disadvantages. An example of a weakness is overdependence on a single product line, which is potentially risky for a company in times of crisis. *An opportunity* is a favourable condition in the organisation's environment which enables it to consolidate and strengthen its position. An example of an opportunity is a growing demand for the products or services that a company provides.*A threat* is an unfavourable condition in the organisation's environment which creates a risk for, or causing damage to the organisation. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.

2. Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it.

In terms of features of an environment; the *environment is complex*. The environment consists of a number of factors, events, conditions, and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex phenomenon relatively easier to understand in parts but difficult to grasp in its totality.

Environment is dynamic. The environment is constantly changing in nature. Due to the many and varied influences operating; there is dynamism in the environment, causing it to change its shape and character continuously.

Environment is multi-faceted. What shape and character an environment will assume depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is seen frequently when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

Environment has a far-reaching impact. The environment has a far-reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization in several different ways.

UNIT 4 ENVIRONMENTAL SCANNING AND APPRAISAL

Unit Structure

4.1 Introduction

4.2 Learning Outcomes

4. 3 Environmental scanning and appraisal

4.3.1 Environmental Sectors

4.3.2 Environmental Scanning

4.3.3 Factors affecting Environmental Appraisal

4.3.4 Appraising the Nigerian Business Environment

4.4 Summary

4.5 References/Further Readings

4.6 Possible Answers to SAEs

4.1 INTRODUCTION

In this unit, we shall examine environmental scanning and appraisal and this study will take us through to the concept of environment, classification of environment, factors affecting environmental appraisal as well as an appraisal of the Nigerian business environment.

4.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- define the concept environment and its characteristics as it relates to business organisation;
- distinguish between external and internal environment;
- differentiate between general and relevant environment;
- Discuss environmental scanning and an appraisal of the Nigerian business environment.

4.3 ENVIRONMENTAL SCANNING AND APPRAISAL

4.3.1 Environmental Sectors

Aguilar () evolved a categorisation scheme for grouping different kinds of information related to the environment into sectors such as customers, competitors, suppliers, technology; social, political, economic conditions, etc. Keegan suggests that the sector categorisation should be such that these sectors must be exhaustive, i.e., each item of information should find a place in one of the sectors; the sectors must be mutually exclusive so that any given item of information must belong to one of the category; and the classification must be functional and relate to actual scanning practices. There are several sectors into which the external/general environment could be divided into. But, in a given context, there are certain sectors that merit greater attention than the others.

The classification of the general environment into sectors helps an organisation to cope with its complexity, to comprehend the difference influences operating in the environment, and to relate the environmental changes to its strategic management process. Different bases for classification have been adopted by different authors but the basis itself is not as important as the fact that all the relevant factors in the environment have to be considered. Depending on a variety of factors, such as, the size of the organisation, the level and scope of activities, the geographical spread of markets, the nature of the product, the type of technology used, and managerial philosophy, an organisation may divide its environment into sectors capable of being analysed conveniently. In this unit we are using an eight-category classification of the environment. These eight sectors of the environment are: market, technological, supplier, economic, regulatory, political, socio - cultural, and international sectors of environment. We will now take up each of these sectors for discussion.

4.3.2a. Market Environment

The market environment consists of the factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business. Some of the important factors and influences operating in the market environment are as follows:

1. Customer or client factors, such as, the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.
2. Product factors, such as the demand, image, features, utility, function, design, lifecycle, price, promotion, distribution, differentiation, and the availability of substitutes of products or services.

3. Marketing intermediary factors, such as, levels and quality of customer service, middlemen, distribution channels, logistics, costs, delivery systems, and financial intermediaries.
4. Competitor-related factors, such as, the different types of competitors, entry and exit of major competitors, nature of competition, and the relative strategic position of major competitors.

The market environment depends largely on the type of the industrial structure. In monopolies and oligopolies, the concern for the market environment is lesser than what it is in the face of pure competition. In a controlled economy, like that of India, public utilities like electricity boards and most public sector companies such as petrol and cooking gas companies operated in a protected environment. Here are several examples to show how the market environment affects, and is taken into consideration by the companies.

- Growing international trade, massive investment in infrastructure, increasing levels of disposable income and strong manufacturing and retail sectors have combined to produced a dynamic market environment. Customers and their needs have been featuring more prominently in the business strategies in several industries. Other marketing-related actions include investments in retail networks, increasing opportunities for customer interactions, improving customer service, customer-focused advertising, demonstrating a more visible presence and improving the overall customer experience.

- There is a distinct trend of growing preference for natural products around the world and this trend is also prevalent in Nigeria. Eco-friendly products whether in agriculture, clothing, cosmetics or healthcare are seen as better substitutes for synthetic products.

- Nigerians are paying increasingly greater attention to personal grooming. Changing lifestyles, increasing disposable incomes, availability of local and internal brands, and influence of satellite television and better awareness of global brands are some of the major factors that have led to an increasing demand for cosmetics. The cosmetics and personal care industry has been growing a t a high rate during the last few years. With the demand for cosmetics on the rise and opening of the market to foreign companies, there is increasing competition offering greater product choice and availability to the fashion-conscious Nigerian women and men in urban as well as rural areas.

- Sales promotion, advertising, and market research, all of which had not occupied an important position in the marketing policies of companies have now assumed a greater significance. Distribution has been strengthened so that customers are not put to inconvenience. After-sales services, especially for consumer durables, have become a significant component of the marketing strategies of many companies.

The market environment is one of the most dynamic sectors of the environment. Nigerian marketers are facing a daunting challenge in coming to terms with the dynamism and the ever - changing nature of the Nigerian markets.

4.3.2b Technological Environment

The technological environment consists of those factors that are related to the knowledge applied and the materials and machines used in the production of goods and services which have an impact on the business of an organisation. Some of the important factors and influences operating in the technological environment are as follows:

1. Sources of technology, like company sources, external sources, and foreign sources; cost of technology acquisition; collaboration in and transfer of technology.
2. Technology development, stages of development, change and rate of change of technology, and research and development.
3. Impact of technology on human beings, the man-machine system, and the environmental effects of technology.
4. Communication and infrastructural technology in environment.

Strategists can ill afford to ignore the technological environment, as technology, besides customer groups and customer functions, defines the business of their organisations. According to Boris Petrov, there are three strategic implications of technological change: it can change relative competitive cost position within a business, it can create new markets and new business segments, and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.

4.3.2c Supplier Environment

The supplier environment consists of factors related to the cost, reliability, and availability of the factors of production or service that have an impact on the business of an organisation. Some of the important factors and influences operating in the supplier environment are as follows:

1. Cost, availability and continuity of supply of raw materials, subassemblies, parts and components.
2. Cost and availability of finance for implementing plans and projects.
3. Cost, reliability and availability of energy used in production.
4. Cost, availability and dependability of human resources.
5. Cost, availability and existence of sources and means for the supply of plants and machinery, spare parts and after-sales service.
6. Infrastructural support and ease of availability of the different factors of production, the bargaining power of suppliers, and the existence of substitutes.

The supplier environment occupies a dominant position in strategy formulation because of the fact that Nigeria is a developing country with problems of scarcity of capital. Unlike some of the western nations and Japan, the reliability of supply is very low causing companies to devote a lot of attention and energy to maintain the continuity of supply. Almost all annual company reports lament the shortage of power and cite the high costs of petroleum products as the reason for low profitability.

4.3.2d Economic Environment

The economic environment consists of macro-level factors related to the means of production and distribution of wealth which have an impact on the business of an organisation. Some of the important factors and influences operating in the economic environment are:

1. The economic stage at which a country exists at a given point of time.
2. The economic structure adopted, such as, a capitalistic, socialistic or mixed economy.
3. Economic policies, such as, industrial, monetary and fiscal policies.

4. Economic planning, such as, five-year plans, annual budgets, and so on.
5. Economic indices like national income, distribution of income, rate and growth of gross national product (GNP), per capita income, disposable personal income, rate of savings and investments, value of exports and imports, the balance of payments, etc. and so on.
6. Infrastructural factors, such as, financial institutions, banks, modes of transportation, communication facilities, and so on.

Strategists are acutely aware of the importance and impact of the economic environment on their organisations. Almost all annual company reports presented by the chairman devote attention to the general economic environment prevailing in the country and an assessment of its impact on their companies.

4.3.2e Regulatory Environment

The regulatory environment consists of factors related to planning, promotion, and regulation of economic activities by the government that have an impact on the business of an organisation. Some of the important factors and influences operating in the regulatory environment are as follows:

- The constitutional framework, directive principles, fundamental rights, and division of legislative powers between central and state governments;
- Policies related to licensing, monopolies, foreign investment, and financing of industries;
- Policies related to distribution and pricing, and their control;
- Policies related to imports and exports;
- Other policies related to the public sector, small-scale industries, sick industries, development of backward areas, control of environmental pollution, and consumer protection.

4.3.2f Political Environment

The political environment consists of factors related to the management of public affairs and their impact on the business of an organisation. Some of the important factors and influences operating in the political environment:

1. The political system and its features, like the nature of the political system, ideological forces, political parties and centres of power;
2. The political structure, its goals and stability;
3. Political processes, like the operation of the party system, elections, funding of elections, and legislation with respect to economic and industrial promotion, and regulation;
4. Political philosophy, government‘s role in business, and its policies and interventions in economic and business development.

4.3.2g Socio-cultural Environment

The socio-cultural environment consists of factors related to human relationships within a society; the development, forms and functions of such a relationship; and the learnt and shared behaviour of groups of human beings which have a bearing on the business of an organisation. Some of the important factors and influences operating in the social environment are:

1. Demographic characteristics, such as, population, its density and distribution, changes in population and age composition, inter-state migration and rural-urban mobility, and income distribution;
2. Socio-cultural concerns such as environmental pollution, corruption, use of mass media, the role of business in society, and consumerism;
3. Socio-cultural attitudes and values, such as, expectation of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism;
4. Family structure and changes in it, attitude towards and within the family, and family values;
5. The role and position of men, women, children, adolescents, and the aged in family and society;
6. Educational levels, awareness and consciousness of rights, the work ethic of the members of society, and the attitude towards minority and disadvantaged groups.

The socio-cultural environment primarily affects the strategic management process within the organisation in the areas of mission and objective-setting, and decisions related to products and markets. Strategists do not seem to be fully aware of the impact of the socio -cultural environment on business or they are so preoccupied with other environment influences that they do not give a high priority to socio-cultural factors. One reason for such a lack of interest could be the nature of socio-cultural influences. Socio-cultural changes take place very slowly and do not seem to have an immediate and direct impact on short-term strategic decisions.

4.3.2h International Environment

The international (or global) environment consists of all those factors that operate at the transnational, cross-cultural, and across-the-border level which have an impact on the business of an organisation. Some of the important factors and influences operating in the international environment are as below:

1. Globalisation, its process, content, and direction;
2. Global economic forces, organisations, blocs, and forums;
3. Global trade and commerce, its process and trends;
4. Global financial system, sources of financing, and accounting standards;
5. Geopolitical situation, equations, alliances, and strategic interests of nations;
6. Global demographic patterns and shifts;
7. Global human resource – institutions, availability, nature and quality of skills and expertise, mobility of labour and other skilled personnel;
8. Global information systems, communication networks, and media;
9. Global technological and quality systems and standards;
10. Global markets and competitiveness;
11. Global legal system, adjudication and arbitration mechanisms;
12. Globalisation of management and allied disciplines, and the diffusion of management techniques in industry.

