NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: BUS 428

COURSE TITLE: BUSINESS POLICY AND STRATEGY

COURSE GUIDE

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HCM 428 – BUSINESS POLICY AND STRATEGY

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1.0 Introduction

This course material introduces the concept of business policy and strategic management. With the increased competition, the management of business has acquired strategic dimension. All professionals, including the Chartered Accountants, working towards growth of their businesses must possess sound knowledge of strategic management. Business policy and strategic management are highly intertwined. In the current business environment characterized by rapid change and global competition, this lecture aims at introducing the international business environment under the light of the strategic concepts and processes. The course tries to acquaint students with the process of developing and implementing a business strategy and how to implement that strategy.

The term strategic management is of relatively recent origin and Is currently the accepted term for the fields of business policy and planning. However, as a separate field of study, it is still at a fairly young and relatively evolutionary stage. As a result, many definitions of strategy abound, and the terms "strategic planning," "policy," and "strategic management" often mean precisely the same thing to different authors. The origins of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability.

This course was based on interactive case studies which had been in use at the school for instructional purposes since 1908. The course was intended to enhance general managerial capability of students. In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy, a mandatory requirement for the purpose of recognition. During the next few decades, business policy as a course spread to different management institutes across different nations and become an integral part of management curriculum. Basically, business policy is considered as a capstone, integrative course offered to students who have previously been through a set of core functional area courses. The term 'Business Policy' has been traditionally used though new titles for the course have begun to be introduced in recent years.

1.0 COURSE CONTENT

The subject of strategic management is often taught as a core topic at some stage (usually the final year) during a business related degree programme. This course is a three (3) unit course and is designed as the capstone course taken by all business related degree students. Strategic management also acts as a key feature of postgraduate business degree programmes. The topic consolidates what the student has learnt in the preceding years of their degree and applies this knowledge at a strategic level to business contexts. This course material therefore provides Learners with a short, concise explanation of the most important concepts and techniques in strategic management. It is a rigorous explanation of many topics and concerns in strategic management. These concepts are clearly explained by citing various examples. We will primarily draw examples and cases from the private sector but will include some crown corporations and not-for-profit organizations. This course also provides some key insights by simulating an environment which promotes skills such as time management, teamwork, self–assesment that are important in business life.

3.0 COURSE AIMS

This course aims to equip and develop each learner with the following skills:

►The ability to create, implement, and evaluate strategies for various organizations in different sectors and countries

► The ability to evaluate and integrate past and current strategies in order to understand the impact of strategic thinking on diverse institutions

► Widening the horizons through the comparison of Turkish examples in private and public sector with the international examples

► Critical analytical skills

► Communication and interpersonal skills necessary for problem-solving

►Time-management
► Teamwork
► Presentation skills

4.0. OBJECTIVES

After going through this course, you should be able to:

► develop an appreciation of top management perspectives, as well as understanding the functions and responsibilities of managers in all areas and levels.

► understand business analytical tools and fundamental concepts in strategic management.

► understand and develop the process of strategy formulation and implementation.

► develop communication skills (both in writing and verbally) in solving and presenting business policy issues.

5.0. COURSE MATERIALS

· Course Guide
· Study Units
· Text Books
· Assignment Guide

6.0. STUDY UNITS

Unit – 1: Conceptual Mining of Business Policy and Strategy

Unit – 2: The Nature and Value of Strategic Management

Unit 3: Vision, Mission and Objectives

Unit 4: Environmental Analysis

Unit 5:Assessment of Companies

Unit 6: Company Strategy

Unit 7: Strategy Implementation

Unit 8: Strategy Evaluation and Control

Unit 9: Basic Policy Areas

Unit 10: Marketing Policy

Unit 11: Production Policy

Unit 12: Procurement Policy

Unit 13: Financial Policy

Unit 14: Social Responsibility of Business and Ethics

Unit 15: Business Ethics

Unit 16: Unit 16: Global Issues in Strategic Management – the Global Challenges, Strategies for Competing in Global Markets, Local Markets and Cultural Variations.

Unit 17: Strategic – Management Case Analysis

Unit 18: Strategic Management Sample Case studies and Answers

Each study unit will take at least two hours. You are expected to study each unit and answer the tutor-marked assignments.

7.0. THE MODULES

The course is divided into three modules. The first module addresses the following dimensions of business policy and strategy; Conceptual Mining of Business Policy and Strategy: The Nature and Value of Strategic Management: Vision, Mission and Objectives: Environmental Analysis : Assessment of Companies. It consists of five units (Units 1, 2, 3, 4, 5,). The second module deals with the practical issues of strategy formulation and the interrelationship with policy; Company Strategy: Strategy Implementation: Strategy Evaluation and Control: Basic Policy Areas: Marketing Policy The third and the last module consists of five units including; Production Policy: Procurement Policy: Financial Policy: Social Responsibility of Business and Ethics: Strategic – Management Case Analysis. A unit 16 is included to expose the learners to the practical reality of case analysis that is germane to the understanding of the complex issues addressed by the subject matter of business policy and strategy.

8.0. ASSIGNMENT

Each unit consists of at least one assignment which you are expected to do.

9.0. ASSIGNMENT

9.1. TUTOR-MARKED ASSIGNMENT

You are expected to apply what you have learnt in the contents of the study unit to do the assignments and send them to your tutor for grading.

9.2. FINAL WRITTEN EXAMINATION

This will be done at the end of the course.

10.0. SUMMARY

This course BUS 428 - Business Policy and Strategy tries to acquaint students with the process of developing and implementing a business strategy and how to implement that strategy. As degree and post graduate students, you are able to integrate the knowledge and skills you have learned in other business and administration courses such as accounting, finance, management, marketing and production and also develop new skills and abilities. This course also provides some key insights by simulating an environment which promotes skills such as time management, teamwork, self–assessment that are important in business life.

Course Code: **BUS 428**

Course Title: **BUSINESS POLICY AND STRATEGY**

Course Unit: → **3**

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Published By:

National Open University of Nigeria

First Printed 2012

ISBN:

Printed by:

UNIT – 1: Conceptual Mining of Business Policy and Strategy

Content

1.0 ►Introduction

The field of business policy/strategic management has offered a variety of frameworks and concepts during the last half century, many aimed at "taking business and its management seriously." During the last two decade in particular, there has developed a substantial body of literature in the fields of strategic management strategic planning, corporate and business policy and related topics. The term strategic management is of relatively recent origin and is currently the accepted term for the fields of business policy and planning. However, as a separate field of study, it is still at a fairly young and relatively evolutionary stage. As a result, many definitions of strategy abound, and the terms "strategic planning," "policy," and "strategic management" often mean precisely the same thing to different authors. But for the purpose of this course material, the terms business policy and strategic management shall be used interchangeably.

This course material explores how organizations can grow and prosper through successful execution of the strategic management process. ***Business policy and strategy*** *is a process through which organizations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to move the organization in that direction, and implement those strategies, all in an effort to satisfy key stakeholders.* ***Stakeholders*** are groups or individuals who can significantly affect or are significantly affected by an organization's activities. An organization defines who its key stakeholders are, but they typically include customers, employees, and shareholders or owners, among others. Although larger companies tend to use the strategic management process, this process is also a vital part of decision making in smaller companies.
Firms practicing strategic planning processes tend to outperform their counterparts that do not. In fact, executives have reported higher levels of satisfaction with strategic management tools and ideas than with most other management tools.

Business policy as a course is commonly regarded as a capstone course (a CAPSTONE is the finishing stone used in the construction of an arch). The reason been that the subject of strategic management is often taught as a core topic at some stage (usually the final year) during a business related degree programme. Strategic management also acts as a key feature of postgraduate business degree programmes. The topic consolidates what the student has learnt in the preceding years of their degree and applies this knowledge at a strategic level to business contexts.

In order words, the course is better appreciated from the perspective that the course is only possible if one has a fairly good understanding of the functional areas of a business such as marketing, finance, product, personnel and so on,. Similarly, it is a fact that most people starts their career life in a functional area - finance, manufacturing, personnel, marketing – and gradually work their way up to top management. ***At** the* ***top management level, the primary work becomes that of formulation and implementation of strategy. The strategy guides the organization and the work of all the people within it. Hence, the course*** (Variously called long-range planning, Top management planning, corporate strategic planning, strategic management etc.) covers as its subject matter, the work of top management of the organization (FAB 303/01-03COS).

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to:

1. The nature of policy and the issues involved in the establishment of policy
2. Differentiate between the tripartite concepts of policy, objectives and procedure on the one hand and between informal and formal policies on the other hand
3. Conceptually define business policy and highlight its features
4. Comment on the intricacies of business policy decision
5. Make clear distinction between policy and strategy.

3.0 ► The Nature of Policy

Top management of Organizations are concerned with Organizational activities devoted to

→ planning company's future,

→ setting goals and objectives, and

→ generally concentrating of the survival and progress of their organizations and If they are members of the organization's board of directors; they are responsible for formulating policies and making the final decision on corporate planning and strategy.

The top management is primarily concerned with the working of the whole organization-and not only about anyone particular function or another. All problems within the organization (or outside that will affect the organization in any major and significant ways) will be of interest to the top management. *However, such areas / issues that are likely to significantly affect the operations of the company will receive primary concentration. There is always therefore a tendency to prioritize the problem that a company faces at any point in time. Those matters of the highest priority are commonly referred to as "STRATEGIC" issues or issues of a "POLICY" nature. These are the problems and issues that are attended to by the top management.*

The term **POLICY** has several meanings. It is often used to indicate an ethical connotation, such as "**honesty is the best policy."** In its business sense policy means an oral or written statement that serves as a guide for management decisions. The policy of a business undertaken has been specifically defined as: ***"a statement of its primary objective, accompanied by a directive indicating the general pattern to be followed to secure its implementation." (Musselman, 19…..).*** **A broader definition of the term policy viewed it as** "*a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that the employees throughout the firm make decisions and take actions that support the corporation's mission, its objectives and its strategies".*

Policy sets forth guidelines to daily decision making throughout the organization so that decisions do not have to rise higher in the organization for resolution. Policy statements are therefore made to indicate to those concerned just what the organization **WILL,** and **WILL NOT DO** in pursuance of its overall purpose.

They usually do not require action but are intended to guide managers in their commitment to decisions they ultimately make. But policies are not the same as objectives or plans, even though they are frequently confused with them.

A policy is a standing plan; it is used over and over to guide specific actions. For example, if a company adopts a policy to sell only for cash, all employees give a consistent answer to any customer asking for credit. Every company needs policy covering many aspects of its operations in order to simplify decision-making and to give predictability and consistency to actions taken at different times by different people.

In addition, policy serves a key role in spelling out, clarifying, and testing strategy. Frequently strategy is stated in such general terms that its interpretation can be varied. A carefully selected policy sharpens the meaning of the strategy and guides specific decisions in a direction that supports the strategy.

In a sense, no strategy has really been though until its implications for policy (and programs) has been explored. Sometimes as our planning follows through from a tentative strategy to more specific policy we encounter a stumbling block that causes us to go back and revise the strategy. In the end, each should support the other. To be sure, some policy is adopted for administrative convenience and is not affected one way or the other by a change in strategy; our focus here, however, is no policy that does directly help implement strategy.

Objectives state ***aim*** or ***goal*** that is, they are ***ends*** Plan provide a framework within which action can take place of attain objectives i.e they are ***means;*** policies on the other hand, are neither ends nor means, they are statements of conduct. Policies cause managers to take actions in a certain way but they are not actions in themselves. (Cole 117). ***As a guide to action, policies anticipate that many recurring decision making situation can be dealt within advance.*** Decisions at all levels are aided by policy, and one of the fundamental skills of the manager is to create policy and to use it.

Policies are vital to decisions making in at least two main ways;

(1) => They provide a basis for relating actions to objectives and,

(2) => Helps to assure that decision results in coordinated and successful endeavors.

The work of planning and determination of company objective becomes effective when expressed in policy form.

It is the function of the board of directors and top management to formulate and approve the overall corporate policy for the organization as recommended by the chief Executive. This does not mean that lower management as policy interpreter and implementers do not contribute to policy been formulated.

In reality, the lower manager do infact initiate, formulate and recommend policies as they affect their various functional departments. This is however done within the overall framework of the organization and passed though the CEO to the board for consideration and approval. Policies therefore ordinary exist at all levels of the organization and range from corporate company policies through major department policies to minor policies applicable to the smallest segment of the organization.

Policies are said to be ***official*** if they tell members of an organization how to meet specific situation that occur frequently and affect a substantial number of people. ***Specific*** Policies anticipate that many problems requiring decisions occur repeatedly and need to be treated consistently. ***General*** policies are also needed to guide decision making in situation that are non-recurring or infrequent but that needed to be made consistently with the broad, corporate objectives and strategies.

Since policies are guides to decision making, it follows they must allow for some discretion. Otherwise, they would be **rules.** For example, a policy of buying from the lowest of three qualified bidders leaves to discretion only the question of which bidders are qualified, but a requirement that materials be bought from a certain supplier, regardless of price or service, would, however, be a rule. ***Rules*** spell out specific required actions of non-actions, allowing no discretion. In summary, the essence of policy is discretion.

3.0.1 Establishing Policy

Science and technology have placed many new and sophisticated tools at management's disposal. A basic management problem, however, is still the age-old one of human relations-helping people work effectively toward organizational goals. The large capital investment required for equipment has encouraged the development of larger plants and corporations which., in turn, involve much larger groupings of people than in the earlier stages of our industrial society. Effective direction of the activities of larger organization requires sound guidelines or basic reference information for decision making. Most successful companies provide this direction through soundly conceived and developed policies.

3.0.2 Policy, Objective and Procedure Defined

Establishing policy may be described as "formalizing organizational attitudes towards specific types of repetitive problems as guides to decision making". The need for clearly defined and understood polices increases as a organization grows in size. Even a small owner-operated business, however, must have a framework of policies, written or understood, if it is to continue to function satisfactorily when the owner is absent.

It is important to differentiate between a policy, an objective, and a procedure. Policies form the basic framework of principles and rules to be used as reference information for decision making. They guide an organization's managers in a continuing and consistent pattern of decisions and direction of thought. Policies supplement each other. Over a period of years, policies form "a body of law" which expedites managerial decision making. Most importantly, they sharply diminish the hazard of conflicting verdicts and incompatible, ill-assorted ventures which result from inadequate information and guidance.

In contrast to a policy, ***an objective*** is a more or less specific goal or aim. The dictionary describes an objective as "that which any person of group is seeking ardently to achieve." An objectives is something to achieve; a policy is a guide to its achievement.

A procedure is “the manner or way of performing anything, a process, method, or tactics.” Well-defined procedures are important in any organization to direct employees in the performance of their duties.

Because they tend to overlap, procedure is often confused with policy. A procedure essentially describes how to do something, whereas a policy is part of a framework of general principles, that is, the why behind decision making. Frequently a written policy will include procedure information which describes how to implement a police will written procedure will sometimes include information on why certain procedures are necessary.

3.0.3 Types of Policies:

Policies come into being in any orgnisation in different ways. Koontz and O‟donnel have classified policies on the basis of their source under the following categories-

1. Original Policy: The top management formulates policies for the important functional areas of business such as production, finance, marketing etc. The objective is to help the concerned functional managers in decision making in their respective areas. Thus originated policies are the result of top management initiative. These policies are formulated in the light of the enterprises objectives. They may be broad or specific depending on the degree of centralization of authority. If they are broad, they allow the manager some operational freedom. On the other hand, if they are specific they are implemented as they are.

2. Appealed Policies: Managers often confront with particular situations as to whether they have the authority to take a decision on a particular issue or problem. The policies regarding some issues may be unclear or may be totally absent. In such case, he appeals the matter to his superiors for thinking. Appeals are taken upwards till they reach the appropriate level in the hierarchy. After thorough examination of the issues involved, policy decision would be taken at the appropriate level.

3. Implied Policies: In some cases there may not be specific policies. Managers draw meaning from the actions and behaviour of their superiors. Though there is no explicit policy, managers may assume it in a particular way and go about in their day-to-day operations.

4. Externally Imposed Policies: These are the policies which are not deliberately conceived by the managements. They are rather, imposed as the organisations by the agencies in the external environment like Government Trade Unions, Industry Association, Consumer Councils etc. These agencies to protect the interest of the respective groups may lay down certain policies to be followed by the business.

As the interaction of the business with external environment is increasing, one can find many policies thus coming into being in any modern business. For instance, the recruitment policy of the organization is influenced by the government's policy towards reservation to weaker sections. Anti-pollution measures, concern for the quality of the product, customer care and service etc. come under this category.

3.0.4 Policies – Informal versus Formal

In many companies, clear policies exist even though they are not written. Through on-the-job training and supervisory practice and precedent, an employee learns the guideposts which channel his efforts toward desired ends. These guideposts may be called "informal policies". In fact, many firms do not get around to writing their policies and some that do, fail to keep them revised and up to date.

Many companies purposely do not write out many of their established policies. In some cases, such as certain confidential matters, unwritten policies may be more advisable. Some companies feel that policies in some areas are too difficult to state, or that they limit the complete freedom of the subordinate, or that the nature of the enterprise is too dynamic to set policies in certain areas, that is, they may become outmoded too soon.

A major problem with so-called informal policies is that control is lost too easily. Unwritten policies take on a folklore quality and area easily subject to reinterpretation to meet expediencies. In addition, the fast pace of today's world required new members of a company to assimilate quickly the basic organizational values and philosophy. But there are only two ways to acquire knowledge of informal policies:

(1) spend a long time in an organization and gradually learn them or

(2) spend a shorter but very intensive period of training with a knowledgeable member of the organization and hope that he covers every eventuality and that you can retain the knowledge thus imparted.

Basically, policies are issued in response to the request, "Please tell us what you want us to do." It is evident from the foregoing remarks that there are distinct advantages to written "formal" policies:

1. Those participating in the development and writing of a formal policy are forced to consider all factors, relevant and irrelevant, clearly concisely.

2. Discrepancies, conflicting points of view, overlapping responsibilities, and inconsistent practices will be uncovered.

3. Written policies are not as subject to change by simple word of mouth.

4. Subordinates and new employees and appointees can review expectations with care. This is a real help for men assuming new responsibilities in management.

In the case of both informal and formal policies, however, application must be tempered with a liberal dose of judgment. In fact, although supervisors should be guided by company policies, the reason for any action should be explainable on its own merits. The trite expression, “Sorry that’s company policy,” must be avoided as an explanation in its own right.

It must be remembered that policies are broad guides-and only guides-which exist to channel the thinking of personnel charged with decision making, flexibility in decision making is consciously implied in these guides. A subordinate manager must, however, intelligently apply policies to given circumstances in a consistent manner. Policies then, are not a set of inflexible rules; instead, they are the living precepts which guide an organization in a continuing and consistent pattern of behavior.

3.0.5 Principles of Policy Making

Setting policies is a primary function of administration. As such, it should be accomplished with due regards to the following principles:

1. The statement of any policy should be definite, positive, clear, and understandable to everyone in the organization.

2. Policies should be translatable into the practices, terms, and peculiarities of every department or division of the enterprise.

3. Policies, regardless of how fundamental, should not be inflexible. They should, however, posses a high degree of permanency.

4. Stability of policies is essential; constantly changing policies are fatal to business success.

5. there should be as many policies as necessary to cover conditions that can be anticipated, but not so many policies as to become confusing or meaningless.

6. policies should be predicated on organizational fact and sound judgment; they should not constitute merely personal reflections.

7. Policies should not prescribe detailed procedure except in rare instances.

8. Policies should recognize economic principles, be in conformity with Federal and other laws, and be compatible with the public interest.

3.0.6 Influence of Policies on Organizational Effectiveness

It is widely recognized in management that to achieve maximum success we must "out-manage" our competition. Comparatively speaking money and first-class equipment are readily and broadly available. Therefore, management skill in "getting results through people" has increasingly become the key to a successful enterprise.

A group of people will function effectively as a team, however, only if they are properly organized, directed, and motivated. The team becomes a dynamic organization when authority for decision making is intelligently decentralized and delegated to the lowest appropriate supervisory level in the organization.

The proper level should be that point where all the relevant and necessary information for the making of the decision comes together. Or, restated, every decision must be made at the lowest possible level where that particular decision can be made intelligently. Responsibility must be transferred when authority is delegated, the man next up the ladder in the organizational structure must avoid making decisions for his subordinate. The subordinate must make and live with his decisions; he must work his way through the results, be they good or bad.

An industrial organization may be described as an integrated and coordinated collection of small teams. Each "small team" consists of a group of workers and their leaders. The leaders may be a foreman, a section head, a corporal, a straw boss, or anyone else at the first level or management. He, in turn, is part of another "team" person at the same level of authority who are responsible to the next level of management-supervisor, department head, shift boss, sergeant, or whatever. If persons appointed to the supervisory levels command the respect of their associates and subordinates, the organization can achieve maximum effectiveness. The relationships within each team must be those of mutual confidence and respect; there should be a freedom to discuss any member's problem based on the will to work together.

Organizational effectiveness largely depends on coordinated effort. Coordination will be achieved through well-defined and clearly understood policies, for policies play a central role in ensuring that the organization will make steady and consistent progress towards its goals.

A policy is essentially a "general decision," in the nature of an operating principle of standing rule, formulated by executives to enable them to delegate authority. At the same time, the executives retain control by reason of having established, through the statement of policy, the normal pattern for dealing with recurrent events.

Policies should be development by thorough discussion so that all managers involved in related areas of responsibility are personally committed to the policies. Developed in this manner, policies will stand the test of fire; they will hold under stress. A set of policies may be compared to the rope holding mountain climbers together: being tied together, no climber can be lost; but they must coordinate their activities, or the rope will get in the way.

A gradually developed and thoroughly understood framework of policies can greatly simplify decision making throughout an organization. The pattern or framework of policies, as well as the policies themselves, help form guidelines for each member of the management team. Many repetitive problems can be resolved by the application of principles laid down in previously developed policies. This releases much management time and effort for new challenges and opportunities.

Each level of management, working within its own framework of well-developed, understood, and accepted policies, will make necessary day-to-day decisions more effectively. Higher levels of authority in the organization will be more able to make the broader, long-range decisions which help ensure the success of the enterprise.

This is really an extension of the principle of "job breakdown" enunciated by Frederick W. Taylor and applied to the function of management.

3.1 ►Business Policy Conceptual Framework

According to William F Glueck, development in business policy arose from the developments in the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management, a term that is currently used to describe the process of strategic decision making.

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization. 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. 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 tends to emphasize on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities.

Christensen, Andrews and Bowers (1973) have defined ***Business Policy*** as the duties, functions, roles and responsibilities of the general management level of the organization. It includes the identification of problems that affect and influence the character and success of the whole organization. The major problems which business policy address include;

(1)=> The determination and choice of an organization's goals and objectives;
(2)=> The shaping of the character of the organization;
(3)=> Identification of the functions to be performed and;
(4) => The mobilization and efficient allocation of resources to achieve the stated goals and objectives in the light of the competitive environment.

These problems by nature are top-management responsibilities, who in their position can view in the light of the total organization of corporately. ***The overall major problem of an organization is how to "configure (arrange) and direct the resource – conversion process in such a way as to optimize the attainment of the objectives"*** (Ansoft 1984).

The solution of these problems lies solely with the top management. This is because the success or failure of any corporate entity begins in the board room. Hence, the functions of board of directors in its collective capacity is to determine, direct and control the general policies of the organization. ***Therefore, business policy deals with organizational problems from the top management point of view and not from the standpoint of the specialists,*** e.g. departmental managers or functional managers.

3.1.1 Elements and Processes of Business Policy

After understanding the concept of Business policy, following features can be identified:

i) General Statement of Principles: Policies are general statement of principles followed by Business for the attainment of organisational objectives. These principles provide a guide to action for the executives at different levels.

ii) Long Term Perspective: Business policies have a long life and are formulated with a long term perspective. They provide stability to the organisation.

iii) Achievement of Objectives: Business policy is aimed at the fulfillment of organisational objectives. They provide a framework for action and thus help the executives to work towards the set goals.

iv) Qualitative Conditional and General Statements: Business policy statements are qualitative in nature. They are conditional and defined in general manner. These statements use words as to maintain, to follow, to provide etc. They call be specific at times but most of the times, a Business policy tends to be general.

v) Guide for Repetitive Operations: Business policies are formulated to act as a guide for repetitive day to day operations. They are best as a guide for the activities that occur frequently or repeatedly.

vi) Hierarchy: Business policies have an hierarchy i.e. for each set of objectives at each level of management there is a set of policies. The top management determines the basic

overall policy, then the divisional and / or departmental policies are determined by the middle level management and lower level policies are more specific and have a shorter time horizon than policies at higher levels.

vii) Decision Making Process: Business policy is a decision making process. In formulating Business policy one has to make choices and the choice is influenced by the interests and attitudes of managers engaged ill making the policies.

viii) Mutual Application: Business policies are meant for Mutual application by subordinates. They are made for some specific situation and have to be applied by the members of the organisation.

vix) Unified Structure: Business policies tend to provide predetermined issues and thus avoid repeated analysis. They provide a unified structure to other types of plans and help mangers in delegating authority and having control over the activities.

x) Positive Declaration: Business policy is a positive declaration and a command to its followers. It acts as a motivator for the people following it and thus they work towards the attainment of the objectives efficiently and effectively. The Business policy lays down the values which dominate organisation's actions.

3.1.2 Features of Business Policy

An effective business policy must have following features-

1) Specific- Policy should be specific/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.

3.1.3 Major Functions of Policy

Ovuorie presents five major functions that policy performs organizations:

(1)=> Policy clarifies management viewpoints and philosophies within specified area of operation.
(2)=> It provides a pattern within which delegation of authority may be expedited and controlled.
(3)=> It anticipates future conditions and situations and resolve how they will be dealt with.
(4)=> It fosters a feeling of confidence in making administrative decisions; it expedites decisions encourages executive self-reliance and improvement of executive performance.
(5)=> It establishes latitudinal guide within which authorized person may make administrative decisions.

3.1.4 The Intricacies of Policy Decision

Since policy is a guide to action for the total organization, it follows that its formulation, implementation and decision implications will tend to affect the total organization internally and its external environment.

This is because every organization is a system made up of subsystems called department, unit, or section. Each subsystem must be of necessity be in harmony with the others and with the total system to avoid friction and to prevent operational/functional managers from working at across purpose.

For example, the marketing department cannot decide to increase sales without finding out whether the production department ahs the capacity to produce more or the finance department has cash flow to finance the sales increase. Policy formulation and strategic planning must take account of the policy on all aspects of the organization to ensure achievement of the corporate objectives.

Policy decisions must also be in harmony with the demands and constraints imposed by the external environmental order to be effective and beneficial to the organization. The external environment, which is made up of the legal, political, economic, cultural and social sub-environments; is not only a recipient of the organization’s output, but also a provider of its raw materials, skilled and unskilled workers production capacity and others.

Although the external environment is largely uncontrollable, it is still manageable with the organization's resources (i.e. this manageability calls for proactive strategy of the part of the management). The effective interaction between an organization's internal controllable resource, objectives, policies and these uncontrollable (external) sub-environments, which have a direct impact on the functioning of the organization, determine to a large extent the degree to which the organization achieve its purpose.

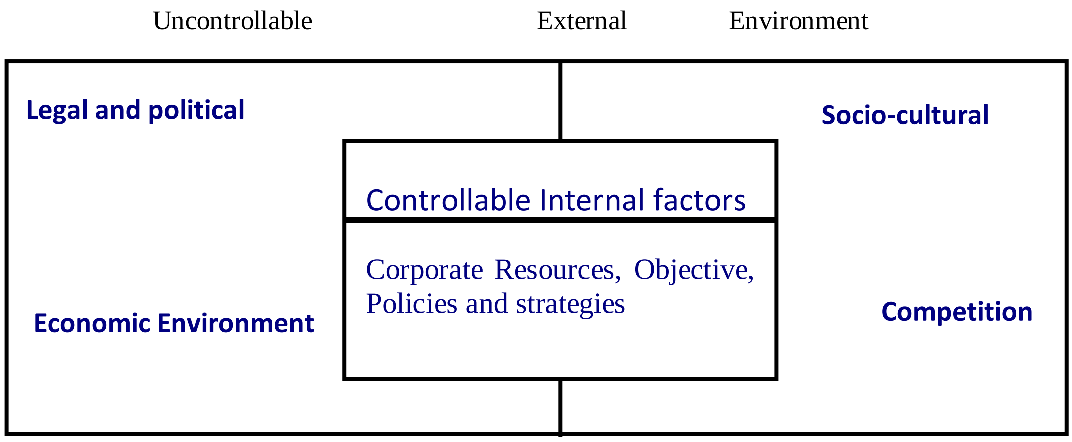

Figure 1.1: Interaction between Internal and External corporate Environments

3.1.5 Factors Determining Business Policy

The Business policy of an organisation is influenced by various interrelated and interacting, factors. These factors can be classified as internal and external factors. The determinants which are internal to the firm/organisation and which influence the decisions directly are known as the internal factors. External factors include all those factors which act from outside the firm and influence the organisation externally. We discuss these determinants one by one below:

Internal Factors

The determinants include the Business mission, Business objectives, Business resources and the management values which are all internal to the organisation and play a very important role in the formulation of Business policy.

1. Business Mission: The policy maker has to understand the Business mission, so that the policy is in tune with it. Business mission provides the company with the meaning for which it exists and operates. Because policy provides guidelines for managerial action, it has to be made in a manner that it accomplishes the Business mission.

2. Business Objectives: Another internal determinant of Business policy are the Business objectives. All organisations frame organisational objectives and work towards their achievement. Policy makers must take into account the economic, financial and other objectives of the company.

3. The Resources: The organisation has to carry out its activities keeping in mind the resources it has. The Business policy has to identify the various resources available and then only call it be made sound. The size of plants, capital structure, liquidity position, personnel sk0is and expertise, competitive position, nature of product etc. all help in the formulation of Business policy.

4. Management Values: Business policy reflects the values imbibed in the organisation. The personal values of the managers forming Business policy influence its formulation. Management values differ from organisation to organisation. It is an important determinant of Business policy.

External Factors

These include the forces external to the firm. The external determinants of Business policy are industry structure, economic environment and political environment.

1. ***Industry Structure:*** The formulation of Business policy is influenced by the industry ill which the firm exists. The structure of industry comprises of size of firms, the entry barriers, number of competitors etc. The Business policy is formulated keeping in mind competitors, strategies, policies, etc.

2. Economic Environment: Economic environment comprises of the demand, supply, price trends, the national income, availability of inputs, the various institutions etc. It includes all these factors which influence the policies of the firm. Therefore, it becomes one of the most important determinants of Business policy.

3. Political Environment: The firm has to carry Out its activities in accordance with the government regulations and policies. If these are not complied with the firm would not be able to meet its objectives in ail efficient manner. The various policies like monetary policy, fiscal policy, credit policy influence the Business policy of the firm.

4. Social Environment: The firm affects various sections of the society. The various sections ill turn influence the activities of the firm. The social beliefs of the managers influence policies. The religious, cultural and ethnic dimensions have to be dealt with while formulation policies of an organisation.

5. Technology: Every now and then, new technologies are entering the market. An organisation has to change with the changes in the environment. It has to remain up to date with respect to technology it uses. Thus technology also plays an important role in formulation of Business policy.

3.1.6 Scope of Business Policy

Business policies are statements of guidelines for Business thinking and action. They lay down the approach before the management to deal with the challenges in the environment. They cover the following broad areas that affect the decisions of the organisation.

1. Business policy consists of a variety of subject that affects various interest groups in the organisation and otside it.

2. Business policy is concerned with the various functional areas like production, human resources, marketing and finance.

3. We call understand Business policy areas in two broad categories: Major and minor policies. The overall objectives, procedures and control are covered in major policies. These policies are concerned with each and every aspect of the Organisation, its structure, its financial status, its production stature, its human resources and all those issues which require attention like mergers, research, expansion, etc. Basically, the top management is involved in the framing of such major policies. Further, the operations and activities are also carried Out by executives so that the organizational objectives are met.

The minor policies are concerned with each segment of the Organisation with emphasis oil details and procedures. These policies are part of the major policies. The operational control call be made possible only if the minor policies are implemented efficiently.

The minor policies are concerned with the day to day operations and are decided at the departmental levels. The minor policies may cover relations with dealers, discount rates, terms of credit etc. Thus, Business policies cover wide range Of Subjects ranging from operational level policies to the top level policies.

4.0. Conclusion

The field of business policy/strategic management has offered a variety of frameworks and concepts during the last half century, many aimed at taking business and its management seriously. Substantial body of literature in the fields of strategic management, strategic
planning, corporate and business policy, and related topics have been developed.

This literature owes much to the prior writings of Alfred Chandler and the decades of case writing and research undertaken at Harvard Business School by many learned professors. Indeed, Harvard's tradition of leadership in this field dates from 1914 when it first introduced a course requirement for business policy into the business school programme. The term strategic management is of relatively recent origin and is currently the accepted term for the fields of business policy and planning.

However, as a separate field of study, it is still at a fairly young and relatively evolutionary stage. As a result, many definitions of strategy abound, and the terms "strategic planning," "policy," and "strategic management" often mean precisely the same thing to different authors. It seems that two elements, namely, potential alternative courses of action and the existence of a preference ordering on outcomes, define the structure of policy making or strategy. Making policy or corporate strategy consists of choosing among alternative courses of action that, it is believed, will attain the most preferred outcome (taking account of all the costs involved in decision-making). It follows, therefore, that prediction of the outcome of alternative courses of action is an integral part of the strategy making process.

5.0. Summary

The top management is primary concerned with the working of the whole organization-and not only about anyone particular function or another. All problems within the organization (or outside that will affect the organization in any significant way) will be of interest to the top management: However, such areas / issues that are likely to significantly affect the operations of the company will receive primary concentration. There is always therefore a tendency to prioritise the problem that a company faces at any point in time. Those matters of the highest priority are commonly referred to as ***"strategic"*** issues or issues of a ***"policy"*** nature. These are the problems and issues that are attended to by the top management. At top management level, the primary work becomes that of formulation and implementation of strategy. The strategy guides the organization and the work of all the people within it. Hence, the course (Variously called long-range planning. Top – management planning, corporate strategic planning corporate planning, strategy) covers as its subject matter, the work of top management of the organization.