The international environment constitutes a special class o f the environmental sector. While the preceding seven sectors are largely limited and exclusive in nature, the international environment encompasses all the sectors, albeit in the global context. What we mean to say is that while for instance, the political environment within a country could consist of certain factors related to national politics; the international environment would also have a geopolitical component including the political factors and influences at the global level.

This section of the unit has been devoted to a discussion of eight different sectors constituting the environment of an organisation. By no means is it claimed that our coverage of environmental sectors is all-encompassing. There are other sectors too which are worthy of consideration. For instance, the natural, physical or geographical environment, to which a passing reference has been made while discussing regulatory environment, is also of great concern to companies. Environmental protection is of paramount importance in a world where the issues of sustainable development have assumed great significance. The corporate sector is now required to adhere to a plethora of regulations for environmental protection and control of pollution. This is especially relevant for polluting industries, like, processing plants and refineries.

It should be noted that any classification of the environment into sectors is artificial and is meant solely to gain an understanding of the different environmental factors. In reality, the dividing line between the different sectors of the environment is hazy and there is a high level of interaction between variables belonging to various environmental sectors. For example, market demand, which is a part of the market environment, does not exist in isolation but is dependent on other factors, such as, the general state of the economy, buyer motivation or technical quality of the products.

Apart from the inter-sectoral interaction, there are complex inter-linkages existing among the factors in the same sector of the environment. To consider an example of such an inter-linkage, the technological environment has a number of factors and influences. Among these, collaboration in and transfer of technology affect the development of technology in a particular company and also in the industry as a whole. When the technological level is raised, it has repercussions on human beings and the man-machine system. There are also implications for the environmental effects of technology.

The intersectoral and intrasectoral nature of the environmental factors have to be considered while understanding the different environmental sectors. Strategists have to constantly monitor the environment and its different sectors for opportunities and threats that have, o r are likely to have, an impact on their organisations. Such a monitoring is done through environmental scanning.

Self-assessment 1

1. Discuss the different external environmental sectors of business and their sensitivities.
2. What do you understand by weakness and strength in relation to an organisation?

4.3.3 Environmental Scanning

In the two preceding sections, we have seen how organisation consists of a bewildering variety of factors. These factors (may also be termed as influences) are events, trends, issues, and expectations of different interested groups. These factors are explained below.

- Events are important and specific occurrences taking place in different environmental sectors;
- Trends are the general tendencies or the courses of action along which events take place;
- Issues are the current concerns that arise in response to events and trends;
- Expectations are the demands made by interested groups in the light of their concern for issues.

Environmental influences are a complex amalgam of the events, trends, issues and expectations that continually shape the business environment of an organisation. By monitoring the environment through environmental scanning, an organisation can consider the impact of the different events, trends, issues and expectations on its strategic management process. Since the environment facing

any organisation is complex and canning it is absolutely essential, strategists have to deal cautiously with the process of environmental scanning. It has to be done in a manner that unnecessary time and effort is not expended, while important factors are not ignored. For this to take place, it is important to devise an approach, or a combination of different approaches, to environmental scanning.

4.3.3a Approaches to Environmental Scanning

Kubr () has suggested three approaches which could be adopted for sorting out information for environmental scanning. We could call these approaches as systematic, ad-hoc and processed-form approaches.

1. *Systematic Approach*. Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organisation's activities, government policy statements pertaining to the organisation's business and industry, etc. could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

2. *Ad-hoc Approach*. For adopting this approach, the organisation uses information in a processed form, available from different sources both inside and outside the organisation. When an organisation uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form. Since environmental scanning is absolutely necessary for strategy formulation, organisations uses different practical combinations or approaches to monitor their relevant environments. These approaches may range from an informal assessment of the environmental factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and ad-hoc studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure in anticipation of changes in environmental factors and structured data collection and processing system may be used continuously.

3. *Processed-form Approach*. Between the two extremes of the informal and formal approaches, different stances adopted by organisations might exist, depending on varying degrees of concern for the environment. Such stances are situational. For example, when an issue- related decision has to be taken, a periodic monitoring of the environment may be done. Systematic and ad-hoc approaches can be used for the relevant environment of the organisation while the processed-

form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning, data collection is necessary for deriving information about environmental factors.

4.3.3b Sources of Information for Environmental Scanning

The various sources of information tapped for collecting data for environmental scanning could be classified in different ways. There could be formal and informal sources. Then there could be written as well as verbal sources. In terms of origin, data sources could be external and internal.

Given below are some of the important types of sources of information.

1. *Documentary or secondary sources* of information like different types of publications. These could be newspapers, magazines, journals, books, trade and industry association newsletters, government publications, annual reports of competitor companies, commercial databases, etc.
2. *Mass media* such as radio, television and Internet.
3. *Internal sources* like company files and documents, internal reports and memoranda, management information system, databases, company employees, sales staff, etc.
4. *External agencies* like customers, marketing intermediaries, suppliers, trade associations, government agencies, etc.
5. *Formal studies* done by employees, market research agencies, consultants and educational institutions
6. *Spying and surveillance* through ex-employees of competitors, industrial espionage agencies, or by planting ‗moles' in rival companies. The ethicality of these sources is doubtful but nevertheless, these are used and so need a mention.

Strategists use different information sources depending on their needs for environmental scanning. Government publications – though a rich and comprehensive source of information – usually are available after a considerable time lag. Private sources, though relevant and timely, are quite expensive to tap. Therefore, whenever a particular information source is used, it should be checked for its reliability, timeframe, methods of data collection and analysis used, form of presentation, etc.

4.3.3c Methods and Techniques Used for Environmental Scanning

The range of methods and techniques available for environmental scanning is wide. There are formal and systematic techniques as well as intuitive methods available. Strategists may choose from among these methods and techniques, those which suit their needs in terms of the quantity, quality, availability, timeliness, relevance and cost of environmental information.

Various authors have mentioned the methods and techniques used for environmental scanning. LeBell and Krasner outline nine groups of techniques: single-variable extrapolation, theoretical limit environments, dynamic modes, mapping, multivariable interaction analysis, unstructured expert opinion, structured expert opinion, structured inexpert opinion and unstructured inexpert speculation.

Fahey, King and Narayanan have included ten techniques in their survey of environmental scanning and forecasting in strategic planning. These are: scenario-writing, simulation, morphological analysis, project-program-budget system (PPBS), game theory, cross-impact analysis, field anomaly-relation, multi-echelon coordination and other forecasting techniques. Of particular interest is the emerging set of techniques based on the complexity theory that is a group of mathematical techniques designed to deal with the dynamic nature of real-world problems. Among the techniques are the applications of the mathematical concepts of fractals, fuzzy logic, genetic algorithms, swarm stimulation, Monte Carlo method and the more popular of them, the chaos theory.

Owing to the increasing complexity of the external environment, inevitably there have been attempts to utilise the emerging information technologies in assisting strategic planners in environmental scanning. Techniques based on artificial intelligence, neural networks, data mining and a knowledge-based system have been proposed. An example is that of a software agent-based system for continuous environmental surveillance. Another is Futurus, a business solutions-software by Satyam Computer Services, for designing and simulating future scenarios.

While many of the environmental techniques are based on statistical methods and increasingly, the use of sophisticated software in computer-assisted environmental scanning and forecasting, some of them, like scenario-writing, may not use statistical information but employ informed judgement and intuition to predict what the future is most likely to be, expressed in the form of a descriptive statement or report.

Process based techniques for environmental scanning have been proposed from time to time. For instance, a four-step technique called QUEST (quick environmental scanning technique), proposed by B. Nanus uses scenario writing by a team of strategists. Day and Schoemaker have proposed a seven-step process for developing peripheral vision that vigilant organisations should develop, based on the assumption that opportunities and threats often begin as weak signals from the periphery of the external environment hence Strategists have to be aware of the pitfalls of the environmental scanning process so as to use it judiciously.

4.3.3d Pitfalls in Environmental Scanning

Just like any other strategic planning technique, environmental scanning has its soft underbelly. We could enumerate at least five pitfalls faced while using environmental scanning.

- Sometimes, strategic planners may focus excessively on the influences in the relevant environment that they miss out on the trends and issues in the general environment that really matter.
- There is a danger of paralysis by analysis‘, meaning that environmental scanning can create such an overload of information that it may prevent timely action. Environmental scanning should not become a number-crunching routine.
- The purpose of environmental scanning is to uncover influences that matter for the future of the organisational strategic decision-making. This purpose should not be lost and environmental scanning should not be used for purposes other than this. For instance, scanning results cannot be used for political manoeuvering by strategists to favour their own viewpoint, functional interests or departmental aims.

- The environmental scanning function should not be integrated too closely with the operational and functional activities of the organisation. This means that it should not become a line function, thus aligning it too closely with the interests of those activities.

- Similarly, environmental scanning should not be too far from the realities of the organisation, making it an impersonal, staff function. After environmental scanning process is complete, the strategists are faced with the question of how to structure the mass of information available to them. The problem boils down to sifting the information in such a manner that a clear picture emerge of what opportunities and threats operating in different sectors of the environment facing the organisation.

Self-assessment 2

1. Define environmental scanning and discuss the different approaches to environmental scanning.
2. What are the sources of information for scanning and the different scanning techniques available to managers?

4.3.3 Factors affecting Environmental Appraisal

Given the same environmental conditions, no two strategists or two organisations would appraise the environment in a similar fashion. This is due to the many factors that affect the process of environmental appraisal. We could identify these factors by classifying them into three categories: the strategist-related, organisation-related and environment-related factors.

1. *Strategist-related factors*. There are many factors related to the strategist, which affect the process of environmental appraisal. Since strategists play a central role in the formulation of strategies, their characteristics such as age, education, experience, motivation level, cognitive styles, ability to withstand time pressures and strain of responsibility have an impact on the extent to which they are able to appraise their organisation‘s environment and how well they are

able to do it. Apart from these factors that are related to the strategists as individuals, group characteristics could be the interpersonal relations between the different strategists involved in appraisal, team spirit and the power equations operating between them. Information consciousness is yet another variable denoting the attitude of top managers towards environmental scanning and the communication patterns established among managers with the organisation.

2. *Organisation-related factors*. Like those of strategists, many characteristics of the organisation also have an impact on the environmental appraisal process. These characteristics are the nature of business the organisation is in, its age, size and complexity, the nature of its markets and the product or services that it provides. Another variable identified is of information climate, which as assessed through the information infrastructure implemented, i.e. the processes, technologies and people used in informat ion acquisition and handling.

3. *Environment-related factors*. The nature of environment facing an organisation determines how its appraisal could be done. The nature of the environment depends on its complexity, volatility or turbulence, hostility and diversity. Information processing perspectives suggest that scanning activity will increase in response to increasing environmental uncertainty. Social cognition perspectives suggest that scanning decreases at high and low levels of uncertainty since useful information is either unattainable or is already known.

In sum, how well environmental appraisal is done depends on the strategists, their organisations and their environment in which their organisations exist. Before strategists can structure the environmental appraisal, it is necessary to identify the environmental factors

4.3.3a Identifying the Environmental Factors

Environmental scanning results in a mass of information related to different sectors of the environment. Without a technique to deal with this information, a strategist would be at a loss to comprehend and analyse the environmental influences. These influences, as we have seen, are the events, trends, issues and expectations of different interested groups. A feasible approach to identifying the important environmental factors is to test each factor with regard to its impact on the business of the organisation and the probability of such an impact. The figure below provides a matrix which can help a strategist to identify the high priority environmental factors (termed as issues by Boulton).

Figure identifying high priority environmental issues

Probability of impact	High	Medium	Low
High	Critical	High priority	Low priority
Medium	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

Source: Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, New York, Macmillan Publishing Co., 1984, p. 120.

Environmental scanning leads to the identification of many issues that affect the organisation. These issues could be judged on the basis of the intensity of their impact on the business of the organisation and the relative probability of such an impact. In such a manner, environmental issues (and all the factors) could be distributed among the nine cells of the matrix. The issues which are most likely to have a high level of impact on the organisations are the critical issues and need immediate attention of the strategists. High priority issues are those which have a medium to a high probability of impact, while those currently having a high level of impact but a low probability of occurrence need to be kept under watch. All other issues could be considered as being of low priority but still requiring continuous monitoring as conditions may change later. In this way, strategists could narrow the range of environmental issues they have to focus their attention upon. These issues help in structuring of the environmental appraisal, when divided into opportunities and threats and allocated to different sectors of the environment.

4.3.3b Structuring Environmental Appraisal

The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. Structuring the environmental appraisal is a difficult process as environmental issues do not lend themselves to a straightforward classification into neat categories. An issue may arise simultaneously from more than one sector of the environment. Strategists have to use their experience and judgement to place the different environmental issues where they mainly belong, so that clarity emerges. There are many techniques available to structure the environmental appraisal. One such technique, suggested by Glueck, is that of preparing an environmental threat and opportunity profile (ETOP) for an organisation.

The preparation of an ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. A comprehensive ETOP requires subdividing each environmental sector into sub factors and then the impact of each sub factor on the organisation is described in the form of a statement. A summary ETOP may only show the major factors for the sake of simplicity. The table below shows an example of a n ETOP prepared for an established company which is in the bicycle industry. The main business of the company is in sports cycle manufacturing for the domestic and exports market. This example relates to a hypothetical company but the illustration is realistic and based on the current Indian business environment.

Table Environment threat and opportunity profile (ETOP) for a bicycle company

Environmental Sectors	Nature of impact	Impact of each sector
Economic	↑	Growing affluence among urban consumers; rising disposable incomes and living standards.
Market	→	Organised sector a virtual oligopoly with four major manufacturers, buyers critical and better informed; Overall industry growth rate not encouraging; Growth rate for niche segments like sports, trekking, racing and fancy city cycles is high; largely unsaturated demand in niche segments; slender margins; traditional distribution systems.

International	↓	Global imports growing but India‘s share shrinking; India second globally as manufacturer; consumer and exporter after China; major importers are the US and EU but India exports mainly to Africa; threat of cheap Chinese imports.
Political	→	Bicycle principal mode of transport for low and lower-middle income; industry too small for any major political attention.
Regulatory	→	Parts and components reserved for small-scale industry, bicycle industry a thrust area for exports; regulatory restrictions heavy; duty drawback rates lowered.
Social	↑	Environment- and health-friendly transport option; wide usage like commuting to work or school and as recreation and physical fitness equipment; easier negotiating traffic congestions; customer preference for sports cycles which are easy to ride and durable.
Supplier	→	Mostly ancillaries and associated companies in small-scale sector supply parts and components; rising steel prices; increasing use of aluminium; industrial concentration in Punjab and Tamilnadu.
Technological	↑	Technological up-gradation of industry in progress; import of machinery simple; product innovations ongoing such as battery-operated and lightweight foldable cycles.

Source: Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, New York, Macmillan Publishing Co., 1984, p. 120.

Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact. As observed from the above table, sports cycle manufacturing is an attractive proposition due to the many opportunities operating in the environment. Prospects in the economic, social and technological sectors are bright. Market environment can throw up opportunities in the niche segment that the company operates in. The company can capitalise on the burgeoning demand by taking advantage of the various government policies and concessions that still exist despite the low attention value of the industry. It can also take advantage of the high exports potential that already exists and has not been adequately capitalized upon. Since the company is an established manufacturer of bicycles, it has a favourable supplier environment with traditional ties binding it to its vendors. But contrast the implications of this ETOP for a new manufacturer, who is planning to enter this industry. Though the economic, social and technological environment sectors would still be favourable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, have access to the latest technology have the facilities to use it.

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favourable impact on the organisation. By the means of an ETOP, the organisation knows where it stands with respect to its environment. Obviously, such an understanding can be of great help to an organisation in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment. Before the formulation of strategies can be undertaken, strategists have to access whether the organisation has the required strengths or whether it has weaknesses which can affect its capability of taking advantage of the opportunities. This assessment is done through an analysis of the strengths and weaknesses of the organisation and forms a part of the SWOT analysis. The strengths and weaknesses can be analysed through an organisational appraisal, which is the subject matter of the next unit.

4.3.4 Appraising the Nigerian Environment

In order to draw a clear picture of what opportunities and threats are faced by the organisations in Nigeria at a given time, it is necessary to appraise the environment since a symbiotic linkand interface have been established between business and the environment i. e.business cannot run in isolation of its environment (Ogunro, 2014). This is done by being aware of the factors that affect environmental appraisal, identifying the environmental factors and structuring the results of this environmental appraisal.

Most businesses in Nigeria have reported/recorded losses and as a result packed up, staggered, collapsed, and relocated due to unfavourable situations in the Nigerian environment (Ogunro, 2014). Also, Anekwe, Ndubusi-Okolo, and Uzoezie (2019) affirmed this submission through their recent study on the Nigerian environment which they revealed in the last one decade is bedeviled by losses amounting to falling growth rate, high rate of unemployment, low industrial output, including rising poor demand for products/services and high level of insecurity (insurgency, banditry, and kidnapping, ritual killings and internet frauds).

Nigeria is a country blessed with abundant resources. It is expected that every necessary infrastructure needed to drive the economy are put in place to enable business and all other economic activities thrive accordingly. But unfortunately, in the contemporary Nigeria, the most critical infrastructure needed to drive the economy are conspicuously absent. Electricity supply is poor-energy crisis continued unabated forcing majority of the organisations to depend wholly on generator, roads are bad, policies are unstable and insecurity unabated. This picture clearly depicts unfriendly business environment. Although, Nigeria with population of over 200 million and endowed with good climatic condition and human and material resources of high economic values across the country and resently with 36 States, including the federal capital territory and with 774 Local Government Areas as well as several other cities and big towns, each with substantial population; business opportunities, which is the yardstick in measuring urban centers still remain a mirage in most Nigerian cities. According to Obiwuru et al (2011) cited in Ogunro (2014), some factors are responsible for these poor performances and they are as follows:

Technological factors:- These include research and development activity, technological incentives and the level at which of technology is changing. All these pose barriers to entry, minimum efficient production level and influence outsourcing decisions. Technological shifts doaffect costs,quality and stimulate further invention, innovation and competition.

Ecological factors:- These include environmental aspect such as weather, climate, and climate change, which may affect industries like tourism farming and insurance. Growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

Legal factors: Included in this component are discriminatory law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

Political factors: This is described as the extent and level of government direct and indirect intervention and influence on businesses in an economy. In particular, political factors include the following areas; tax policy, labour law, environmental law, trade restrictions, tariffs, incentives and political stability. It may also involves goods and services which the government provide or has intention to provide or not to provide.

Economic factors:-These are economic growth, interest rates, exchange rates and the inflation rate. These factors have influence on the operation and determination of businesses. For instance, interest rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

The last but not the least factor is the social factors, which is the cultural aspects. These aspects include health consciousness, population growth rate age distribution, career attitudes and emphasis on safety nets. According to them, trends in social factors affect the demand for a company's productions and how that company operates. Apart from these factors, other factors such as financial sources, image and reputation, information system, required skills and professionals e.t.c also affect business environment.Many of these factors are present in Nigeria and capable of affecting businesses.

Electricity supply: There is insufficient energy generation and distribution in Nigeria. Electricity is the life wire of any manufacturing company particularly, large scale industries which use automation of different kinds. The supply of electricity in Nigeria is poor to the extent that companies are forced to quit business in Nigeria and relocate to other African countries. This is because, alternative power supply increases overhead cost of doing business, which is capable of affecting the overall purpose of doing business (Uffot, 2009).

Poor Transportation Network and Connectivity: Nigeria roads are bad, some of the roads that link one town to the other are not motorable. Movement and delivery of goods is slow and sometimes unsafe on the Nigeria roads. Incessant accident, breakdown of vehicles are common features on Nigeria roads. This discourages investors and limit business opportunity.

Insecurity: There is high level of insecurity in the country, particularly, in the Northern zone where (BokoHaram) has become a threat to business activities. No investor will be willing to invest where his investment is not secured. Many companies in the Northern part of the country have stopped operation due to "Boko Haram" scourge. Another factor that affect Nigeria's business environment is multiple tax system. There is multiplicity of taxes by tiers of government which makes the cost of doing business higher the necessary.

In addition to this, government policies remain unstable in Nigeria, it has been new government new policies year-in-year-out, some good policies can be inconclusive, some jettisoned for political reason, while some are abandoned for selfish interest of those in power and government. This attitude breeds perpetual fear in the minds of investors. Bello (2011) also identified the following factors as major challenges of Nigeria's business environment;

Cooperation among government agencies is missing thereby allowing growing obsolete practices, inadequate empowerment for agency in charge of investment promotion, facilitation and coordination for support of favourable business climate, prohibitive cost of land, transferability of land titles, land securitization, weak trade and business facilitation mechanism, poor economies of integration among industries low entrepreneurial capacity, lack of appropriate technologies by SMEs, Eroding national values and dwindling educational standards, high incidence of corruptions among among the ranks and files of government, unemployable graduates of higher institutions, weak national value re-orientation, insufficient mechanism for public private dialogue remain very glaring in Nigeria.

However, to be able to straighten the rough paths as far as the Nigerian business environment is concerned, Anekwe et al., (2019) and Ogunro (2014)proffered the following remedies: Improvement in power supply, stability in government policy making i.e. the idea of policy somersaulting or abandonment of policies by the government for political and selfish interests should be discarded; state of emergency should be declared on security considering the rampant killings going on all across the country; massive investments should be made in the infrastructural development of the country to ease tensions and further cushion effects of government economic policies that have been adjudged hostile in recent times in Nigeria; elimination of multiple taxation and reconciliation of taxation activities between the Federal, State and Local Government Authorities most especially in the interests of small and medium scale enterprises; enforcement of anticorruption penalties and adequate funding of agencies responsible for that; above all, establish enduring structures that will positively impact the socio-economic lives of the Nigeria citizenry most especially the youths that are in the majority..

4.4 SUMMARY

The subject matter of the unit is environmental appraisal, which is the process of identifying opportunities and threats facing an organisation, for the purpose of strategy formulation. SWOT analysis is a systematic approach to find the strengths, weaknesses, opportunities and threats pertaining to an organisation and its environment. Organisations are concerned about their external environment in general, but more attention is paid to the relevant environment, which has an immediate and a direct impact on their activities. The structuring of environmental appraisal is done by the preparation of the environmental threats and opportunities profile (ETOP) that involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. In this unit, we have defined the concept environment as it relates to business organisation; distinguished between external and internal environment; discussed SWOT analysis; differentiated between general and relevant environment; defined and explained the concept environment sectors; discussed environmental scanning, listed the methods and techniques for environmental scanning and drew and analysed the structuring of environmental appraisal and its impact on each sector of the organization and then, an appraisal of the Nigerian business environment..

In the next unit, our focus will be on appraisal of the internal organisation or simply put, organisational appraisal.