6.0 Tutor Marked Assignments

How would define business policy as course of study. What major problems are addressed by business policy?

7.0. References

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Unit – 2: The Nature and Value of Strategic Management

Content

1.0 Introduction

Managing activities internal to the firm is only part of the modern executive's responsibilities. The modern executive also must respond to the challenges posed by the firm's immediate and remote external environments. The immediate external environment includes competitors, suppliers, increasingly scarce resources, government agencies and their ever more numerous regulations, and customers whose preferences often shift inexplicably. The remote external environment comprises economic and social conditions, political priorities, and technological developments, all of which must be anticipated, monitored, assessed, and incorporated into the executive's decision making. However, the executive often is compelled to subordinate the demands of the firm's internal activities and external environment to the multiple and often inconsistent requirements of its stakeholders: owners, top managers, employees, communities, customers, and country.

To deal effectively with everything that affects the growth and profitability of a firm, executives employ management processes that they feel will position it optimally in its competitive environment by maximizing the anticipation of environmental changes and of unexpected internal and competitive demands. Perhaps the most significant improvement in these management processes came when "long-range planning," "planning, programming, budgeting," and "business policy" were blended with increased emphasis on environmental forecasting and external considerations in formulating and implementing plans. This all-encompassing approach is known as strategic management. In this unit, you shall be introduced to the basic conceptual issues and dimensions of strategic management as a field of study.

2.0 Unit Objectives

After studying this unit, the learner should be able to do the following:

1 Comment on the origin and development of Business strategy

2 Describe the key elements in the strategic management process.

3 Describe the strategic-management process.

4 Define and give examples of key terms in strategic management.

5 Discuss the nature of strategy formulation, implementation, and evaluation activities.

6 Describe the benefits, problems and risks of strategic management.

3.0 Origin and Development of Business Strategy

Strategies had been used in military warfare for thousands of years. Sun Tzu's Art of War was reportedly written about 2400 years ago. In business, the application of strategies was much more recent, and came about in response to problems posed by a changing environment. The concept of business strategies evolved over four main stages since the 1950s, as observed by Craig and Grant1: financial planning, corporate planning, industrial analysis and competitive positioning, and exploiting firm-specific strategic advantage.

3.0.1 ►Financial Planning

By the 1950s, companies were increasing in size and diversity. A better form of control was needed and budget planning was introduced. Discounted cash flow was also devised for deciding investment proposals. Controls suddenly became more effective.

3.0.2 ► Corporate Planning

Corporate planning was a product of the capitalist market economies in the 1960s. At national level, economic policies were applied, which were based on macro-economic models to forecast economic cycles; and Keynesian demand management policies were used to correct them. At corporate level, planning became forecast driven.

Medium-term demand forecast was used to draw up corporate plans, which would include strategic goals, projected sales and investment; and also to identify opportunities for developing new market, products and businesses.

3.0.3 ► Industry analysis and competitive positioning

When the first oil crisis struck in 1973-4, the economic forecasts were being severely upset. Corporate plans that were based on these forecasts also failed miserably. In search of a new approach, the focus shifted to 'positioning the firm to make a profit'. Firms started to look at industry attractiveness to reposition themselves, and to select strategies to realize the decisions made.

3.0.4 ► Exploiting firm-specific strategic advantage

Analysis of industries and market ended in a situation in which competitors adopted a similar strategy, e.g. oil companies going into coal and mineral mining as a diversification strategy. Profits plunged with over-investment and intense competition.

A better answer was later perceived – firms should seek some unique positions of competitive advantage based on firm-specific resources and capabilities. For long-term competitive advantage, firms also started to upgrade and broaden their resources and capabilities.

Strategic management has now evolved to the point that it is primary value is to help the organization operate successfully in dynamic, complex environment. To be competitive in dynamic environment, corporations have to become less bureaucratic and more flexible. In stable environments such as those that have existed in the past, a competitive strategy simply involved defining a competitive position and then defending it. Because it takes less and less time for one product or technology to replace another, companies are finding that there are no such thing as competitive advantage.

Corporations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization: an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. Learning organizations avoid stability through continuous self-examinations and experimentations.

People at all levels, not just top the management, need to be involved in strategic management: scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures and evaluation techniques. At Xerox, for example, all employees have been trained in small-group activities and problem solving techniques. They are expected to use the techniques at all meetings and at all levels, with no topic being off-limits.

3.1 ► Initiation of strategy: Triggering Events

A triggering event is something that stimulates a change in strategy .Some of the possible triggering events is:

(i) New CEO: By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation's existence.

(ii) Intervention by an external institution: The firm's bank suddenly refuses to agree to a new loan or suddenly calls for payment in full on an old one.

(iii) Threat of a change in ownership: Another firm may initiate a takeover by buying the company's common stock.

(iv) Management's recognition of a performance gap: A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.

3.2 ► Strategic Management Perspectives

Strategic management as a term and concept is not new. The term was first used in the 1970s, and it meant that a staff of strategic planners more or less thought up strategic programs and then tried to sell them to decision makers. The concept of strategic management builds on this definition of strategic planning, recognizing that although planning is the prelude of strategic management, it is insufficient if not followed by the deployment and implementation of the plan and the evaluation of the plan in action. ***Strategic management*** *is a systems approach to identifying and making the necessary changes and measuring the organization's performance as it moves toward its vision. It has been defined as a . . . . Management . . . system . . . that links strategic planning and decision making with the day-to-day business of operational management.*

3.2.1 Meaning and the Nature of Strategic Management

The increasing importance of strategic management may be a result of several trends. Increasing competition in most industries has made it difficult for some companies to compete. Modern and cheaper transportation and communication have led to increasing global trade and awareness. Technological development has led to accelerated changes in the global economy. Regardless of the reasons, the past two decades have seen a surge in interest in strategic management. Many perspectives on strategic management and the strategic management process have emerged.

3.2.1 (A) ►The Concept of Management

To understand strategic management to be studied later, we need to have a basic understanding of the term management. The term 'management' can be used in two major contexts.

a) It is used with reference to a key group in an organisation in-charge of its affairs. In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganised resources of manpower, money, materials, and technology into a functioning whole. An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources. The survival and success of an organisation depend to a large extent on the competence and character of its management. Management has to also facilitate organisational change and adaptation.

b) The term is also used with reference to a set of interrelated functions and processes, to a field of study or discipline in social sciences and to a vocation or profession.

The functions and processes of management are wide-ranging but closely interrelated. They range all the way from design of the organisation, determination of the goals and activities, mobilization and acquisition of resources, allocation of tasks and resources among the personnel and activity units. They also include adoption of certain techniques, tools and methods for carrying on activities, through articulation of skills and efforts of organisational personnel in a unified manner and installation of communication and control systems to ensure that what is planned is achieved.

A wide range of definitions of management exist in the literature on management. Here we shall cite the definitions of a few theorists:

Peter Drucker: Management is a function, a discipline, a task to be done, and managers practise this discipline, carry out the functions and discharge these tasks.

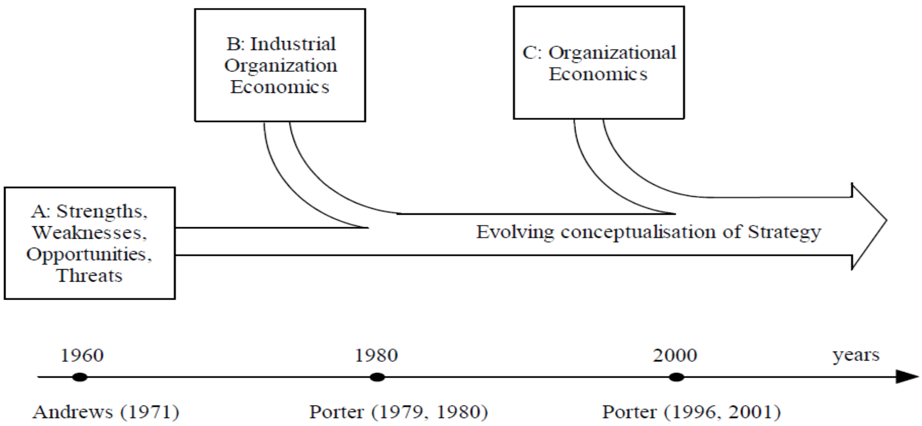
Dalton McFarland: Management is the process by which managers create, direct, maintain and operate purposive organisations through systematic, co-ordinated an co-operative human effort.

Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner. Influence is backed by power, competence, knowledge and resources. Managers formulate their goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes of the environment.

3.2.1 (B) ►What is a Strategy?

Definitions of strategy are legion—corporate strategy, business strategy, functional strategy, the process school, the analytic school, competitive strategy, resource-based strategy—to name but some. In addition, the world's understanding of what "strategy" means in a business context has evolved considerably over the last fifty years. For example, Ghemawat (2002) explains in some detail how what might be termed "the Harvard school's" conceptualisation of strategy evolved from the a theoretical SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis of the 1960s (Andrews 1971) to today's view which includes deep insights from both the Industrial Organization Economics literature (von Neumann and Morgenstern 1944; Bain 1956; Tirole 1988) and Organizational Economics literature (Williamson 1975; Wernerfelt 1984; Barney 1991).

This evolution of the Harvard school's understanding of strategy through two major infusions of new ideas (B and C in Figure 2.1) is depicted in Figure 2.1



Since the Harvard school is probably the world's thought leader on strategy, and Porter is one of its primary spokespersons, it follows that Porter's most recent work, e.g., his 1996 paper "What is Strategy?" and his 2001 paper "Strategy and the Internet", provides what is arguably the most authoritative, up-to-date conceptualisation of the strategy available.

A typical dictionary will define the word strategy as something that has to do with war and ways to win over enemy. In business organizational context the term is not much different. Businesses have to respond to a dynamic and often hostile external force for pursuit of their mission.

The very injection of the idea of strategy into business organizations is intended to unravel complexity and to reduce uncertainty of the environment. Strategy seeks to relate the goals of the organization to the means of achieving them. Strategy is the game plan management is using to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organizational objectives.

A strategy of a corporation is a comprehensive master plan stating how corporation will achieve its mission and its objectives. It maximizes competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business and functional.

To the extent the term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position. Its implications for corporate functioning are obvious. *We may define the term* ***'strategy'*** *as a long range blueprint of an organization's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go.*

The following quotations from Porter (1996) and Porter (2001)[5] capture the gist of this most recent thinking:

►1. "The goal of strategy is to achieve a "superior long-term return on investment." "Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it."

►2. "Competitive strategy is about being different."

►3. "Strategy is the creation of a unique and valuable position, involving a different set of activities…. different from rivals"

►4. "Strategy is making tradeoffs in competing"

►5. "Strategy defines how all the elements of what a company does fit together."

►6. "Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise. But they work in different ways."

►7. "Operational effectiveness means performing similar activities *better* than rivals perform them."

►8. "Strategy involves continuity of direction."

Summarizing and for the purpose of this course, "Strategy is the ***direction*** and ***scope*** of an organisation over the ***long-term:*** which achieves ***advantage*** for the organisation through its configuration of ***resources*** within a challenging ***environment***, to meet the needs of ***markets*** and to fulfil ***stakeholder*** expectations" *(http://www.tutor2u.net/business/strategy/porter_five_forces.htm).*

Strategy is meant to fill in the need of organizations for a sense of dynamic direction, focus and cohesiveness. Objectives and goals alone do not fill in the need. Strategy provides an integrated framework for the top management to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses and to make major decisions in general. Top management operates in an environment of partial ignorance and uncertainty.

Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of the business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on.

These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like. However, strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated events.

3.2.1 (C) ► Difference between Policy and Strategy

The term "policy" should not be considered as synonymous to the term "strategy". The **difference between policy and strategy** can be 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) A policy is what is, or what is not done while a strategy is the methodology used to achieve a target as prescribed by a policy.

3.2.1 (D) ►Strategy is partly proactive and partly reactive

A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions.

The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation and newly launched managerial initiatives to strengthen the company's overall position and performance. This part of management's game plan is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer patronage.

But not every strategic move is the result of proactive plotting and deliberate management design. Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required. Hence, a portion of a company's strategy is always developed as a reasoned response to unforeseen developments. But apart from adapting strategy to changes in the market, there is also a need to adapt strategy as new learning emerges about which pieces of the strategy are working well and which aren't and as management hits upon new ideas for improving the strategy. Crafting a strategy thus involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy.

3.3 ►The Strategic Management Process

In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. ***Strategic planning,*** an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. The overall objective of strategic management is twofold:

► To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

►To guide the company successfully through all changes in the environment.

Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all facets of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines). No matter how well the strategic processes have been designed and implemented, success depends on how well each department performs its customer-value-adding activities and how well the departments work together to serve the customer.

Value chains and value delivery networks have become popular with organizations that are sensitive to the wants and needs of consumers. Ultimately the aim of strategic management is to save the company's business products, services and communications so that they achieve targeted profits and growth. *The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then overtimes initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.*

Strategic management goes beyond the development of a strategic plan, which included the pre-planning and strategic planning processes. Strategic management is the deployment and implementation of the strategic plan and measurement and evaluation of the results. ***Strategic management** has specifically been defined as a systems approach to identifying and making the necessary changes and measuring the organization's performance as it moves toward its vision. It is a . . . . Management . . . system . . . that links strategic planning and decision making with the day-to-day business of operational management.*

Strategic management is a systems approach to identifying and making the necessary changes and measuring the organization's performance as it moves toward its vision. It has been defined as a . . . . Management . . . system . . . that links strategic planning and decision making with the day-to-day business of operational management.. The following model depicts the five processes of strategic management which are pre-planning, strategic planning, deployment, implementation, and measurement and evaluation.

Identifying an organization's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organization present situation and condition may preclude certain strategies and may even dictate a particular course of action.

Every organization has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been. The strategic management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission.

Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually. The strategic management process never really ends. The strategic management process can best be studied and applied using a model. Every model represents some kind of process. The model illustrated in the *Figure2.2: Strategic management model* is a widely accepted, comprehensive. This model like any other model of management does not guarantee sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic management process are shown in the model.

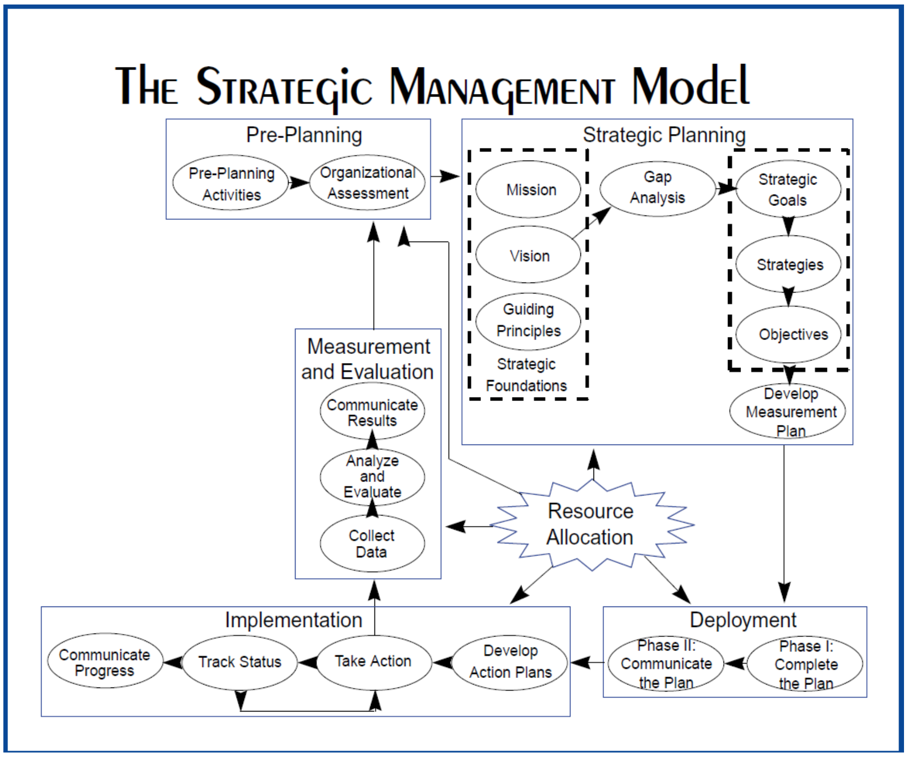


Figure2.2: Strategic management model

Source: Denise Lindsey Wells **(2000)** Strategic Management for Senior Leaders: A Handbook for Implementation, A Handbook for Strategic Planning (Department of the Navy Total Quality Leadership Office Publication No. 94-02).

The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests. The relationships shown in the figure above are not ‘linear’ but ‘iterative’.

‘A linear representation would give the impression that one stage of the process is totally distinct from another. The process should not be thought of as a sequence of steps followed by managers, but rather stages that may be moved through and which are likely to be repeated’ (Paul Freathy, 2003, p. 58). In order to sustain in the competitive scenario, the managers must pay attention to this concept and implement it in their working.

Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organization. Many organizations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. Creativity and candour from participants are encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

3.3 .1→The Key Activities in Strategic Management

Application of the strategic management process is typically more formal in larger and well- established organizations. Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Smaller businesses tend to be less formal. ***The key activities in the strategic management process are shown in Figure 1.4 and begin by providing:***

1) A situation analysis of the broad and operating environments of the organization, including internal resources and both internal and external stakeholders. This is the **Stage one – It seeks to answer the question; *Where are we Now?*** (Beginning): This is always the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context. Here the firm must find out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is also known as SWOT (Strength, Weakness, Opportunity, Threat) analysis. You may refer third chapter for a detailed discussion on SWOT analysis.

2). The establishment of strategic direction, reflected in mission statements and organizational visions represent the **Stage two that seek to answer the question- *Where are we Want to Be? (Ends):*** This is a process of goal setting for the organization after it has finalised its vision and mission. A strategic vision is a roadmap of the company’s future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. An organization’s Mission states what customers it serves, what need it satisfies, and what type of product it offers.

3. A formulation of specific strategies is the **Stage three** with the question- ***How Might we Get There? (Means):*** Here the organization deals with the various strategic alternatives it has.

4. Stage four - Which Way is Best? (Evaluation): Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT analysis.

5. **Stage five** seek to answer the question- ***How Can we Ensure Arrival? (Control):*** This is an implementation and control stage of a suitable strategy.

Strategy implementation includes designing an organizational structure, controlling organizational processes, managing relationships with stakeholders, and managing resources to develop competitive advantage. Here again the organization continuously does situational analysis and repeats the stages again.

While these activities may occur in the order specified, especially if a firm is engaging in a formal strategic planning programme, they may also be carried out in some other order or even simultaneously. For example, it is not uncommon for a strategic direction to serve as a foundation for the situation analysis. The feedback loops at the bottom of Figure 2.3 indicate that organizations often cycle back to earlier activities during the strategic management process, as new information is gathered and assumptions change.

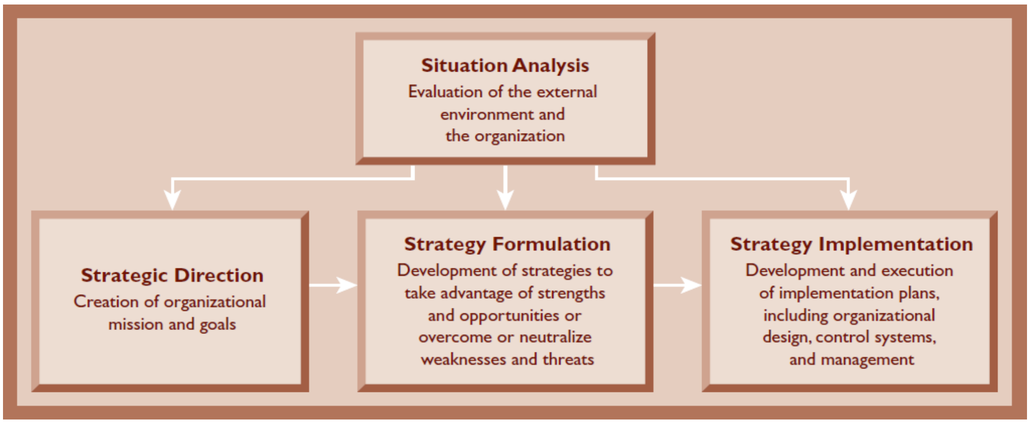


FIGURE 2.3: The strategic management process

For instance, a company may attempt to develop strategies consistent with its strategic direction and, after a trial period, discover that the direction was not reasonable. Also, an organization may discover rather quickly (or over a longer period of time) that a proposed strategy cannot be implemented feasibly. As a result, the firm may have to cycle back to the formulation stage to fine - tune its strategic approach. In other words, organizations may learn from their own past actions and from environmental forces, and they may modify their behaviour in response.

However, not all organizations engage in all of the processes depicted in Figure 2.3: entrepreneurial start - up firms rarely do. They often begin with an entrepreneur who has an idea for a product or service that he or she believes will lead to market success. Venture capital is raised through a variety of public or private sources, and a new business is born.

The entrepreneur may establish an informal sense of direction and a few goals, but the rest of the formal strategy process may be overlooked. If the organization is successful, it will typically expand in both sales and personnel until it reaches a critical point at which the entrepreneur feels a loss of control. At this point, the entrepreneur may attempt to formalize various aspects of strategic planning, by either hiring outside consultants, creating planning positions within the firm, or involving other managers in planning activities.

This same process is typical of non-profit start - ups as well, except that the nature of the cause (i.e., humanitarian or educational) may place tighter constraints on the way the firm is financed and organized. Consequently, the model in Figure 2.3 is not intended to be a rigid representation of the strategic management process in all organizations as they currently operate. Nevertheless, the progression of activities — from analysis to planning to action and control — provides a logical way to study strategic management. Furthermore, the activities relate equally well to for - profit, non-profit, manufacturing, and service entities, although some of the differences in the way these organizations approach strategic management will be described throughout the text.

Strategic management goes beyond the development of a strategic plan, which included the pre-planning and strategic planning processes. Strategic management is the deployment and implementation of the strategic plan and measurement and evaluation of the results. Deployment involves completing the plan and communicating it to all employees. Implementation involves resourcing the plan, putting it into action, and managing those actions. Measurement and evaluation consists not only of tracking implementation actions, but, more importantly, assessing how the organization is changing as a result of those actions and using that information to update the plan.

3.3.2 Functions of Strategic Management

Strategic Management performs the following functions:

1. It provides a dual approach to problem solving. Firstly, it exploits the most effective means to overcome difficulties and face competition. Secondly, it assists ill the deployment of scarce resources among critical activities.

2. It focuses attention upon changes ill the organizational set up, administration of organizational process affecting behaviour and the development of effective leadership.

3. It offers a technique to manage changes. The management is totally prepared to anticipate, respond and influence to look at changes. It also offers a different way of thinking.

4. It furnishes the management with a perspective whereby, the latter gives equal importance to present and future opportunities.

5. It provides the management with a mechanism to cope with highly complex environment characterized by diversity of cultural, social, political and competitive forces.

3.3 .3→Dimensions of Strategic Decisions

What decisions facing a business are strategic and therefore deserve strategic management attention? Typically, strategic issues have the following dimensions.

Strategic Issues Require Top-Management Decisions Because strategic decisions overarch several areas of a firm's operations, they require top-management involvement. Usually only top management has the perspective needed to understand the broad implications of such decisions and the power to authorize the necessary resource allocations.

Strategic Issues Require Large Amounts of the Firm's Resources Strategic decisions involve substantial allocations of people, physical assets, or moneys that either must be redirected from internal sources or secured from outside the firm. They also commit the firm to actions over an extended period. For these reasons, they require substantial resources.

Strategic Issues Often Affect the Firm's Long-Term Prosperity Strategic decisions ostensibly commit the firm for a long time, typically five years; however, the impact of such decisions often lasts much longer. Once a firm has committed itself to a particular strategy, its image and competitive advantages usually are tied to that strategy. Firms become known in certain markets, for certain products, with certain technologies.

They would jeopardize their previous gains if they shifted from these markets, products, or technologies by adopting a radically different strategy. Thus, strategic decisions have enduring effects on firms—for better or worse.

Strategic Issues Are Future Oriented Strategic decisions are based on what managers forecast, rather than on what they know. In such decisions, emphasis is placed on the development of projections that will enable the firm to select the most promising strategic options. In the turbulent and competitive free enterprise environment, a firm will succeed only if it takes a proactive (anticipatory) stance toward change.

Strategic Issues Usually Have Multifunctional or Multi-business Consequences Strategic decisions have complex implications for most areas of the firm. Decisions about such matters as customer mix, competitive emphasis, or organizational structure necessarily involve a number of the firm's strategic business units (SBUs), divisions, or program units. All of these areas will be affected by allocations or reallocations of responsibilities and resources that result from these decisions.

Strategic Issues Require Considering the Firm's External Environment All business firms exist in an open system. They affect and are affected by external conditions that are largely beyond their control. Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its operations. They must consider what relevant others (e.g., competitors, customers, suppliers, creditors, government, and labor) are likely to do.

3.3.4→Characteristics of Strategic Management Decisions

The characteristics of strategic management decisions vary with the level of strategic activity considered. As shown in figure 2.4, decisions at the corporate level tend to be more value oriented, more conceptual, and less concrete than decisions at the business or functional level.

		Strategic Decision Makers			
Ends (What is to be achieved?)	**Means (How is it to be achieved?)**	**Board of Directors**	**Corporate Managers**	**Business Managers**	**Functional Managers**
Mission, including goals and philosophy		✓✓	✓✓	✓	
Long-term objectives	Grand strategy	✓	✓✓	✓✓	
Annual objectives	Short-term strategies and policies		✓	✓✓	✓✓

Note: ✓✓ indicate a principal responsibility; ✓ indicates a secondary responsibility.

Figure 2.4 Hierarchy of Objectives and Strategies

Corporate-level decisions are often characterized by greater risk, cost, and profit potential; greater need for flexibility; and longer time horizons. Such decisions include the choice of businesses, dividend policies, sources of long-term financing, and priorities for growth.

Functional-level decisions implement the overall strategy formulated at the corporate and business levels. They involve action-oriented operational issues and are relatively short range and low risk. Functional-level decisions incur only modest costs, because they depend on available resources. They usually are adaptable to ongoing activities and, therefore, can be implemented with minimal cooperation.

Because functional-level decisions are relatively concrete and quantifiable, they receive critical attention and analysis even though their comparative profit potential is low. Common functional-level decisions include decisions on generic versus brandname labeling, basic versus applied research and development (R&D), high versus low inventory levels, general-purpose versus specific-purpose production equipment, and close versus loose supervision.

Business-level decisions help bridge decisions at the corporate and functional levels. Such decisions are less costly, risky, and potentially profitable than corporate-level decisions, but they are more costly, risky, and potentially profitable than functional-level decisions. Common business-level decisions include decisions on plant location, marketing segmentation and geographic coverage, and distribution channels.

3.3.5→Formality in Strategic Management

The formality of strategic management systems varies widely among companies. **Formality** refers to the degree to which participants, responsibilities, authority, and discretion in decision making are specified.

It is an important consideration in the study of strategic management, because greater formality is usually positively correlated with the cost, comprehensiveness, accuracy, and success of planning. A number of forces determine how much formality is needed in strategic management. The size of the organization, its predominant management styles, the complexity of its environment, its production process, its problems, and the purpose of its planning system all play a part in determining the appropriate degree of formality.

In particular, formality is associated with the size of the firm and with its stage of development. Some firms, especially smaller ones, follow an **entrepreneurial mode.** They are basically under the control of a single individual, and they produce a limited number of products or services. In such firms, strategic evaluation is informal, intuitive, and limited. Very large firms, on the other hand, make strategic evaluation part of a comprehensive, formal planning system, an approach that Henry Mintzberg called the ***planning mode.*** Mintzberg also identified a third mode (the **adaptive mode**), which he associated with medium-sized firms in relatively stable environments. For firms that follow the adaptive mode, the identification and evaluation of alternative strategies are closely related to existing strategy. It is not unusual to find different modes within the same organization. For example, ExxonMobil might follow an entrepreneurial mode in developing and evaluating the strategy of its solar subsidiary but follow a planning mode in the rest of the company.

3.3.6→The Strategy Makers

The ideal strategic management team includes decision makers from all three company levels (the corporate, business, and functional)—for example, the chief executive officer (CEO), the product managers, and the heads of functional areas. In addition, the team obtains input from company planning staffs, when they exist, and from lower-level managers and supervisors. The latter provide data for strategic decision making and then implement strategies.

Because strategic decisions have a tremendous impact on a company and require large commitments of company resources, top managers must give final approval for strategic action. **Figure 2.4** aligns levels of strategic decision makers with the kinds of objectives and strategies for which they are typically responsible. Planning departments, often headed by a corporate vice president for planning, are common in large corporations. Medium-sized firms often employ at least one full-time staff member to spearhead strategic data-collection efforts. Even in small firms or less progressive larger firms, strategic planning often is spearheaded by an officer or by a group of officers designated as a planning committee.

Precisely what are managers' responsibilities in the strategic planning process at the corporate and business levels? Top management shoulders broad responsibility for all the major elements of strategic planning and management. They develop the major portions of the strategic plan and reviews, and they evaluate and counsel on all other portions. General managers at the business level typically have principal responsibilities for developing environmental analysis and forecasting, establishing business objectives, and developing business plans prepared by staff groups.

A firm's president or CEO characteristically plays a dominant role in the strategic planning process. In many ways, this situation is desirable. The CEO's principal duty often is defined as giving long-term direction to the firm, and the CEO is ultimately responsible for the firm's success and, therefore, for the success of its strategy.

In addition, CEOs are typically strong-willed, company-oriented individuals. However, when the dominance of the CEO approaches autocracy, the effectiveness of the firm's strategic planning and management processes is likely to be diminished. For this reason, establishing a strategic management system implies that the CEO will allow managers at all levels to participate in the strategic posture of the company.

In implementing a company's strategy, the CEO must have an appreciation for the power and responsibility of the board, while retaining the power to lead the company with the guidance of informed directors. The interaction between the CEO and board is key to any corporation's strategy. Empowerment of non-managerial employees has been a recent trend across major management teams.

For example, in 2003, IBM replaced its 92-year-old executive board structure with three newly created management teams: strategy, operations, and technology. Each team combined top executives, managers, and engineers going down six levels in some cases. This new team structure was responsible for guiding the creation of IBM's strategy and for helping to implement the strategies once they were authorized.

3.3 .7→Importance of Strategic Management

Strategic planning and implementation have become a must for all organizations for their survival and growth in the present turbulent business environment. 'Survival of fittest 'as propagated by Darwin is the only principle of survival for organization, where 'fittest' are not the 'largest' or 'strongest' organization but those who can change and adapt successfully to the changes in business environment.

Many organizational giants have also followed the path of extinction failing to manage drastic changes in the business environment. Also business follows the war principle of 'win or lose', and not necessarily win-win situation arises in business world. Hence the organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following process of strategic management - strategic analysis, formulation and implementation.

The major benefits of strategic management are:

► Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control there own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

►Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.

►Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

► Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments.

► Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

3.3.8. → Reasons Why Strategy Plans Fail

There are many reasons why strategic plans fail, especially:

1) Failure to understand the customer
- **a)** Why do they buy
- **b)** Is there a real need for the product
- **c)** inadequate or incorrect marketing research

2) Inability to predict environmental reaction
- **a)** What will competitors do
- **b)** Fighting brands
- **c)** Price wars
- **d)** Will government intervene

3) Over-estimation of resource competence
- **a)** Can the staff, equipment, and processes handle the new strategy
- **b)** Failure to develop new employee and management skills

4) Failure to coordinate
- **a)** Reporting and control relationships not adequate
- **b)** Organizational structure not flexible enough

5) Failure to obtain senior management commitment
- **a)** Failure to get management involved right from the start
- **b)** Failure to obtain sufficient company resources to accomplish task

6) Failure to obtain employee commitment
- **a)** New strategy not well explained to employees
- **b)** No incentives given to workers to embrace the new strategy

7) Under-estimation of time requirements
- **a)** No critical path analysis done

8) Failure to follow the plan
- **a)** No follow through after initial planning
- **b)** No tracking of progress against plan
- **c)** No consequences for above

9) Failure to manage change
- **a)** Inadequate understanding of the internal resistance to change
- **b)** Lack of vision on the relationships between processes, technology and organization

10) Poor communications
- **a)** Insufficient information sharing among stakeholders
- **b)** Exclusion of stakeholders and delegates.

3.3.9→Problems of Strategic Management

Aluko, et al (2004), Akingbade (2007), Adeleke, Ogundele and Oyenuga (2008) as have however identified the following disadvantages of strategic management:

(a) It involves a great deal of time and effort, as well as thinking about figuring out and forecasting the most important variable in a business for, say, 20years and above. The effort involved could be too much for available staff.

(b) Strategic plan can become written-in-stone that is, rigid like the ten commandments, whereas it is supposed to be a guide.

(c) The margin of error for a long-range environmental forecast can sometimes be quite large, as if one is forecasting profit for the next five or more years, because of the volatile nature of the economy.

(d) It requires a considerable investment in money and people

(e) Some firms seem to remain at the planning stage almost perpetually, i.e. implementation and control are sometimes ignored.

(f) It also sometime, tend to restrict the organization to the most rational and risk-free opportunities, since managers might with t6 develop only those goals that could survive the detached analysis of strategic management, while attractive opportunities that involves high degree of uncertainty or that are difficult to analyze might be avoided or over-looked.

3.3 .9→ Risks of Strategic Management

Managers must be trained to guard against three types of unintended negative consequences of involvement in strategy formulation.

First, the time that managers spend on the strategic management process may have a negative impact on operational responsibilities. Managers must be trained to minimize that impact by scheduling their duties to allow the necessary time for strategic activities.

Second, if the formulators of strategy are not intimately involved in its implementation, they may shirk their individual responsibility for the decisions reached. Thus, strategic managers must be trained to limit their promises to performance that the decision makers and their subordinates can deliver.