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4.6 POSSIBLE ANSWERS TO SAEs

1. The external environment consists of all those factors which provide opportunities or post threats to an organisation. In a wider sense, the external environment encompasses a variety of factors, like: international, national and local economy; social changes; demographic variables; political systems; technology; attitude towards business; energy sources; raw materials and other resources; and many other macro-level factors. We could designate such a wider perception of the environment as the general environment. Students are expected to discuss each of these extensively.

2. What do you understand by weakness and strength in relation to an organisation?
Strengths are in the forms of favourable location; Excellent distribution network; ISO 9000 quality certification; Established R & D Centre ; and good management reputation which assist the businesses to accomplish set goals and objectives while weaknesses are uncertain cash flow, Weak management, information system, Absence of strong USP for major product lines, Low worker commitment and other related shortcomings that can be identified with a business and are capable of thwarting the performance of the business.

3. Environmental scanning involves the tracking of the developments and occurrences that affect organizations in their internal and external environment and how they determine their successes or otherwise in the immediate present and in the medium and long term. three approaches which could be adopted for sorting out information for environmental scanning.

We could call these approaches as systematic, ad-hoc and processed- form approaches. *Systematic Approach*. Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organisation‘s activities, government policy statements pertaining to the organisation‘s business and industry, etc. could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

Ad-hoc Approach. For adopting this approach, the organisation uses information in a processed form, available from different sources both inside and outside the organisation. When an organisation uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form. Since environmental scanning is absolutely necessary for strategy formulation, organisations uses different practical combinations or approaches to monitor their relevant environments. These approaches may range from an informal assessment of the environmental factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and ad-hoc studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure in anticipation of changes in environmental factors and structured data collection and processing system may be used continuously.

Processed-form Approach. Between the two extremes of the informal and formal approaches, different stances adopted by organisations might exist, depending on varying degrees of concern for the environment. Such stances are situational. For example, when an issue- related decision has to be taken, a periodic monitoring of the environment may be done. Systematic and ad-hoc approaches can be used for the relevant environment of the organisation while the processed-form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning, data collection is necessary for deriving information about environmental factors.

UNIT 5 ORGANISATIONAL APPRAISAL

Unit Structure

5.1 Introduction
5.2 Learning Outcomes
5.3 Organisational appraisal
5.3.1 Dynamics of Internal Environment
5.3.2 Organisational Capability
5.3.3 Consideration in Organisational Appraisal
5.3.4 Methods and Techniques used for Organisational Appraisal
5.3.5 Structuring Organisational Appraisal
5.4 SUMMARY
5.5 References/Further Readings
5.6 Possible Answers To SAEs

5.1 INTRODUCTION

In the last unit, we defined the concept environment as it relates to business organisation; distinguished between external and internal environment; discussed SWOT analysis; differentiated between general and relevant environment; defined and explained the concept environment sectors; discussed environmental scanning, listed the methods and techniques for environmental scanning and drew and analysed the structuring of environmental appraisal and its impact on each sector of the organisation. In this next unit, we shall discuss appraisal of the internal organisation or in another way, organisational appraisal.

5.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- Explain the manner in which strategic and competitive advantage is developed.
- Describe six factors of organisational capability.
- Explain the process of conducting organisational appraisal.
- Discuss the major methods and techniques used for organisational appraisal.
- Prepare strategic advantages profile (SAP) for an organisation.

5.3 ORGANISATIONAL APPRAISAL

Like individuals, all organisations have strengths and weaknesses that lead to their having capabilities. These capabilities stand the organisations in good stead when they compete for resources, customers and market share. In strategic management, we give a lot of importance to an organisation‘s capabilities as these are central to their achieving strategic advantage for gaining long-term success. The appraisal of the external environment of a firm helps it to think of what it might choose to do. The appraisal of the internal environment, on the other hand, enables a firm to decide about what it can do. We attempt to understand the internal environment of an organisation in terms of the organisational resources and behaviour, strengths and weaknesses, synergistic effects and the competencies that create strategic advantage.

5.3.1 Dynamics of Internal Environment

An organisation uses different types of resources and exhibits a certain type of behaviour. The interplay of these different resources along with the prevalent behaviour produces synergy or dysergy within an organisation, which leads to the development of strengths or weaknesses over a period of time. Some of these strengths make an organisation especially competent in a particular area of its activity causing it to develop competencies. Organisational capability rests on an organisation‘s capacity and the ability to use its competencies to excel in a particular field, thereby giving it strategic advantage. The resources, behaviour, strengths and weaknesses, synergistic effects and competencies of an organisation determine the nature of its internal environment. The diagram below shows the framework that we adopt for an explanation of the process of development of strategic advantage by an organisation. It is expected that students should be aware of these terms in general. However, we explain each of these terms here to place them in the specific context of strategic management and business policy.

Diagram below shows the framework for the development of strategic advantage by an organisation

Source: C.K. Prahalad and Gary Hamel, "The Core Competence of the Corporation", Harvard Business Review, Vol. 68, No. 3, May-June, 1990, pp. 79-91.

5.3.1a Organisational Resources

The dynamics of the internal environment of an organisation can be best understood in the context of the resource-based view of firms or the resource-based theory of strategy. According to Barney (1991), who is credited with developing this view of strategy as a theory, a firm is a bundle of resources – tangible and intangible – that include all assets, capabilities, organisational processes, information, knowledge, etc. These resources could be classified as physical, human and organisational resources. Organizational resources are physical resources and take the forms of technology, plant and equipment, geographic location, access to raw materials, etc. and human resources in the forms of training, experience, judgement, intelligence, relationships, etc. present in an organization. Organisational resources are the formal systems and structures as well as informal relations among groups. Elsewhere, Barney says that resources of an organisation can ultimately lead to strategic advantage for it if they possess four characteristics, i.e., if these resources are valuable, rare, costly to imitate and non-substitutable. The resource-based theory of strategic management holds that firms possess resources of which those that are valuable and rare enable them to achieve strategic advantage. Other resources that cannot be imitated or substituted lead to superior long-term performance and a sustainable strategic advantage. Empirical studies over the years have generally supported the resource-based theory.

We observe here that the resource-based theory is concerned with the efficiency of resource utilization. It clearly focuses on the internal environment of the firm and postulates that the strategic advantage would flow from the efficiency with which the resources would be utilised. When firms possess superior resources, they enable them to produce more efficiently and better satisfy customer needs, delivering better value for a given cost and yielding a superior strategic advantage to them. Very few organisations, like individuals, are born with a silver spoon in the mouth; most organisations have to acquire resources the hard way. The cost and availability of resources are the most important factors on which the success of an organisation depends. If an organisation is favourably placed with respect to the cost and availability of a particular type of resource, it possesses an enduring strength which may be used as a strategic weapon by it against its competitors. Conversely, the high cost and scarce availability of a resource are a handicap which causes a persistent strategic weakness in an organisation. It is worthy of note that mere possession of resources does not make an organisation capable. Much depends on their usage within the organisation. The usage, in turn, is based on the organisational behaviour that we study next.

5.3.1b Organisational Behaviour

Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability for, or place constraints on, the usage of resources. Organisational behaviour is unique in the sense that it leads to the development of a special identity and character of an organisation. Some of the important forces and influences that affect organisational behaviour are: the quality of leadership, management philosophy, shared values and culture, quality of work environment and organisational climate, organisational politics, use of power, etc.

The perspective reader would note that what we are proposing here is marrying of the hard side of an organisation, i.e., its resource configuration, with the soft side of the behaviour. The resources and the behaviour are thus the yin and yang of organisations. What they collectively produce are the strengths and weaknesses.

5.3.1c Strengths and Weaknesses

Organisational resources and behaviour do not exist in isolation. They combine in a complex fashion to create strengths and weaknesses wit hin the internal environment of an organisation. Strengths is an inherent capability which an organisation can use to gain strategic advantage. A weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organisation. Financial strength, for example, is a result of the availability of sources of finances, low cost of capital, efficient use of funds, etc. Another example is of a weakness in the operation area which results due to inappropriate plant location and layout, obsolete plants and machinery, uneconomical operations, etc. In the following sections, we will take up a comprehensive discussion of possible strengths and weaknesses in different functional areas within an organisation. Strengths and weaknesses do not exist in isolation but combine within a functional area, and also across different functional areas, to create synergistic effects.

5.3.1d Synergistic Effects

It is the inherent nature of organisations that strengths and weaknesses, like resources and behaviour, do not exist individually, but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where attributes do not add mathematically, but combine to produce an enhanced or a reduced impact. Such a phenomenon is known as the synergistic effect. Synergy is an idea that the whole is greater or lesser than the sum of its parts. It is also expressed as _the two plus two is equal to five or three effect'.

Within an organisation, synergistic effects occur in a number of ways. For example, within a functional area, say of marketing, the synergistic effect may occur when the product, pricing, distribution and promotion aspects support each other, resulting in a high level of marketing synergy. At a higher level, the marketing and production areas may support each other leading to operating synergy. On the other hand, a marketing inefficiency reduces production efficiency, the overall impact being negative, in which case dysergy (or negative synergy) occurs. In this manner, synergistic effects are an important determinant of the quality and type of the internal environment existing within an organisation and may lead to the development of competencies.

5.3.1e Competencies

On the basis of its resources and behaviour, an organisation develops certain strengths and weaknesses which when combined lead to synergistic effects. Such effects manifest themselves in terms of organisational competencies. Competencies are special qualities possessed by an organisation that make them withstand the pressures of competition in the marketplace. In other words, the net results of the strategic advantages and disadvantages that exist for an organisation determines its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core capabilities, invisible assets, embedded knowledge, etc.

When an organisation develops its competencies over a period of time and hones them into a fine art of competing with its rivals, it tends to use these competencies exceedingly well. The capability to use the competencies exceedingly well turns them into core competencies. When a specific ability is possessed by a particular organisation exclusively or relatively in large measure, it is called a distinctive competence. Many organisations achieve strategic success by building distinctive competencies around the critical success factors. Recall that critical success factors are those which are crucial for organisational success (for a detailed discussion refer to Unit 4, Module 2). A few examples of distinctive competencies are given below:

- Superior product quality on a particular attribute, say, a two-wheeler, which is more fuel efficient than its competitor products.
- Creation of a marketing niche by supplying highly specialised products to a particular market segment.
- Differential advantage based on superior research and development skills of an organisation, not possessed by its competitors.

- Access to a low-cost financial source, like equity shareholders, not available to its competitors.

A distinctive competence is ‗any advantage a company has over its competitors because it can do something which they cannot or it can do something better than they can'. It is not necessary, of course, for all organisations to possess a distinctive competence. Neither do all organisations, which possess certain distinctive competencies, use them for strategic purposes. Nevertheless, the concept of distinctive competence is useful for the purpose of strategy formulation. The importance of distinctive competence to strategy formulation rests with ‗the unique capability it gives an organisation in capitalising upon a particular opportunity; the competitive edge it may give a firm in the market place; and the potential for building a distinctive competence and making it the cornerstone of strategy'.

You may think that a hairline distinction is being made between the three terms: competencies, core competencies and distinctive competencies. The difference, as you must have noted, lies in the degree of uniqueness associated with the net synergistic effects occurring within an organisation. You could think of them as being synonymous so long as you are able to make a distinction among them when necessary. Among the three, it is the term ‗core competence' that has gained greater currency and popularity. The term ‗core competence' has been popularised by Prahalad and Hamel as an idea around which strategies could be formulated by an organisation.

❖ **Write short notes on organizational resources, organizational behaviuor, synergistic effects and competencies**

5.3.1f Understanding the idea of Core Competence

C.K. Prahalad and Gary Hamel are mainly credited for the dynamic capabilities approach that consider strategic management as a collective learning process aimed at developing and then exploiting distinctive competencies by an organisation that are difficulty to replicate by their rivals. Through a series of publications such as ‗The Core Competence of the Corporation' (1990) and Strategy as Stretch and Leverage' (1993) in the Harvard Business Review, and a book ‗Competing for the Future' (1994), they have sought to propagate the idea of dynamic capabilities. This idea rests on the thinking that strategy depends on learning, and learning depends on the capabilities of an organisation.

According to Prahalad and Hamel, the competitive (or strategic, as we call it here) advantage can be traced to the core competencies of an organisation. They take the analog of a tree in describing core competence. ‗The diversified corporation is a large tree. The trunk and major limbs are core products, the smaller branches are business units; the leaves, flowers, and fruit are end products. The root system that provides nourishment, sustenance, and stability is the core competence'.To identify a core competence, Prahalad and Hamel prescribe three tests:

- It should be able to provide potential access to a wide variety of markets;
- It should make a significant contribution to the perceived customer benefits of the end products; and
- It should be difficult for the competitors to imitate.

From the several examples of corporations that Prahalad and Hamel use to exemplify their concept of core competence, we quote here a few. Canon's core competence lies in optics, imaging and microprocessor controls. Sony's in miniaturisation, Philip's in optical-media, 3M's in stick tape and Honda's in engines and power trains. The core competencies of these corporations have enabledthem to operate in diverse markets offering different products. For instance, Canon has entered, and even dominated, diverse markets such as copiers, laser printers, cameras and image scanners.

The idea of core competence, presented above, seems to be a brilliant way to focus upon the latent strength of an organisation. Yet there are pitfalls of which an organisation has to be aware of. Core competencies can be developed but so also, lost. They cannot be taken for granted. The ability of a core competence to provide strategic advantage can diminish over time as they do not exist perpetually. A dilemma associated with all core competencies is that they have the potential of turning into core rigidities. External environment is responsible for this sad turn of events. New competitors may figure out a way to serve customers better or new technologies may emerge, causing the existing company to lose its strategic advantage. Over-reliance on core competencies to the extent of becoming prisoners of one's own excellence may result in strategic myopia. Core competence acting as a double-edged sword is demonstrated by the concept of strategic commitment enunciated by Pankaj Ghemawat. This term refers to an organisation's commitment to a particular way of doing business, i.e., developing a particular set of resources and capabilities. Ghemawat's contention is that once a company has made a strategic commitment, it finds it difficult to respond to new competition if doing so requires a break with its commitment.

The idea of a single core competence as the bedrock for strategy formulation has not gone unchallenged. Critics feel that a core competence, narrowly defined, may restrict an organisation's freedom to act when fresh opportunities in the business environment lure it towards a new direction. In a situation where organised retail is just taking off, the country still remains under-insured, agriculture has not yet been exploited as an organised industry and the infrastructure sector needs overhauling, it would be imprudent for organisations to stick to a single core competence and deprive itself of taking advantage of the opportunities. There might be several different core competencies required. In one case, it may be the ability to raise and manage capital, in another, it might be the ability to manage the regulatory environment or simply, the ability to roll out operation quickly.

Core or distinctive competencies serve a useful purpose if they are used to develop a sustained strategic advantage through building up of organisational capability, which is the subject of the next subsection.

5.3.2 Organisational Capability

Organisational capability is the inherent capacity or potential of an organisation to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources – even though valuable and unique – may be worthless. Since organisational capability is the capacity or potential of an organisation, it means that it is a measurable attribute. As an attribute, it is the sum total of resources and behaviour, strengths and weaknesses, synergistic effects occurring in and the competencies of any organisation.

Several thinkers in the field of strategy favour the line that capabilities are the outcomes of an organisation's knowledge base, i.e., the skill and knowledge of its employees. There is a growing body of opinion that considers organisations as reservoirs of knowledge, in which case they are all learning organisations. In fact, the concept of organisational learning has spawned a whole school of strategy thought. Students are advised to refer to the subsection below which provides some basic understanding of the learning organisation. It is to be noted that while the concept of a learning organisation is applicable to strategic management in a wider sense at several places, here we are referring to it in the specific context of a capability that is seen as an outcome of organisational learning.

Strategies are primarily interested in organisational capability because of two reasons. First, they wish to know what capacity exists within the organisation to exploit opportunities or face threats in its environment. Secondly, they are interested in knowing what potential should be developed within the organisation so that opportunities could be exploited and threats could be faced in future.

5.3.2a Understanding Organisational Learning

Crossan, Lane and White (1997) define organisational learning as the process of change in individual and shared thought and action, which is effected by and embedded in the institutions of the organisation'. Four basic processes of organisational learning are: intuiting (subconscious process of learning that occurs at the individual level); interpreting (sharing learning at the group level); integrating (collective understanding at the group level and taking it to the level of organisation); and institutionalizing (incorporating learning across the organisation by embedding it in systems, structures, routines and practices).

Nonaka and Takeuchi (1995) place value on knowledge creation within organisations through focusing on insight, intuition and hunch that are gained through experience. Chris Argyris (1977) earlier and later Garratt (1987), differentiated single-loop learning that questions the existing framework in which decisions take place. Organisations that engage in double-loop learning are able to discover new things and act in novel ways that enable them to adapt to changes and sustain and improve their capability and competitiveness.

Peter Senge (1990) popularised the concept of a learning organisation which could be explained as an organisation skilled at creating, acquiring and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights. From the classic term of Pet er Drucker: the knowledge worker down to the emerging discipline of knowledge management -which is considered as gathering and managing intellectual capital that can be leveraged for generating internal responsiveness of organisation – the focus is clearly on the capability of an organisation for developing and sustaining strategic advantage.

Organisational capability is measured and compared through the process of organisational appraisal which is the subject matter of this unit. A feasible approach to appraising the organisation is to start with the factors and influences operating within the organisation. These could be called the organisational capability factors.

Self-assessment 1

1. Discuss organizational capability and organizational learning.
2. What are the basic processes of organizational learning?

5.3.2b Strategic and Competitive Advantage

Strategic advantages are the outcomes of organisational capabilities. They are the results of organisational activities leading to rewards in terms of financial parameters, such as profit or shareholder value and/or non-financial parameters, such as market share or reputation. In contrast, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly, such advantages or disadvantages are the outcomes of the presence or absence oforganisational capabilities. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage: the higher the profitability, the better is the strategic advantage. They are comparable in terms of the historical performance of an organisation over a period of time or its current performance with respect to its competitors in the industry.

Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measured. So, outperforming rivals in profitability or market standing could be a competitive advantage for an organisation. Competitive advantage is relative rather than absolute and it is to be measured and compared with respect to other rivals in an industry.

With rising competitiveness in industry, mainly owing to the liberalisation and reform process, the usage of the term ‗competitive advantage' has become more pronounced. The term ‗competitive advantage'is more popular since it has been used as an important concept by the proponents of the positioning school of thought in strategy. For instance, Michael Porter uses competitive advantage as one of the important concepts in his seminal contributions to the area of competitive strategy. Here, we take the position as described above. Strategic advantage is a broader concept while competitive advantage is one of its subset. The obvious purpose of gaining strategic advantage is to empower organisations to realise their strategic intent.

5.3.2c Organisational Capability Factors

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas. Thus, a company could be considered as inherently strong in marketing owi9ng to a competence in distribution skills. Or a company could be competitive in operations owing to superior research and development infrastructure.

Organisational capability factors (or, simply, capability factors) are the strategic strengths and weaknesses existing in different functional areas within an organisation, which are of crucial importance to strategy formulation and implementation. Other terms synonymous to organisational capability factors are: strategic factors, strategic advantage factors, corporate competence factors, etc. Different types of capability factors exist within the internal environment of an organisation. For the purpose of explanation, authors divided them into different functional areas. In this course, we follow an approach of dividing the organisation into six largely accepted and commonly understood functional areas. These are: finance, marketing, operations, personnel, information and general management areas.

You will note that we are designating information and general management as functional areas within the organisation though these are not per se considered as such. These are rather overarching functions, concerned with the interaction and coordination of activities, covering the other four functional areas. But here we consider them as functional areas to draw attention to the fact that these two areas too merit consideration and possess embedded capabilities that have the potential to provide strategic advantage to organisations. It should be remembered, however, that a segregation of an organisation into four functional areas is arbitrary and organisations need to choose a basis for classification that would be the most relevant to their structure, functions and activities. You would need to keep a particular scheme of segregation of the organisation into functional areas when you do a case analysis. For instance, a service organisation like a corporate hospital may have, besides different specialties, functions such as a laboratory, radiology unit, therapy, purchase and stores, personnel, housekeeping and accounting. The organisation of such a type would have functional areas based on its typical activities.

We now describe capability factors in the six functional areas of finance, marketing, operations, personnel, information and general management. For each capability factor, we first define that factor, point out some of the important elements that support capability in an area, give a few illustrations of typical strengths to help enhance your understanding.

(a) Financial Capability

Financial capability factors relate to the availability, usages and management of funds and all allied aspects that have a bearing on an organisation's capacity and ability to implement it strategies. Some of the important factors which influence the financial capability of any organisation are as follows:

1. *Factors related to sources of funds*. Capital structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus and relationship with lenders, banks and financial institutions.

2. *Factors related to usage of funds*. Capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution and relationship with shareholders.
3. *Factors related to management of funds*. Financial, accounting and budgeting systems; management control system, state of financial health, cash, inflation, credit, return and risk management; cost reduction and control and tax planning and advantages.

Based on the above factors, a number of strengths and weaknesses can be found that affect the financial capability of an organisation. The below provides a few illustrations of strengths that support financial capability. The absence or unavailability of these factors leads to the occurrence of weaknesses. For instance, access to financial resources is a strength, while inaccessibility to them is a weakness. Typical strengths that support financial capability

- Access to financial resources;
- Amicable relationship with financial institutions;
- High level of credit-worthiness;
- Efficient capital budgeting system;
- Low cost of capital as compared to competitors;
- High level of shareholder‘s confidence;
- Effective management control system;
- Tax benefits due to various government policies.

(b) Marketing Capability

Marketing capability factors relate to the pricing, promotion and distribution of products or services, and all the allied aspects that have a bearing on an organisation‘s capacity and ability to implement its strategies.

(c) Personnel Capability

Some of the important factors which influence the personnel capability of an organisation are as follows:

1. *Factors related to the personnel system*. Systems for manpower planning, selection, development, compensation, communication and appraisal, position of the personnel department within the organisation, procedures and standards, etc.

2. *Factors related to organisational and employee characteristics*. Corporate image, quality of managers, staff and workers perception about and image of the organisation as an employer, availability of developmental opportunities for employees, working conditions, etc.
3. *Factors related to industrial relations.* Union-management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, etc.

Some of the typical strengths supporting the development of personnel capability are provided below:

- Genuine concern for human resources management and development;
- Efficient and effective personnel systems;
- The organisation perceived as a fair and model employer;
- Excellent training opportunities and facilities;
- Congenial working environment;
- Highly satisfied and motivated workforce;
- High level of organisational loyalty;
- Low level of absenteeism;
- Safe and salutary working conditions.

5.3.3 Consideration for organisational appraisal

Organisational appraisal involves evaluating the internal strengths that go with the different functional areas for exploitation and for optimum reduction of negative impacts of weaknesses that are noticeable in the ultimate interest of the organization.Regarding the not-so-good and dysfunctional functional structures on ground, organisational appraisal ensures the maneuvering of available resources to the advantage of the organisation.