Third, strategic managers must be trained to anticipate and respond to the disappointment of participating subordinates over unattained expectations. Subordinates may expect their involvement in even minor phases of total strategy formulation to result in both acceptance of their proposals and an increase in their rewards, or they may expect a solicitation of their input on selected issues to extend to other areas of decision making. Sensitizing managers to these possible negative consequences and preparing them with effective means of minimizing such consequences will greatly enhance the potential of strategic planning.

3.4 Pitfalls in Strategic Planning

Strategic planning is an involved, intricate, and complex process that takes an organization into uncharted territory. It does not provide a ready-to-use prescription for success; instead, it takes the organization through a journey and offers a framework for addressing questions and solving problems. Being aware of potential pitfalls and being prepared to address them is essential to success.

Some pitfalls to watch for and avoid in strategic planning are these:

1) Using strategic planning to gain control over decisions and resources
2) Doing strategic planning only to satisfy accreditation or regulatory requirements
3) Too hastily moving from mission development to strategy formulation
4) Failing to communicate the plan to employees, who continue working in the dark
5) Top managers making many intuitive decisions that conflict with the formal plan
6) Top managers not actively supporting the strategic-planning process
7) Failing to use plans as a standard for measuring performance
8) Delegating planning to a "planner" rather than involving all managers
9) Failing to involve key employees in all phases of planning
10) Failing to create a collaborative climate supportive of change
11) Viewing planning as unnecessary or unimportant
12) Becoming so engrossed in current problems that insufficient or no planning is done
13) Being so formal in planning that flexibility and creativity are stifled.

4.0. Conclusion

Strategic management has now evolved to the point that it is primary value is to help the organization operate successfully in dynamic, complex environment. In today's business environment, more than in any preceding era, the only constant is change. Successful organizations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, and cultures to survive the shocks and prosper from the forces that decimate the competition.

The need to adapt to change leads organizations to key strategic-management questions, such as "What kind of business should we become?" "Are we in the right field(s)?" "Should we reshape our business?" "What new competitors are entering our industry?" "What strategies should we pursue?" "How are our customers changing?" "Are new technologies being developed that could put us out of business?"

Corporations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization: an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights.

Learning organizations avoid stability through continuous self-examinations and experimentations. People at all levels, not just top the management, need to be involved in strategic management: scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures and evaluation techniques.

5.0. Summary

Strategic management has been defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It comprises nine critical tasks:

1. Formulate the company's mission, including broad statements about its purpose, philosophy, and goals.
2. Conduct an analysis that reflects the company's internal conditions and capabilities.
3. Assess the company's external environment, including both the competitive and the general contextual factors.
4. Analyze the company's options by matching its resources with the external environment.
5. Identify the most desirable options by evaluating each option in light of the company's mission.
6. Select a set of long-term objectives and grand strategies that will achieve the most desirable options.
7. Develop annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies.
8. Implement the strategic choices by means of budgeted resource allocations in which the matching of tasks, people, structures, technologies, and reward systems is emphasized.
9. Evaluate the success of the strategic process as an input for future decision making.

As these nine tasks indicate, strategic management involves the planning, directing, organizing, and controlling of a company's strategy-related decisions and actions. By **strategy,** managers mean their large-scale, future-oriented plans for interacting with the competitive environment to achieve company objectives. A strategy is a company's game plan. Although that plan does not precisely detail all future deployments (of people, finances, and material), it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete.

6.0 Tutor Marked Assignments

Being aware of potential pitfalls and being prepared to address them is essential to the strategic management success. Illuminate this statement.

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UNIT 3: Vision, Mission and Objectives

Content

1.0 Introduction

The formulation of the organisational vision, mission, aims and objectives are crucial for the firm in having a clear strategic direction. However, the composition and content of the vision, mission, aims and objectives is open to interpretation. Amongst the various steps in the strategic management model we will restrict discussion to vision, mission and objectives in this unit.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to:

1) Describe the nature and role of vision and mission statements in strategic management.

2) Discuss how clear vision and mission statements can benefit other strategic-management activities.

3) Write good vision and mission statements.

3.0 The Vision

Very early in the strategy making process, a company's senior managers must wrestle with the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out.

Top management's views and conclusions about the company's direction and the product- customer-market-technology focus constitute a strategic vision for the company. A strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are going" and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organizational identity.

A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction. For instance, Aliko Dangote's vision of a spaghetti in every home's table had power because it captured the imagination of others, aided internal efforts to mobilize the Dangote's group of company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

*A **Strategic vision** is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.*

The three elements of a strategic vision:

a) Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"

b) Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"

c) Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

How to develop a strategic vision

The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.

→ Forming a strategic vision is an exercise in intelligent entrepreneurship.

→ Many successful organizations need to change direction not in order to survive but in order to maintain their success.

→ A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organization.

→ The best-worded vision statement clearly and crisply illuminate the direction in which organization is headed.

3.1 ►Purpose OR Mission

According to Glueck & Jauch mission is answer to the question ‘what business are we in’ that is faced by corporate-level strategist. Every kind of organized operation has, or at least should have if it is to be meaningful, a purpose or mission. In business policy, both these terms are either used jointly or singly. They identify the basic functions or tasks of an enterprise or agency or any part of it.

The mission is a statement which defines the role that an organization plays in the society. The organisations also have some purpose that is anything that an organization strives for. Organizations relate their existence to satisfying a particular need of the society. They do this in terms of their mission and purpose. We can described mission as "a statement which defines the role that an organization plays in the society", and purpose as "anything which an organization strives for.

Since both mission and purpose go hand in hand, they can be used together while maintaining the basic difference between them. Mission strictly refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organization strives to achieve in order to fulfil its mission to the society. *A corporate Mission is the vision and purpose of an organization. It is the broad purpose, which the society within the organization is operating, expects it to serve.* In every social system, enterprises have a basic function or task that is assigned to them by society.

For example, ***the purpose of business*** generally is production and distribution of goods and services in most cases at a profit. ***The purpose of the court*** is the interpretation of laws and their application. ***The purpose of a university*** is teaching and research. ***The mission or purpose of an organization is the general framework within which management tests its key decisions.***

The mission determines the direction the company will take John Argenti specially defined purpose of an organization (corporate purpose) as: *“The reason why any organization was formed and it continues to exist. Corporate purpose is the vindication for all its strategies, all its action, indeed everything it ever does in its entire life history. It is the justification for its very existence, <u>its raison d’etre.</u> It is the sole criterion by which one may judge whether an organization is a success or a failure. It is the ends as oppose to the means. An organization’s purpose is unalterable. If it is changed the organization itself would have to be reconstituted as a new legal entity.”*

Consciously or unconsciously, formally or informally, every company has a mission. It may exist only in the mind of top management. *The common purpose of every organizational member is the statement of purpose or mission, it describes the fundamental values of the company-why it exists the market seeks to serve and how it would serve the market selected.*

These are the value that management and staff have to but into. Every manager in the company needs to understand the statement of mission, understand where they are taking the company and why.

3.1.1 ►Why organization should have mission?

Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm. In other words, the mission serves as a justification for the firm's very presence and existence; it legitimises the firm's presence. Mission is also an expression of the vision of the corporation, its founder/ leader. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

It represents the common purpose, which the entire firm shares and pursues. A mission is not a confidential affair to be confined at the top; it has to be open to the entire company. All people are supposed to draw meaning and direction from it. It adds zeal to the firm and its people. A mission is not a fad-it is a tool to build and sustain commitment of the people to the corporation's policies. A mission is not rhetoric - it is the corporation's guiding principle.

Every organization functions through a network of aims. Mission is the foundation from which the network of aims is built. The mission serves as a proclamation to insiders and outsiders on what the corporation stands for.

A mission, however, is not a PR document; while it legitimizes the corporation's existence and role in society, its main purpose is to give internal direction for the future of the corporation. According to Peter Drucker, every organization must ask an important question ***"What business are we in?"***

→ To ensure unanimity of purpose within the organization.

→ To provide a basis for motivating the use of the organization's resources.

→ To develop a basis, or standard, for allocating organizational resources.

→ To establish a general tone or organizational climate, for example, to suggest a businesslike operation.

→ To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating further in the organization's activities.

→ To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.

→ To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

3.1.2 ►Characteristics of well stated corporate mission

A company's ***Mission statement*** *is typically focused on its present business scope – "who we are and what we do"; mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.* Mission should contain elements of long-term strategy as well as desired outcomes they often basic values and the philosophy of the organizations that is perceived by the senior managers at the senior level who write them. A good mission statement should be of precise, clear, feasible, distinctive and motivating. It should indicate major components of strategy.

A better stated corporate mission has the following characteristics:

1) It is simply and easily understood

2) It makes sense in terms of products delivered or service rendered i.e the mission applies to the nature of the business – manufacturing or retailing – and the markets served.

3) It is widely communicated within the company. It I included in new employee orientation, in employee handbooks, statements of a company's memoranda of association e.t.c.

4) It serves as reference check for major decisions such as new Markets to be entered, new products to be development e.t.c.

5) It is credible, something organizational member can believe in.

3.1.3 ►Useful Points while Writing Mission of a Company

Creation of a mission is an event. It takes place at a point in time presumably at the inception of the company. But efforts precede the creation of a mission. These efforts are to:

1) Understand the external environment in which company will operate

2) The market capacity available for the company products or service

3)What the company is in business for (is a bank for example formed to provide Mortgage services for private home owners or to provide a deposit facility for savers or to do both). *Based on the understanding of the environment, the market and why the company is in operation a mission statement is created.*

While creating statement of mission is an event, the execution is a process or activity. Strategic plans, annual business plans, quarterly goals, all derived from the mission statement are part of the on-going series of activities or process. A corporate mission may not be in **written form**, but it manifests itself in the values that top management adopt (e.g. their internal performance expectation). In the words of Charles gar field (1989); Following points are useful while writing mission of a company :

→ One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development – one that typically sets it apart form other similarly situated companies.

→ A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs.

→ Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.

→ Good mission statements are highly personalized – unique to the organization for which they are developed.

3.1.4 ►Who should set the Mission?

It is possible the mission of an organization was set even before the organization became a reality. This is especially true in public sector, not-for-profit organizations and even subsidiaries of diversified multinational companies.

In such cases, it would not be much problem identifying the mission, as they are normally contained in legislation creating the agency, the organization constitution etc. For a subsidiary to a multinational or a large company, its basic purpose would be contained in some communications document such as minutes of board meetings or special project report etc.Where there is no existing mission in place, the responsibility generally lies with the top management. On the question of employee participation on mission formulation, it is a frequent subject of argument.

The traditional practice is for the top management to decide on the mission and key objectives. Middle and lower managers would then formulate the strategies and tactical plans to realized these objectives and mission. In the case of small companies, "the CEO often does establish basic missions without much reference to others.

In companies that are operated in a very democratic manner, there is a tendency for increased employee input in mission setting or revision. In the SME context, this is probably not expected nor should it be encouraged, as employee turnover is a problem. A mission set by earlier employees may not be acceptable to the succeeding ones anyway. In addition, there is a attitude and aptitude problem in that the employees may not be willing or capable to set a challenging mission. Irrespective on the way missions are formulated, a fact remains that they are "highly dependent on the chief executive officer's value. They are not likely to change without direct intervention of the chief executive officer.

It would not be true to assume that any organization can set a mission, at any time and under all circumstances. Booth pointed out that under certain circumstances, a mission just cannot be easily formulated:

→ In a diverse organization, defining a mission for the whole organization may be difficult
→There exist conflicting objectives among different stakeholders; which may mean

difficulties in getting members to agree on one common mission
→ A rapid changing environment may make it impossible to agree on a specific mission

Then there is also the human resistance factor. Some mangers prefer to use methods less rigidly; in the words of Booth14, "unconscious strategy of perspective or pattern". Some managers are convicted to their 'play-by-ear', or intuition method. There are also those risk-averse type who would not decide without reliable information. In the writer's company, the company mission was not done until its tenth. The main reason being an unwillingness to commit onto some directions that may turn out to be wrong.

3.1.5 ►Communicating the Mission

Booth declared, "The mission statement has no value if once established it is not communicated and used as a guide throughout the organization. The mission statement should represent the values and aspirations of most members of the enterprise and as such it sets the stage within which the ethics and approach to crisis preparation and management will be set."

Booth's view brings on the problems of communications in organizations. In a very small organization with the owner or a handful of employees, daily contact and conversation can often fulfill the role of communicating the message. As the organization gets larger, and especially with employees situated outside the main office, communication problem takes on a new dimension. Although telephone conversation is a viable means of communication, cost is a discouraging factor. It appears that putting information down on paper is needed somewhere along the line. Once a mission is carefully worded, communications can begin. They can be circulated by mail, e-mail, fax, or distributed by hand during a briefing etc.

To have a lasting effect, there is a need to raise the visibility of the mission. In which case, it can be hung on office walls, or appearing on company brochures, newsletters, being frequently quoted in staff meetings etc. Another advantage of a written mission is that it helps an entrepreneur to crystallize his or her thought. Employees frequently complained about no knowing what the management wanted, that accounted for paralysis or lack of unity in effort. This is understandable when entrepreneurs approach business in a haphazard manner. A moving target is always harder to hit. The experience and observation of the writer is that once a mission can be decided upon, a sense of calmness and peace of mind set in that makes business management much easier.

3.2 ► Objectives and Goals

Business organization translates their vision and mission into objectives. The visionary and broad nature of the company mission demands a conversion into specific performance targets as a guide to action. This stage calls a definition of objectives-verifiable measurable, and quantitatively formulated – for all phases of company operation. The literature of management is however filled with references to goals and objectives. These terms are used in variety of ways, many of them conflicting.

Oftentimes however, the term objectives is used synonymous with goals. But we will make an attempt to distinguish the two. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attributes which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to short term perspective. However, this distinction is not made by several theorists on the subject. Accordingly, we will also use the term interchangeably. ***Objectives*** *are organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations performance and progress.*

All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Objectives with strategic focus relate to outcomes that strengthen an organizations overall business position and competitive vitality. Regardless of a company's purpose or mission, however, every firm needs long-term, immediate, and short-term goals.

Long Term Goals relates to extended periods of time typically five years or more. ***Immediate*** goal are set for a period of one to five years, companies usually have intermediate goals in several area. For example, the marketing department's goal might be to increase sales by 3 percent in two years. Finance might aim for 3 percent increase in return on investment in ***three years.***

Like the intermediate goals, **Short-Term** goals are set for perhaps one year and developed for several different areas. Increase sales by 2 percent this year, cutting costs by 1 percent next quarter e.t.c.

Steiner defined long-range objective as ***"The desirable or needed result to be achieved by a specific time".*** Another author offered further explanation, "In order for the strategic plan to become reality, it must be made operational. This means becoming quite specific about the element of the planning by dealing with three basic questions: Who? Will do what? By when?" Some examples are given as follows:

→ To achieve 100 percent total customer satisfaction…everyday…in every restaurant…for every customers Rubbermaid

→ To increase annual sales from =N=1 billion to =N=2 billion in five years

→ To have 30 percent of sales each year come from products not in the company's product line five years earlier

→ To achieve a net sales growth rate of 10 percent per year

→ To maintain average earnings per share growth rate of 15 percent per year

→To pay out 25 percent to 35 percent of net income in dividends
→To dispose of those parts of our business which do not or cannot generate adequate returns or do not fit our business strategy.

Generally objectives are determined by the board of director, who approve objectives. It is however, preferable for objectives to be ***Specific*** and expressed in quantitative terms. **Specific objective usually have limits,** e.g to open a new Mr. bigg's Fast Food Restaurant in five months' time. ***Formulating specific objectives and developing appropriate policies, within the framework of general objective often jointly result in co-ordinated, and controlled decision making.*** Careful planning of objective helps management to give members a sense of direction and purpose – this is essential to achieve effective results.

Generally, an organization functions systematically because is sets goals and plans accordingly. Daniel Robey provides an excellent list of the key functions of business goals (Robey 1982). To summarize his comments, goals serves to:

1) provides direction and guidance for mangers at all levels. If managers know precisely where the company itself is headed, their error is less likely in the different unit of the company.
2) helps firms allocate resources. Area that are expected to grow, for example, will get first priority.
3) helps to define corporate culture. A competitive culture that rewards success and having the tolerance for failure can often result from effective goal setting.
4) help managers assess performance.
5) Justify or legitimize the organization's activities.
6) Focus attention and set constraints for member behavior.
7) Identify the nature of the organization and elicit commitment.
8) Reduce uncertainty by clarifying what the organization is pursuing.
9) Help an organization to learn and adapt by showing discrepancies between goals and actual progress (providing feedback).
10) Serve as a standard of assessment for organization members.
11) Provide a rationale for organization design.

Always, there has to be a clear link between objectives goals and missions which all define the purpose of the organization. This is the essence of strategic management. Glueck (1984) has this to say that "strategic management is a Strear of decisions and actions which leads to the development of effective strategy or strategies to help achieve corporate objectives". See figure below:

POLICY	OBJECTIVES	STRATEGY FACTOR	TACTICS
Product Development	Development and market a new detergent more likely to get cloths cleaner	Many consumers tend to understand detergent and so do not get good cleaning results	Wash detergent was introduced in tablet Form to help assure proper Measurement of detergent.
Creative	Reposition our coffee as having batter taste than other blends	The taste of black coffee is the true taste of coffee flavour	A new advertising theme "Ask the one who drinks it black"

Figure 3.1: Relationship between Objectives, Goals and Strategy factors.

At one time, it was widely assumed that the owner of a company set that firm's goals. Glueck and Jauch refer to this as a trickle-down theory because it was assumed that others in the organization simply accepted these goals. Chester Barnard, believing that it was naive to assume such ready acceptance, suggested that organizational objectives arose from a consensus of the employees (Gleuck and Jauch, pp. 78-79).

This trickle-up theory, however, is also naive in assuming that an organization is simply the sum of individual perspectives, and that it can achieve direction from an unguided and usually disparate group of people. Modern theories spring from combinations of these two approaches, suggesting goal development is a complex goal-bargaining process that enjoys some advantages of both basic theories. Bargaining, while seeming a rather negative and poorly developed goal-setting approach, has the advantage of involving most, if not all, employees in the process. As a result, it is more likely that key concerns, internal as well as external, will be taken into account. By involving employees, you improve their understanding of and commitment to the firm.

3.2.1 Must It Be Only Financial?

Many objectives can be pursued at the same time but most in financial terms e.g. return in investment, net profit. It is also getting more common for organizations to include nonfinancial goals nowadays e.g. to be number one in a certain market; to increase the company's visibility in the community. Objectives may not be just business and profits.

"It is becoming increasingly recognized that there should be formal statements of objectives to be met on behalf of a variety of stakeholders, including customers, suppliers, employees and the community at large." Objectives whether in financial or non-financial terms are important as they provide direction, aid in evaluation, allow coordination and are necessary for effective planning, organization and controlling of activities.

3.2.2 Criteria for Good Objectives

Steiner offered ten characteristics of good objectives:

Suitable: A good objective must relate to the basic purpose or mission. "An objective that makes no contribution to purpose is non-productive. One that conflicts with purpose is dangerous."

Measurable over time: It should be stated what is expected to happen in concrete terms and when.

Feasible: A good objective must be achievable. Unrealistic or impractical objectives serve no purpose and should therefore be avoided.

Acceptable: A good objective should be acceptable by stakeholders, especially the key ones. An objective that does not have stakeholder blessings are bound to fail.

Flexible: A good objective should have an element of flexibility built in, that it can be modified in the event of unforeseen circumstances. However, it must not be done in a "wishy-washy' manner. It must be firm enough to provide a direction.

Motivating: Drucker's research showed that objectives that are set a little more aggressive and "a little higher that likely to be reached" lead to better performance.

Understandable: Objectives should be written in forms that are easily understood. Furthermore, managers should take proactive stand to ensure complete understanding.

Commitment: There should be a commitment by all, especially the managers, to see the objectives being realized. They also should be prepared to do what is needed.

People participation: "Best results are achieved when those who are responsible for achieving objectives have some role in setting them. This is less true for a very small organization than, say, for large decentralized companies." Lower managers and staff have "detail, intimate and substantive" knowledge that can be used in reliable planning.

Linkage: Many linkages are involved. First, there should be a linkage of the objective to the basic purpose. Second, the objectives in different parts of large, decentralized company shouldbe consistent with the top management objectives. Third, even within a division, the various objectives should have some linkages with one another.

3.2.3 Guidelines to Help Avoid Pitfalls in Setting Objectives

Anthony Raia provides a list of guidelines to help you avoid pitfalls in setting objectives (Rue and Byars, p. 107). Some of the most important include:

→Limit the number of statements of objectives to the key result areas (for your business). Do not obscure priorities by stating too many objectives.

→Review your statements with others to assure consistency and mutual support. Do not fall into the trap of setting your objectives in a vacuum.

→Modify your statements to meet changing conditions and priorities.

→Do not continue to pursue objectives that have become obsolete.

→Adapt your objectives directly to organizational goals and strategic plans. Do not assume that they support higher level management objectives.

→Quantify and target the results whenever possible. Do not formulate objectives where attainment cannot be measured or at least verified.

→Test your objectives for challenge and achievability. Do not build in cushions to hedge against accountability for results.

→Adjust the objectives to the available resources and the realities of organizational life. Do not keep your head either in the clouds or in the sand.

→Establish performance reports and milestones that measure progress toward the objective. Do not rely on instinct or crude benchmarks to appraise performance.

→Put your objectives in writing and express them in clear, concise and unambiguous statements. Do not allow them to remain in loose or vague terms.

The formulation of a mission, goals and objectives is a complex, repetitive and continual process. As a small business owner-manager, your first reaction may be that you don't have the time or the resources to accomplish this. This may be true; however, you must develop a process that you can implement and be comfortable with. You will need to be aware of this process, the relationship of goals to ultimate performance and the need to be specific and consistent. A carefully thought-out set of goals provides the base on which the rest of strategic planning will proceed. The time you put into carefully assessing what you hope to achieve and how you will measure it will reduce the time required to assess and control performance.

Objective to be meaningful to serve the intended role must possess following characteristics:

i) Objectives should define the organization's relationship with its environment.

ii) They should be facilitative towards achievement of mission and purpose.

iii) They should provide the basis for strategic decision-making

iv) They should provide standards for performance appraisal

v) Objectives should be understandable.

vi) Objectives should be concrete and specific

vii) Objectives should be related to a time frame

viii) Objectives should be measurable and controllable

vix) Objectives should be challenging

x)Different objectives should correlate with each other

xi) Objectives should be set within constraints.

4.0. Conclusion

Many organizations today develop a *vision statement* that answers the question “What do we want to become?” Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. *Mission statements* are “enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm’s operations in product and market terms.” It addresses the basic question that faces all strategists: “What is our business?” A clear mission statement describes the values and priorities of an organization.

Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization. A mission statement is a constant reminder to its employees of why the organization exists and what the founders envisioned when they put their fame and fortune at risk to breathe life into their dreams.

5.0. Summary

Strategy formulation is the development of long-range plans for they effective management of environmental opportunities and threats, taking into consideration corporate strengths and weakness. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. An organization’s mission is its purpose, or the reason for its existence. It states what it is providing to society .A well conceived mission statement defines the fundamental , unique purpose that sets a company apart from other firms of its types and identifies the scope of the company ‘s operation in terms of products offered and markets served. Objectives are the end results of planned activity; they state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in fulfillment of the corporation’s mission.

6.0 Tutor Marked Assignments

Beauty is in the eyes of the beholder. Use this statement to describe what corporate is and or should be and should be set. What are the demarcating features of well stated objective.

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UNIT 4: Environmental Analysis

Content

1.0 Introduction

This unit examines the tools and concepts needed to conduct an external strategic management audit (sometimes called *environmental scanning* or *industry analysis*). An *external audit* focuses on identifying and evaluating trends and events beyond the control of a single firm, such as increased foreign competition, an aging society, consumer fear of traveling, and stock market volatility. An external audit reveals key opportunities and threats confronting an organization so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats.

The purpose of an *external audit* is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term *finite* suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. This unit presents a practical framework for gathering, assimilating, and analyzing external information.

2.0 Unit Objective

At the end of studying this unit, the learner should be able to:

i) Appraise the impact of external factors on strategic planning.
ii) Describe the competition and strength of the competitive forces. Which companies are in the strongest/weakest positions? What strategic moves are rivals likely to make next?
iii) Discuss the causes of changes in the industry’s competitive structure and business environments.
iv) Asses industry attractiveness the prospects for above average profitability.

3.0 Key External Forces

External forces can be divided into five broad categories: (1) economic forces; (2) social, cultural, demographic, and natural environment forces; (3) political, governmental, and legal forces; (4) technological forces; and (5) competitive forces. Relationships among these forces and an organization are depicted in Figure 4.1. External trends and events, such as the Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services.

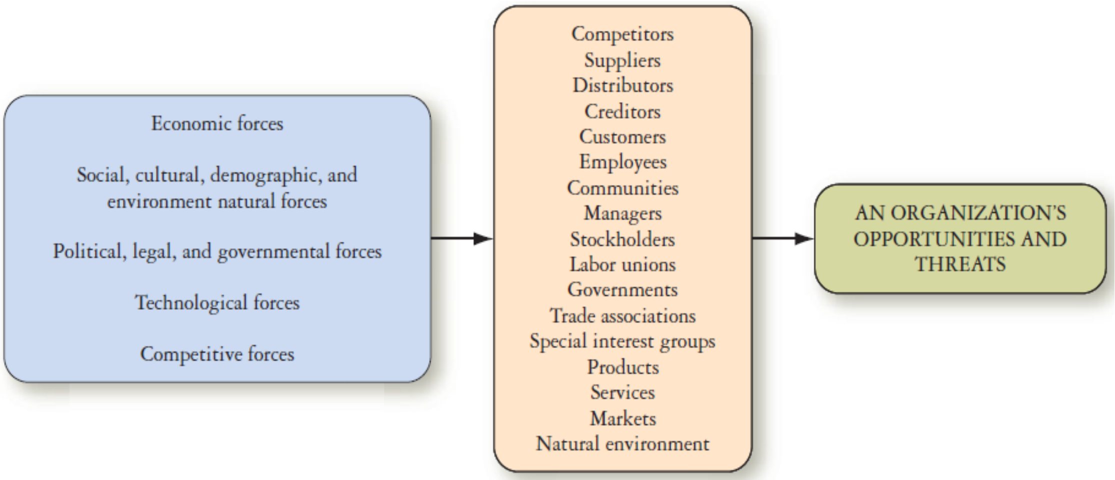

FIGURE 4.1 Relationships between Key External Forces and an Organization
Source: Adapted from R. Schroeder, *Operations Management* (New York: McGraw-Hill, 1981): 12.

External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.
The increasing complexity of business today is evidenced by more countries developing the capacity and will to compete aggressively in world markets. Foreign businesses and countries are willing to learn, adapt, innovate, and invent to compete successfully in the marketplace.

3.0.1 The Process of Performing an External Audit

The process of performing an external audit must involve as many managers and employees as possible. As emphasized in earlier chapters, involvement in the strategic-management process can lead to understanding and commitment from organizational members. Individuals appreciate having the opportunity to contribute ideas and to gain a better understanding of their firms' industry, competitors, and markets.

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit.

This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information. Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm.

Freund as quoted by David (2011) emphasized that these key external factors should be

(1) important to achieving long-term and annual objectives,
(2) measurable,
(3) applicable to all competing firms, and
(4) hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas.

A final list of the most important key external factors should be communicated and distributed widely in the organization. Both opportunities and threats can be key external factors.

Environmental scanning is the monitoring, evaluating and disseminating of information from the external environment to the key people within the business. Hunger and Wheelen (1996) state that to be successful over time, an organisation must bein tune with its external environment. There must be a strategic fit between what the environment wants and what the business has to offer, as well as between what the business needs and what the environment can provide. According to Hunger and Wheelen (1996) current predictions are that the environment for all organisations will become even more uncertain in the coming years, due to factors such as better information technology and the effect that it will have or already has on competition between businesses.

According to Duncan (1972) ***environmental uncertainty*** refers to the combination of the degree of complexity and the degree of change in an organisation's external environment. This environmental uncertainty is a threat to strategic managers, because it hampers their ability to develop long-range plans and to make strategic decisions to keep the business in equilibrium with its external environment. Managers who are willing to actively embrace the increasing uncertainty facing their organisations in order to anticipate future developments engage in strategic management.

. According to Kroon (1993) the analysis of the external environment consists of an analysis of the international, macro-management and the market or task environment. Changes and trends are considered in the international, economic, social, technological, physical, political, institutional and the market or task environment.

Economic Forces

Economic factors have a direct impact on the potential attractiveness of various strategies. For example, when interest rates rise, funds needed for capital expansion become more costly or unavailable. Also, when interest rate rises, discretionary income declines, and the demand for discretionary goods falls. When stock prices increase, the desirability of equity as a source of capital for market development increases. Also, when the market rises, consumer and business wealth expands. A summary of economic variables that often represent opportunities and threats for organizations is provided in ***Table 1.***

TABLE 1: Key Economic Variables to Be Monitored

Shift to a service economy in the United States	**Availability of credit**
Level of disposable income	**Propensity of people to spend**
Interest rates	**Inflation rates**
Money market rates	**Federal government budget deficits**
Gross domestic product trend	**Consumption patterns**
Unemployment trends	**Worker productivity levels**
Value of the naira in world markets	**Stock market trends**
Foreign countries' economic conditions	**Import/export factors**
Demand shifts for different categories of goods and services	**Income differences by region and**
consumer groups	**Price fluctuations**
Monetary policies	**Fiscal policies**
Tax rates	
Organization of Petroleum Exporting Countries (OPEC) policies	
Coalitions of Lesser Developed Countries (LDC) policies	

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Social, Cultural, Demographic, and Natural Environment Forces

Social, cultural, demographic, and environmental changes have a major impact on virtually all products, services, markets, and customers. Small, large, for-profit, and nonprofit organizations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and environmental variables.

In every way, Nigeria is much different today than it was yesterday, and tomorrow promises even greater changes. Social, cultural, demographic, and environmental trends are shaping the way Nigerians live, work, produce, and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies.

There are now more Nigerians households with people living alone or with unrelated people than there are households consisting of married couples with children. Nigerians are now making more and more purchases online. The aging American population affects the strategic orientation of nearly all organizations. A summary of important social, cultural, demographic, and environmental variables that represent opportunities or threats for virtually all organizations is given in Table 2.

TABLE 2 Key Social, Cultural, Demographic, and Natural Environment Variables

Childbearing rates	**Number of special-interest groups**
Number of marriages	**Number of divorces**
Number of births	**Number of deaths**
Immigration and emigration rates	**Social Security programs**
Life expectancy rates	**Per capita income**
Location of retailing, manufacturing, and service businesses	**Lifestyles**
Attitudes toward business	**Traffic congestion**
Average disposable income	**Trust in government**
Attitudes toward government	**Attitudes toward work**
Buying habits	**Ethical concerns**
Attitudes toward saving	**Sex roles**
Attitudes toward investing	**Racial equality**
Use of birth control	**Average level of education**
Government regulation	**Attitudes toward retirement**
Attitudes toward leisure time	**Attitudes toward product quality**
Attitudes toward customer service	**Pollution control**
Attitudes toward foreign peoples	**Social programmes**
Number of churches / Mosques	**Attitudes toward authorityNumber of church /**
Mosques members	**Social responsibility**
Attitudes toward careers	**Waste management**
Population changes by race, age, sex, and level of affluence	**Endangered species**
Population changes by city, county, state, region, and country	**Water pollution**
Regional changes in tastes and preferences	**Air pollution**
Number of women and minority workers	**Recycling**
Number of high school and college graduates by geographic area	**Ozone depletion**

Source: David, Fred R. (2011) Strategic management: concepts and cases.—13th ed. Copyright ©, by Pearson Education, Inc., publishing as Prentice Hall, One Lake Street, Upper Saddle River, New Jersey 07458.

Political, Governmental, and Legal Forces

Federal, state, local, and foreign governments are major regulators, deregulators, subsidizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations. For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit. Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly. The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

In the face of a deepening global recession, countries worldwide are resorting to protectionism to safeguard their own industries. European Union (EU) nations, for example, have tightened their own trade rules and resumed subsidies for various of their own industries while barring imports from certain other countries. Governments are taking control of more and more companies as the global economic recession cripples firms considered vital to the nation's financial stability. As more and more companies around the world accept government bailouts, those companies are being forced to march to priorities set by political leaders.

Even in the United States, the federal government is battling the recession with its deepest intervention in the economy since the Great Depression. Most governments today are now strategic managers in industries from banking to insurance to autos. Governments worldwide are under pressure to protect jobs at home and maintain the nation's industrial base.

Local, state, and federal laws; regulatory agencies; and special-interest groups can have a major impact on the strategies of small, large, for-profit, and non-profit organizations. Many companies have altered or abandoned strategies in the past because of political or governmental actions. In the academic world, as state budgets have dropped in recent years, so too has state support for colleges and universities. Due to the decline in monies received from the state, many institutions of higher learning are doing more fundraising on their own—naming buildings and classrooms, for example, for donors.

Technological Forces

Revolutionary technological changes and discoveries are having a dramatic impact on organizations. Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements can dramatically affect organizations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position. Technological advancements can create new markets, result in a proliferation of new and improved products, change the relative competitive cost positions in an industry, and render existing products and services obsolete.

Technological changes can reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills, and result in changing values and expectations of employees, managers, and customers. Technological advancements can create new competitive advantages that are more powerful than existing advantages. No company or industry today is insulated against emerging technological developments. In high-tech industries, identification and evaluation of key technological opportunities and threats can be the most important part of the external strategic-management audit.

The ***Internet*** has changed the very nature of opportunities and threats by altering the life cycles of products, increasing the speed of distribution, creating new products and services, erasing limitations of traditional geographic markets, and changing the historical trade-off between production standardization and flexibility. The Internet is altering economies of scale, changing entry barriers, and redefining the relationship between industries and various suppliers, creditors, customers, and competitors. To effectively capitalize on e-commerce, a number of organizations are establishing two new positions in their firms: *chief information officer (CIO)* and *chief technology officer (CTO)*. This trend reflects the growing importance of *information technology (IT)* in strategic management. A CIO and CTO work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed.