Researchers and practitioners have given it different names that end up meaning same thing- internal analysis, internal appraisal, self-approval, corporate approval and company analysis etc (Ganapat & Sachin, 2019). The consideration for organizational appraisal stems from its valuable inputs and contributions to ensuring organizational capabilities are explored to accomplish competitive advantage. Long term goals are achievable where capabilities are put in place, ensured, and nurtured.

The evaluation of factors that determine organizational capabilities which form the basis upon which organisations are appraised involves considering strategic and competitive factors which are germane in terms of the formulation and the implementation of organizational strategy and they include capability factors in terms of finance, marketing, operations, human resource, information technology and the capability to integrate the various functional units for the purpose of accomplishing a unified whole**(as discussed above)**.

5.3.4: Methods and techniques used for organizational appraisal

Organizational appraisal represents a comprehensive and long term assessment tools which focuses on organizations needs to gain capability to compete in the market, and then, capitalize on the available opportunities to overcome the threats operating in the relevant environment. According to Ganapat and Sachin (2019) methods and techniques of organizational appraisal are categorized as follows:

1. **Internal Analysis**

A. Value Chain Analysis

B. Quantitative Analysis

i. Financial Analysis

ii. Non Financial Analysis

C. Qualitative Analysis

2. **Comparative Analysis**

A. Historical Analysis

B. Industry Norms

C. Benchmarking

3. **Comprehensive Analysis**

A. Balance Scorecard

B. Key factor Rating

1. **Internal Analysis**: The internal analysis of an organization deals with an investigations into its strengths and weaknesses by emphasizing on the importance of internal activities most especially the resources and then, the organizational behavior.

   A. Value Chain analysis: This is a method for assessing the strengths and weaknesses of an organization on the basis of an understanding of the series of activities it performs. The value chain is a set of interlinked value creating activities performed by an organization. For example: New Product Development, Marketing and Sales/Operations and Distribution/ Services.

   B. Quantitative Analysis:
   i. Financial Analysis: A technique such as financial ratio analysis assesses the liquidity, profitability, leverages and activity aspects of an organization.

   ii. Non Financial Analysis: In this type there are two techniques as follows:
   a. Economic Value Added (EVA): An alternative measure of financial performance in an investment centre is segment EVA. EVA is essentially the surplus left after making an appropriate charge for the capital employed in the business.

   Activity Based Cost: Activity based Costing is a system that focuses on activities as the fundamental cost objects and uses the costs of these activities as building blocks for compiling the costs of other costs objects. An outline of an ABC system is as follows:
   1. Identify the major activities that take place in the organization.
   2. Determine the cost driver for each major activity.
   3. Create a cost centre / cost pool for each major activity.
   4. Trace the cost of activities to products according to a products' demand for activities.

   C. Qualitative Analysis: Many of the strengths and the weaknesses of an organization can be expressed in qualitative terms. For ex. Qualitative analysis can be used best to express the tenor of corporate culture, the ability to absorb and assimilate knowledge, or the level of morale among employees.

2. Comparative Analysis:

A. Historical Analysis: One way to compare performance and identify strengths and weaknesses is to start with the historical analysis of one's organization over a period of time. It gives evidence of how the same organization has performed on the basis of common parameters.

B. Industry Norms:The industry to which a business belongs is the most obvious choice with regard to a wide range of parameters. Industry norms provide good ideas to firms regarding the areas in which they excel or need improvements. This can help them in locating their areas of strengths and weaknesses.

C. Benchmarking: Benchmarking is a continuous process of comparing products and operations with the strongest competitors or the best practices in similar operations of the best performing company.

Benchmarking is a process that is in contrast to the traditional method of establishing current goals based upon past performance of the organization. Target costing is a specific form of benchmarking applied to product costs.

3.Comprehensive Analysis: Comprehensive analysis helps to deal with limitations arising out of analytical methods to evaluate the strengths and weaknesses of a firm and to determine its capability.

A. Balanced Scorecard: It's a device of linking financial and non financial measures and identifies key
performance measures that give top management, a first but comprehensive view of the performance of the organization unit.

B. Key Success Variables: In order to know the responsibility centre is moving in the correct direction, it is necessary to get the proper signals. These signals are crucial to the attainment of strategy, goals and objectives of the responsibility centres. These crucial variables are called key variables or key success factors.

5.3.5 Structuring organizational appraisal

Since organizational appraisal involves monitoring and assessing an organization on the basis of its internal strengths and weaknesses which may influence its ability to accomplish its goals,appraisal activities in organisations need to be structured logically and this entails ensuring that necessary formalities are put in place after the environmental scanning exercise**.**

Issues of importance regarding structuring of organisational appraisal include:

- Identifying strengths and weaknesses (peculiar and industry-wide)
- Distinctive/core competencies
- Identifying opportunities and threats
- Strategic cost analysis.

5.4 SUMMARY

In this unit, we explained the manner in which strategic and competitive advantage is developed; described and exemplify six factors of organisational capability; explained the process of conducting organisational appraisal; described the major methods and techniques used for organisational appraisal and prepared strategic advantages profile (SAP) for an organisation. Also, we read from this unit that all organisations have strengths and weaknesses that lead to their having capabilities. These capabilities stand the organisations in good stead when they compete for resources, customers and market share. The resources, behaviour, strengths and weaknesses, synergistic effects and competencies of an organisation determine the nature of its internal environment. The dynamic of internal environment of an organisation can best be understood in the context of the resource-based view of firms or the resource-based theory of strategy. Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability for, or place constraints on, the usage of resources. Organisational resources and behaviour do not exist in isolation but combine in a complex fashion to create strengths and weaknesses within the internal environment of an organisation. It is the inherent nature of organisations that strengths and weaknesses like resources and behaviour do not exist individually but combine in a variety of ways.

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5.6 POSSIBLE ANSWERS TO SAEs

1. Organizational resources are physical resources and take the forms of technology, plant and equipment, geographic location, access to raw materials, etc. and human resources in the forms of training, experience, judgement, intelligence, relationships, etc. present in an organization,

while organisational learning is the process of change in individual and shared thought and action, which is effected by and embedded in the institutions of the organisation'. Four basic processes of organisational learning are: intuiting (subconscious process of learning that occurs at the individual level); interpreting (sharing learning at the group level); integrating (collective understanding at the group level and taking it to the level of organisation); and institutionalizing (incorporating learning across the organisation by embedding it in systems, structures, routines and practices).

2.. Basic processes of organisational learning are: intuiting (subconscious process of learning that occurs at the individual level); interpreting (sharing learning at the group level); integrating (collective understanding at the group level and taking it to the level of organisation); and institutionalizing (incorporating learning across the organisation by embedding it in systems, structures, routines and practices).

UNIT 6 STRATEGIC ANALYSIS AND STRATEGIC CHOICE

Unit Structure

6.1 Introduction
6.2 Learning Outcomes
6.3 Strategic analysis and strategic choice
6.3.1 Strategic analysis and strategic choice (Definitions of concepts and discussion)
6.3.2 Management of strategy formation and choice process
6.3.3 Evaluating and determining the appropriateness of a proposed strategy
6.3.4 Portfolio planning approaches-The BCG Matrix and The Mckinsey/GE tools
6.3.5 Uses and limitations of portfolio analyses
6.4 Summary
6.5 References/Further Readings
6.6 Possible Answers To SAEs

6.1 INTRODUCTION

In the last unit, we explained the manner in which strategic and competitive advantage is developed; described and exemplify six factors of organisational capability; explained the process of conducting organisational appraisal; described the major methods and techniques used for organisational appraisal and prepared strategic advantages profile (SAP) for an organisation.

In the next unit, you will learn about the strategic analysis and strategic choice, then, understand how to manage strategy formation and choice process and in addition, how to evaluate and determine the appropriateness of a proposed strategy would be learnt. Also, portfolio planning approaches, and uses and limitations of portfolio analyses will be discussed.

6.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- define and discuss strategic analysis and strategic choice
- state how to manage strategy formation and choice process
- determine to evaluate and determine the appropriateness of a proposed strategy

- discuss the two most important portfolio planning approaches
- state the uses and then learn the limitations of portfolio analyses.

6.3 STRATEGIC ANALYSIS AND STRATEGIC CHOICE

Here, strategic choice is a process that focuses on determining the future impact of one or more strategies on corporate or business level performance is discussed. A company must be able to determine which of the strategies to use in order to accomplish maximum return on investment and therefore boost shareholders' wealth. The different diagnostic tools for identifying and evaluating alternative strategies most especially in a more than one line of business companies/diversified entities and the factors that influence the best option to go for in terms of choice are looked into in this unit. Strategic analysis and strategic aim at discovering strategic options and selecting the strategy that has the best chance of accomplishing organizational objectives.

6.3.1 Strategic analysis and strategic choice (Definitions of concepts and discussion)

Strategic analysis and choice is a process that is concerned with the analysis, comparison, evaluation and choice of strategy from available alternatives (Oyedijo, 2004). While in terms of strategic analysis, it means identifying the different available strategic options and probing into their effectiveness whether they will continue to be effective into the future and how effective would they be and the criteria to be satisfied to ensure/guarantee a result-oriented strategy; strategic choice entails picking a strategy among the different alternatives that will provide the best of returns on capital invested through the accomplishment of objectives. It operates by considering the different strategic alternatives available for competitive exploitation and then, picking the particular one of the alternatives with the best chance of accomplishing set goals and objectives in the overall interests of the company.

Strategic analysis and choice process is in stages; while referring to Pearce and Robinson (1998), Oyedijo (2004) highlighted the following stages of strategic analysis and choice:

(i). Analysis of the overall company portfolio of businesses in terms of relative business unit strength matched with relative industry attractiveness and stage of development;

(ii). Identification of probable corporate performance if the current business unit portfolio is maintained with respective strategies.

(iii). Comparison of the projected corporate performance with tentative corporate objectives to identify major performance gaps.

(iv). Identification of alternative portfolios in addition to different strategy combinations at the small business level to make adjustments in the identified gaps.

(v). Evaluation of the alternatives and strategic choice.

After considering the different alternative options, the organization is now set for choosing the best. Factors to be considered include: The opportunities and threats in the environment; the internal characteristics of the company; the available resources; risk/return preference and the personal values, aspirations and vision of the company.

❖ **Define strategic choice and discuss stages involved in strategic analysis and choice**

6.3.2 Management of strategy formation and choice process

Industry captains and companies have their different approaches to the task of strategic management depending on factors like nature of the company and business, in terms of culture, size, management style, and then, the environment of operation. Just as small business owner can afford to be informal about the whole process, conglomerates or other large companies that carry multiple products cannot but formalize its policies and strategies

Mclellan and Kelly (1998) and Brodwin and Bourgeois (1996) suggested four different approaches to strategy formation and they are as discussed below:

Bottom-up approach:Strategy formation emanates from the business unit level and the functional level and move upwards for the purpose of securing approval and integration with other unit strategies for alignment purposes. What is interesting about this approach is that it encourages and enhances subordinates development. This is appropriate for large diversified corporations where it is impossible for the CEO to oversee the multifaceted and diversified business divisions.

Top-down approach: As far as this approach is concerned, strategy formulation is considered a province of top corporate executives. This is a master-strategist approach wherein the manager personally function as the chief strategist and chief entrepreneur using strong power over the kinds and amount of analysis conducted, over the strategy alternatives to be explored; and over the details of strategy. This does not mean that the manager personally does all of the work. What it means is that the manager stands in position of a determinant of the success of the strategy. Therefore, strategy reflects the judgment of the manager regarding how to accomplish corporate objectives.

Interactive approach: This is a collaborative approach whereby the manager enlists the help of key subordinates in developing a consensus strategy which all the key players will support and do their best to implement successfully. Both business units and corporate managers jointly formulate business strategy and corporate strategy with influences moving upward and downward. The formulation process is participative and negotiated. The negotiated strategy reflects the link between corporate expectations and SBU managers' knowledge of their specific businesses. Here, negotiation does take time but this shortcoming is filled by speedy passage and implementation of resolutions.

The semi-autonomous approach: As far as this approach is concerned, activities are relatively autonomous at both the corporate and business levels. Corporate level formulation focuses on issues such like new directions for the company, the assessment of the emerging threats and opportunities, directions regarding the kind of business to invest in and which existing businesses to divest and what priorities to attach to those businesses remaining in the corporate portfolio. Regarding the SBUs, strategy is formulated to so proffer solutions to each units in terms of their peculiar situation/needs/circumstances/objectives and then, integrated for corporate approval and normally reviewed periodically.

Delegate-it-to-others approach: Here, the manager in charge delegates virtually all of the strategic planning to others, perhaps a planning staff or a task force. The manager does little more than suggest minor changes and place a stamp of approval on the plan that emerges.

6.3.3 Evaluating and determining the appropriateness of a proposed strategy

Porter (1980); Aaker (1998); Johnson and Scholes (1999); and Thompson (2003) have suggested the criteria for determining the appropriateness of a proposed strategy. They suggested:

Suitability and environmental fit

The main trust of this point is whether a strategy considers both the internal and external environmental realities in which the company is operating or wishes to explore. In clear terms, the strategy must take the position of an adaptive response to external realities as they unfold and to the critical changes happening within the company. Adopted strategy must align and must be consistent with the realities of the environment, its resources and values of the company and its mission.

(iii). Feasibility

The successful strategy is the one with built-in resources i.e. consciously and deliberately added strengths, buffers, and enough rooms for flexibility and adjustments. According to Aluko et al., (2004), "Reserve capabilities, planned maneuverability and repositioning allow a manager to use minimum resources while keeping competitors at a relative disadvantage". Flexibility avails the strategists opportunities to reintroduce and marshal the same set of forces/tactics to selected positions at different occasions.

(iv). Acceptability/desirability

Successful strategies are known to have been accepted by all and sundry in organisations irrespective of their levels. For strategy to be successful and accomplish its ultimate goal, all hands must be on deck.

(v). Internal consistency

This has to do with the level of consistency of strategy with the goals and policies as set by the company and the relationship of the strategy to other firm strategies. A strategy stands to be accepted whenever:

- It is in line with company's vision and objectives.

- The goals of the strategy are mutually accomplishable
- The main operating policies of the strategy reinforces one another.

(vi). Sustainability of competitive advantage:

This refers to the level at which competitors can react to the strategy: In terms of sustainability, a strategy is deemed sustainable where:

- The strategy is hard to imitate by competitors
- The company can add the element of surprise in the strategy
- The strategy includes a differential advantage and provides for the creation and maintenance of a sustainable competitive advantage or a kind of capability that stand it out among others.

(vii). Timeliness

This is considering the timing of the strategy, and that, whether it is the right time of adoption and execution. There is always the best time for activities, and so, same apply to strategy. A proposed strategy should be accepted if the strategic window is open and the market is well ready to absorb it. In addition to this, strategists must be quick in their actions and be swift enough not to be overtaken be smart competitors.

Meanwhile, Aluko et al., (2004) put forward a very close list of yardsticks for measuring an effective strategy and they are as follows:

- Clarity: The most important aim of strategy for all organizational units must remain clear enough to provide continuity and cohesion for tactical choice during the horizon of the strategy. All goals need to be written down or numerically exact, but they must be understood and decisive.

- Maintaining the initiative: A prolonged reactive posture breeds unrest, lowers morale and exposes the advantage of timing and other elements to competitors. Any strategy must preserve freedom of action and enhance commitment.

- Concentration: The appropriate strategy must concentrate superior power at the place and time likely to be decisive. The ability of the strategy to define what will make the business excel is important.

- Flexibility: The ideal strategy must have in-built mechanisms that will make swerving between roles/tactics and some sort of maneuvering easier.

- Coordinated and committed leadership: Leaders must be well remunerated and compensated and carried along so their values can match that of the organization.

- Security: The strategy must secure resource bases and all operating points for the enterprise.

Self-assessment 1

1.Define strategic choice and discuss stages involved in strategic analysis and choice. 2. What are the approaches to managing strategy formation and the factors determining the appropriateness of a strategy?

6.4 SUMMARY

Strategic choice is a process that focuses on determining the future impact of one or more strategies on corporate or business level performance is discussed. A company must be able to determine which of the strategies to use in order to accomplish maximum return on investment and therefore boost shareholders' wealth. Strategic analysis and choice process is in stages and involves the analysis of the overall company portfolio of businesses in terms of relative business unit strength matched with relative industry attractiveness and stage of development; identification of probable corporate performance if the current business unit portfolio is maintained with respective strategies; comparison of the projected corporate performance with tentative corporate objectives to identify major performance gaps; identification of alternative

portfolios in addition to different strategy combinations at the small business level to make adjustments in the identified gaps; evaluation of the alternatives and strategic choice; after considering the different alternative options, the organization is now set for choosing the best. Factors to be considered include: The opportunities and threats in the environment; the internal characteristics of the company; the available resources; risk/return preference and the personal values, aspirations and vision of the company

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6.6 POSSIBLE ANSWERS TO SAEs

. 1. Define strategic choice and discuss stages involved in strategic analysis and choice.

Strategic choice entails picking a strategy among the different alternatives that will provide the best of returns on capital invested through the accomplishment of objectives. It operates by considering the different strategic alternatives available for competitive exploitation and then, picking the particular one of the alternatives with the best chance of accomplishing set goals and objectives in the overall interests of the company.

Strategic analysis and choice process is in stages;

Analysis of the overall company portfolio of businesses in terms of relative business unit strength matched with relative industry attractiveness and stage of development;

- Identification of probable corporate performance if the current business unit portfolio is maintained with respective strategies.
- Comparison of the projected corporate performance with tentative corporate objectives to identify major performance gaps.
- Identification of alternative portfolios in addition to different strategy combinations at the small business level to make adjustments in the identified gaps.
- Evaluation of the alternatives and strategic choice.
- After considering the different alternative options, the organization is now set for choosing the best. Factors to be considered include: The opportunities and threats in the environment; the internal characteristics of the company; the available resources; risk/return preference and the personal values, aspirations and vision of the company.

2. What are the approaches to managing strategy formation and the factors determining the appropriateness of a strategy?

Adopted strategy must align and must be consistent with the realities of the environment, its resources and values of the company and its mission. Factors determining the appropriateness of a strategy are feasibility; the successful strategy is the one with built-in resources i.e. consciously and deliberately added strengths, buffers, and enough rooms for flexibility and adjustments. According to Aluko *et al.*, (2004), "Reserve capabilities, planned maneuverability and repositioning allow a manager to use minimum resources while keeping competitors at a relative disadvantage". Flexibility avails the strategists opportunities to reintroduce and marshal the same set of forces/tactics to selected positions at different occasions.

- Acceptability/desirability

Successful strategies are known to have been accepted by all and sundry in organisations irrespective of their levels. For strategy to be successful and accomplish its ultimate goal, all hands must be on deck.

- Internal consistency: This has to do with the level of consistency of strategy with the goals and policies as set by the company and the relationship of the strategy to other firm strategies. A strategy stands to be accepted whenever: It is in line with company's vision and objectives;he goals of the strategy are mutually accomplishable; the main operating policies of the strategy reinforces one another.

- Sustainability of competitive advantage:

  This refers to the level at which competitors can react to the strategy: In terms of sustainability, a strategy is deemed sustainable where: The strategy is hard to imitate by competitors: The company can add the element of surprise in the strategy: The strategy includes a differential advantage and provides for the creation and maintenance of a sustainable competitive advantage or a kind of capability that stand it out among others.

- Timeliness: This is considering the timing of the strategy, and that, whether it is the right time of adoption and execution. There is always the best time for activities, and so, same apply to strategy. A proposed strategy should be accepted if the strategic window is open and the market is well ready to absorb it. In addition to this, strategists must be quick in their actions and be swift enough not to be overtaken be smart competitors.

Unit 7 PORTFOLIO PLANNING APPROACHES

Unit Structure

7.1 INTRODUCTION

7.2 LEARNING OUTCOMES

7.3 Portfolio planning approaches

7.3.1 Portfolio planning approaches-The BCG Matrix and The Mckinsey/GE tools

7.3.2 Uses and limitations of portfolio analyses

7.4 SUMMARY

7.5 REFERENCES/FURTHER READINGS

7.6 POSSIBLE ANSWERS TO SAEs

7.1 INTRODUCTION

7.2 LEARNING OUTCOMES (LOs)

By the end of this unit, you will be able to:

- discuss the BCG Matrix and the Mckinsey/GE tools
- explain the uses and limitations of portfolio analyses
- describe the limitations of portfolio analyses.

7.3. PORTFOLIO PLANNING APPROACHES

7.3.1 The BCG Matrix and The Mckinsey/GE Tools

a. The BCG growth share matrix is a model by which businesses are classified in relation to market growth and company relative market share. The basic idea underlying the BCG approach is that a firm should have a balanced portfolio of businesses such that some generate more cash than they use and can thus support other businesses that need cash to develop and become profitable.

Businesses contributions to ultimate corporate goals are determined by two factors; one of which is-the growth rate of its market; and then, the share of that market that it enjoys.

The growth share matrix has three main steps namely:

- Dividing a company into strategic business units (SBUs), i. e. dividing the company into each economically distinct business area or product market in which it competes;
- Assessing the prospects of each SBU and comparing them against each other by means of a matrix;
- Developing strategic objectives for each SBU.

Assessing and Comparing SBUs

Industry captains and other strategists measure SBUs in terms of:

- The SBUs relative market share; and

- The growth rate of the SBUs industry

Determining SBUs relative market share

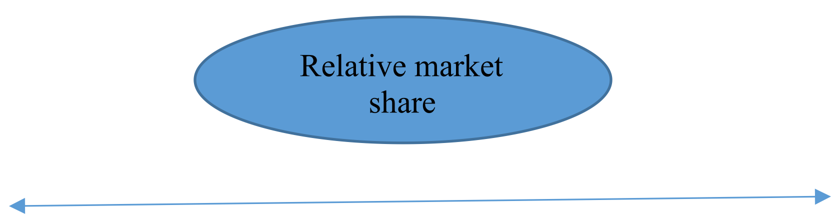
The relative market share of a SBU is the ratio of the SBU is the ratio of the SBU's market share to the market share held by the largest rival company in its industry. Simply put, it is an SBU's sales relative to those of other competitors in the market: Going by this, if in the soft drinks subsector of the beverages sector in Nigeria, *7up* has a market share of 15% and its largest rival *Cocacola* is having 60%, 7up's relative market share is determined by 15/60 = 25%. It is only if an SBU is a market leader in its industry that it will have a relative market share that is greater than 1.