These individuals are responsible for developing, maintaining, and updating a company's information database. The CIO is more a manager, managing the firm's relationship with stakeholders; the CTO is more a technician, focusing on technical issues such as data acquisition, data processing, decision-support systems, and software and hardware acquisition.

Not all sectors of the economy are affected equally by technological developments. The communications, electronics, aeronautics, and pharmaceutical industries are much more volatile than the textile, forestry, and metals industries. Organizations that traditionally have limited technology expenditures to what they can fund after meeting marketing and financial requirements urgently need a reversal in thinking. The pace of technological change is increasing and literally wiping out businesses every day. An emerging consensus holds that technology management is one of the key responsibilities of strategists. Firms should pursue strategies that take advantage of technological opportunities to achieve sustainable, competitive advantages in the marketplace.

Competitive Forces

An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies. Competition in virtually all industries can be described as intense—and sometimes as cutthroat. Collecting and evaluating information on competitors is essential for successful strategy formulation.

Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Many multidivisional firms do not provide sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information.

Seven characteristics describe the most competitive companies:

1. Market share matters; the 90th share point isn't as important as the 91st, and nothing is more dangerous than falling to 89.
2. Understand and remember precisely what business you are in.
3. Whether it's broke or not, fix it—make it better; not just products, but the whole company, if necessary.
4. Innovate or evaporate; particularly in technology-driven businesses, nothing quite recedes like success.
5. Acquisition is essential to growth; the most successful purchases are in niches that add a technology or a related market.
6. People make a difference; tired of hearing it? Too bad.
7. There is no substitute for quality and no greater threat than failing to be cost competitive on a global basis.

TABLE 3 Key Questions About Competitors

1. What are the major competitors' strengths?
2. What are the major competitors' weaknesses?
3. What are the major competitors' objectives and strategies?
4. How will the major competitors most likely respond to current economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful counterattack by our major competitors?
7. How are our products or services positioned relative to major competitors?
8. To what extent are new firms entering and old firms leaving this industry?
9. What key factors have resulted in our present competitive position in this industry?
10. How have the sales and profit rankings of major competitors in the industry changed over recent years? Why have these rankings changed that way?
11. What is the nature of supplier and distributor relationships in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

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Collecting and evaluating information on competitors is essential for successful strategy formulation. Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Many multidivisional firms do not provide sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information. Addressing questions about competitors such as those presented in Table 3-9 is important in performing an external audit.

3.1 The Nature of an Internal Audit

All organizations have strengths and weaknesses in the functional areas of business.
No enterprise is equally strong or weak in all areas. Internal strengths/weaknesses, coupled with external opportunities/threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalizing upon internal strengths and overcoming weaknesses. A firm's strengths that cannot be easily matched or imitated by competitors are called ***distinctive competencies***. Building competitive advantages involves taking advantage of distinctive competencies.

Performing an internal audit requires gathering, assimilating, and evaluating information about the firm's operations. Strategic management is a highly interactive process that requires effective coordination among management, marketing, finance/accounting, production/operations, R&D, and management information systems managers.

Although the strategic-management process is overseen by strategists, success requires that managers and employees from all functional areas work together to provide ideas and information. Financial managers, for example, may need to restrict the number of feasible options available to operations managers, or R&D managers may develop products for which marketing managers need to set higher objectives. A key to organizational success is effective coordination and understanding among managers from all functional business areas.

Compared to the external audit, the process of performing an internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization. This is a great benefit because managers and employees perform better when they understand how their work affects other areas and activities of the firm.

For example, when marketing and manufacturing managers jointly discuss issues related to internal strengths and weaknesses, they gain a better appreciation of the issues, problems, concerns, and needs of all the functional areas. In organizations that do not use strategic management, marketing, finance, and manufacturing managers often do not interact with each other in significant ways. Performing an internal audit thus is an excellent vehicle or forum for improving the process of communication in the organization. *Communication* may be the most important word in management.

A failure to recognize and understand relationships among the functional areas of business can be detrimental to strategic management, and the number of those relationships that must be managed increases dramatically with a firm's size, diversity, geographic dispersion, and the number of products or services offered.

Management

The *functions of management* consist of five basic activities: planning, organizing, motivating, staffing, and controlling. An overview of these activities is provided in Table 4.

TABLE 4 The Basic Functions of Management

Function	Description	Stage of Strategic-Management Process When Most Important
Planning	Planning consists of all those managerial activities related to preparing for the future. Specific tasks include forecasting, establishing objectives, devising strategies, developing policies, and setting goals.	Strategy Formulation
Organizing	Organizing includes all those managerial activities that result in a structure of task and authority relationships. Specific areas include organizational design, job specialization, job descriptions, job specifications, span of control, unity of command, coordination, job design, and job analysis.	Strategy Implementation
Motivating	Motivating involves efforts directed toward shaping human behavior. Specific topics include leadership, communication, work groups, behavior modification, delegation of authority, job enrichment, job satisfaction, needs fulfillment, organizational change, employee morale, and managerial morale.	Strategy Implementation
Staffing	Staffing activities are centered on personnel or human resource management. Included are wage and salary administration, employee benefits, interviewing, hiring, firing, training, management development, employee safety, affirmative action, equal employment opportunity, union relations, career development, personnel research, discipline policies, grievance procedures, and public relations.	Strategy Implementation
Controlling	Controlling refers to all those managerial activities directed toward ensuring that actual results are consistent with planned results. Key areas of concern include quality control, financial control, sales control, inventory control, expense control, analysis of variances, rewards, and sanctions.	Strategy Evaluation

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Management Audit Checklist of Questions

The following checklist of questions can help determine specific strengths and weaknesses in the functional area of business. An answer of *no* to any question could indicate a potential weakness, although the strategic significance and implications of negative answers, of course, will vary by organization, industry, and severity of the weakness.

Positive or yes answers to the checklist questions suggest potential areas of strength.

1. Does the firm use strategic-management concepts?
2. Are company objectives and goals measurable and well communicated?
3. Do managers at all hierarchical levels plan effectively?
4. Do managers delegate authority well?
5. Is the organization's structure appropriate?
6. Are job descriptions and job specifications clear?
7. Is employee morale high?
8. Are employee turnover and absenteeism low?
9. Are organizational reward and control mechanisms effective?

Marketing

Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services. There are seven basic *functions of marketing:* (1) customer analysis, (2) selling products/services, (3) product and service planning, (4) pricing, (5) distribution, (6) marketing research, and (7) opportunity analysis. Understanding these functions helps strategists identify and evaluate marketing strengths and weaknesses.

Marketing Audit Checklist of Questions

The following questions about marketing must be examined in strategic planning:

1. Are markets segmented effectively?
2. Is the organization positioned well among competitors?
3. Has the firm's market share been increasing?
4. Are present channels of distribution reliable and cost effective?
5. Does the firm have an effective sales organization?
6. Does the firm conduct market research?
7. Are product quality and customer service good?
8. Are the firm's products and services priced appropriately?
9. Does the firm have an effective promotion, advertising, and publicity strategy?
10. Are marketing, planning, and budgeting effective?
11. Do the firm's marketing managers have adequate experience and training?
12. Is the firm's Internet presence excellent as compared to rivals?

Finance/Accounting

Financial condition is often considered the single best measure of a firm's competitive position and overall attractiveness to investors. Determining an organization's financial strengths and weaknesses is essential to effectively formulating strategies. A firm's liquidity, leverage, working capital, profitability, asset utilization, cash flow, and equity can eliminate some strategies as being feasible alternatives. Financial factors often alter existing strategies and change implementation plans.

Basic Types of Financial Ratios

Financial ratios are computed from an organization's income statement and balance sheet. Computing financial ratios is like taking a picture because the results reflect a situation at just one point in time. Comparing ratios over time and to industry averages is more likely to result in meaningful statistics that can be used to identify and evaluate strengths and weaknesses. Table 5 provides a summary of key financial ratios showing how each ratio is calculated and what each ratio measures.

However, all the ratios are not significant for all industries and companies. For example, accounts receivable turnover and average collection period are not very meaningful to a company that primarily does a cash receipts business. ***Key financial ratios can be classified into the following five types:***

1. ***Liquidity ratios*** measure a firm's ability to meet maturing short-term obligations.
Current ratio
Quick (or acid-test) ratio

2. ***Leverage ratios*** measure the extent to which a firm has been financed by debt.
Debt-to-total-assets ratio
Debt-to-equity ratio
Long-term debt-to-equity ratio
Times-interest-earned (or coverage) ratio

3. ***Activity ratios*** measure how effectively a firm is using its resources.
Inventory turnover
Fixed assets turnover
Total assets turnover
Accounts receivable turnover
Average collection period

4. ***Profitability ratios*** measure management's overall effectiveness as shown by the returns generated on sales and investment.
Gross profit margin
Operating profit margin
Net profit margin
Return on total assets (ROA)
Return on stockholders' equity (ROE)
Earnings per share (EPS)
Price-earnings ratio

Ratio	How Calculated	What It Measures
Liquidity Ratios		
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations
Quick Ratio	$\frac{\text{Current assets minus inventory}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations without relying upon the sale of its inventories
Leverage Ratios		
Debt-to-Total-Assets Ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	$\frac{\text{Long-term debt}}{\text{Total stockholders' equity}}$	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs
Activity Ratios		
Inventory Turnover	$\frac{\text{Sales}}{\text{Inventory of finished goods}}$	Whether a firm holds excessive stocks of inventories and whether a firm is slowly selling its inventories compared to the industry average
Fixed Assets Turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Sales productivity and plant and equipment utilization
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Whether a firm is generating a sufficient volume of business for the size of its asset investment
Accounts Receivable Turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	The average length of time it takes a firm to collect credit sales (in percentage terms)
Average Collection Period	$\frac{\text{Accounts receivable}}{\text{Total credit sales/365 days}}$	The average length of time it takes a firm to collect on credit sales (in days)
Profitability Ratios		
Gross Profit Margin	$\frac{\text{Sales minus cost of goods sold}}{\text{Sales}}$	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Sales}}$	Profitability without concern for taxes and interest
Net Profit Margin	$\frac{\text{Net income}}{\text{Sales}}$	After-tax profits per dollar of sales
Return on Total Assets (ROA)	$\frac{\text{Net income}}{\text{Total assets}}$	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)
Return on Stockholders' Equity (ROE)	$\frac{\text{Net income}}{\text{Total stockholders' equity}}$	After-tax profits per dollar of stockholders' investment in the firm
Profitability Ratios		
Earnings Per Share (EPS)	$\frac{\text{Net income}}{\text{Number of shares of common stock outstanding}}$	Earnings available to the owners of common stock
Price-Earnings Ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Attractiveness of firm on equity markets
Growth Ratios		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales
Net Income	Annual percentage growth in profits	Firm's growth rate in profits
Earnings Per Share	Annual percentage growth in EPS	Firm's growth rate in EPS
Dividends Per Share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share

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5. ***Growth ratios*** measure the firm's ability to maintain its economic position in the growth of the economy and industry.
Sales
Net income
Earnings per share
Dividends per share
Financial ratio analysis must go beyond the actual calculation and interpretation ofratios.

The analysis should be conducted on three separate fronts:

1. ***How has each ratio changed over time?*** This information provides a means of evaluating historical trends. It is important to note whether each ratio has been historically increasing, decreasing, or nearly constant. For example, a 10 percent profit margin could be bad if the trend has been down 20 percent each of the last three years. But a 10 percent profit margin could be excellent if the trend has been up, up, up. Therefore, calculate the percentage change in each ratio from one year to the next to assess historical financial performance on that dimension. Identify and examine large percent changes in a financial ratio from one year to the next.

2. ***How does each ratio compare to industry norms?*** A firm's inventory turnover ratio may appear impressive at first glance but may pale when compared to industry standards or norms. Industries can differ dramatically on certain ratios.

3. ***How does each ratio compare with key competitors?*** Oftentimes competition is more intense between several competitors in a given industry or location than across all rival firms in the industry. When this is true, financial ratio analysis should include comparison to those key competitors. For example, if a firm's profitability ratio is trending up over time and compares favorably to the industry average, but it is trending down relative to its leading competitor, there may be reason for concern.

Financial ratio analysis is not without some limitations. First of all, financial ratios are based on accounting data, and firms differ in their treatment of such items as depreciation, inventory valuation, research and development expenditures, pension plan costs, mergers, and taxes. Also, seasonal factors can influence comparative ratios. Therefore, conformity to industry composite ratios does not establish with certainty that a firm is performing normally or that it is well managed.

Finance/Accounting Audit Checklist

The following finance/accounting questions, like the similar questions about marketing and management earlier, should be examined:

1. Where is the firm financially strong and weak as indicated by financial ratio analyses?
2. Can the firm raise needed short-term capital?
3. Can the firm raise needed long-term capital through debt and/or equity?
4. Does the firm have sufficient working capital?

5. Are capital budgeting procedures effective?
6. Are dividend payout policies reasonable?
7. Does the firm have good relations with its investors and stockholders?
8. Are the firm's financial managers experienced and well trained?
9. Is the firm's debt situation excellent?

Production/Operations

The *production/operations function* of a business consists of all those activities that transform inputs into goods and services. Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets. A manufacturing operation transforms or converts inputs such as raw materials, labor, capital, machines, and facilities into finished goods and services. As indicated in Table 6, Roger Schroeder suggested that production/operations management comprises five functions or decision areas: process, capacity, inventory, workforce, and quality.

TABLE 6 The Basic Functions (Decisions) Within Production/Operations

Decision Areas	Example Decisions
1. Process	**These decisions include choice of technology, facility layout, process flow analysis, facility location, line balancing, process control, and transportation analysis. Distances from raw materials to production sites to customers are a major consideration.**
2. Capacity	**These decisions include forecasting, facilities planning, aggregate planning, scheduling, capacity planning, and queuing analysis. Capacity utilization is a major consideration.**
3. Inventory	**These decisions involve managing the level of raw materials, work-in-process, and finished goods, especially considering what to order, when to order, how much to order, and materials handling.**
4. Workforce	**These decisions involve managing the skilled, unskilled, clerical, and managerial employees by caring for job design, work measurement, job enrichment, work standards, and motivation techniques.**
5. Quality	**These decisions are aimed at ensuring that high-quality goods and services are produced by caring for quality control, sampling, testing, quality assurance, and cost control.**

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Production/operations activities often represent the largest part of an organization's human and capital assets. In most industries, the major costs of producing a product or service are incurred within operations, so production/operations can have great value as a competitive weapon in a company's overall strategy.

Strengths and weaknesses in the five functions of production can mean the success or failure of an enterprise. Many production/operations managers are finding that cross-training of employees can help their firms respond faster to changing markets. Cross-training of workers can increase efficiency, quality, productivity, and job satisfaction.

Production/Operations Audit Checklist

Questions such as the following should be examined:

1. Are supplies of raw materials, parts, and subassemblies reliable and reasonable?
2. Are facilities, equipment, machinery, and offices in good condition?
3. Are inventory-control policies and procedures effective?
4. Are quality-control policies and procedures effective?
5. Are facilities, resources, and markets strategically located?
6. Does the firm have technological competencies?

Research and Development

The fifth major area of internal operations that should be examined for specific strengths and weaknesses is *research and development (R&D)*. Many firms today conduct no R&D, and yet many other companies depend on successful R&D activities for survival. Firms pursuing a product development strategy especially need to have a strong R&D orientation.

Organizations invest in R&D because they believe that such an investment will lead to a superior product or service and will give them competitive advantages. Research and development expenditures are directed at developing new products before competitors do, at improving product quality, or at improving manufacturing processes to reduce costs.

Effective management of the R&D function requires a strategic and operational partnership between R&D and the other vital business functions. A spirit of partnership and mutual trust between general and R&D managers is evident in the best-managed firms today. Managers in these firms jointly explore; assess; and decide the what, when, where, why, and how much of R&D. Priorities, costs, benefits, risks, and rewards associated with R&D activities are discussed openly and shared. The overall mission of R&D thus has become broad-based, including supporting existing businesses, helping launch new businesses, developing new products, improving product quality, improving manufacturing efficiency, and deepening or broadening the company's technological capabilities.

Research and Development Audit

Questions such as the following should be asked in performing an R&D audit:

1. Does the firm have R&D facilities? Are they adequate?
2. If outside R&D firms are used, are they cost-effective?
3. Are the organization's R&D personnel well qualified?
4. Are R&D resources allocated effectively?
5. Are management information and computer systems adequate?
6. Is communication between R&D and other organizational units effective?
7. Are present products technologically competitive?

Management Information Systems

Information ties all business functions together and provides the basis for all managerial decisions. It is the cornerstone of all organizations. Information represents a major source of competitive management advantage or disadvantage. Assessing a firm's internal strengths and weaknesses in information systems is a critical dimension of performing an internal audit.

A management information system's purpose is to improve the performance of an enterprise by improving the quality of managerial decisions. An effective information system thus collects, codes, stores, synthesizes, and presents information in such a manner that it answers important operating and strategic questions. The heart of an information system is a database containing the kinds of records and data important to managers.

A *management information system* receives raw material from both the external and internal evaluation of an organization. It gathers data about marketing, finance, production, and personnel matters internally, and social, cultural, demographic, environmental, economic, political, governmental, legal, technological, and competitive factors externally. Data are integrated in ways needed to support managerial decision making.

There is a logical flow of material in a computer information system, whereby data are input to the system and transformed into output. Outputs include computer printouts, written reports, tables, charts, graphs, checks, purchase orders, invoices, inventory records, payroll accounts, and a variety of other documents. Payoffs from alternative strategies can be calculated and estimated. *Data* become *information* only when they are evaluated, filtered, condensed, analyzed, and organized for a specific purpose, problem, individual, or time. Because organizations are becoming more complex, decentralized, and globally dispersed, the function of information systems is growing in importance.

Management Information Systems Audit

Questions such as the following should be asked when conducting this audit:

1. Do all managers in the firm use the information system to make decisions?
2. Is there a chief information officer or director of information systems position in the firm?
3. Are data in the information system updated regularly?
4. Do managers from all functional areas of the firm contribute input to the information system?
5. Are there effective passwords for entry into the firm's information system?
6. Are strategists of the firm familiar with the information systems of rival firms?
7. Is the information system user-friendly?
8. Do all users of the information system understand the competitive advantages that information can provide firms?
9. Are computer training workshops provided for users of the information system?
10. Is the firm's information system continually being improved in content and user-friendliness?

4.0 Conclusion

Increasing turbulence in markets and industries around the world means the external audit has become an explicit and vital part of the strategic-management process. This unit provides a framework for collecting and evaluating economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Firms that do not mobilize and empower their managers and employees to identify, monitor, forecast, and evaluate key external forces may fail to anticipate emerging opportunities and threats and, consequently, may pursue ineffective strategies, miss opportunities, and invite organizational demise. Management, marketing, finance / accounting, production/operations, research and development, and management information systems represent the core operations of most businesses.

A strategic-management audit of a firm's internal operations is vital to organizational health. Many companies still prefer to be judged solely on their bottom line performance. However, an increasing number of successful organizations are using the internal audit to gain competitive advantages over rival firms. Firms not taking advantage of the Internet are technologically falling behind. A major responsibility of strategists is to ensure development of an effective external audit system. Multinational firms especially need a systematic and effective external audit system because external forces among foreign countries vary so greatly.

5.0. Summary

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to keep people within the corporation. It is a tool that a corporation uses to avoid strategic surprise and to ensure long-term health. The social environment includes general forces that do not directly touch on the short-run activities of the organization but those can, and often do, influence its long-run decisions. These forces are economic forces; technological forces; political-legal forces; sociocultural forces. Trends in economic part of societal environment can have an obvious impact on business activity. Changes in the technological part of the societal environment have a significant impact on business firms. Demographic trends are part of socio-cultural aspects of the societal environment.

A corporation's scanning of the environment should include analysis of all the relevant elements in the task environment. These analyses take the form of individual reports written by various people in different parts of the firms. These and other reports are then summarized and transmitted up the corporate hierarchy for top management to use in strategic decision making.

If a new development reported regarding a particular product category, top management may then sent memos to people throughout the organization to watch for and reports on development in related product areas. The many reports resulting from these scanning efforts when boiled down to their essential, act as a detailed list of external strategic factors.

6.0 Tutor Marked Assignments

What are the issues involved in the Performance of an internal audit of organisation?

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Unit 5: Assessment of Companies

Content

1.0 Introduction

After managers involved in the strategic management process have analysed the environment and determined organizational direction through the development of a mission statement and organizational objectives, they are ready to formulate strategy. ***Strategic formulation is the process of determining appropriate course of action for achieving organizational objectives and thereby accomplishing organizational purpose.***

As a concept, a strategy is a specific action that a firm will take to achieve an objective. Defined more technically, a strategy is a long term commitment of resources to achieve specified objectives in a competitive environment. ***And by corporate strategy therefore, we mean the mix of policies and strategy plans that will enable affirm to achieve the objective established. Strategy is very much a question of choice from the alternative paths open to the company.*** The number of alternative available to any company is legion, and their identification and analysis may be a complex task.

Organizations need strategy in order to have guidelines for how to achieve objective and how to pursue the organization's mission. ***Without a strategy or overall game plan,***

(1) there can be no consistency and effectiveness to generate a coherent response to the situation and problems it confronts. ***In addition*** organizations need strategies;

(2) In order to out complete rivals, to maneuver through threatening environments, and to focus their effort.

In forming a strategy out of the many options that exist,

(a) the strategist acts a forger of responses to market change.
(b) a seeker of new opportunities, and
(c) a synthesizer of the different moves and approaches taken at various times in various parts of the organization.

2.0 Objectives

a) Pinpoint and comment on the available strategic tools for company assessment

b) Demonstrate mastery of the following environmental analysis tools: Porter's Five Forces, Critical question analysis, SWOT analysis, PEST, Business portfolio analysis among several others.

c) Explain why we should use TOWES instead of SWOT analysis.

3.0 Tools for Developing Organization Strategies

Managers formulate strategies; that reflect environmental analysis and lead to objective. ***Special tools that managers can use for assistance in formulating strategies include.***

1) Critical question analysis

2) SWOT analysis

3) Business portfolio analysis

4) Michael Porter's model for industry analysis

5) PEST Analysis Application

The five strategy development tools are related but distinct. Managers should use which one tools or combination of tools seem most appropriate for them their organizations.

3.0.1 ► Critical Question Analysis

A synthesis of the ideas of several contemporary management writers suggest that formulating appropriate organization strategy is a process of critical question analysis-answering the following four basic questions.

(1)=> ***What are the purpose and objectives of the organization?*** The answer to this question states where the organization wants to go. As indicated earlier, appropriate strategy reflects organizational purpose and objectives. By answering this question during strategy formulation, managers are likely to remember this important point and thereby minimize inconsistencies among purposes, objectives and strategies.

(2)=> ***Where is the organization presently going?***

The answer to this question can tell managers if an organization is achieving organizational goals and if so, whether the level of such progress is satisfactory. Whereas the first question focuses on where the organization wants to go, this one focuses on where the organization actually going.

(3)=> ***In what king of environment does the organization now exist?***

Both internal and external environments-factors both inside and outside the organization are covered in this question. For example, assume that a poorly trained middle-management team and a sudden influx of competitors in a market are factors that exist respectively in the internal and external environments of an organization. Any strategy formulated, if it is to be appropriate, probably should deal with these factor.

(4)=> ***What can be done to better achieve organizational objectives in the future?***

The answer to this question actually results in the strategy of the organization. The question should be answered however, only after managers have had adequate. Managers can develop appropriate organizational strategy only if they have an understanding of where the organization wants to go, where the organization is going, and in what environment the organization exist.

3.0.2 ► SWOT Analysis

SWOT analysis is a strategic planning tool that matches internal organizational strengths and weaknesses with external opportunities and threats. (SWOT is an acronym) for a firm’s **Strength** and **Weaknesses** and its environmental ***Opportunities*** and ***Threats).*** Analyzing the environment and the company can assist the company in all of the other tasks of strategic management. Environmental factors internal to the firm usually can be classified as strengths(S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) orthreats (T). The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

Strengths: A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. It is an inherent capacity that is in relation to the environment. For an organization to be a success it requires strength and it gives strategic advantage to gain more than the competition. Examples of such strengths include:

1. patents
2. strong brand names
3. good reputation among customers
4. cost advantages from proprietary know-how

5. exclusive access to high grade natural resources

6. favorable access to distribution networks.

Weaknesses

The absence of certain strengths may be viewed as a weakness. It is an inherent inadequacy thatis again in relation to the environment. It gives strategic disadvantage and something thatrequired for success is missing. It leads to competition where weakness can be used to gain moredue to inherent limitation / constraint/inadequacy. For example, each of the following may be considered weaknesses:

→lack of patent protection
→a weak brand name
→poor reputation among customers
→high cost structure
→lack of access to the best natural resources
→lack of access to key distribution channels

In some cases, a weakness may be the flip side of a strength. Take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be a considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities: The external environmental analysis may reveal certain new opportunities for profit and growth. OPPORTUNITY: can be accomplished and can help to consolidate and strengthen the organization. It's a favorable condition for an organization in its environment Some examples of such opportunities include:

1. an unfulfilled customer need
2. arrival of new technologies
3. loosening of regulations
4. removal of international trade barriers

Threats: Changes in the external environmental also may present threats to the firm. Also when the opportunities are not utilized properly it can cause problem to the to the organization which causes threat. It is unfavorable condition for the organization. It causes risk/damage to an organization. Some examples of such threats include:

→shifts in consumer tastes away from the firm's products
→emergence of substitute products
→new regulations
→increased trade barriers.

3.0.2 (A) ► *The SWOT Matrix*

A firm should not necessarily pursue the more lucrative opportunities. Rather, it may have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness inorder to prepare itself to pursue a compelling opportunity.

Internal factors / *External Factors*	**Internal Strength (S)** Adequate financial resources, e.g Quality products of service, Cost advantage, an acknow-ledged market leadership etc.	**Internal Weakness (W)** Obsolete Facilities, no clear strategic direction, A deteriorating competitive position, lack of quality product or service, demotivated workforce, cash flow problem / illiquidity, etc.
External (O) **Opportunities** (consider risks also) Economic conditions Political and social changes, new products services and technology	**SO strategy:** ***Maxi-Maxi*** Potential the most successful: utilizing the organization's Strengths to take advantage of opportunities	***WO* strategy *Mini-Maxi*** **e.g.** development strategy to overcome weaknesses in order to take advantage of opportunities
External Threats (T) Lack of energy, likely entry of new competitor, using sales of substitute products, changing buyers	***ST* strategy*; Maxi-Mini*** E.G. use of strengths to cope with threats or to avoid threats	***WT* Strategy: *Mini-Mini*** **e.g.** retrenchment, liquidation or contraction.

Figure 5:1 The SWOT Matrix for strategy Formulation

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. ***SWOT*** analysis is based on the assumption that if managers carefully, review such strengths, weaknesses, opportunities and threats, a useful strategy for ensuring organization success will become evident. There are four alternative strategies as the SWOT matrix (also known as a TOWS Matrix) is shown below: This based on the analysis of the external environment ***(threat and opportunities)*** and the internal environment (weaknesses and strength).

(1)►*The SO Strategy* is the most desirable position when a company can use its strength to take advantage of opportunities. Indeed, it is the aim of enterprises to move from any other position in the matrix to this situation.

If they have weaknesses, they will strive to overcome, making them strengths. If they face threats they will cope with them so that they can focus on opportunities.

(2) ► *The ST strategy* is based on the organization's strength to deal with threats in the environment. The aim is to maximize the strengths while minimizing the threats. Thus a company may use it technological, financial, managerial, or marketing strengths to cope with the treats of a new product introduced by its competitor.

(3) ► *The WO strategy* attempts to minimize the weaknesses and minimize opportunities. Thus a firm with certain weaknesses in some areas may either develop those areas within the enterprise or acquire those needed competencies from the outside/such as technology or personnel with skills, making it possible to take advantage of opportunities in the external environment.

(4) ► ***The WT strategy*** is to minimize both weakness and threats and may require the company, for example for form a joint venture or even liquidate. *So far, the factors displayed in the SWOT matrix pertain to analysis at a particular point in time. External or internal environments are dynamic. Some factors change over time while others change very little. Because of the rapidly changing environment, the strategy designer must prepare several SWOT analysis / matrixes at different points in time.*

Indeed, the ***SWOT*** matrix was proposed to underscore the distinct strategic, choices required for combining factors identified in the analysis of the internal and external environment.

3.0.2 (B) ►Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

a) It is a source of information for strategic planning.

b) Builds organization's strengths.

c) Reverse its weaknesses.

d) Maximize its response to opportunities.

e) Overcome organization's threats.

g) It helps in identifying core competencies of the firm.

h) It helps in setting of objectives for strategic planning.

i) It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm's resources and capabilities with the competitive environment in which the firm operates.

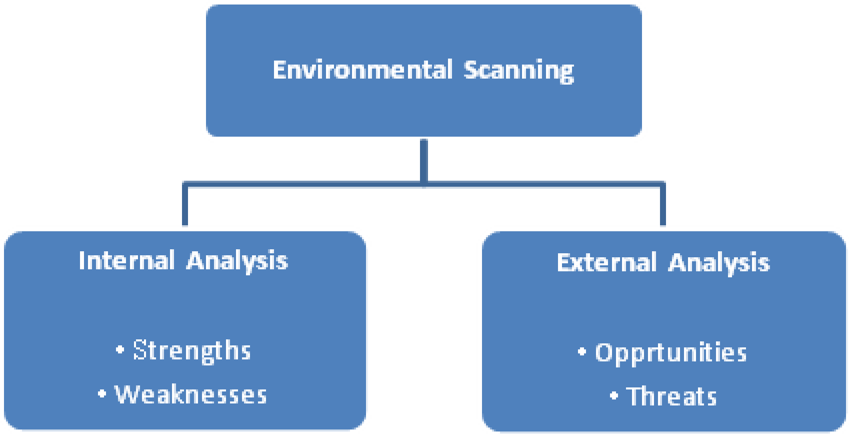

Figure 5.2 **SWOT analysis framework**

Source: David, Fred R. (2011) Strategic management: concepts and cases.—13th ed. Copyright ©, by Pearson Education, Inc., publishing as Prentice Hall, One Lake Street, Upper Saddle River, New Jersey 07458.

3.0.2 (C) ► Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself. ***There are certain limitations of SWOT Analysis which are not in control of management. These include-***

a) Price increase;
b) Inputs/raw materials;
c) Government legislation;
d) Economic environment;
e) Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

a) Insufficient research and development facilities;

b) Faulty products due to poor quality control;

c) Poor industrial relations;

e) Lack of skilled and efficient labour; etc.

3.0.3 ► Business Portfolio Analysis

Business portfolio analysis is another strategy development tool that has gained wide acceptance. ***Business portfolio analysis is an organizational strategy formulation technique that is based on the philosophy that organizations should develop strategy much as they handle investment portfolios. Just as sound financial investments should be emphasized and unsound ones should be discarded, sound organizational activities should be emphasized and unsound one de-emphasized.*** Two business portfolio tools are the BCG Growth – Share Matrix and the GE Multi-factor portfolio Matrix.

(1)=> *The BCG Growth – Share Matrix*

The Boston Consulting Group ***(CG),*** a leading manufacturing consulting firm, development and popularized portfolio analysis tools that helps managers develop organizational strategy base upon market share of businesses and the growth of market in which business exist.

<u>The first step</u> in using the BCG growth-share matrix is identifying strategic business unit (SBUS) the exist within an organization. A strategic business unit is a significant organization segment that is analysed to develop organizational strategy aimed at generating future business or revenue. Exactly what constitute an ***SBU*** varies from organization to organization. In larger organization, an ***SBU's*** could be a company division, a single product or a complete product line. Is smaller organizations, an ***SBU's*** might be the entire company. ***Although SBU's varies drastically in form, each has the characteristics of:-***

- **(1)=>** Being a single business or collection of related business,
- **(2)=>** Having its own competitors
- **(3)=>** Having manager who is accountable for its operation, and
- **(4)=>** Being an area that can be independently planned for within the organization.

After ***SBU's*** have identified a particular organization, the next step is using the BCG Matrix is to categories them as being within one of the following four matrix quadrants as shown in the figure 5.2 below:

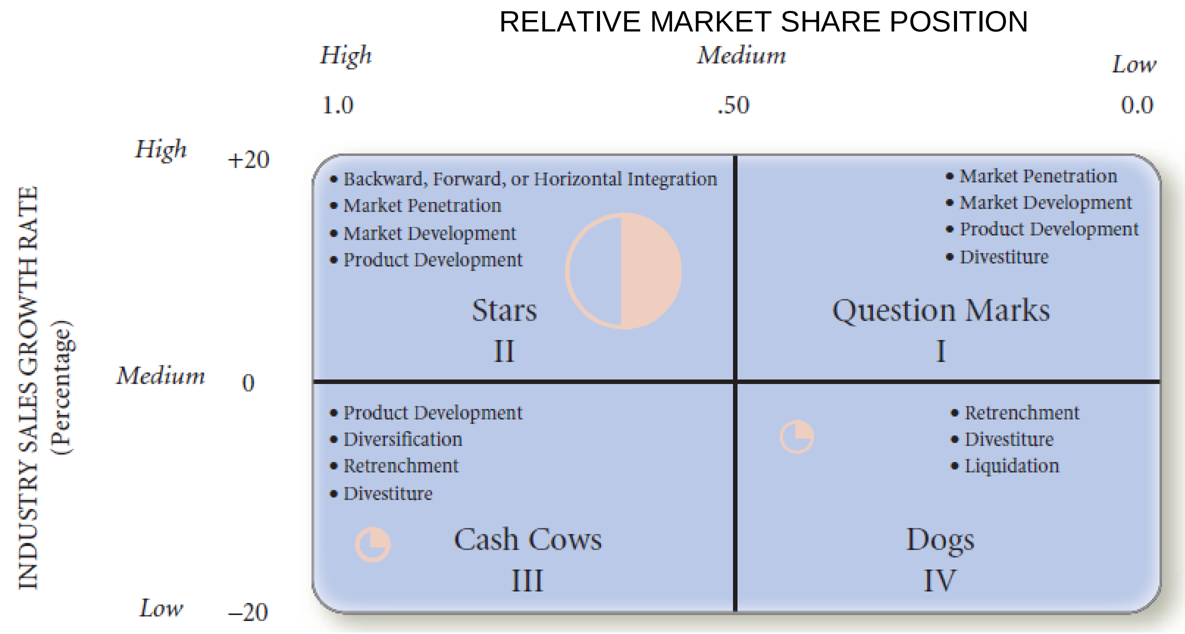

FIGURE 5-3 The BCG Matrix

Source: David, Fred R. (2011) Strategic management: concepts and cases.—13th ed. Copyright ©, by Pearson Education, Inc., publishing as Prentice Hall, One Lake Street, Upper Saddle River, New Jersey 07458.

(1)=> ***Star:*** A star is a business in the high growth, strategic competitive position and typically need large amount of cash to support their rapid and significant growth. A star business/product also generate large amounts of cash for the organization and are usually areas in which management earn attractive returns.

(2)=> ***Cash Cows: SBU's.*** That are cash cows' have a large share of a market that is only growing slightly (or product has reached maturity of the PLC). Naturally these ***SBUs*** provide the organization with large amount of cash. Since the market is not growing significantly, however, the cash so generated is generally used to meet the financial demands of the organization in other areas, such as in the expansion of the star ***SBU.*** Manager typically finds "cash cow" very desirable because of the financial flexibility that a ***"cash cow"*** provides a manager.

(3)=> ***Question Marks (Undecided)***

SBU that are 'question marks' have a small share of a high-growth market. They are called "question marks" because they are those business about which the company has to make a critical decision should they get in-or out? The company/product at this stage experience a competitive disadvantage associated with low market share.

In this case, management would naturally attempt to turn question marks into stars through further investment. The company will therefore have to use more advertising, greater intensity of sales effort, better after sale service, attractive price offers, efficient distribution attractive product features and other efforts which especially in the short run can be expected to strengthen position on shares.

(4)=> ***Dogs: SBUs or products that are "dogs" have a relatively small share of a low-growth market. These businesses are usually not profitable and generally should be disposed of .*** They may even drain cash resources that other ***SBUs*** or products have generated.

The company in this case may follow one of the concentration strategies, that is, strategic shrinking or divestment. The financial resources can be deployed in other operations.

Companies such as shell oil among others have used ***BCG*** Matrix in their strategy management processes. Indeed, the portfolio matrix was developed for large corporation with several division often organized around ***SBUs. There are however, some possible pitfalls in this technique. For example, the matrix does not consider such factors as:***

(1)=> Various types of risk associated with product development,

(2)=> threats that inflation and other economic conditions can create in the future, and

(3)=> Social, political and ecological pressures

(4)=> the model has also been criticized considered insufficient for the evaluation of an industry's attractiveness

(5)=> Similarly, the market share as a yardstick for estimating the competitive position may be inadequate.

3.0.4 ► Michael Porter's model for industry analysis

Michael Porter, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry. Porter placed the dynamic relationship between enterprise strategy and industry structure at the centre of his concept of 'competitive strategy'. He presented the possibility of 'selecting' a strategy based on a well-defined 'position' in the economic market-place backed-up by 'analysis' rather than 'prescription'. According to Porter, ***basic competitive forces determine the intensity level. The stronger each of these forces is, the more companies are limited in their ability to raise prices and earned greater profits.***

To understand this in a clearer manner, the use of Michael Porter's 'Five forces' model can be made. In his model, he explained that there are five forces that determine industry attractiveness and long-run industry profitability.

These are ***(1)*** the threat of entry of new competitors, ***(2)*** the threat of substitutes, ***(3)*** the bargaining power of buyers, ***(4)*** the bargaining power of suppliers and ***(5)*** the degree of rivalry between existing competitors. Thus each firm should seek to find a place in this framework in order to 'best defend itself against these competitive forces or can influence them in its favour.' The model is illustrated below.

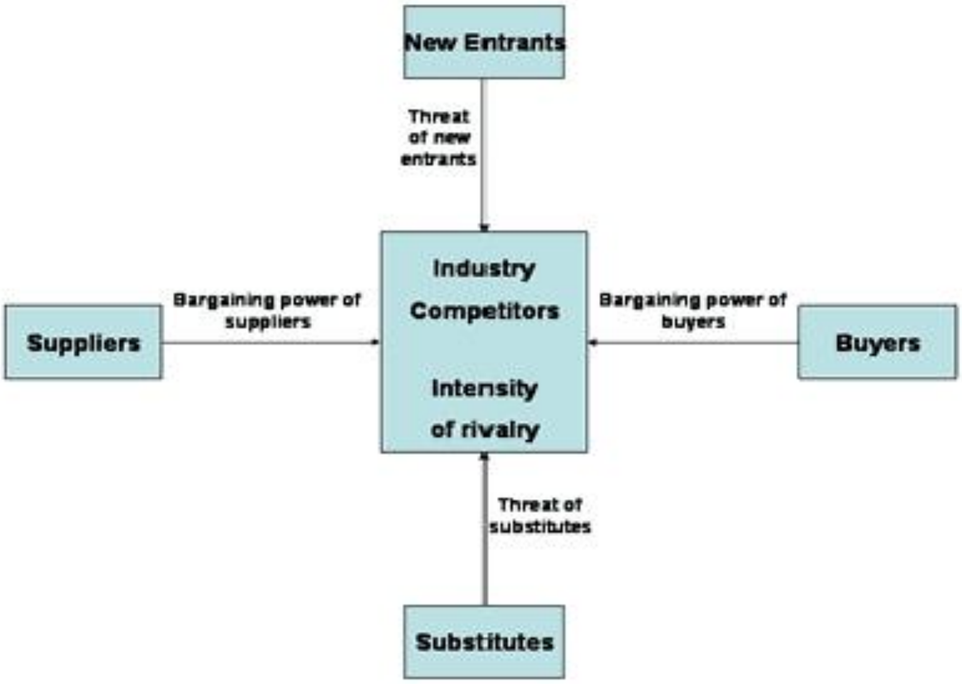

Fig 5.4 **: Porter's Five Force Model**
Source: http://www.tutor2u.net/business/strategy/porter_five_forces.htm

1)►Threat of new entrants

New entrants are newcomers to an existing industry. They typically bring new capacity, a desire to gain market share and substantial resources. Therefore they are threats to an established corporation. Some of the possible barriers to entry are the following.

1. Economies of scale
2. Product differentiation
3. Capital requirements
4. Switching costs
5. Access to distribution channels
6. Cost disadvantages independent of size
7. Government policy

2)►Rivalry among existing firms

Rivalry is the amount of direct competition in an industry. In most industries corporations are mutually dependent. A competitive move by one firm can be expected to have a noticeable effect on its competitors and thus make us retaliation or counter efforts. According to Porter, intense rivalry is related to the presence of the following factors.

1. number of competitors
2. rate of industry growth
3. product or service characteristics
4. amount of fixed costs
5. capacity
6. height of exit barriers
7. diversity of rivals

3)►Treat of substitute product or services

Substitute products are those products that appear to be different but can satisfy the same need as another product. According to Porter, "Substitute limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge." To the extent that switching costs are low, substitutes may have a strong effect on the industry.

4)►Bargaining power of buyers

Buyers affect the industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other. The bargaining power of buyers constitutes the ability of the buyers, individually or collectively, to force a reduction in prices of prod The major objective of this study is to critically examine the effect of strategic environmental scanning on organization performance and to establish stand position about the result of company that adopts continuous environmental scanning and the company that merely operate with it. Products and services demand a higher quality or better service or to seek more value for their purchase in any way. A high buyer bargaining power enables a firm to pass on the cost escalation to buyers or to make the buyers accept a lower quality of product and services at a higher price.

5)►Bargaining power of supplier

Suppliers can affect the industry through their ability to raise prices or reduce the quality of purchased goods and services. Like the bargaining power of buyers, suppliers too, have a level of bargaining power. The bargaining power of suppliers constitutes their ability, individual or collectively, to force an increase in the price of the product or level of service. A high supplier bargaining power constitutes a positive feature for the existing firms or new entrant of an industry. A low supplier bargaining power prevent a firm from passing on it cost increase to the buyers to make the buyers accept a lower quality of product and service at a high price.

The Porter's model can be applied to every industry, small or large scale industries alike. If the conpany is seen as the buyer of the goods produced by the manufacturer, then the bargaining power of the company increases and the competitive forces within the model shifts in the favour of the buying company.

The strength of the bargaining power of the buying company can be explained by the growth of large, modern retail firms, which have immense resources, manpower, technology and influence, as well as direct insights into the consumer buying patterns. The direct connection with the consumer brings the retailer closer to the consumer giving him a chance to identify its real needs and wants. As a result of which the retailer also initiates to produce its own products that are fine-tuned to the inputs received by the consumers themselves and launches his own brands and labels.

This proves to be another competitive force in the model, that is, ***'entry of new competitors'.*** Thus we see that two of the competitive forces in the model shifts in favour of the buying company. The buying company can strengthen his position in the bargaining process by threatening to discontinue to sell the manufacturer's products, by virtue of being a large avenue of selling the manufacturer's products. As such, the buying company r is able to dictate terms to the manufacturer, extract more discounts and increase the profitability of the retail organisation.

3.0.5 ► PEST Analysis Application

PEST analysis stands for "*P*olitical, *E*conomic, *S*ocial-cultural, and *T*echnological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. The growing importance of environmental or ecological factors in the first decade of the 21st century have given rise to green business and encouraged widespread use of an updated version of the PEST framework.

Composition

► ***Political*** **factors** regard how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability.

Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bad). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

► ***Economic* factors** include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

► ***Social-cultural* factors** include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labour). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

► ***Technological* factors** include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

4.0. Conclusion

The main appeal of any managerial approach is the expectation that it will enhance organizational performance. This is especially true of strategic management. Through involvement in strategic-management activities, managers and employees achieve a better understanding of an organization's priorities and operations. Strategic management allows organizations to be efficient, but more important, it allows them to be effective. Although strategic management does not guarantee organizational success, the process allows proactive rather than reactive decision making. Strategic management may represent a radical change in philosophy for some organizations, so strategists must be trained to anticipate and constructively respond to questions and issues as they arise.

5.0. Summary

Modern strategy-formulation tools and concepts are described in this unit and integrated into a practical three-stage framework. Tools such as the SWOT Matrix, BCG Matrix, PEST analysis, Critical Question analysis and Michael Porter's 'Five forces' model can significantly enhance the quality of strategic decisions, but they should never be used to dictate the choice of strategies. Behavioral, cultural, and political aspects of strategy generation and selection are always important to consider and manage.

6.0 Tutor Marked Assignments

In a BCG Matrix, would the Question Mark quadrant or the Cash Cow quadrant be more desirable? Explain.

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Unit 6: Formulating Strategic Alternatives, Strategic Choice

Content

1.0 Introduction:

Strategy formulation is basically a function of the environment (external) and the resources (Unique skill) of the enterprise (i.e. internal), in line with its objectives. Analyzing the organizational environment and applying one or more of the strategy tools-critical question analysis, ***SWOT*** analysis, business portfolio analysis, and porter's model give managers a platform on which to formulate an organization strategy.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to:

1) Explain the issues involved in strategic alternative
2) Comment on how organisations identify alternative courses of action for its survival and growth
3) Discuss the basis for strategic alternative classifications
4) Differentiate among the types of organization strategies
5) Describe alternatives for integrating and implementing an acquisition
6) Describe concepts: Horizontal relationships, means to achieve diversification, unrelated diversification, Conglomerate and divestment.
7) Compare and contrast different growth, stability, retrenchment and divestment or contraction strategies.

3.0 Strategic Alternatives

Strategic alternatives refer to different courses of action which an organisation may pursue at a point in time. These alternatives are crucial to the success of the organisation. More often than not, these are influenced by factors external to the organisation and over which -the organisation has limited control. For example consider a situation where a firm is experiencing increased competition of its products. How should the organisation respond?

Should it reduce price'? Should it improve the quality of the product'! Should it use a mix of' the two? Should it improve the distribution network? Should it improve promotional effort? Is there a set of guidelines which could be followed by the organisation? Alternatives external to the organisation such as mergers, acquisitions and joint ventures may also be considered. The list of alternatives will be incomplete without the alternative of disinvestment. There are situations when withdrawal from an existing business is the most suitable course of action. In fact, it may be wrong to consider that continuing to produce a particular product or service is a must.

A firm may consider withdrawal from a business if the present value of the anticipated stream of earnings from that business is less than its present worth. Thus, if the present value of the stream is of earnings from the textile unit of a corporate group is less than the net worth of the textile business, the organisation should withdraw from the textile business. Sometimes there may be obstacles if the organisation wishes to withdraw. The most serious opposition may come from the Government in its anxiety to protect workers likely to be rendered unemployed. This kind of a situation is being faced by the Kaduna Textile Company Limited, a highly diversified group. Any organisation contemplating to withdraw from a particular business should attempt to foresee the constraints and evolve ways to overcome them. Some obvious alternatives include:

i) offering alternative jobs to workers in other units;
ii) providing attractive retrenchment terms to workers so that they would not easily turn down the offer (the golden handshake).

3.1 Generating Strategic Alternatives

How does an organisation identify alternative courses of action for its survival and growth? The procedure may differ from organisation to organisation depending upon its size, style of management, work ethos and industry characteristics.

Small Organisations

In a small organisation all decisions are made by the owner himself or by the chief executive. These decisions deal with what an organisation should do under alternative situations. What new businesses should be added or what existing businesses should be done away with the success or failure of the organisation depends upon the experience and technical competence of the chief executive. Thus, in small organisations strategic alternatives are identified by the owner-manager. Of course his decision may he influenced by some bureaucrats, industrialists, etc. with whom he interacts. The procedure used for identifying alternatives may be intuitive rather than based on a well-defined procedure. The process of implementing alternatives in small business is however reasonably fast.

Large Organisations

In organisations of medium to large size, the following mechanisms may be employed for identifying strategic alternatives.

i) brain-storming sessions;
ii) special meetings for the purpose;
iii) services of outside consultant;
vi)joint meetings of the consultant and the senior employees of the organisation.

i)►Brain Storming Session

In most organisations strategic alternatives are identified during the brain-storming sessions. In such meetings participants are encouraged to come out with any course of action which they feel is possible. At this stage no importance is attached to relative merits and demerits of the alternatives. In the next stage each alternative is reviewed and subjected to a close scrutiny. The alternatives which are considered fairly appealing are further examined and analysed for final selection of one or more alternatives.

Consider the case of power shortage in an organisation which produces an energy-intensive product such as aluminum. What should the organization do? Since the decision is, bound to affect the organisation crucially, the alternatives are of critical, importance. These may include:

i) buy a generator,
ii) start producing those products which are not very energy intensive,49
iii) have a stand-by generator for meeting part of the, requirements;
iv) introduce a change in, the product-mix, with an emphasis on; those products which, have a higher contribution per unit of investment.

The few alternatives listed above have their own: implications in, terms of financial, physical facilities, manpower requirements, etc. The chief executive has to select the alternative which is, the most appropriate in his opinion. The current resource position of the organisation with be a major influencing factor in this decision.

ii)►Special Meetings

Large organisations, recognising the significant of generating strategic alternatives, hold special meetings away from the place of their work in a hotel or a holiday resort. This is to ensure that the process of thinking, is, not disturbed by interruptions during the course of deliberations. The participants present alternative scenarios alongwith their recommended courses of action. Alternative scenarios-may be based upon: assumptions regarding.

i). rate of growth of the economy
ii). position, regarding foreign exchange

iii). rate of inflation
iv). rate of unemployment
v). ideology of the political party in power
vi). rate of change in technology
vii). socio-cultural factor having a bearing on the profitability of the organization

Depending on the assumptions, regarding the values and future trends of the above parameters, alternative courses of action, are often recommended. An attempt is made through the discussions to arrive at a consensus. The turnaround, strategy of a leading pharmaceutical company Glaxo Wellcome was conceived in. a series of meetings the Chief Executive had with his senior managers.

iii)►Outside Consultants

This procedure of identifying strategic alternatives is based on the premise that an outsider can observe the phenomenon in an objective manner. It is recognised that the executive's who have been actively associated with, a particular project, are often so involved with it that they tend to, be subjective and over look its shortcomings. Others, from within the organization may also be unable to see its limitations. Under such conditions, engaging outside consultant may be a more effective way to generate, strategic alternatives on an objective basis. The outside viewpoint is expected to, be new and fresh, and thus, can show, up many new opportunities, to the organisation.

iv)►Joint Meeting

Another desired way of generating alternatives is to hire the services of a, consultant but also associate some internal members in the process. This method, is able to combine the advantages of the new ideas contributed by outsiders being blended with workable solutions from within the organisalion. In, any case, an, outside consultant may like tot seek the opinion of the internal members on his proposals.

3.2 Classifying Strategic Alternatives

From the point of view of an organisation, strategic alternatives may be classified on the basis of degree of risk involved. Thus we have:

→ High risk strategic alternatives
→ Moderate risk strategic alternatives
→ Low risk strategic alternatives;

Within this broad classification there may be a number of specific courses of action. The above classification provides the following strategic options in that order of risk:

► Niche
► Vertical integration-backward and forward
► Horizontal expansion
► Diversification

1) ► Niche Strategy: Niche means concentrating around a product and market. It is a strategy involving very low degree of risk and represents the typical behaviour of the small companies. Such organisations, in general, are scared of growing big as it could entail them into legal, labour and management problems. They are content with their present position and wish to capitalise on their superior knowledge of local conditions and choose a very narrow segment of market. 'NIRMA' until recently followed this alternative with great success. In Nigeria, the government policy has always favoured small scale units. Such units have been accorded a favourable treatment in the matter of licencing, credit and supply of raw material. Thus, the factors internal to the organisation and government policies have contributed to the growth of small companies in Nigeria.

2) ► Vertical Integration: This can assume two forms: backward and forward. ***Backward integration*** means in house production of critical inputs for the main business or going in for marketing of products by opening retail outlets. The company may also add to the existing products / processes by taking up the production of intermediate goods. In the case of ***forward integration*** the companies try to reach customers through their own distributional network. Organisations follow forward integration to take advantage of the closer contact with the customers and to ensure a control over retail price of their products. Reliance company has pursued this strategy very effectively. Integration is a moderate risk alternative.

3.3 Company strategy

Corporate strategy is primarily about the choice of direction for the firm as a whole. This is true whether the firm is a small, one-product Company or a large multinational corporation. In a large multi-business company, however, corporate strategy is also about managing various product lines and business units for maximum value.

In this instance, corporate headquarters must play the role of organizational “parent” in that it must deal with various product and business unit “children”. Even though each product line or business unit has its own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the marketplace, the corporation must coordinate these different business strategies so that the corporation as a whole succeeds as a “family”.

Corporate strategy, therefore, includes decisions regarding the flow of financial and other resources to and from a company’s product lines and business units. Through a series of coordinating devices, a company transfers skills and capabilities developed in a one unit to other units that need such resources. In this way, it attempts to obtain synergies among numerous product lines and business units so that the corporate whole is greater than the some of its individual business unit parts. All corporations, from the smallest company offering one product in only one industry to the largest conglomerate operating in many industries in many product must, at one time or another, consider one or more of these issues.

3.4.1►Directional Strategy:

Just as every product or business unit must follow a business strategy to improve its competitive position, every corporation must decide its orientation towards growth by asking the following three questions:

- Should we expand, cut back, or continue our operations unchanged?
- Should we concentrate our activities within our current industry or should we diversify into other industries?
- If we want to grow and expand, should we do so through internal development or through external acquisitions, mergers, or joint ventures?

A corporation's directional strategy is composed of **three (3)** general orientations towards growth (sometimes called grant strategies):

- Growth strategy expands the company's activities.
- Stability strategies make no change to the company's current activities.
- Retrenchment strategies reduce the company's level of activities.

3.4.1 (A)► Growth or Expansion Strategies

By far the most widely pursued corporate strategies of business firms are those designed to achieve growth in sales, assets, profit, or some combination of these. Growth or expansion is a strategy adopted by management to increase the amount of business than an SBU is currently generating. The company in this case decides to expand its product, market or both. Management generally invest substantial amount of money to implement this strategy and may even sacrifice short-term profit to build long-term gain. In doing this, the company may pursue one or two of the following options.

(1)=> Horizontal expansion
(2)=> Horizontal integration,
(3)=> Vertical integration,
(4)=> Conglomerate expansion.

Each of these growth strategies has its own primary objectives and its own constraints cum consequences.

3.4.1 →A ► (i) *Horizontal expansion:*

This involves expanding within existing market using existing product or services. In other words, it is market share strategy using existing products within existing market.

This is the least risky of the growth strategies because the company is using the same product(s) to expand the same market rather than entering into a new market; that is doing more of what you are doing before. ***This is a strategy that is aimed at achieving both growth objectives and also profitability objective.*** It is therefore a strategy generally directed at achieving the corporate objective of profitability and growth.

The major advantage of this strategy is that (1) it is not as risky as other growth strategies. Since the company is operating within the same market and marketing the same product (services), it is therefore knowledgeable about the market and the product. ***Also (2)*** the company does not need to change its technology in order to pursue this objective because the machines are still the same, nor does the company need train, retain or hire categories of employees. ***Moreover (3)*** such strategy may not involve colossal additional financial commitment.

The drawbacks include (1) market saturation in the sense that there is a limit to which you can extract the market; there can be a sudden change in taste while the competitors my also be pursing the strategy. ***Yet again, (2)*** obsolescence may set in before actually achieving the profit objective. ***Moreover, (3)***it is a strategy that is only good or appropriate for a short-run objective because the long-run survival profitability may likely be scarified at the altar of long run. ***Lastly, (4)*** the technical and the marketing staff may be over-stretched by setting for them unrealistic product or sale's target thereby breeding frustration and inefficiency.

3.4.1 →A ► (ii) Horizontal Integration

The drawbacks of horizontal expansion have resulted in companies pursing other growth strategies such as horizontal integration sometimes called ***related diversification or concentric strategy.*** *This strategy involves either getting the same product into the new or related market or getting closely related products into a new or closely related market. This is an expansionary or incremental strategy because the company takes a little shift from the existing market or product, and this differentiates it from horizontal expansion strategy.* ***The problems associated with this strategy are (1)*** that of management or size and new addition. It is a problem because of new shift such as new problems of personnel, technology, channel of distribution etc. The objective is virtually similar that is, profitability and growth.

A company can expand in this way either internally or externally and in which case, by merger of acquisition. This expansionary objective may be more cosmetic because it is a cover up for the personal objective of administrative technocrat, that is, the ***CEO*** etc.

3.4.1 →A ► (iii) Vertical integration strategy.

Companies that pursue vertical integration typically ***move forward*** to secure more control of their channels of distribution (forward integration) or ***move backward*** to secure supplies of raw materials (backward integration).

Forward integration involved undertaking those activities that will bring the company to a nearest point to the ultimate consumer. For example, it may involve the company directly marketing its own product(s) either by establishing or acquiring marketing outlets. *The Backward vertical integration involves the company producing and feeding itself with the necessary inputs for its existing company activities. In order words, it involves the company producing what it uses to buy before.* Instead of buying already manufactured product, you now produce them yourself. ***Integration attempts to have control of a whole range of activities from production to marketing.***

Organization integrates backward because of (1) assured supply of inputs at the time they are needed. *Assurance of control of quality and quantity of inputs is one of the principal reasons for vertical integration been adopted by most companies.* ***The same reason applies to forward vertical integration here; the control is over the marketing activities. Secondly,*** vertical integration makes the company to gain the benefit of ***Synergy, Synergism refers to the phenomenon of the whole being greater that the sum of its parts.*** *In this sense, firms undertake vertical integration with the expectation that the new combination of activities will yield more to the whole than either activity by itself.*

While vertical integration may be attractive, it may create new additional problems. (1) Companies may not be adequately prepared to effectively handle new operations (production or marketing) because of their peculiar management problems. ***Similarly, (2)*** vertical integration strategy may negatively affect, at least, in the short-run, the market share value of the company being acquired or the resulting company where expansion takes the form or merger or acquisition.

3.4.1 →A ► (iv) Conglomerate strategy

***Whereas, c*oncentric growth strategy** is an alternative where the firm goes into businesses which are related to the existing ones, say from manufacture of spare parts for passenger cars to the manufacture of spare parts for tractors. This no doubt is an example of the product related concentric growth. An example of customer related concentric growth is when a firm producing farm equipment decides to enter the business of chemicals and fertilisers. **The growth alternative of conglomerate diversification involves** a firm acquiring another firm which has surplus cash even though there may be nothing in common with the existing business. The Dangote groups have pursued this alternative within the scope of its limited resources. This is an expansion strategy that basically involves diversifying into unrelated activities such as entering into new markets with new product. It is the most diversified form of expansion. Companies may decide to adopt this strategy for a number of reasons.

Firstly to enjoy benefit of economies of scale and a sudden change in technology or a business opportunity where such suddenly open ups and the company wants to exploit such opportunities. ***Secondly,*** conglomerates have great potential power for a more efficient allocation of resources. It is argued that the power or strength is even-out the cyclical fluctuations inherent in many industries. ***Thirdly,*** conglomerate may be viewed in similar term with portfolio management, that is, it may reduce through diversification.

The conglomerate strategy may however create a number of problems for example ***(1)*** functional limitation, because the company may virtually operate as a confederation since it consists of a number of different activities that are unrelated except in ownership. ***Moreover, (2)*** the company has many products and, or markets to effectively handle. ***Similarly, (3)*** conglomerate (unrelated diversification) has also come under criticism because in the long run, it tended to be less profitable than related diversification.
Finally, (4) the problem of managing large size is added to that of managing diversity and such diversity may limit be benefit associated with large size such as economy of scale and synergy.

3.4.1 →A ► (v) External growth strategies consisting of Merger and Joint venture

Merger is an external growth strategic alternative consisting of two firms joining together. There are different objectives of mergers including the need-to tide over the financial crisis. The objectives of mergers and the procedures followed in negotiating a merger are discussed in detail in another unit in this block.

Joint venture is an alternative which can meet a number of needs such as rapid rate of growth desired by the firm, maintaining the risk within reasonable limit, and to tide over the constraint of resources. Thus a firm having constraint of production capacity can have a joint venture with a firm having surplus production capacity. Pepsi Cola (a US multi-national company), Voltas and Agro have recently joined hands to promote a joint venture in the area of agro industries.

In merger, a firm may acquire another firm or two or more firm may combine together to improve their competitive strength or to gain control over additional facilities. Merger may be of two types:

> **1).** A firm merges with other firms in the same industry having similar or related products, using similar processes and distributing through similar channels. Such a merger creates problems of co-ordination between the merged units.

2). Under this type of merger, firms merging together are engaged in altogether different lines of business and have little common in their products, processes and distribution channel. They are known as conglomerate merger.

Acquisition or take-over:

Acquisition generally refers to buying another firm, either its assets or as an operating company. In a take over, or acquisition, one company gets control over the acquired company. Takeover involves a change in ownership and management of the acquired company.

A strategic alliance is a partnership of two or more corporations or business units to achieve strategically significant objectives that are mutually beneficial.

3.4.1 →B ► Intensive Strategies

Market penetration, market development, and product development are sometimes referred to as *intensive strategies* because they require intensive efforts if a firm's competitive position with existing products is to improve.

3.4.1 →B ► (i) Market Penetration

A *market penetration* strategy seeks to increase market share for present products or services in present markets through greater marketing efforts. This strategy is widely used alone and in combination with other strategies. Market penetration includes increasing the number of salespersons, increasing advertising expenditures, offering extensive sales promotion items, or increasing publicity efforts.

These five guidelines indicate when market penetration may be an especially effective strategy:

1) When current markets are not saturated with a particular product or service.

2) When the usage rate of present customers could be increased significantly.

3) When the market shares of major competitors have been declining while total industry sales have been increasing.

4) When the correlation between dollar sales and dollar marketing expenditures historically has been high.

5) When increased economies of scale provide major competitive advantages.

3.4.1 →B ► (ii) Market Development

Market development involves introducing present products or services into new geographic areas. For example, Retailers such as Wal-Mart Stores and Cash – and – carry are expanding further into China Nigeria even in a world of slumping sales.

These six guidelines indicate when market development may be an especially effective strategy:

1) When new channels of distribution are available that are reliable, inexpensive, and of good quality.

2) When an organization is very successful at what it does.

3) When new untapped or unsaturated markets exist.

4) When an organization has the needed capital and human resources to manage expanded operations.

5) When an organization has excess production capacity.

6) When an organization's basic industry is rapidly becoming global in scope.

3.4.1 →B ► (iii) Product Development

Product development is a strategy that seeks increased sales by improving or modifying present products or services. Product development usually entails large research and development expenditures.

These five guidelines indicate when product development may be an especially effective strategy to pursue:

1) When an organization has successful products that are in the maturity stage of the product life cycle; the idea here is to attract satisfied customers to try new (improved) products as a result of their positive experience with the organization's present products or services.

2) When an organization competes in an industry that is characterized by rapid technological developments.

3) When major competitors offer better-quality products at comparable prices.

4) When an organization competes in a high-growth industry.

5) When an organization has especially strong research and development capabilities.

3.4.1 → C Defensive Strategies

In addition to integrative, intensive, and diversification strategies, organizations also could pursue retrenchment, divestiture, or liquidation.

3.4.1 →C ► (i) Status – Quo or Stability Strategy

The strategy-quo strategy involves the company taking steps / actions to maintain its existing market position or share. The status-quo does not mean that the company keeps on producing the same product(s) or stay in the same markets), it may involve the company adding few products and, entering new market of even withdrawing certain products from the market(s) provided such action directed at maintaining the existing market share of that company. ***A number of reasons make companies to adopt status-quo strategy.***

Firstly, it avoids the problem of managing large size or additional growth associated with expansion.

Secondly, the company may not want to generate a competition war by expanding particularly if it will not be able to cope with such competition. However, though seemingly, a status-quo objective may be a sign of business or management weakness or even complacency in the context of a dynamic market and where rules of competition are virtually non-existent; a company that maintains a status-quo objective may discover much too late that it is not position to cope with changing consumer taste, production technology or even expanding into created market(s).

3.4.1 →C ► (ii) Retrenchment

Retrenchment occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. Sometimes called a *turnaround* or *reorganizational strategy,* retrenchment is designed to fortify an organization's basic distinctive competence. During retrenchment, strategists work with limited resources and face pressure from shareholders, employees, and the media. Retrenchment can entail selling off land and buildings to raise needed cash, pruning product lines, closing marginal businesses, closing obsolete factories, automating processes, reducing the number of employees, and instituting expense control systems. Most banks are pursuing retrenchment. A total of 25 banks failed between 2005 and 2011 in Nigeria alone including the prominent and largest banks like bank of the North, Savannah bank, Trade bank, Societie generele, Afribank, Intercontinental bank, Oceanic bank and Bank PHB.

Five guidelines for when retrenchment may be an especially effective strategy to pursue are as follows:

1) When an organization has a clearly distinctive competence but has failed consistently to meet its objectives and goals over time.

2)When an organization is one of the weaker competitors in a given industry.

3)When an organization is plagued by inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.

4) When an organization has failed to capitalize on external opportunities, minimize external threats, take advantage of internal strengths, and overcome internal weaknesses over time; that is, when the organization's strategic managers have failed (and possibly will be replaced by more competent individuals).

5)When an organization has grown so large so quickly that major internal reorganization is needed.

3.4.1 →C ► (iii) Divestiture or Contraction Strategy

This is the complete reverse of the growth or expansion strategy. Divestiture Selling a division or part of an organization is called *divestiture.* Divestiture often is used to raise capital for further strategic acquisitions or investments. Divestiture can be part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable, that require too much capital, or that do not fit well with the firm's other activities. Divestiture has also become a popular strategy for firms to focus on their core businesses and become less diversified. It represents company conscious steps to reduce its size either in terms of business activities, product and work. It is a strategy adopted by companies to get rid of a portion of its activities. Historically firms have divested their unwanted or poorly performing divisions, but the global recession has witnessed firms simply closing such operations.

Six guidelines for when divestiture may be an especially effective strategy to pursue follow:

1) When an organization has pursued a retrenchment strategy and failed to accomplish needed improvements.

2) When a division needs more resources to be competitive than the company can provide.

3) When a division is responsible for an organization's overall poor performance.

4) When a division is a misfit with the rest of an organization; this can result from radically different markets, customers, managers, employees, values, or needs.

5) When a large amount of cash is needed quickly and cannot be obtained reasonably from other sources.

6) When government antitrust action threatens an organization.

One problem with divestment is that, (1) it may be interpreted either rightly or wrongly outside as a sign of business collapse or failure. Such negative information can affect the company's market value. ***Also, (2)*** it may create industrial relations problems such as lay-offs of employees, which the employees or their organization may resist.

It be should be noted for a single-product company, one particular strategy will be adopted which is considered to be the most appropriate to a time. ***For a multi-product business,*** a range of individual strategies will be adopted, each one of which is appropriate to a particular product area; and the way in which these individual product strategies should be combined is determined. ***The chosen strategy for a firm will depend upon four factors;***

(1)=> The current performance of the firm relative to its expectation
(2)=> The goals, which the organization is pursuing
(3)=> The balance of threats and opportunities in any individual product market area
(4)=> The overall strength and weakness of the business in the market.

3.4.1 →D Liquidation

Selling all of a company's assets, in parts, for their tangible worth is called *liquidation.* Liquidation is a recognition of defeat and consequently can be an emotionally difficult strategy. However, it may be better to cease operating than to continue losing large sums of money.

Perhaps the most well-known Nigerian firms that liquidated in the last three decades include Nigeria Airways, Concord airline, Okada airline, Leventis footall club, Nigeria Herald newspaper, Daily times newspaper, Jebba paper mill among others. Thousands of small businesses in Nigeria liquidate annually without ever making the news. It is tough to start and successfully operate a small business.