Determining the growth rate of the SBUs industry

The growth rate of an SBU's industry market which is the annual growth percentage of the market (current or forecasted) in which business operates is measured through whether it is faster or slower than the growth rate of the economy in total. If the growth rate is lower than 10%, then it is considered low and thus can be referred to as a low-growth industry and above 10% is high-growth rate. The position of the BCG is that high-growth industries offer a more favourable competitive environment and better long-term prospects than slow-growth industries.

As an addition to the above explanations, top management have been comparing SBUs against each other using a matrix; the horizontal axis of the matrix depicts/means relative market share while the vertical axis represents the industry growth rate

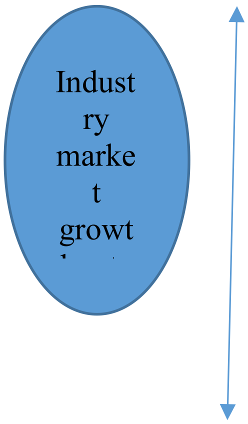
Fig 1:



High

Low

High **r1c1** **r1c2**



QUESTION MARKS (?) (Low market share in high growth industries) **r2c1**	**STARS (**)** High market share in high growth industries **r2c2**
DOGS Low market share in low growth industries	**CASH COWS** High market share in low growth industries

Low

Fig 1. ***The Boston Consulting Group (BCG) Growth share Matrix***

As represented by the diagram above, the matrix is divided into four cells- r1c1; r1c2; r2c1 and r2c2. SBU's in r1c1 are referred to as Question marks (?); the ones in r1c2 are referred to as Stars (**); in r2c1 we have the Dogs and in the last cell, r2c2 we have the Cash cows. They all have different long term prospects and different implications for each cash flows according to the BCG.

Illustrations:

Question Marks (?)

Referred to as problem children; question marks represent businesses that operate in a high-growth market but have low relative market share in such market. Question marks are SBUs that are relatively weak in competitive terms as a result of their low share in the market but are based in high-growth industries and thus may offer a potential opportunity for long term growth and profit: If they are nurtured well and their market share can be increased, they may become stars.

Stars (**)

An SBU with high market share in a rapidly growing market is a Star. It can equally be said to be the market leader in a high-growth market.Stars are Question marks businesses that have become successful. They are often referred to as business investment that can be trusted and relied upon to safe corporate business from imminent collapse. Though here, cash generation is on the high side but may not be enough to finance the rapid growth as a result of the SBU's heavy expenditure on gaining large market share and recognition. However, Stars offer the most attractive long term growth and profit opportunities in the firm's portfolio but requires heavy investment to maintain and expand their dominant positions in a growing market.

Cash Cows

These set of businesses have high market shares but in a low-growth market or industr**y.** Cash cows represent businesses with a strong competitive position in a mature industry. Here, growth is low and market conditions are more stable implying a lack of opportunities for future expansion, the need for heavy marketing investment is less. The high relative market share refers to the fact that the SBU must be able to maintain unit cost levels below those of competitors and so cash cows are referred to as cost leaders in their industries. Cash cows are yesterday's Stars and remain the current foundation of their corporate portfolios.

DOGS.

They represent businesses with low market share and at the same time low market growth.Businesses in saturated, mature markets with intense competition and low profit margins. One of the features of this kind of businesses is that they have a very weak competitive position and the power necessary to pull weight in their industry that is very unattractive. They are often regarded as offering unattractive return on investment or not giving anything back in return to the company.

Values derivable from the BCG Matrix

- The BCG Matrix has contributed immensely to building businesses across different industries: Its advantages are as follows:

- The analysis provides help in directing investment across the corporate portfolio of a firm. It identifies and describes how best to use corporate cash flows along the life cycle stages of a business.

- The BCG Matrix model brings to focus important differences among businesses and helps illustrate the rationale behind corporate plans to invest funds in another business or expand.

- The model suggests reasonable levels of performance for business units facing the various strategic situations by assigning a specific role or mission for each business unit and the integrating of multiple business units into a total corporate strategy.

- Also, the model is a demonstration of simple but useful guidelines with which one can measure and check for consistency among businesses units' requests for resources and the likely opportunity for a business unit to use those resources efficiently and effectively.

Limits of the BCG Matrix Model

It can be very difficult to identify individual businesses. Clearly defining a market is often difficult. There are no exact principles for deciding what constitutes a separate market or an individual product line i. e. how do you classify/differentiate the coffee and tea businesses, as one business or as two businesses? Which are part and parcel of the portfolio results.

The classification of the cells into four is confusing and does not capture the average growth and the average market share rates which are part and parcel of the portfolio results.

The assumed linear relationship between market share and profitability underlying the BCG Matrix is no universal.

A high market share in a low-growth industry may not necessarily result in the large positive cash flow characteristic of cash cow businesses.

b. **The General Electric Nine cell industry Attractiveness-Business position matrix (GE's Multi-factor Portfolio Matrix)**

The limitations of the BCG Matrix are as a result of measures of business strength (market share) and market attractiveness (growth rates). The GE McKinsey industry attractiveness-business strengths matrix was proposed to generalize the BCG Matrix and correct some of its shortcomings. The GE Nine Cell Planning Grid is an adaptation of the BCG approach. It attempts to overcome some of the limitations of the matrix mentioned above by using a much wider range of multiple factors to assess the attractiveness of an industry in which an SBU competes, as well as the competitive position of an SBU rather than the single measures (market share and market growth) used by the BCG Matrix.

The GE McKinsey industry attractiveness-business strengths matrix added in the assessment of an industry-attractiveness other factors as industry size, growth, cyclicality, competitive intensity and technological dynamism. For an example, while measuring competitive position, it makes use of factors like the market share and an SBU's relative position with regard to the production costs, product quality, price competitiveness, distribution, and innovation. From four cells used in the BCG Matrix, the GE expanded the Matrix to nine (9) replacing the high/low axes with high/medium/low axes to make finer distinction between business portfolio positions. GE planning entails rating each of the company's business units on multiple sets of strategic factors within each axis of the grid.

Business Strength/Position factors: The factors that are seen as contributing to business strength are relative market share, price and quality, profit margin relative to competitors, ability to compete on customer and market knowledge, competitive position (strengths and weaknesses) technological capability, employee relations and goodwill, and management caliber.

Industry Attractiveness factors: The factors that are seen as determining industry attractiveness are market size and its growth rate; industry profitability; competitive intensity; economies of scale; the nature of demand (e.g. cyclicality); social, environmental, legal and human factors;

technological and capital requirements; barriers to entry and exit; and emerging opportunities and threats.

A business's position or strength within the planning grid is calculated by subjectively quantifying the two dimensions of the grid. To measure the attractiveness of an industry, the factors contributing to industry attractiveness factor is then assigned a weight that reflects its perceived importance relative to the other attractiveness factors. Favourable to unfavourable future conditions for those factors listed are then forecasted, rated on the basis of some scale. A weighted composite score is then obtained to determine the percentage overall industry attractiveness of a business.

Similarities between the BCG Matrix and the GE Matrix

(1). The two models maximize investment in strong businesses in highly attractive industries.

(2) They both undertake selective investment in activities which have market potential.

(3). They both proposed specialization when business strengths are low but the industry is attractive.

(4). They both support divestment of weak businesses in unattractive industries.

The GE Nine- cell Planning Grid superiority over the BCG Matrix

(i). In terms of terminology used by the GE Model, it is better than that of the BCG matrix because it is less offensive and universally comprehensive.

(ii).The multiple measures associated with each dimension of the GE grid tap more factors relevant to business strength and market attractiveness thansimply market share and market growth used as yardsticks by the BCG Matrix.

The GE Matrix has been said to be very complex than the BCG Matrix considering the nine cells as against the four cells of the BCG Matrix. Classifying each of the products into cells accurately is equally very difficult as a result of ambiguous interpretation of strength and weight of importance it attaches to each feature making up business strength and market attractiveness.

7.3.2 Uses and limitations of portfolio analyses

Portfolio planning techniques are productive in assessing alternative corporate-level strategies in diversified organisations. The specific ways in which they are considered useful are as follows:

(i). They are useful in assessing how strategic business units contribute to the strategic capability of an organization.

(ii). Portfolio analyses are useful in solving issues of balance in an organisation's portfolio which are important considerations at the corporate level of an organization for identifying strategic choices.

(iii). They assist in generating good strategies by promoting competitive analysis at the business level and substantive, comparative discussion across the company's business units, thus resulting in a strategy that capitalizes on the benefits of corporate diversity.

(iv). They brought about a logical, more objective and standardized measurement yardsticks for selective resource allocation decisions between SBUs therefore, reducing the usual struggles for limitedavailable resources among the functional areas.

Self-assessment 7.1

1. Discuss the BCG Matrix and the McKinsey General Electric Model bringing out their similarities and dissimilarities. 2. Distinguish between the Cash cow and the Question marks positions and advice your company on the best bet in terms of return on investment in the short term out of the two.

7.4 SUMMARY

Organisations have adopted different types of strategy to reach their goals and accomplish the ultimate for their organisations. The ultimate in the areas of introducing a new product and making additional investments. The BCG Model and the Mckinsey Model have made tremendous difference in ensuring organisations survive in their different endeavours. Though, there are still some grey areas that need attention, they have proven to be reliable as far as determining the appropriate step to take or which way to go in times of challenges. In this unit, we learn about the strategic analysis and strategic choice, then, understand how to manage strategy formation and choice process and in addition, how to evaluate and determine the appropriateness of a proposed strategy would be learnt. Also, portfolio planning approaches, and uses and limitations of portfolio analyses were discussed.

With this, we have come to the conclusion of the course. Please read through your material again and assimilate it. We wish you all the best in your examination.

7.5 REFERENCES/FURTHER READINGS

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7.6 POSSIBLE ANSWERS TO SAEs

While the BCG growth share matrix is a model by which businesses are classified in relation to market growth and company relative market share, the GE McKinsey industry attractiveness-business strengths matrix added in the assessment of an industry-attractiveness other factors as industry size, growth, cyclicality, competitive intensity and technological dynamism. For an example, while measuring competitive position, it makes use of factors like the market share and an SBU's relative position with regard to the production costs, product quality, price competitiveness, distribution, and innovation. From four cells used in the BCG Matrix, the GE expanded the Matrix to nine (9) replacing the high/low axes with high/medium/low axes to make finer distinction between business portfolio positions. GE planning entails rating each of the company's business units on multiple sets of strategic factors within each axis of the grid.

The basic idea underlying the BCG approach is that a firm should have a balanced portfolio of businesses such that some generate more cash than they use and can thus support other businesses that need cash to develop and become profitable

Similarities between the BCG Matrix and the GE Matrix are:

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(2) They both undertake selective investment in activities which have market potential.

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2. While the Cash cows represent businesses with a strong competitive position in a mature industry. Here, growth is low and market conditions are more stable implying a lack of opportunities for future expansion, the need for heavy marketing investment is less. The high relative market share refers to the fact that the SBU must be able to maintain unit cost levels below those of competitors and so cash cows are referred to as cost leaders in their industries. Cash cows are yesterday's Stars and remain the current foundation of their corporate portfolios; the question marks (?) refers to as problem children; question marks represent businesses that operate in a high-growth market but have low relative market share in such market. Question marks are SBUs that are relatively weak in competitive terms as a result of their low share in the market but are based in high-growth industries and thus may offer a potential opportunity for long term growth and profit: If they are nurtured well and their market share can be increased, they may become stars.

Cash cows are set of businesses with high market shares but in a low-growth market or industr**y.** Cash cows represent businesses with a strong competitive position in a mature industry. It is the best bet in terms of return on investment in the short term out of the two.