These three guidelines indicate when liquidation may be an especially effective strategy to pursue:

1) When an organization has pursued both a retrenchment strategy and a divestiture strategy, and neither has been successful.

2) When an organization's only alternative is bankruptcy. Liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organization's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.

3) When the stockholders of a firm can minimize their losses by selling the organization's assets.

4.0. Conclusion

Simultaneous assessment of the external environment and the company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are *possible* avenues for investment. However, they must be screened through the criterion of the company mission to generate a set of possible and *desired* opportunities. This screening process results in the selection of options from which a *strategic choice* is made. The process is meant to provide the combination of long-term objectives and generic and grand strategies that optimally position the firm in its external environment to achieve the company mission.

Strategic analysis and choice in single or dominant product/service businesses center around identifying strategies that are most effective at building sustainable competitive advantage based on key value chain activities and capabilities—core competencies of the firm. Multi business companies find their managers focused on the question of which combination of businesses maximizes shareholder value as the guiding theme during their strategic analysis and choice.

5.0. Summary

This unit brings strategic management to life with many contemporary examples. A dozen types of strategies are defined and exemplified. Guidelines are presented for determining when it is most appropriate to pursue different types of strategies. An overview of strategic management in non-profit organizations, governmental agencies, and small firms is provided.

6.0 Tutor Marked Assignments

The company that opted for the expansion strategy decides to expand its product, market or both. Substantiate this statement.

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Unit 7: Strategy Implementation

Content

1.0 Introduction

The strategic-management process does not end when the firm decides what strategy or strategies to pursue. There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the firm understand the business, feel a part of the company, and through involvement in strategy-formulation activities have become committed to helping the organization succeed. Without understanding and commitment, strategy-implementation efforts face major problems. Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business.

As a concept, Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. *strategy implementation describes the sum total of the activities and choices required for the execution of strategic plan by which strategies and policies are put into action through the development of programs , budgets and procedures.* Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results.

Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system. Specifically, ***Such implementation involves three main activities:***

1) Bring the general long-term plans back to the detailed, operational, current decision-making level. It is vital that strategic plans are translated into action. Without being tied into the annual budgeting cycle, or whatever means an organization uses to allocate its resources, corporate plans will remain ineffective at best, and at worst, an exercise in futility.

2) Planning and starting the major capital projects. For example a new factory construction.

3) Monitoring and reviewing progress. This is the control process. With monitoring it is necessary to seek information about actual progress for comparison with plans and for corrective action to be taken where ***necessary. Similarly, it is necessary to monitor the key assumptions upon which the plans themselves are built.***

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to;

1) Clearly define the concept of strategy implementation.
2) Explain why strategy implementation is more difficult than strategy formulation.
3) Discuss the importance of annual objectives and policies in achieving organizational commitment for strategies to be implemented.
4) Explain why organizational structure is so important in strategy implementation.
5) Explain how a firm can effectively link performance and pay to strategies.
6) Describe how to modify an organizational culture to support new strategies.

3.0 The Difference between Strategy formulation and Strategy Implementation.

Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the difference between the two because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. The strategy-implementation stage of strategic management is revealed in Figure 7-1. Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation.

Thus strategy formulation and strategy implementation are the two sides of same coin. In order words, the strategic planning process that was used to create the plan is inverted in the implementation phase**.**

Following are the main differences between Strategy Formulation and Strategy Implementation:

Strategy Formulation	**Strategy Implementation**
Strategy Formulation includes planning and decisi involved in developing organization's strategic goa plans.	Strategy Implementation involves all those means executing the strategic plans.
In short, Strategy Formulation is **placing the Forc the action**.	In short, Strategy Implementation is **managing for during the action**.
Strategy Formulation is an **Entrepreneurial Activ** on strategic decision-making.	Strategic Implementation is mainly an **Administra** based on strategic and operational decisions.
Strategy Formulation emphasizes on **effectiveness**	Strategy Implementation emphasizes on **efficiency**
Strategy Formulation is a **rational process**.	Strategy Implementation is basically an **operation process**.
Strategy Formulation requires co-ordination amon individuals.	Strategy Implementation requires co-ordination an individuals.
Strategy Formulation requires a great deal of **initia logical skills**.	Strategy Implementation requires specific **motivat leadership traits**.
Strategic Formulation precedes Strategy Implemen	STrategy Implementation follows Strategy Formul

Figure 7.1: ***Main differences between Strategy Formulation and Strategy Implementation***
Adopted from Strategy implementation and control by the Institute of Chartered Accountants of India
http://mrwhatis.com/business-policy-and-strategic-management-notes-azhar-kazmi.html

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups. Strategy-formulation concepts and tools do not differ greatly for small, large, for-profit, or non-profit organizations.

However, strategy implementation varies substantially among different types and sizes of organizations. Implementing strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization are pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system.

These types of activities obviously differ greatly between manufacturing, service, and governmental organizations.There is no such thing as successful strategic design per se. This sounds obvious, but in practice the distinction is not always made. Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus organizational success is a function of good strategy and proper implementation. The matrix in the figure 7.2 below represents various combinations of strategy formulation and implementation:

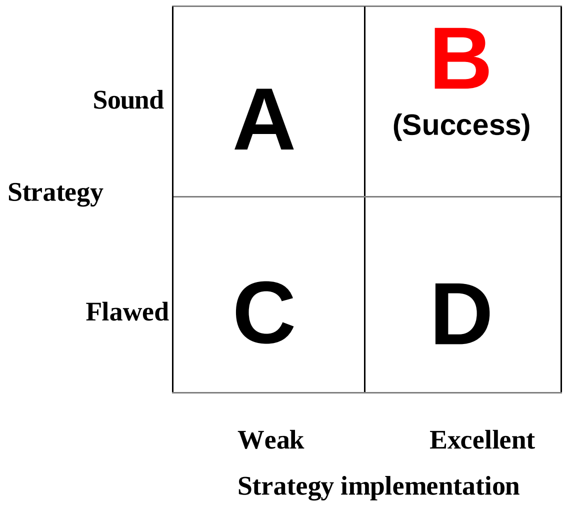

Figure 7.2: Strategy formulation and implementation matrix
Source: Strategy implementation and control byThe Institute of Chartered Accountants of India
http://mrwhatis.com/business-policy-and-strategic-management-notes-azhar-kazmi.html

The Figure shows the distinction between sound/flawed strategy formulation and excellent/ weak strategy implementation. ***Square B*** is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it. ***Square A*** is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing leadership and so on. In such a situation the company will aim at moving from ***square A*** to ***square B***, given they realize their implementation difficulties.

Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in ***square D*** the first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills. ***Square C*** is reserved for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success also goes through business model redesign and implementation/execution readjustment.

Taken together all the elements of business strategy it is to be seen as a chosen set of actions by means of which a market position relative to other competing enterprises is sought and maintained. This gives us the notion of competitive position.

3.1 Issues in Strategy Implementation

The different issues involved in strategy implementation cover practically everything that is included in the discipline of management studies. A strategist, therefore, has to bring to his or her task a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design structures, formulate functional policies, and take into account the leadership styles required, besides dealing with various other issues.

- ►The strategic plan devised by the organization proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent: implementation tasks are meant to realize the intent. Strategies, therefore, have to be activated through implementation.
- ►Strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernization plan. Plans result in different kinds of programmes. A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation. An example of a programme is a research and development programme for the development of a new product.
- ►Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organizations.

Thus, research and development programmes may consist of several projects, each of which is intended toachieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

- ► Projects create the needed infrastructure for the day-to-day operations in an organization. They may be used for setting up new or additional plants, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation of strategies.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is provided, it would be essential to see that a proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work. Given below in sequential manner the issues in strategy implementation which are to be considered:

→ Project implementation	→ Procedural implementation
→ Resource aIIocation	→ Structural implementation
→ Functional implementation	→ Behavioural implementation

But it should be noted that the sequence does not mean that each of the foIIowing activities are necessarily performed one after another. Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities, which are performed only once. In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle and lower-level managers.

Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities. Of equal importance, strategists should be involved as much as possible in strategy- implementation activities. Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, matching managers with strategy, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resource function and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in major new direction.

Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists’ genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success.

The rationale for objectives and strategies should be understood clearly communicated throughout an organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers and employees' questions should be answered. Top-down flow of communication is essential for developing bottom-up support.

Firms need to develop a competitor focus at all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to be benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal. This is a challenge for strategists of the firm. Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers.

3.2 Key Actions for Successful Implementation of Strategic Plan

Following are actions that are keys for successfully implementing the strategic plan and actions that guarantee failure. Table 1 clearly illustrates this.

Keys to Success	Facts of Failure
Assign roles and responsibilities	No accountability
Involve senior leaders	Disengagement from process
Define an infrastructure	Unmanaged activity
Link goal groups	Fragmented accomplishment of objectives lead optimization
Phase integration of implementation actions wi workload	Force people to choose between implementatio daily work; too many teams
Involve everyone within the organization	No alignment of strategies
Allocate resources for implementation	Focus only on short term need for resources
Manage the change process	Ignore or avoid change
Evaluate results	No measurement system
Share lessons learned; acknowledge successes open and frequent communication	Hide mistakes/lay blame; limited/no communic

Table 1: Key actions for successful strategy implementation

3.3 Implementing strategy

Depending on how the company is organized those who implements strategy will probably be a much more divorced group of people than those who formulate it. Most of the people in the organization who are crucial to successful strategy implementation probably had little to do with the development of corporate and even business strategy.

Therefore they might be entirely ignorant of vast amount of data and work into formulation process. This is one reason why involving middle managers in the formulation as well as in the implementation of strategy tends to result in better organizational performance.

Developing programmes, budgets and procedures

The managers of divisions and functional areas worked with their fellow managers to develop programmes, budgets and procedures for implementation of strategy. They also work to achieve synergy among the divisions and functional areas in order to establish and maintain a company's distinctive competence.

Programmes

A program is a statement of the activities or steps needed to accomplish a single use plan. The purpose of programme is to make a strategy action oriented.

Budgets

A budget is a statement of corporation's programme in monitory terms. After programmes are developed, the budget process begins. Planning a budget is the last real check a corporation has on the feasibility of its selected strategy. An ideal strategy might found to be completely impractical only after specific implementation programs are costed in detail.

Procedures

Procedures are system of sequential steps or techniques that describe in detail how a particular task or job is to be done.

Synergy achievement

One of the goals to be achieved in strategy implementation is synergy between functions and business units, which is why corporations commonly reorganize after an acquisition. The acquisition or development of additional product lines is often justified on the basis of achieving some advantages of scale in one or more of company's functional areas.

3.4 Stages of corporate development

Successful companies tend to follow a pattern of structural development called stages of development as they grow and expand. Beginning with the simple structure of the entrepreneurial firm, they usually get larger and organize along functional lines with marketing production and finance department. With continuing success the company adds new product lines in different industries and organizes itself into interconnected divisions. The differences among these three stages of corporate development in terms of typical problems, objectives strategies, reward systems and other characteristics as specified in detail in table 2.

Table 2: The differences among these three stages of corporate development

Function		Stage I	Stage II	Stage III
1	Sizing up: major problems	Survival and growth dealing with term operating problems	Growth, nationalization and expansion of resources	Trusteeship in management and investment and control of large increasing and diversified resources
2	Objectives	Personal and subjective	Profits and meetings functionally oriented budgets and performance targets	ROI, profits, earnings per share
3	Strategy	Implicit and personal	Functionally oriented, exploitation of a basic product or service	Group and product diversification
4	Organization	One man show	Functionally specialized group	Multiunit general staff office and decentralized operating divisions
5	Measurement ar control	Personal, subjective control	Assessment of functional operation	Complex formula system geared to comparative assessment of performance measure
6	Reward punishn system	Informal, personal, subjective	More structures	Companywide policies usually applied to many different classes of managers and workers

Resource Allocation

Resource allocation is a central management activity that allows for strategy execution. In organizations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated according to priorities established by annual objectives. Nothing could be more detrimental to strategic management and to organizational success than for resources to be allocated in ways not consistent with priorities indicated by approved annual objectives. All organizations have at least four types of resources that can be used to achieve desired objectives: financial resources, physical resources, human resources, and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented.

A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge. The real value of any resource allocation program lies in the resulting accomplishment of an organization's objectives.
Effective resource allocation does not guarantee successful strategy implementation because programs, personnel, controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a "resource allocation process."

TABLE 3 Some Management Trade-Off Decisions Required in Strategy Implementation

→To emphasize short-term profits or long-term growth
→To emphasize profit margin or market share
→To emphasize market development or market penetration
→To lay off or furlough
→To seek growth or stability
→To take high risk or low risk
→To be more socially responsible or more profitable
→To outsource jobs or pay more to keep jobs at home
→To acquire externally or to build internally
→To restructure or reengineer
→To use leverage or equity to raise funds
→To use part-time or full-time employees

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3.5 Matching Structure with Strategy

Changes in strategy often require changes in the way an organization is structured for two major reasons. ***First,*** structure largely dictates how objectives and policies will be established. For example, objectives and policies established under a geographic organizational structure are couched in geographic terms. Objectives and policies are stated largely in terms of products in an organization whose structure is based on product groups. The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities.

The ***second*** major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated. If an organization's structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along functional business lines, then resources are allocated by functional areas. Unless new or revised strategies place emphasis in the same areas as old strategies, structural reorientation commonly becomes a part of strategy implementation.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follow strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure. Chandler found a particular structure sequence to be repeated often as organizations grow and change strategy over time; this sequence is depicted in Figure 7.1.

There is no one optimal organizational design or structure for a given strategy or type of organization. What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way. For example, consumer goods companies tend to emulate the divisional structure- by-product form of organization. Small firms tend to be functionally structured (centralized). Medium-sized firms tend to be divisionally structured (decentralized). Large firms tend to use a strategic business unit (SBU) or matrix structure. As organizations grow, their structures generally change from simple to complex as a result of concatenation, or the linking together of several basic strategies.

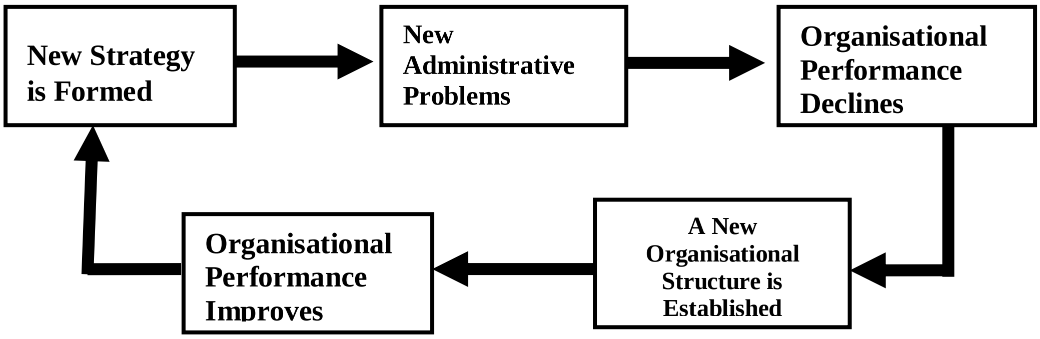

Figure 7.1: Chandler's Strategy-Structure Relationship
Source: Strategy implementation and control byThe Institute of Chartered Accountants of India
http://mrwhatis.com/business-policy-and-strategic-management-notes-azhar-kazmi.html

Numerous external and internal forces affect an organization; no firm could change its structure in response to every one of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organizational structure may become ineffective. As indicated in Table 4, symptoms of an ineffective organizational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and too many unachieved objectives. Changes in structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.

TABLE 4: Symptoms of an Ineffective Organizational Structure

1. Too many levels of management
2. Too many meetings attended by too many people
3. Too much attention being directed toward solving interdepartmental conflicts
4. Too large a span of control
5. Too many unachieved objectives
6. Declining corporate or business performance
7. Losing ground to rival firms
8. Revenue and/or earnings divided by number of employees and/or number of managers is low compared to rival firms

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Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished. We examine this issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

The Functional Structure

The most widely used structure is the functional or centralized type because this structure is the simplest and least expensive of the seven alternatives. A *functional structure* groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems. A university may structure its activities by major functions that include academic affairs, student services, alumni relations, athletics, maintenance, and accounting.

Besides being simple and inexpensive, a functional structure also promotes specialization of labour, encourages efficient use of managerial and technical talent, minimizes the need for an elaborate control system, and allows rapid decision making. Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes characterized by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets.

A competitive advantage is created when there is a proper match between strategy and structure. Ineffective strategy/structure matches may result in company rigidity and failure, given the complexity and need for rapid changes in today's competitive landscape. Thus, effective strategic leaders seek to develop an organizational structure and accompanying controls that are superior to those of their competitors. Selecting the organizational structure and controls that result in effective implementation of chosen strategies is a fundamental challenge for managers, especially top-level managers. This is because companies must be flexible, innovative, and creative in the global economy if they are to exploit their core competencies in the pursuit of marketplace opportunities. Companies must also maintain a certain degree of stability in their structures so that day-to- day tasks can be completed efficiently.

Access to reliable information is imperative if executives are to reach decisions regarding the selection of a structure that is sufficiently flexible and stable. Useful information contributes to the formation and use of effective structures and controls, which yield improved decision making. In order to implement and manage strategies that have been formulated, all companies-need some form of organizational structure. And, as companies formulate new strategies, increase in size, or change their level of diversification, new organizational structures may be required. Organizational structure is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes.

Organizational structure, influenced by factors such as an organization's age and size, acts as a framework which reflects managers' determination of what a company does and how tasks are completed, given the chosen strategy. The most important issue is that the company's structure must be congruent with or fit with the company's strategy. **Simple organizational structure** is most appropriate for companies that follow a single-business strategy and offer a line of products in a single geographic market. The simple structure also is appropriate for companies implementing focused cost leadership or focused differentiation strategies. A simple structure is an organizational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor.

Little specialization of tasks, few rules, little formalization, unsophisticated information systems and direct involvement of owner-manager in all phases of day-to-day operations characterise the simple structure. In the simple structure, communication is frequent and direct, and new products tend to be introduced to the market quickly, which can result in a competitive advantage. Because of these characteristics, few of the coordination problems that are common in larger organizations exist.

A simple organizational structure may result in competitive advantages for some small companies relative to their larger counterparts. These potential competitive advantages include a broad-based openness to innovation, greater structural flexibility, and an ability to respond more rapidly to environmental changes. However, if they are successful, small companies grow larger. As a result of this growth, the company outgrows the simple structure. Generally, there are significant increases in the amount of competitively relevant information that requires processing. More extensive and complicated information-processing requirements place significant pressures on owner-managers (often due to a lack of organizational skills or experience or simply due to lack of time).

Thus, it is incumbent on the company's managers to recognise the inadequacies or inefficiencies of the simple structure and change it to one that is more consistent with company's strategy. To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure. The functional structure is used by larger companies and by companies with low levels of diversification.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources. The functional structure enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination. However, compared to the simple structure, there also are some potential problems. Differences in functional specialization and orientation may impede communications and coordination. Thus, the chief executive officer must integrate functional decision-making and coordinate actions of the overall business across functions. Functional specialists often may develop a myopic (or narrow) perspective, losing sight of the company's strategic vision and mission. When this happens, this problem can be overcome by implementing the multidivisional structure.

3.6 The Strategic Business Unit (SBU) Structure

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. Because of limits to an individual chief executive officer's ability to process complex strategic information, problems related to isolation of functional area managers, and increasing diversification, the structure of the company needs to change. In these instances, the SBU structure is most appropriate. Also in multidivisional organizations, an SBU structure can greatly facilitate strategy implementation efforts.

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls. Hence, the SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer.

This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channelling accountability to distinct business units. In the ninety-division conglomerate just mentioned, the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics, such as competing in the same industry, being located in the same area, or having the same customers.

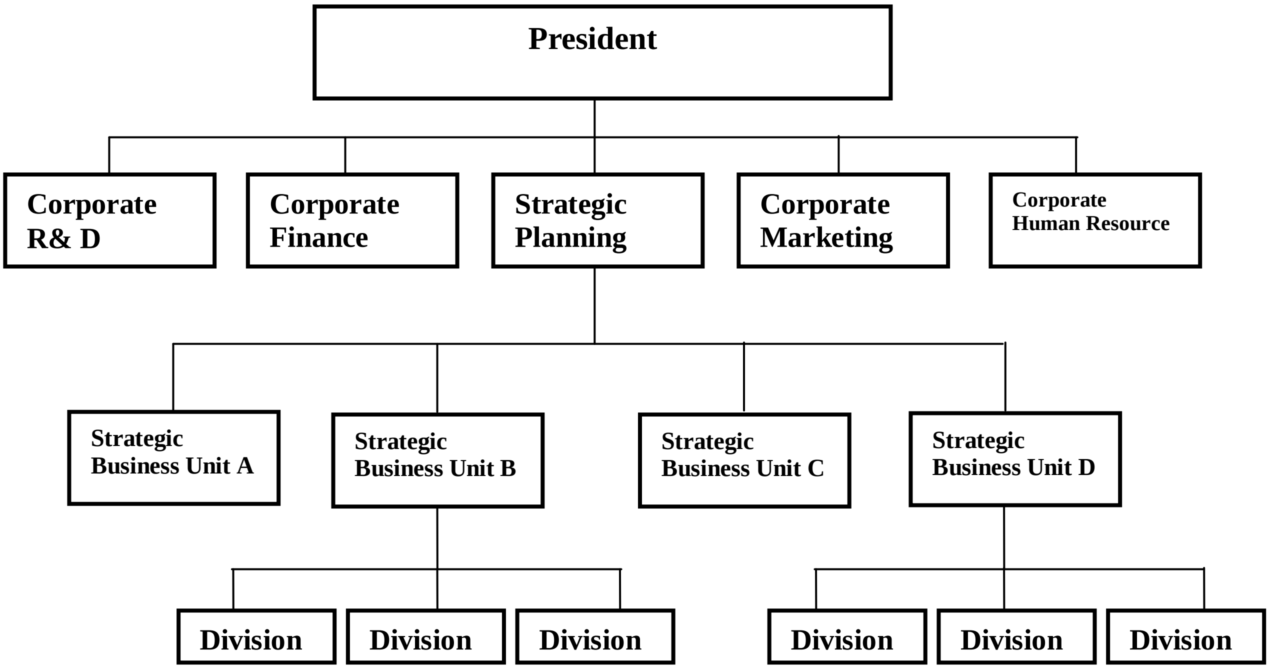

Figure 7.2: SBU Structure
Source: Strategy implementation and control byThe Institute of Chartered Accountants of India
http://mrwhatis.com/business-policy-and-strategic-management-notes-azhar-kazmi.html

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability. This enables the company to more accurately monitor the performance of individual businesses, simplifying control problems.

It also facilitates comparisons between divisions, improving the allocation of resources and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance. A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness within each SBU at the third level.

This means that, within each SBU, divisions are related to each other, as also that SBU groups are unrelated to each other. Within each SBU, divisions producing similar products and/or using similar technologies can be organised to achieve synergy. Individual SBUs are treated as profit centres and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

Conclusion

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc. Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

Successful strategy implementation depends on cooperation among all functional and divisional managers in an organization. Marketing departments are commonly charged with implementing strategies that require significant increases in sales revenues in new areas and with new or improved products.

Finance and accounting managers must devise effective strategy-implementation approaches at low cost and minimum risk to that firm. R&D managers have to transfer complex technologies or develop new technologies to successfully implement strategies. Information systems managers are being called upon more and more to provide leadership and training for all individuals in the firm. The nature and role of marketing, finance / accounting, R&D, and management information systems activities, coupled with the management activities largely determine organizational success.

5.0. Summary

Strategy implementation directly affects the lives of plant managers, division managers, department managers, sales managers, product managers, project managers, personnel managers, staff managers, supervisors, and all employees. In some situations, individuals may not have participated in the strategy-formulation process at all and may not appreciate, understand, or even accept the work and thought that went into strategy formulation. There may even be foot dragging or resistance on their part. Managers and employees who do not understand the business and are not committed to the business may attempt to sabotage strategy-implementation efforts in hopes that the organization will return to its old ways.

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6.0 Tutor Marked Assignments

Changes in strategy often require changes in the way an organization is structured. Amplify this statement.

7.0. References

David, Fred R. (2011) Strategic management: concepts and cases.—13th ed. Copyright ©, by Pearson Education, Inc., publishing as Prentice Hall, One Lake Street, Upper Saddle River, New Jersey 07458.

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Unit 8: Strategy Evaluation and Control

Content

1.0 Introduction

The best formulated and best implemented strategies become obsolete as a firm's external and internal environments change. It is essential, therefore, that strategists systematically review, evaluate, and control the execution of strategies. This chapter presents a framework that can guide managers' efforts to evaluate strategic-management activities, to make sure they are working, and to make timely changes. Management information systems being used to evaluate strategies are discussed. Guidelines are presented for formulating, implementing, and evaluating strategies.

2.0 Unit Objectives

After studying this unit, the learner should be able to;

1. Define in clear term the concept of strategy evaluation
2. Discuss the strategic evaluation process
3. Describe practical framework for evaluating strategies.
4. Explain why strategy evaluation is complex, sensitive, and yet essential for organizational success.
5. Discuss the role of auditing in strategy evaluation.

3.0 The Nature of Strategy Evaluation

The strategic-management process results in decisions that can have significant, long-lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse.

Most strategists agree, therefore, that strategy evaluation is vital to an organization's well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. Strategy evaluation includes three basic activities:

(1) examining the underlying bases of a firm's strategy,

(2) comparing expected results with actual results, and

(3) taking corrective actions to ensure that performance conforms to plans.

Adequate and timely feedback is the cornerstone of effective strategy evaluation. Strategy evaluation can be no better than the information on which it is based.

Strategy evaluation can be a complex and sensitive undertaking. In many organizations, strategy evaluation is simply an appraisal of how well an organization has performed. Have the firm's assets increased? Has there been an increase in profitability? Have sales increased? Have productivity levels increased? Have profit margin, return on investment, and earnings-per-share ratios increased? Some firms argue that their strategy must have been correct if the answers to these types of questions are affirmative. Well, the strategy or strategies may have been correct, but this type of reasoning can be misleading because strategy evaluation must have both a long-run and short-run focus. Strategies often do not affect short-term operating results until it is too late to make needed changes.

It is impossible to demonstrate conclusively that a particular strategy is optimal or even to guarantee that it will work. One can, however, evaluate it for critical flaws. Richard Rumelt offered four criteria that could be used to evaluate a strategy: consistency, consonance, feasibility, and advantage. Described in Table 1, *consonance* and *advantage* are mostly based on a firm's external assessment, whereas *consistency* and *feasibility* are largely based on an internal assessment.

TABLE 1: Rumelt's Criteria for Evaluating Strategies

Consistency

A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic inconsistency. Three guidelines help determine if organizational problems are due to inconsistencies in strategy:

***** If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.

***** If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.

***** If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

Consonance

Consonance refers to the need for strategists to examine *sets of trends*, as well as individual trends, in evaluating strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, the day-care explosion came about as a combined result of many trends that included a rise in the average level of education, increased inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.

Feasibility

A strategy must neither overtax available resources nor create unsolvable subproblems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is evaluated. It is sometimes forgotten, however, that innovative approaches to financing are often possible. Devices, such as captive subsidiaries, sale-leaseback arrangements, and tying plant mortgages to long-term contracts, have all been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individual and organizational capabilities. In evaluating a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy.

Advantage

A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas: ***(1)*** resources, ***(2)*** skills, or ***(3)*** position. The idea that the positioning of one's resources can enhance their combined effectiveness is familiar to military theorists, chess players, and diplomats. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible—meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their raw skill levels are only average. Although not all positional advantages are associated with size, it is true that larger organizations tend to operate in markets and use procedures that turn their size into advantage, while smaller firms seek product/market positions that exploit other types of advantage. The principal characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in evaluating strategy, organizations should examine the nature of positional advantages associated with a given strategy.

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Strategy evaluation is becoming increasingly difficult with the passage of time, for many reasons. Domestic and world economies were more stable in years past, product life cycles were longer, product development cycles were longer, technological advancement was slower, change occurred less frequently, there were fewer competitors, foreign companies were weak, and there were more regulated industries.

Other reasons why strategy evaluation is more difficult today include the following trends:

1. A dramatic increase in the environment's complexity

2. The increasing difficulty of predicting the future with accuracy

3. The increasing number of variables

4. The rapid rate of obsolescence of even the best plans

5. The increase in the number of both domestic and world events affecting organizations

6. The decreasing time span for which planning can be done with any degree of certainty

3.1 The Process of Evaluating Strategies

Strategy evaluation is necessary for all sizes and kinds of organizations. Strategy evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation.3 Regardless of the size of the organization, a certain amount of *management by wandering around* at all levels is essential to effective strategy evaluation. Strategy-evaluation activities should be performed on a continuing basis, rather than at the end of specified periods of time or just after problems occur. Waiting until the end of the year, for example, could result in a firm closing the barn door after the horses have already escaped.

Evaluating strategies on a continuous rather than on a periodic basis allows benchmarks of progress to be established and more effectively monitored. Some strategies take years to implement; consequently, associated results may not become apparent for years. Successful strategies combine patience with a willingness to promptly take corrective actions when necessary. There always comes a time when corrective actions are needed in an organization! Managers and employees of the firm should be continually aware of progress being made toward achieving the firm's objectives. As critical success factors change, organizational members should be involved in determining appropriate corrective actions.

If assumptions and expectations deviate significantly from forecasts, then the firm should renew strategy-formulation activities, perhaps sooner than planned. In strategy evaluation, like strategy formulation and strategy implementation, people make the difference. Through involvement in the process of evaluating strategies, managers and employees become committed to keeping the firm moving steadily toward achieving objectives.

3.2 A Strategy-Evaluation Framework

Table 9-3 summarizes strategy-evaluation activities in terms of key questions that should be addressed, alternative answers to those questions, and appropriate actions for an organization to take. Notice that corrective actions are almost always needed except when **(1)** external and internal factors have not significantly changed and **(2)** the firm is progressing satisfactorily toward achieving stated objectives. Relationships among strategy-evaluation activities are illustrated in Figure 2.

TABLE 2: A Strategy-Evaluation Assessment Matrix

Have Major Changes Occurred in the Firm Internal Strategic Position?	Have Major Changes Occurred in the Firm External Strategic Position?	Has the Firm Progressed Satisfactorily Toward Achieving Its Stated Objectives?	Result
No	No	No	Take corrective actions
Yes	Yes	Yes	Take corrective actions
Yes	Yes	No	Take corrective actions
Yes	No	Yes	Take corrective actions
Yes	No	No	Take corrective actions
No	Yes	Yes	Take corrective actions
No	Yes	No	Take corrective actions
No	No	Yes	Continue present strategic course

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Reviewing Bases of Strategy

As shown in table-2, *reviewing the underlying bases of an organization's strategy* could be approached by developing a revised EFE Matrix and IFE Matrix. A *revised IFE Matrix* should focus on changes in the organization's management, marketing, finance/accounting, production/operations, R&D, and management information systems strengths and weaknesses. A *revised EFE Matrix* should indicate how effective a firm's strategies have been in response to key opportunities and threats. External opportunities and threats and internal strengths and weaknesses that represent the bases of current strategies should continually be monitored for change. It is not really a question of whether these factors will change but rather when they will change and in what ways. Here are some key questions to address in evaluating strategies:

1. Are our internal strengths still strengths?
2. Have we added other internal strengths? If so, what are they?
3. Are our internal weaknesses still weaknesses?
4. Do we now have other internal weaknesses? If so, what are they?
5. Are our external opportunities still opportunities?
6. Are there now other external opportunities? If so, what are they?
7. Are our external threats still threats?
8. Are there now other external threats? If so, what are they?
9. Are we vulnerable to a hostile takeover?

Measuring Organizational Performance

Another important strategy-evaluation activity is *measuring organizational performance.* This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Both long-term and annual objectives are commonly used in this process. Criteria for evaluating strategies should be measurable and easily verifiable. Criteria that predict results may be more important than those that reveal what already has happened.

For example, rather than simply being informed that sales in the last quarter were 20 percent under what was expected, strategists need to know that sales in the next quarter may be 20 percent below standard unless some action is taken to counter the trend. Really effective control requires accurate forecasting. Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective actions. Many factors, such as unreasonable policies, unexpected turns in the economy, unreliable suppliers or distributors, or ineffective strategies, can result in unsatisfactory progress toward meeting objectives. Problems can result from ineffectiveness (not doing the right things) or inefficiency (poorly doing the right things).

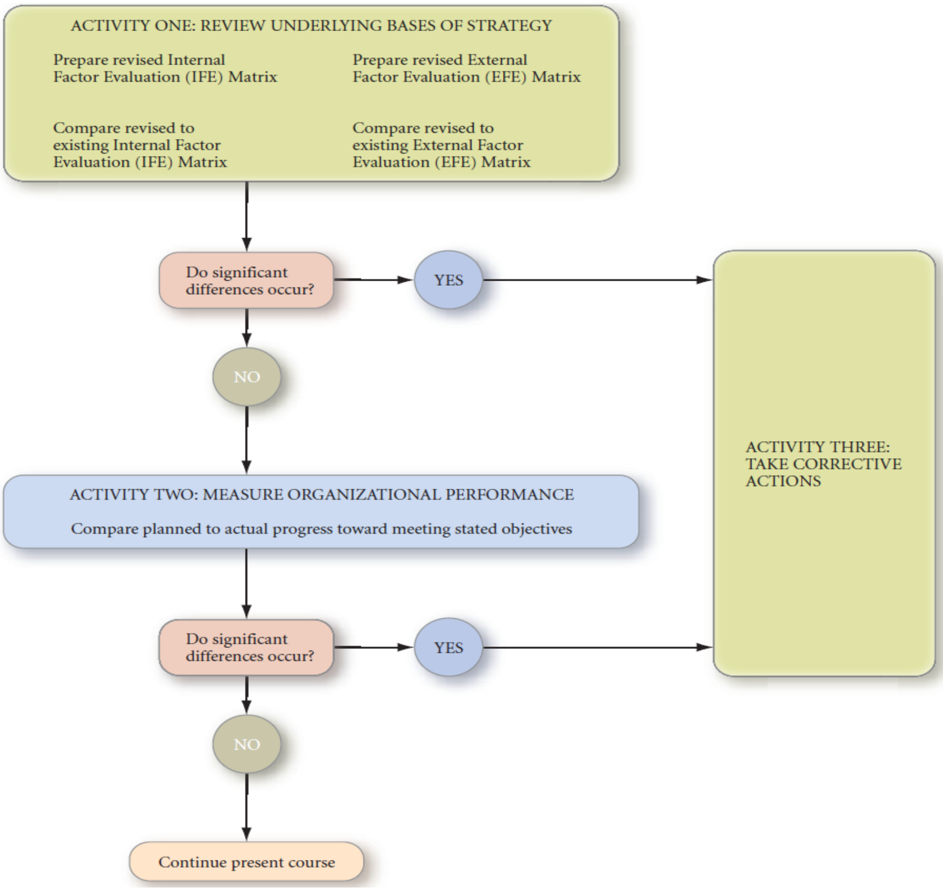

FIGURE 8.1 A Strategy-Evaluation Framework

Taking Corrective Actions

The final strategy-evaluation activity, *taking corrective actions*, requires making changes to competitively reposition a firm for the future. As indicated in Table 3, examples of changes that may be needed are altering an organization's structure, replacing one or more key individuals, selling a division, or revising a business mission.

Other changes could include establishing or revising objectives, devising new policies, issuing stock to raise capital, adding additional salespersons, differently allocating resources, or developing new performance incentives. Taking corrective actions does not necessarily mean that existing strategies will be abandoned or even that new strategies must be formulated.

TABLE 3: Corrective Actions Possibly Needed to Correct Unfavorable Variances

1. Alter the firm's structure
2. Replace one or more key individuals
3. Divest a division
4. Alter the firm's vision and/or mission
5. Revise objectives
6. Alter strategies
7. Devise new policies
8. Install new performance incentives
9. Raise capital with stock or debt
10. Add or terminate salespersons, employees, or managers
11. Allocate resources differently
12. Outsource (or rein in) business functions

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No organization can survive as an island; no organization can escape change. Taking corrective actions is necessary to keep an organization on track toward achieving stated objectives. Strategy evaluation enhances an organization's ability to adapt successfully to changing circumstances. Taking corrective actions raises employees' and managers' anxieties. Research suggests that participation in strategy-evaluation activities is one of the best ways to overcome individuals' resistance to change. Strategy evaluation can lead to strategy-formulation changes, strategy-implementation changes, both formulation and implementation changes, and no changes at all. Strategists cannot escape having to revise strategies and implementation approaches sooner or later.

3.3 Characteristics of an Effective Evaluation System

Strategy evaluation must meet several basic requirements to be effective.

► First, strategy evaluation activities must be economical; too much information can be just as bad as too little information; and too many controls can do more harm than good. Strategy-evaluation activities also should be meaningful; they should specifically relate to a firm's objectives.

►They should provide managers with useful information about tasks over which they have control and influence. Strategy-evaluation activities should provide timely information; on occasion and in some areas, managers may daily need information.

►Strategy evaluation should be designed to provide a true picture of what is happening. For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder.

►Strategy evaluations should fairly portray this type of situation. Information derived from the strategy-evaluation process should facilitate action and should be directed to those individuals in the organization who need to take action based on it.

►The strategy-evaluation process should not dominate decisions; it should foster mutual understanding, trust, and common sense. No department should fail to cooperate with another in evaluating strategies.

►Strategy evaluations should be simple, not too cumbersome, and not too restrictive. Complex strategy-evaluation systems often confuse people and accomplish little. The test of an effective evaluation system is its usefulness, not its complexity.

There is no one ideal strategy-evaluation system. The unique characteristics of an organization, including its size, management style, purpose, problems, and strengths, candetermine a strategy-evaluation and control system's final design.

4.0 Conclusion

Corrective actions should place an organization in a better position to capitalize upon internal strengths; to take advantage of key external opportunities; to avoid, reduce, or mitigate external threats; and to improve internal weaknesses. Corrective actions should have a proper time horizon and an appropriate amount of risk. They should be internally consistent and socially responsible. Perhaps most important, corrective actions strengthen an organization's competitive position in its basic industry. Continuous strategy evaluation keeps strategists close to the pulse of an organization and provides information needed for an effective strategic-management system.

5.0 Summary

This unit presents a strategy-evaluation framework that can facilitate accomplishment of annual and long-term objectives. Effective strategy evaluation allows an organization to capitalize on internal strengths as they develop, to exploit external opportunities as they emerge, to recognize and defend against threats, and to mitigate internal weaknesses before they become detrimental. Strategists in successful organizations take the time to formulate, implement, and then evaluate strategies deliberately and systematically. Good strategists move their organization forward with purpose and direction, continually evaluating and improving the firm's external and internal strategic positions.

Strategy evaluation allows an organization to shape its own future rather than allowing it to be constantly shaped by remote forces that have little or no vested interest in the well-being of the enterprise. Although not a guarantee for success, strategic management allows organizations to make effective long-term decisions, to execute those decisions efficiently, and to take corrective actions as needed to ensure success.

6.0 Tutor Marked Assignments

Discuss fully the basic requirements for effective strategic evaluation

7.0. References

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UNIT 9: Basic Policy Areas

Content

1.0 Introduction

Changes in a firm's strategic direction do not occur automatically. On a day-to-day basis, policies are needed to make a strategy work. Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, *policy* refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives. For example, Conoil plc has a no smoking policy anywhere, anytime within company premises. Another example of corporate policy relates to surfing the Web while at work. About 40 percent of companies today do not have a formal policy preventing employees from surfing the Internet, but software is being marketed now that allows firms to monitor how, when, where, and how long various employees use the Internet at work.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to:

1) Explain the hierarchy of policies

2) Highlight and comment on the gamut of policies that support a company strategy

3) Identify the different organic functions of a business with basic policy outlook.

3.0 Policies that support a company strategy

Speed is a critical necessity for success in today's competitive, global marketplace. One way to enhance speed and responsiveness is to force/allow decisions to be made whenever possible at the lowest level in organizations. **Policies** are broad, precedent-setting decisions that guide or substitute for repetitive or time-sensitive managerial decision making. Creating policies that guide and "preauthorize" the thinking, decisions, and actions of operating managers and their subordinates in implementing the business's strategy is essential for establishing and controlling the ongoing operating process of the firm in a manner consistent with the firm's strategic objectives.

Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully. They provide a basis for management control, allow coordination across organizational units, and reduce the amount of time managers spend making decisions. Policies also clarify what work is to be done and by whom. They promote delegation of decision making to appropriate managerial levels where various problems usually arise. Many organizations have a policy manual that serves to guide and direct behavior.

Policies can apply to all divisions and departments (for example, "We are an equal opportunity employer"). Some policies apply to a single department ("Employees in this department must take at least one training and development course each year"). Whatever their scope and form, policies serve as a mechanism for implementing strategies and obtaining objectives. Policies should be stated in writing whenever possible. They represent the means for carrying out strategic decisions. Examples of policies that support a company strategy, a divisional objective, and a departmental objective are given in Table 9.1. Some example issues that may require a management policy are provided in Table 9.2.

TABLE 9.1: A Hierarchy of Policies

Company Strategy
Acquire a chain of retail stores to meet our sales growth and profitability objectives.
Supporting Policies
1. "All stores will be open from 8 A.M. to 8 P.M. Monday through Saturday." (This policy could increase retail sales if stores currently are open only 40 hours a week.)
2. "All stores must submit a Monthly Control Data Report." (This policy could reduce expense-to-sales ratios.)
3. "All stores must support company advertising by contributing 5 percent of their total monthly revenues for this purpose." (This policy could allow the company to establish a national reputation.)
4. "All stores must adhere to the uniform pricing guidelines set forth in the Company Handbook." (This policy could help assure customers that the company offers a consistent product in terms of price and quality in all its stores.)
Divisional Objective
Increase the division's revenues from $10 million in 2009 to $15 million in 2010.
Supporting Policies
1. "Beginning in January 2010, each one of this division's salespersons must file a weekly activity report that includes the number of calls made, the number of miles traveled, the number of units sold, the dollar volume sold, and the number of new accounts opened." (This policy could ensure that salespersons do not place too great an emphasis in certain areas.)
2. "Beginning in January 2010, this division will return to its employees 5 percent of its gross revenues in the form of a Christmas bonus." (This policy could increase employee productivity.)
3. "Beginning in January 2010, inventory levels carried in warehouses will be decreased by 30 percent in accordance with a just-in-time (JIT) manufacturing approach." (This policy could reduce production expenses and thus free funds for increased marketing efforts.)
Production Department Objective
Increase production from 20,000 units in 2009 to 30,000 units in 2010.
Supporting Policies
1. "Beginning in January 2010, employees will have the option of working up to 20 hours of overtime per week." (This policy could minimize the need to hire additional employees.)
2. "Beginning in January 2010, perfect attendance awards in the amount of $100 will be given to all employees who do not miss a workday in a given year." (This policy could decrease absenteeism and increase productivity.)
3. "Beginning in January 2010, new equipment must be leased rather than purchased." (This policy could reduce tax liabilities and thus allow more funds to be invested in modernizing production processes.)

TABLE 9.2: Some Issues That May Require a Management Policy

- To offer extensive or limited management development workshops and seminars
- To centralize or decentralize employee-training activities
- To recruit through employment agencies, college campuses, and/or newspapers
- To promote from within or to hire from the outside
- To promote on the basis of merit or on the basis of seniority
- To tie executive compensation to long-term and/or annual objectives
- To offer numerous or few employee benefits
- To negotiate directly or indirectly with labor unions
- To delegate authority for large expenditures or to centrally retain this authority
- To allow much, some, or no overtime work
- To establish a high- or low-safety stock of inventory
- To use one or more suppliers
- To buy, lease, or rent new production equipment
- To greatly or somewhat stress quality control
- To establish many or only a few production standards
- To operate one, two, or three shifts
- To discourage using insider information for personal gain
- To discourage sexual harassment
- To discourage smoking at work
- To discourage insider trading
- To discourage moonlighting

Policies often increase managerial effectiveness by standardizing routine decisions and empowering or expanding the discretion of managers and subordinates in implementing business strategies. Since each company has its own unique strategy, its policy will also be individually tailored. However, virtually every firm faces a similar set of issues, and an analysis of policy can be expedited and improved by a systematic exploration of these basic issues. A convenient sequence for analysis is:

1. Marketing policy – Product line and customers
2. Research and development policy,
3. Financial Policy
4. Production Policy
5. Human Resources
6. Procurement Policy

4.0 Conclusion

Within the general framework created by the business's generic and grand strategies, each business function needs to undertake activities that help build a sustainable competitive advantage. These short-term, limited-scope plans are called **functional tactics.** A radio ad campaign, an inventory reduction, and an introductory loan rate are examples of tactics. Managers in each business function develop tactics that delineate the functional activities undertaken in their part of the business and usually include them as a core part of their action plan. Functional tactics are detailed statements of the "means" or activities that will be used to achieve short-term objectives and establish competitive advantage.

5.0 Summary

The selection of the best strategic alternative is not the end of the strategy formulation. Management now must established policies that define the ground rule for implementation. Flowing from the selected strategy, policies provide the guidance for decision making an action throughout the organization. Policies tend to be rather long lived and can even outlast the particular strategy that created them.

6.0 Tutor Marked Assignment

From the practical experience of your present company, provide five on – the – spot examples of issues that may require a management policy in each of the organic functions of your company.

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David, Fred R. (2011) Strategic management: concepts and cases.—13th ed. Copyright ©, by Pearson Education, Inc., publishing as Prentice Hall, One Lake Street, Upper Saddle River, New Jersey 07458.

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UNIT 10: Marketing Policy

Content

1.0 Introduction

Marketing of late has become more about building a two-way relationship with consumers than just informing consumers about a product or service. Marketers today must get their customers involved in their company Web site and solicit suggestions from customers in terms of product development, customer service, and ideas. The online community is much quicker, cheaper, and effective than traditional focus groups and surveys. Countless marketing variables affect the success or failure of policy and strategy implementation, and customers trust each others' opinions more than a company's marketing pitch, and the more they talk freely, the more the firm can learn how to improve its product, service, and marketing. Customers must not feel like they are a captive audience for advertising at a firm's Web site. Table 8-1 provides new principles of marketing according to Parise, Guinan, and Weinberg. This is opening up even larger markets to online marketing.

TABLE 8-1: The New Principles of Marketing

1. Don't just talk at consumers—work with them throughout the marketing process.
2. Give consumers a reason to participate.
3. Listen to—and join—the conversation outside your company's Web site.
4. Resist the temptation to sell, sell, sell. Instead attract, attract, attract.
5. Don't control online conversations; let it flow freely.
6. Find a "marketing technologist," a person who has three excellent skill sets (marketing, technology, and social interaction).
7. Embrace instant messaging and chatting.

Source: Newman, H.N; Logan, J.P and Hegarty, W.H (1985); Strategy, Policy and Central Management, published by South – Western Publishing Company; Ninth edition, USA.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to;

1) Comment on the different dimensions of product line policies

2) Highlight and explain the scope of customer policies

3) Discuss issues involved in the marketing mix policies

4) Describe the specific issues by a company pricing policy

3.0 Marketing Policy

The broad policy of any manufacturing business will no doubt state in general terms what it intends to produce and hopes to sell. It will for example, make it clear that it is intended to produce machine tools and not electrical components. If, however, the policy is to succeed, considerable though must be given and many decisions taken, by the marketing director (or manager) and other responsible for its implementation.

The main considerations upon which a working marketing policy may be based include:

(i) Profit planning: Where a budgetary control system is employed, the whole structure of the budget and therefore, of the policy may be based upon a planned profit.

(ii) Sales volume: In order to achieve the volume of sales must be estimated. This may introduce many problems which in a large organization, will require considerable market research.

(i) Market research: Thorough study of the market will provide answers to most of the problems. Properly conducted, the research will reveal the present and future potentialities of the market.

(ii) Sales promotion: Having ascertained the market potential, planning must then be directed towards promoting sales to the level necessary to earn the planned profit. In order to achieve this objective, advertising, public relations and perhaps other subsidiary policies will be formulated and treated as the separate responsibilities of managers within the marketing group.

(iii) Sales: The selling and distribution of the goods produced are usually treated as a separate department; that is, they are usually separate from the public relations and sales promotion (or advertising) departments. They are, nevertheless, an essential part of the marketing team and will probably be responsible to a marketing manager or marketing director.

3.1 Product Line Policy

Usually a company strategy defines the type of product or service offer for sales, but does not provide answers for the following questions:

(1) How many different sizes, grades and shapes of the product will be carried in the line?
(2) How can our products be made distinctive from those of competitors?
(3) Should we change product design frequently say every yearly or stick with a tested model?

We need standard on such issue (e.g. Policy Statement) for two reasons: **Firstly,** to build a desired and consistent interpretation of strategy and **Secondly,** because many marketing, production and financial activities will be affected by the simplicity or the elaborateness of the company's product line.

(1) **Variety of product**

It is expected that for each strategic market or niche, a company must decide what variety of products will be offered to its customers. The decision on variety is a reoccurring and often controversial as markets change, competition grows and new technology becomes available.

(a) ***Cost diversity:*** Customers are continually demanding for products that are smaller, stronger or otherwise different from what is offered and sales representatives may content that sales volume could be increased if they had larger variety of product to sell. One way of dealing with this recurring controversy is to fix a limit on the number of items. Then any proposal for a new item must be accompanied by a recommendation to drop an existing one in place of the new. Having such a policy has the advantage of forcing attention to pruning along with justifying the new item:

(b) ***Need for complete line:*** Sometimes the customers want to buy a variety of products from the same source. For example when buying ingredients for tea you may need sugar, bourvita, milk etc. therefore, providing a complete line of products in very important. In contrast, a policy that concentrate on only a few items may be wise for a firm seeking distinction as a specialist e.g. Zaria Industry Limited – produces only Tapolin. By focusing on a narrow line, costs can be reduced, and if the product is sold in large enough unit to warrant separate action by customers, the lack of a complete line may be no serious handicap. A narrow line policy relies on specialization to achieve a competitive advantage in pricing, unique service or concentrated attention.

(c) ***Ways of Customising*** **–**Providing some variety can be offered without adding too much cost. Common practice with automobiles, refrigerators, kitchen equipments etc, they have standard products in two or three sizes, with other options to choose from, such as colour and accessories. The number of variations is strictly limited, and the optional items are available only at an additional cost to the customer. This practice help in giving customers choices to make.

(2) **<u>Product Differentiation</u>**

Variety of products is one way of having differential advantage. A less costly way is to produce products of high quality as meeting the need of the customers. The basic question in product differentiation is how to make a company's products distinctive from competitors. This is necessary for a company that wants a continuing and consistent reputation in the market and to guide its engineers and production people on what to emphasize in their products.

(a) ***Quality*** **–** This can be defined as relating to terms such as durability, appearance, purity, dependability etc. a company that seeks distinctiveness on the basis of product quality. It must decide the particular characteristics it will stress. In this case the desired market segmentation is the key in setting policy.

(b) *Consumer Recognition of Product Differences:* In deciding on the kind of distinctiveness to emphasize, the company must consider not only the desires of its customers but also their ability to appreciate variations in quality. The company must therefore determine:

(i) What characteristics of its product customers feel are important;

(ii) The extent to which its customers can appreciate the differences in such features and how mush they are willing to pay for this extra quality and;

(iii) Whether the cost of producing extra features is more or less than customers are willing to pay for them.

(3) <u>Frequency of Design Change</u>

How frequent changes in design should be made depends on the following;

(a) *Cost of change-* Mostly design changes are costly as it relates to technical and marketing research, engineering, testing and tooling-up for the redesigned product. Cost tend to increase if frequents changes are made, because new skills have to be learned, production runs are shorter and overhead builds – up other areas that such changes may affect are: Inventory, Distribution – wholesalers and Retailers, Service Problems (repair) and Promotion.

(b) *Pressures to Change:* The pressures of style or technology are strong by themselves because new developments are occurring every year affecting most products. Therefore, competitors actions may make the need to change irresistible. For example, when a preferred product is offered by a competitor, a company must respond by redesigning its own product for the market.

(c) *Frequency of Change:* several alternative ways of recognize the pressures and the costs of redesign of products:

(i) Annual model – mostly use for consumer goods;

(ii) “Product Leadership.” This is a Policy in which the firm wants to first on the market with improvements and new designs are introduced as rapidly as new technology is developed;

(iii) Leap front approach: In this approach once a company have a good design, it sticks with it without minding competitors various modifications that may not be too significant. But when significant improvements are evident them such a company may make major adjustment, incorporating competitors advances as well as their own. The presumption here is that production and marketing economies of few changes will more than offset a temporary lag in improvement. This policy is best in fields where technological change has been slow.

(4) Product Line policy of a Service Company

Standard answers must be given to the following questions:

- What variety of course should it offer?
- How should it differentiate its services from other institutions?
- What characteristics of quality are significant and can the consumer recognize the differences?
- How frequently should programs change?

3.2 Customer Policy

Customer policy is broadly determined by the company’s strategy regarding the domain but it needs further elaborations and refinement before it gives adequate to daily decision making. Three important areas of decisions are:

(1) What group of ultimate consumers does the company which to serve?

(2) What channel of distribution will be most effective in reaching these consumer?

(3) What limits on size or other characteristics should be placed on customers with whom the company deals directly? Correct answers to these question based on its capability establish the policy on customer.

(1) Consumer Sought: In this case a company needs to distinguish its customers from the consumers of its products. The consumers are those who use a product or service for their personal satisfaction or benefits and in the case of industrial products, are firms that change the form of the products or alter its identity into something more useful. While a customer on the other hand are persons who buy goods (product). A customer can be a consumer or dealer who will resell the product to someone else.

It is a fact that all businesses are most interested to know the habits and wishes of the ultimate consumer, because the major purpose of any economic activity is to create consumer satisfaction. Therefore, right from the original design of the product, through its production, and distribution, consumer satisfaction in ever a controlling factor. Consequently, a policy is necessary to clearly define the "Segments" of consumers sought to be served with the company's product (services), even though the company may use middlemen to actually sell to those consumers.

(i) Types of consumers: Different kinds of consumers want products or services of various natures. It is the company's business to identify its type of consumers i.e. people who consume its products. The relationship between a company and consumers or its products is normally continuous over a period of time. During this period, reputations are established and expectations and these are vital to careful planning and are built up. Therefore, a company cannot move in and out of a market from week to week. Instead, well-established and relative stable policies regarding consumers to be served are very useful.

(ii) Location of Consumers: A company should be able to precisely know where its consumers are whether in the rural or urban areas; whether they are a particular tribe or settlers etc. same is expected if the company exports its products to foreign markets, the location either by country or as mentioned earlier need to be specified. Companies that wish to make full utilization of an existing strength adopt a national distribution; because national advertising of the company already necessary for part of the market and is reading consumers in all areas, therefore the question of location may be nationally.

Also competitive tactics may influence policy regarding location of desired consumers. For example, company **A** may immediately follow **B** into a new area because **A** does not want **B** to acquire a possible source of strength that might be extended to other marketing. Another reason for such an action could be if the area is considered to be a very viable market area. On the other hand, where territorial patterns are aired in place as a market for every company, some may not move into others market territories for fear of how they are likely to reciprocate their action. Such reasons may result in a firm pushing its territorial limits just to the point where incremental selling and delivery costs match incremental revenue.

(iii) Consumers of "Small Business: Over the years small businesses usually catered or serve local consumers. Nowadays, improvements in transportation and communication have however, affected the consumers of small businesses because companies that distribute nationally now reach even the remotest consumer in the villages. Likewise local semi monopolies are fast disappearing.

Therefore, most small businesses are now seeking for more ways of distinguishing their products and services, while attempting to expand the geographical location of their potential consumers.

(2) **Channels of Distribution:** This means the steps by which products are distributed from the manufacturers to the consumer. In the case of services e.g. Banks, airlines and all sorts of retail stores, such services are mostly sold directly to consumers. But for manufacturers of goods, they have to select proper channels of distribution which is usually a big problem.

Changes in buying habits, transport, communications, and market locations have modified methods of distribution greatly in these recent years. This whole field is in a state of flux, and few companies are justified in assuming that their traditional channels are still most effective ways of reaching the consumer. The farsighted choice of the right channel of distribution sometimes becomes a major "differential advantage".

(i) Through jobber (wholesalers): this is regarded as the orthodox method of distribution. The wholesalers usually assemble products from many manufacturers, store them and sell them to retailers. By so doing, they also assume risks of price change damage or obsolescence, they extend credit to retailers and they sort and ship products according to retailer's needs. All of these functions are essential in the distribution of merchandise: regardless of the channel of distribution used, someone must perform them. The use of wholesalers is of necessity and economical to the large number and scattered over a wide territory than to undertake to serve them directly. For other obvious reasons, some manufacturers set up distribution system which deals directly with them. The problem of using wholesalers to manufacturers is the fact that they add at least 20 to the selling price of the products.

(ii) Direct to Retailers: direct distribution to retailers has some distinct advantages. By using its own sales representatives to call on retailers, the manufacturer may secure more aggressive selling efforts; as oppose to a jobber who sales a wide variety of products and so can concentrate of the sale of any single product. Dealing with the retailers may enable a manufacturer to ascertain better, the consumers' desires because they deal with them also directly. The manufacturer exercise more control over the final sale of its products. Personal relationships and good will are established that will enhance better dealings with one another. The manufacturer can influence retail prices, display and even have the retailers to handle only his products. Despite all the above advantages, an overstretched use of selling to retailers may lead to excessive costs and therefore may be unwise. On the alternative, companies that product a variety of goods may set up their own sales branches. And these branches operate like jobber, except that they handle only the parent company's products.

(iii) Direct to Consumers: This method is used for most technical products and so sales persons are trained to sell such product. Likewise industrial equipments are sold directly to users. Some companies use Exclusive dealers for example automobile manufacturers and oil companies, they combined many advantages of direct sales to consumers while retailer the initiative of local business people. The dealer operates his own business but must join in company sales programmes and conform to service standard set by the company. The company must have variety of products to enable them make profit.

(iv) Through Brokers or Agents: the broker only performs one major function of the distribution which is selling. The Agent connects the buyer and selling or manufacturer.

(v) Selecting a Channel of Distribution: According Dr. Thomas L. Berg, is an organizational problem and the activities of the total system of distribution should be analyzed as follows:

(a) List all activities necessary between producer and consumer e.g. Promotion, actual selling, transportation, financing, warehousing repackaging, transportation, financing, warehousing repackaging, risk-taking, installation and repair services etc.

(b) Group these activities into jobs that can be efficiently and effectively performed by separate firms.

(c) Define relationships between the jobs that will ensure cooperation and necessary flow of information. Also define the compensation and controls over those firms that will perform the jobs.

(d) Based on the policy of the company design specification for the firms that are to fill each job.

(e) For execution, recruit the people to take the specified jobs, educating them on how the jobs are to be carried out, supervising the day-to-day operations and exercising necessary controls.

Since a channel of distribution typically creates a complex set of relationships, a policy is needed to provide consistency and stability of action.

(3) **Size of Customers:** Customers that a company deals with directly my buy in quantities either too small or too large. The company should know how much it costs to serve each type of customer and the amount the consumers must buy if their business is to yield a profit to the company. A close analysis of the size of customer may help the company eliminate some as well as reducing its sales staff.

To eliminate too small quantity producing their future potential should be assessed. Likewise, a company must not depend on just few purchasers of too large quantities, for example on one or two for most of its business, doing so make its position vulnerable because a loss of patronage of one such buyer will affect the entire organization e.g. companies in the aerospace industry.

3.3 Marketing Mix Policy

The strategy of a company identifies the domain it seeks – its industry and preferred market niche(s). The product and customer policy do expand and specific the marketing effort necessary to satisfy the consumer. The consumers do not merely buy physical products; instead, they purchase a package that fulfills their needs, that provides a psychological pride of ownership and/or consumption, that involves minimum anxiety about breakdown or damage, that is considered "good buy at the price" that is acquired without great financial burden, that is delivered when wanted and in good condition. In essential part of marketing is for the company to conceive of a practical package of satisfactions that will appeal to a reasonable number of consumers.

Therefore, an attempt to provide these consumer satisfactions involves costs. These costs may be made up of direct expense incurred by the producer of it may be a free or margin charged by distributors, keeping these costs within acceptable limit is, of course, an important aspect of designing a viable package of satisfaction (or marketing mix) for consumers.

The marketing mix policy in addition to the package of satisfactions, seek how to communicate with consumers to present the offer. To achieve this, alternative forms of advertising must be available; and advertising and sales staff cost money. Nevertheless, a choice must be made as to how much of each consumer services, higher quality, convenient packages, lower price, advertising or personal solicitation should be offered and at what cost? This allocation among such competing uses account for the distribution costs in the marketing mix.

And such a marketing mix is required for each of the product of a given company in order to make appropriate offer to each product – market. Therefore basic policies to be determined with respect to marketing mix must centre among the follows:

1. Lean low – cost approach versus a full service approach.
2. Sales appeals to be emphasized.
3. Sales promotion in support of selected appeals.

1. **Lean Low-Cost Approach Versus Ful-Services Approach**

These approaches control on total effort and expense to be added to the product or service package offered to consumers. The company must decide on either selling a naked physical product at a low cost or adding some services at an additional cost for more complete consumer satisfaction.

In this case the selling bargain – basement approach need not mention that no services will be provided, but is does imply that in production, as well as in marketing expense will be minimized. Such a low expense policy may restricts marketing mix options.

Most companies do start with low prices and later shift are made to add some vital services at an additional expense. Therefore operate a low-expense policy should be a steady state except if the consumers dictate so.

2. **Sales Appeals to be Emphasized**

Among important sales appeals a company may choose from (sooner or later) in its marketing mix are:
(a) Associated service
(b) Quality
(c) Style and Packaging
(d) Company reputation, and
(e) Pricing.

Except for style and packaging these appeals can be used companies that offer services as well as physical products. Also they are usable by both small and big companies.

(a) Associated services may include:
- (i) Personal assistance
- (ii) Maintenance and Repair
- (iii) Installment on credit
- (iv) Prompt availability (prompt services or delivery etc.)
- (iv) Training of operation in the buying organization.

(b) Quality as a sales appeal: Quality higher than the usual prevailing level can be used as part of the marketing mix. Note that extra quality involves extra effort and cost. A policy to build extra quality into a company's products must match up against other ways of differentiating a total marketing mix. The important question is: does distinctive quality hold strong appeal to the particular customers the company is trying to reach? Using quality as a sales appeal has a limitation if consumers are unable to detect the difference, and may be skeptical about the claims made. To enhance the use of this appeal some companies as a matter of policy do guarantee their products.

(c) Emphasis on style and packaging: the degree of emphasis on Styles in the total selling effort may be a significant policy. Adhering to styles add to the design and production expense and to have currently popular styles and colour? Packaging is one means of giving a product stylish appearance and an important role in the marketing mix. Packaging can affect the product service itself.

(d) Place of a Company's Reputation in Marketing Mix: Service Organization emphasize reputation as one of the strong appeals in the marketing mix e.g. Banks, Insurance companies etc. Likewise, a well-regarded and generally accepted brand name is so important in the sale of large number of products for the same company. Even the competitive bidding process of government makes allowance for company reputation. A low bid may be rejected if the bidder lacks a demonstrated ability to perform.

Good reputations are not bought in the market, but they arise primarily from a sustained willingness to devote extra effort to assure dependability and use of the latest state of the art, to avoid exaggerated claims. So since to develop and maintain a reputation is inconvenient and costly, a policy on the kind on reputation the company desires is necessary e.g. If a company has earned a distributive reputation, then it is appropriate to reinforce this posture publicly and to incorporate it in total marketing effort.

3.4 Pricing Policy

Pricing: All of the above sales appeals add to boost company expenses. A price of a product is made up of such expenses, cost and the percentage of profit to be earned if any. Pricing itself is often presented as a sales appeal.

A pricing policy should fit with other company policies and strategies in three important ways:
(i) Pricing should be related to costs
(ii) Pricing should be related to competitor's prices
(iii) Price should be related to consumer's use of the product.

3.4.1 Price Should Be Related To Cost

(1) When selling unique products or service such as market research data etc. charging cost plus a customary mark-up is the usual policy. This is usually based on the relationship between the company and its customers – trust and confidence of fair dealing in terms of the price charge. For standardized products of services, if the company is in a favourable position of being a low-cost producer in the industry, it may the prices to total – costs in order to discourage new entrants. Often these firms lower their prices as their prices as their costs go down – partly to tap new markets but also to ward off competitors. Setting prices to cover total costs (including a normal profit) provide a comparable internal discipline. If a product cannot be sold at a price that earns its keep, then that product can be dropped.

This policy assumes that resources devoted to producing the product are transferable to more rewarding ventures. Also when part of the costs are fixed, that is, cannot be cut out or transferred to other uses, - the price may be dropped below total costs provided the income received makes some contribution to these fixed costs.

(ii) Relating prices to competitors' prices: for small firms a common policy is to set a price close to that of a leading company or the industry standard. In this case price is removed as a competitive factor in selling. Price is often used as a prominent part of the marketing mix. In such a situation prices are set low relative to competitors. Or a temporary price cut may be part of a special sales promotion-such is (defensive) action. Also in relation to competitor's prices, some companies as a policy choose to keep their prices within 10% or 20% of competitor's prices.

(iii) Prices recognizing customers' use of the product.

Different customers may be charge different prices e.g. selling to wholesalers and retailers, the wholesaler receives extra discount in recognition of its work of storing, selling and financing. Another example is that factories pay lower prices for electricity than household user. In all these examples, one can see how pricing is an integral part of each marketing mix. In deciding on the combination of appeals that are likely to be effective, judgement should be based on their differences in attractiveness of various appeals to the customers as well as their compatibility and perhaps synergistic effect of a particular appeal policy with the product market emphasis.

3. **Sales Promotion I Support of Selected Appeals**

Sales promotion in the marketing mix is very important for that fact that selected sales appeals e.g a low price policy need to be communicated to the target customers. This can be done with various kind of advertising and personal solicitation. Because of the availability many forms and degrees of such promotional effort, policy guidance is needed.

(A)► Advertising: because of the presence of different form of advertising whether you walk, drive, ride a bus, watch television, read newspapers of magazine, or open mail one faces one form of advertising or the other. This creates difficulty to management. Major questions to solve problems of selecting an advert are:

- (i) The purpose for which the advertising is to be used.
- (ii) The media employed to accomplish these purposes.

(i) Purpose of advertising are:

- Bringing customers to the place where goods are sold.
- Persuading the customers to ask for a specific product.
- Assisting sales representatives in making sales when calling on customers.
- Producing direct sales via mail or telephone.
- Building institutional goodwill.

(ii) Choice of Advertising Media are:

Television	Newspapers
Radio	trade papers
Magazines	direct mail etc%

Also others are displays, dealer-help and sampling. The choice of media evolves from selecting between economy and effectiveness in reaching objectives. For small companies with limited budgets, media choice is strongly influenced by what competitors are doing.

(B) ► Personal Solicitation – Sales representative have a role in most selling transactions,

(i) Differences in the use of sales representatives which should largely depend on their field of specialization e.g for selling industrial product.

(ii) An Analytical Approach- attempts to determine what role sales representative should play as well as relating such roles to the marketing mix.

The following questions may be helpful?

(a) Who consumes the product or uses it?
(b) Who makes the final decision to buy?
(c) What factors influence the decision maker?
(d) How can the company influence those factors by means of varying the marketing mix?

(C) ► Need for Synergy: this is to say that no single factor of the marketing mix makes a sale. Therefore, they must not be treated as separate part instead each part should complement the other in a Synergistic way. Likewise, sales promotion and other policies should be synergistic and such a combination should fit the basic mission of the company.

4.0 Conclusion

Although the marketing domain part of company strategy defines the type of product or services to be sold, rarely does it provide answers to questions such as how many different sizes, grades and shape of the product will be carried in the company product line. For example Peugeot Automobile Nigerian (PAN) Ltd. decided at strategic level to go into automobile hence the business went into the automobile production.

But it doesn't say what type of automobile – big, small, luxurious or different brands and sizes etc. that it will produce. Therefore in deciding on the combination of appeals that are likely to be effective, judgement should be based on their differences in attractiveness of various appeals to the customers as well as their compatibility and perhaps synergistic effect of a particular appeal policy with the product market emphasis.

5.0 Summary

The consumers do not merely buy physical products; instead, they purchase a package that fulfills their needs, that provides a psychological pride of ownership and/or consumption, that involves minimum anxiety about breakdown or damage, that is considered "good buy at the price" that is acquired without great financial burden, that is delivered when wanted and in good condition. In essential part of marketing is for the company to conceive of a practical package of satisfactions that will appeal to a reasonable number of consumers.

6.0 Tutor Marked Assignment

Customer policy is broadly determined by the company's strategy regarding the domain. Amplify this statement.

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UNIT 11: Production Policy

Content

1.0 Introduction

Company strategy involves effective integration of supplies of goods or services with their marketing. Many firms have separate department of purchasing and production but the basic problems that demands attention of the central management are so entwined that it is simpler to consider production policy and purchasing policy together. In a manufacturing concern, purchasing is directly linked with production because of the raw materials that is involved.

Major production and purchasing, policy issues centered on the following:

1. Deciding the extent to which vertical integration is strategic.
2. Selecting the general processes to be used in production.
3. Setting total capacity and facility balance
4. Providing basic guide for maintenance and replacement.
5. Resolving make-or-buy questions regarding services and supplier
6. Selecting vendors from whom purchases should be made.
7. Correlating purchasing, product and sales.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to;

1) State policy issues relating to the extent of vertical integration

2) Comment on company policies on the production process

3) Explain policy decisions on how much capacity to operate

4) Discuss the maintenance and replacement policies.

3.0 Vertical Integration

* Should we manufacture what sell or should we buy it?

* If we manufacture, should we just assemble purchased parts or should we make the parts?

* Should we make or buy raw materials for the parts?

* Should we produce the supplies needed to make the raw materials?

* These are questions of Vertical Integration. Every firm faces these questions and sound answers to them help a company formulate its policy. Examples of industries where Vertical integration is more applied are:

Aircraft Industry and Publishing, Printing and Paper making and also the frozen food companies' for example whether farm or not to farm their need supplies. Vertical integration is the growth towards raw material sources and / or distribution network. The desire is to control channels of distribution and sources of supplies and for economies of scale in non-manufacturing processes – research and development purchasing and production planning.

3.0.1 Key Factors in Vertical Integration

From the examples of companies or industries that use Vertical integration one understands that a variety of factors may influence their decisions on when to integrate. Some of those likely factors may include the following.

(i) Possible Benefit resulting from coordination. Where a company manufactures the products or the material it needs. These benefits could be in:-

(a) Promptness of delivery
(b) When the parts have to fit together into a complex balance.
(c) Adjustment to emergencies may be easier
(d) When the engineering may be more easily coordinated
(e) Unusual quality requirement may be easier to meet.
(f) A firm may develop more specialized machinery that is not feasible for an outside supplier to have.
(g) It helps a company avoids selling expenses of an outside vendor.

Lower Supply Risks- by acquiring its own sources of making its own raw materials readily available.

(ii) **Mobility Barriers-** company mobility within the supplying industry affects the attractiveness of entering it. If the industry is easy to enter, its products should be readily available (or new suppliers could be encouraged; that the incentive for a consuming company to integrate into that industry would be low.

Conversely, high entry, barriers and a few dominant suppliers in an industry might create conditions where the consuming company would try to get out from under the power of those suppliers by supplying itself. Exit barriers would become important if a company wished to abandon its integration. High exist barriers would tend to delay such a switch, whereas low exit barriers make withdrawal easy. Other factor that may influence decision about when to integration.

(iii) **Flexibility –** Vertical integration tends to limit flexibility in product design and shift to completely new design or material because of the heavy investment in plant or raw material sources. Therefore, non-integrating firm can make shift of designs and raw materials easily.

(iv) **Volume required for economic Production-** Many small companies do not do backward integration because the volume of their requirements for any one part or material is too small to keep and efficient plant busy. Also the requirements may be irregular. Only big companies that require large volume on continuous basis embarked on backward integration.

(v) **Financial Status of the Company-** Many firms has only enough capital to operate their principal line of business and may not be in a position to acquire new capital for integration. But strong financial firms do.

(vi) **Capacity of management to Supervise additional activities**

This particular point dictates the issue of integration more than any other factors. Problem of supervising or managing large size organization or business are critical because the capacity cannot stretch to cover every business itself. This factor is critical in decision making. Where this is so difficult, a company will decide not to integrate.

Conclusively, vertical integration decisions in the area discussed above are of substantial significance. Therefore each proposal should be thoroughly examined in terms of the key factors listed, estimated ratio of savings to investment, and unique considerations such as idle plant or lack of technical knowledge before a consciously determined policy statement is mode to move toward vertical integration or to stay away from it. Such a general policy should be based on an appraisal of what is required for success in a company's basic industry, the distinctive competence and resources of the company, desire for diversifying economic risks and similar other factors should be considered.

3.1 production processes

Closely related to decisions on what production activities the company will carry out are choices of processes to be used. Brond issues in this area are:

(a) Choice of technology
(b) Extent of division of labour
(c) Degree of automation
(d) Size and decentralization of plants.

3.1.1 Choice of Technology: One below uses for consideration in action process is the. In the products the manager has no choice regarding the process to be used. For example, a company manufacturing Steel must decide upon the extent to which t will use electric furnances, open-hearth furnances or oxygen inverters. Stemming from such basic decisions on technology will affect a whole array of plans for equipment, personnel, method and organization. The choice of technology does not involves large investment in facilities but it affects personnel, organization, sales appeals and other facets of the business.

3.1.2 Extent of Division-of Labour: In deciding how much emphasis to give to division of labour, then, managers should weigh their policies regarding standardization of products, mechanization, type of labour to be employed, and style of motivation.

3.1.3 Degree of Automation: Automation is widely propose as a way to increase productivity. The drudgery of factories and slowdowns of operations in offices can be minimized or removed b letting computers do the work. In manufacturing there are degree of automation extending from simple repetition of an operation after a machine is set up to an entire automate factory (that is still a dream in Nigeria.) Among the fascinating possibilities are:

(i) The use of Robots in place of people.
(ii) Integrated material handling and inspectors e.g. conveyor's belts etc.
(iii) Computer – integrated manufacturing
(iv) CAD (Computer – Assisted Design) simples and speeds up the designing of complex products. Flexibility is featured in all new systems.

Previously, automated production, required large volume of identical products to justify the heavy investment in special purpose equipment. In the new systems change is computerized and available almost instantaneously, and this permits short production runs aid low inventory, even though customers want individualized variations in their purchases.

Consequently, any policy to highly mechanize should be accompanied by other plans which will assure the company that it will b able to retain enough of the benefits to pay for the costs of mechanizing.

3.1.4 Size and Decentralization of Operating Units

Large manufacturing companies have considerable choice in the size and the location of their plants.

Years ago, most assumed that the larger the plant, the more economies would be possible; transportation costs of raw materials or finished products were usually considered the limiting factors of the size of a plant. Present thinking challenges these assumptions. A firms in the clothing industry has a clear cut policy toward separation of production into several operating Units.

Production technology does not require large-scale operations, and the company believes the optimum size plant is one just large enough to support specialized service divisions, there is a question whether expansion should be at the same plant or at a new location. Smaller plants in smaller communities have advantages of closer and friendlier relations among employees, easier identification of the workers with the product produced less bureaucracy, more face to face contacts in place of expensive and impersonal communication systems etc. also modern means of communication and transportation have reduced the disadvantages of having several plants separated from home office.

3.2 How Much Capacity

To arrive as a company productive capacity needs, will require date from sales forecasts of physical volume, policy decisions on what will be purchased instead of made, engineering estimates of machine productivity and production plans on how equipment will be used; all contribute to determine the production capacity needed. In addition and overriding such data are several central management policies regarding capacity desired. These policies deal with provisions for (a) peaks versus normal requirements, (b) backward taper of capacity provision for growth and (c) balance of facilities.

3.2.1 Peak versus Normal Load: A completely stable level of operations is usually impossible. All types of business activity are affected by cyclical fluctuations, and most industries experience seasonal, daily, or even hourly variations in volume of business.

In addition, the demand for a company's product may increase or decrease because of wars, government regulations, inventions, flood, changing fancies of the consumers, and many other influences. Moreover mere random distribution will lead to peaks and valleys.

Management must decide whether it will provide capacity large enough to satisfy all demand s during peak periods, knowing that some of this capacity must remain idle during slack periods or whether it will maintain a smaller capacity and hope that failure to render service during peak requirements will not have unbearable consequences. Other means (use) for meeting peak capacity usually incorporated is the policy of maximum capacity.

(i) Manufactures of standard, durable products may manufacture stock during slack periods:
(ii) Overtime work may be feasible for operations not already run twenty-four hours a day:
(iii) Obsolete or high-cost equipment may be maintained on a standby basis and placed in service just during the peak periods;
(iv) Some of the work may be subcontracted, hoping that such subcontractors are not likely to be busy during such peak periods;

(v) Off-peak discounts, mail-early campaigns and other measures may be used to induce customers to avoid peak period. These devices involve extra expense and may be more or les satisfactory to customers. Policy guidance is needed to indicate the reliance on these various ways of responding to peak needs.

3.2.2 **Backward Taper of Capacity** Vertically integrated companies may deliberately follow a policy of backward taper of capacity. This is an arrangement by which firms perform final operations on all their finished products, at a specified given time or peak periods. Such companies manufacture only parts of their material requirements. And so at peak periods they are quickly assembled together into finished products. Also some of the part during peak periods may be purchase from outside. Such arrangement helps the company production operation to be near productive capacity requirement. The feasibility of this policy depends on the presence of potential suppliers who will supply fluctuating amounts of materials.

3.2.3 **Provision for Growth:** Logically, a business enterprise does not stand still. In industries enjoying strong growth, time rescues executives who overestimate the capacity they need. But with a slowdown in overall growth rates, excess capacity becomes a continuing burden. Companies should try to avoid the consequences of too much or too title capacity. It is both expensive and inconvenient to customers and employees to have additions to facilities made at frequent intervals in piece meal fashion.

On the other hand, the financial downfall of many firms can be traced to the construction of excessive facilities that usually absorbed a large part of the company’s liquid capital and entailed annual charges that further deplete the company’s resources.

The basic decision to be made by central management is how much growth to anticipate and the extent to which investment will be made now in anticipation of that growth.

3.2.4 ***Balancing Capacity:*** In each phase of an operation materials handling, office processing, warehousing, selling etc, along with their subdivisions, all need to have their own capacity. The problems of capacity are more of physical facilities. Policy statement must be made as to how to deal with peak requirements, what provision to make for growth and how to balance capacity in any kind of enterprise.

3.3 Maintenance and Replacement

Closely related with issues of how much capacity should be provided are issues of maintenance and replacing existing capacity. These have to do with the level of Maintenance to operate, preventive maintenance and Timing of Replacement.

3.3.1 Level of Maintenance- This has to do with the extent to which plant and offices are kept in excellent running conditions. Sloppiness and procrastination are not tolerated. The level of maintenance results partly from the personal preferences of key executives.

Perhaps reflecting a cultural value inherited from their forebears. It may also reflect a calculated decision on the kind of maintenance that will most effectively support the other objectives and policies of the particular company. Since maintenance involves expense on appropriate level needs to be determined for different companies.

3.3.2 Preventive Maintenance: Preventive maintenance can be even more important than keeping the equipment running. e.g. in atomic energy plant, petroleum refineries, air travel etc. the concept is on avoiding accidents because when they occur they are usually very distructive to the whole setting in the enterprise. We are all familiar with this approach in the care of an automobile which involves, regular greasing and oil changes, driving within prescribed limits, prompt inspection of unusual noises or performance and replacing tires when they are worn out. Observing such practices enable one to depend on the automobile's performance. Proper care, regular inspections and scheduled repairs to machineries are designed to avoid unexpected break down.

The same concept can be applied to sales organization or an accounting office, except that such deal with people, social relationships, paper forms and procedures. The question of degree of carrying out such preventive maintenance will depend on the enterprise and its nature.

3.3.3 Timing of Replacement: Routine replacement of parts of an established facility can be done on a scheduled basis. The replaced item may be rebuilt, but the main aim is to make the change before performance falters. Much more important is replacement to keep pace with modern technology or with economic location for a revised strategy. This encourages companies to depreciate their equipment more rapidly and build replacement. The fundamental issues is how much sacrifice of short-run gain a company's should make to keep itself in top condition to meet competition in the future. When setting replacement policy, central management is reflecting the value it attaches to being a top performer in its industry.

4.0 Conclusion

The planning of production is based upon the facts of the market research and the figures of the sales budget; therefore, the broad policy of the production department is to keep pace with the requirements of the sales organization.

To meet these requirements, production must be carefully planned and controlled. How this is achieved depends upon the size of the organization, the processes employed and the end product; in general, how, some or all of the following are taken into consideration in formulating a production policy:

(a) Volume of production required: stated in specific terms and/or as a percentage of optimum production capacity.

(b) Design: The design of the production is probably influenced by the results of the market research.

(c) Production planning of:

- ***(i)*** Material requirements
- ***(ii)*** Labour requirements.
- ***(iii)*** Machines requirements.

(d) Production control: Various control arrangements may be planned as part of the overall production policy, including:

- ***(i)*** Control of labour efficiency.
- ***(ii)*** Quality control.
- ***(iii)*** Control of the progress of orders.

5.0 Summary

Major production policy issues centered on deciding the extent to which vertical integration is strategic; selecting the general processes to be used in production and the of setting total capacity and facility balance were discussed in this unit. Management must decide whether it will provide capacity large enough to satisfy all demands during peak periods, knowing that some of this capacity must remain idle during slack periods or whether it will maintain a smaller capacity and hope that failure to render service during peak requirements will not have unbearable consequences.

6.0 Tutor Marked Assignment

The broad policy of the production department is to keep pace with the requirements of the sales organization. How can this be met.

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Unit 12 Procurement Policy

Content

1.0 Introduction

As indicated in the last unit, the policy of top management is communicated to the lower levels of management only in general terms. At that point it branches off into the separate sectional policies of the respective managers, by whatever name they are called. Although these "managers" must work together as a team to implement the general policy, each of them is individually responsible for its own sectional policy. One of the most important sectional policies a large manufacturing company must project is about the procurement and supply. This is the focus of this unit.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to;

1) Discuss the intricacies of policies of make – or – buy decisions
2) State the guides to make – or – buy decisions
3) Explain the issues involved in vendor selection
4) Present a tabular summary of the factors that informs vendor's selection.

3.0 Make or Buy Supplies and Services

Every company uses variety of supplies and services-heat, power, packaging, transportation in and out, telephone, electronic computing, and many other items. Time and again the question arises of whether to make or buy these supplies and services. The following examples suggest the nature of the problem.

Production of containers printed form

All firms must decide whether to purchase or manufacture her supplies such as plastic containers, cartons and seals. Large insurance companies, for instance, often have a shop in which they print their own forms, circulars and notices, and do other job printing.

While this practice is convenient, few firms have enough actual printing (not just photocopies) of a similar type to justify the most economical machine methods. Consequently policy usually is to have such printing done by an outside firm which serves many customers.

A similar situation exists in connection with packing boxes, for example, the Evans Pharmaceutical Company which has its own box shop, needed boxes in a considerable range of shapes and sizes for the packing of its various products. Because of the ‘variety, several different machines were needed, however, most of these machines were used only part of the time. While the boxes made in the local shop were satisfactory, an independent check showed that it would be less expensive for the company to purchase boxes from a manufacturer specializing in this type of work. This also gave the company more flexibility to shift to plastic containers.

On the other hand, a leading manufacturer of prepared breakfast foods concluded, after an exhaustive study of the relative costs of manufacturing and of buying packages and cartons that a considerable saving would result from its own manufacture of these products.

In this instance, large quantities of identical boxes and cartons were required, and the cereal company was able to install machinery as efficient as the independent box companies. Furthermore, under this arrangement the company was able to exercise direct control over all phases of production and to coordinate under the same roof the manufacture of the packing boxes with the packing of the final product. This same company however, decided that its job printing could be done more economically by an outside concern.

Company Power Plants

Large companies must decide whether they produce their own power and light or buy all their electric current from a public utility. The policy sometimes followed in this case is to manufacture within or to purchase from the public utility only for the purpose of meeting peak requirements. Thus, the company plant can be operated continuously and the burden of fluctuating demand can be shifted to the public utility.

The feasibility of such a plan depends, of course, upon the rates charged by the public utility. If the peak demand for a particular company occurs at the same time that other utility customers have peak demands, the rates charge are likely to be high. Emergency power supply for hospitals, alarm systems, dairy farms, and the like is quite a different issue. For a safety, in-house generators or batteries are needed.

3.1 Guides to Make-or-But Policy

The following line of analysis provides an answer to most make-or-buy questions relating to supplies and services.

1) ***Does a dependable outside source exist?*** If the answer is "no", then we presume that our own production is best unless unforeseen obstacles arise. For instance, a cement plant in Sokoto has its own foundry and machine shop because no reliable source of repair parts is within reach. Similarly, most large industrial plants in Aba have their own power plants because public power is unreliable.
2) When a dependable outside source does exist, we will use it unless a strong case can be made for not doing so. The reason for this preference include simplifying the total managerial burden, focusing executive attention where major sources, and –in competitive markets-gaining some of the economies that supplies serving several customers will obtain.

3) Possible reasons for making exceptions to the preference for buying, just stated in (2), are: ***(a)*** Coordination with outside sources would be very cumbers example, although office buildings frequently contract for janitor service and window washing, industrial plants rarely do so because cleaning up is intimately related to plant operations.

(b) A large volume of a uniform item would result in unusually low costs.

(c) The supply source is unwilling to provide special services (for example, speedy delivery or unusual sizes) we desire.

This approach at least puts the burden of proof on the executive who suggests deviating from the main activities on which the firm is staking its success.

3.2 Selection of Vendors

Regardless of how a company resolves its problems of vertical integration and of make-or-buy supplies, some sorts of goods must be purchased. The manufacturer must buy raw materials and factory supplies, the retailer must buy finished goods, even the professional firm must buy office supplies. In most businesses, a number of vendors, local or perhaps foreign, are available to fill these needs. This raises the question of whether purchasing from several vendors is wiser than concentrating the business on only one or two. Even after this policy is settled, the issue of vendor that will be the most satisfactory source has to be resolved.

3.2.1 Number of Vendors

The number of suppliers of at least the essential products purchase by a firm should receive careful attention. Entire operations of the firms can be jeopardized if this issue is not wisely handled.

Allocating buying to multiple vendor sources. A school supply jobber, for instance, followed the practice for a number of years of buying from as many different manufacturers as possible so that the firm name might be widely known. The company later became involved in financial difficulties and recreated its policy of using a large number of vendors. The purchase it made from any one manufacturer were not important enough to that manufacturer to justify granting special credit terms, and each vendor sought to collect bills promptly. Had this firm concentrated its purchases to a greater extent, it might have induced its vendors to be more lenient in making collections during the period of financial stress.

Advantages and Dangers of Concentration. A few companies that buy large quantities of merchandise concentrate their purchases to such an extent that they buy the entire output off a single supplier. By doing so, they are able to secure favourable prices because the manufacturer is relieved of all selling cost and is able to concentrate its product operation on just those commodities desired by its one customer. A danger in this practice is that the manufacturer may fail to make delivery because of ***(i)*** labor troubles, ***(ii)*** lack of capital, ***(iii)*** fire or some other catastrophe, thus leaving the company deprived of its supply of product at a time when they are sorely needed.

Also, relative power is involved. If there is a single supplier of a vital part or material, that supplier may have a lot of power. A threat-implied or explicit-to shut off the flow of a needed resource can force the buyer to pay a high price or to accept irregular delivery. The potency of such a threat depends, of course, on the availability of alternative source of supply.

A large mail order house that was buying the entire output of a refrigerator plant guarded against these dangers to some degree by having at the plant its own representative who watched accounting records and was familiar with plant operations. Such a representative could warn the mail-order house of any impending difficulties. Another large firm followed the policy of buying no more than 25 percent of its requirements any one product from the same manufacturer. If for any reason something happened to one of these source of supply, the company would be able to continue to get at least 75 percent of its requirements from its other vendors. When buying abroad, use of several sources gives protection against political interruptions – as petroleum companies using Middle East crude oil well know.

Many firms follow a policy that seeks to gain the advantages of both concentration of purchases and multiple vendors. They find that buying most of their needs of a particular material from one source is desirable, the quality, price, delivery service, or some other factor makes concentration clearly the best arrangement. So, they give 70 to 80 percent of their business to one vendor. The remaining part of the business is divided among several other suppliers. In this manner, business relations are established, specification problems are met and resolved, and the way is prepared for much large purchases at a later date. Placing these small orders with several vendors is probably more expensive than buying all requirements from the chief source, but it serves two important purposes;

(1) if a strike, fire, or other catastrophe hits the main supplier, the firm can shift to other supplier much more quickly than it could if no relationship had been established; and

(2) The main supplier is "kept on toes" because the buyer is in close touch with the market and in a position to shift to other supplier if the price, quality, or service from the main source does not continue to be the best.

Buying Distress Merchandise, Some retail stores appeal to their customers primarily on the basis of price, and in order to make a profit they continually seek to buy merchandise at "distress" prices.

These stores usually offer to pay cash for merchandise, and they are not particularly concerned about being able to secure additional products from the same company. Such stores will deal with any vendors who have merchandise to offer for sale at a reasonable price, and they are continually "shopping around" for more favorable terms. Although such a policy appears to be good for companies operating on a purely price or cut-rate basis, most concerns have learned by experience that it is preferable to cooperate with vendors. A cooperative relationship will not be disrupted by either party because of apparent temporary advantages that may be obtained from time to time under special conditions.

3.2.2 Factors Determining number of Vendors.

It is often necessary to balance the advantages of better service and quantity discounts that can be secured by concentrating business with a few vendors against the disadvantages of possible failure of supply and the passing up of occasional bargain merchandise. The problem often resolves itself into the following questions.

1. Can a limited number of vendors supply the variety of products required?
2. How much special service and price concession will result from concentration?
3. How important is such service to the purchaser?
4. Is the company too dependent upon any one company for materials?

3.2.3 Type of Vendors

The type of vendors selected by a company will depend on the company's requirements in regard to quality, service, reciprocity, and price.

1) Importance attached to quality. Selection of vendors by a company will be influenced, in part by the quality of the product that it wishes. Thus a publishing house, desiring all its books to be made of a high-quality material, buys only from mill as that make paper of dependable quality. Although paper is purchased according to detailed specifications, every paper mill has some difficulty controlling quality. The publishing house therefore prefers to pay somewhat higher prices to those mills that have a reputation for exercising care in maintaining the quality of their products.

Even a product that is highly standardized and that has a recognized market price may be purchased from one vendor rather than another in order to secure certain intangible qualities. Operators of textile mills, for instance, point out that considerable variation occurs in the way raw cotton of identical staple and grade will work up in cloth. Consequently, when a textile mill discovers that cotton coming from one region through a given broker is more easily handled on its equipment, that mill will try to concentrate its future purchases on cotton coming from that particular section.

2) Service of Vendors. Vendors may be selected because of the service they render their customers. For example, companies manufacturing computers, duplicators, and other types of office equipment often give their customers a great deal of aid in designing office forms and in establishing new systems. Most of these companies also maintain an extensive repair service; if a machine should break down, it can be quickly repaired without serious interruption in the work of the office using the equipment.

The importance of such service became striking in Nigeria when that market was flooded with relatively inexpensive office equipment of China manufacture. The machines had entered Nigeria under a specified quantity of machinery from China. Inadequate provision had been made for servicing the China machines however. Consequently, when one of these machines broke down, it was both expensive and time-consuming to get it back into working order. As a result, many of the office managers were turning to more expensive American machines because of the repair maintained by the American manufacturers.

Under some conditions promptness of delivery is a controlling factor in the selection of vendors. This has been one of the primary reasons why small steel companies have been able to secure in their local territories business that otherwise might have gone to the big steel companies.

With standardized products and uniform prices prevailing in the industry, such special services as delivery often become controlling influence. The large companies have recently given more recognition to this factor and have spent substantial funds in an effort to expedite the handling of customers' orders.

3) Reciprocity. Under special circumstance vendors are selected on the basis of reciprocity. Thus, railroads are careful to place order with concerns that are in a position to route a large quantity of freight over their lines. Sometimes the reciprocity may be a three cornered deal. For instance, an Enugu steamship company decided to place a large order for motors with a particular manufacturer as a favour to a pig-iron producer. The pig-iron producer shipped large quantities of ore and could therefore demand favors from the steamship company in exchange for a contract to transport ore. To complete the circle, the pig-iron product used it s controls over the order for motors in selling pig-iron to the motor manufacturer.

Hence, each of the three concerns selected vendors with an eye to the indirect effect such selection would have on sales. Formal reciprocity agreements have been challenged legally as a restraint of trade, but this aspect is very cloudy. Much more common is the objection of "professional" purchasing agents. In fact, a policy on reciprocity is often necessary to keep peace between the purchasing department and the sales department.

4) Role of price. Thus far, no mention has been made of price in connection with the type of vendors. Prices for many products are uniform, and for other products the differences are not of sufficient important to offset such factors as quality and special service. It should be clear, however, that price is an ever-present consideration, and if for some reason one vendor charges higher prices than another, the former is automatically eliminated unless there is some special reason for dealing with that particular vendor. As already noted, the significance of differences in prices depends partly upon the emphasis that the company buying the material gives to price in reselling the material and also upon the importance of that particular product to the total cost of the company.

5) Gifts and Friendship. Especially when large purchases are to be made, gifts and lavish entertainment may be offered to the person who selects the vendor. In this gross form this is clearly bribery. But the line is hard to draw; for instance, is a free lunch unacceptable do strict as government or rules regarding favors, most companies do have a clear-cut policy forbidding the acceptance of any significant gifts from vendors. More subtle is the question of friendship. Business relationships naturally lead to numerous contacts and mutual dependence. Friendship often grows out of such contacts. And cooperation between friends typically flows in both directions.

The principle that we assume should guide business relations between friends is clear enough; cooperate to the hilt as long as the interest of the two companies are compatible (and such action is legal), but when interest conflict always give one's own company uncompromising priority. This norm is so widely understood it is rarely stated as a policy.

3.3 Summary Regarding Selection of Vendors

In selecting vendors a company is responding to the sales appeal of the numerous companies desiring to sell merchandise of the type used by the company. The point of views, however, is essentially different because the purchasing company is concerned only with its own specific problems and has no interest in the sales activities of the vendor unless these activities are of some value to it.

There are also a number of questions, such as the number of vendors that do not have an exact counterpart for the seller. The more important factors that should be considered in making vendor selections are indicated in Table 12.1.

Table 12.1
Factors Influence Vendor Selections

Capacity and Willingness of Vendor to Meet Company Needs	**General Characteristics of Desirable Vendors**	**Factors Limiting the the Choice**
Quality of Product: Specifications Dependability	**Size of vendor:** Interest in our business Financial stability	Reciprocity Time and expense of locating and dealing with new vendor
Services offered: Delivery Technical aid Repair Credit terms Guarantees Adjustments	**Geographic location:** Support of "local" industry Dispersion of risks Manufacturer us, jobber	Habit and conservatism; Potential "headaches in new relationship Friendship and loyalty
Price: Competitive level Inclination to squeeze Protection on changes	**Maintenance of alternative sources:** divide equally other minor	Willingness of using departments of try new vendors

Company policy determines which of these factors should be given primary consideration and which should be disregarded.

4.0 Conclusion

It is important to conclude this unit with a reminder that the number of suppliers of at least the essential products purchase by a firm should receive careful attention. Entire operations of the firms can be jeopardized if this issue is not wisely handled.

It is often necessary to balance the advantages of better service and quantity discounts that can be secured by concentrating business with a few vendors against the disadvantages of possible failure of supply and the passing up of occasional bargain merchandise.

5.0 Summary

Regardless of how a company resolves its problems of vertical integration and of make-or-buy supplies, some sorts of goods must be purchased. The manufacturer must buy raw materials and factory supplies, the retailer must buy finished goods, even the professional firm must buy office supplies. In most businesses, a number of vendors, local or perhaps foreign, are available to fill these needs. This raises the question of whether purchasing from several vendors is wiser than concentrating the business on only one or two. Even after this policy is settled, the issue of vendor that will be the most satisfactory source has to be resolved.

6.0 Tutor Marked Assignment

What are the policy bases for your company vendor's selection? Explain them in detail

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Unit 13: Financial Policy

Content

3.1 Introduction

Capital is an essential resource for even enterprise. Equipment must be obtained, material purchased, employees paid, sales and administration expenses met before goods are made available for sale. In formulating policy regarding uses and sources of capital, cash flows require primary attention that is, you pay greater attention to cash flows as all other organic function of a business. Capital already invested in fixed assets or debts already incurred become active when they affect the inflow or the out flow of cash.

In a sense, financial policy concerning the use of capital does not stipulate the specific uses of capital. Other management decisions such as product to be sold, sale appeals to be stressed "decisions to make rather than (to) buy" heavy use of automation etc. dictates the specific uses of capital. This unit addresses the important organic function of an organisation from the policy perspectives.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to:

1) Explain the dimensions of a company policy on regulation investment in fix asset
2) Discuss a company policy concerns relating to profit
3) Comment adequately on the policies affecting distribution of earnings (Dividend)
4) Describe the policies governing the deployment or otherwise of the various financial instrument
5) explain the policy areas of a company financial structure.

3.0 Policy on Regulation Investment in Fix Asset

3.0.1 General Restrictions

Several proposals in every organization are often forwarded to the central management which carries some budget. Hence there are certain restriction often set by organisations for example the need for new equipment must be accompanied by a convincing proof of need for such equipment. Hence decisions are not just taken without seen the benefit of such a decision to the organization. General restriction in capital will therefore normally tell the management not to send proposal that falls below the competency or domain of the organization. Hence proposal must show consistency with long range plans otherwise it will be rejected.

3.0.1 (A) ***Consistency with long range plans:-*** proposal must conform to the long range plan or already defined corporate strategy, and when it does not addressed main domain of the organizations business, central management will therefore reject any proposal that is not consistent with the level of organizational operation.

3.0.1 (B) ***Hurdle rate of return****:* This is a different kind of investment fund which is a minimum rate of return that must be anticipated if capital is to be assigned to a proposal. For example, the policy management be that any new investment in fixed asset must earn at least 15% annually on the initial investment after provision for depreciation and taxes. Then a proposal to buy an accounting machine lusting N100,000 that was expected to result in an average net saving of N12,000 per year-during it life world be rejected because the 12% return falls below the acceptable minimum – that is the hurdle rate.

3.0.1 (C) Risk classification: Many investments are so risky that they should have an expected return higher than the basic hurdle rate. Uncertainly surrounds every investment for example workers many like the change or they may sabotage it. Materials and energy inputs many cost more than expected or may even be unavailable, customers tastes may shift and competitors many react vigorously. Since one investment in subject to many more uncertainties than another, we cannot compare them out making an adjustment for differences in risk.

3.0.2 Capital Budgeting

Frequently a company has more possible investments in fixed assets than it can finance. The issue then becomes which project to finance and which to reject. At that level of decision therefore capital budgeting is very important.

Given all the data available to assist in decision making, it is easy to decide upon which project to reject and which one to implement. The predicted investment and result of each proposal should be expensed in naira as much as possible. The figures that are critical are:

- ► additional outlays the company will make if the project is undertaken and
- ► additional receipts that will results from the project.

The question that should naturally follow after every decision for expenditure in how much will to make or get and how much loss will I incur? Also how much will be saved from buying one equipment instead of the other. Receipts can therefore be in term of actual receipt coming into an organization and how much receipt can be reduced or what can be saved. Hence central management must always ensure that the asset either increase the company asset or reduce the company expenses. Such questions will answer which project to accept or reject and which investment to go into or decline.

3.0.3 Investment Mix

This is directly related to market clarification and it operates this way:-

Every firm makes some high risk investment and some low risk investment. Just as the "marketing mix" used by a company should be adapted to its strategy, so also should the "investment mix. Companies that make only high risk investment will be too unstable while all minimum risk investment forced liquidation. Therefore when decision on investments is at stake, you have to mix the high with the how risk investment so that each complement the other in time of crisis in one investment level. It is like not putting one's egg in one basket. You diversify so that the unforeseen is seen afar off.

3.0.4 Leasing versus Purchase of Fixed Asset.

Once analysis of investment proposals are made it many reveal the viability of one project to the other. A company may therefore either borrow money to buy or get another company to lease (or rent) from. ***Leasing can take two forms***; either the owner company buys the item and lease to you or get an insurance company or any other investment house to undertake the project. Or get other people to whom you sell your built house and in turn lease the house.

So at policy level, learning is meant to reduce the risk of tying the capital so that additional capital can be left in the company. **In other words, at policy level, we are concerned with leasing as a way of reducing the need for tying up capital in fixed assets and this is the way it works:** An investor (insurance company) with funds for long term investment buys a building we want to use and at the same time least it to us for a long period.

The rental payments are high enough to cover real estate taxes, depreciation and repairs, as well as interest on the capital tied up. (Note that these are all experiences we would have to pay if we owned the building). If the asset to be leased has to be constructed for our own peculiar requirements we may actually build and equip the structure and sell and lease back. Also, we may have option to buy asset when the lease expires at a depreciate value.

A few companies have a policy to lease rather than buy certain types of assets. Most firms resort to leasing only occasionally for some large asset. The general policy of a company regarding its investment in fixed assets and capital budgeting, comparisons of a alternative uses of company resources should normally apply to property leased for a long term as well as property that is purchased.

3.0.5 Policy on inventory turnover

A sound method to limit inventory is in terms of turnover ratios. The turnover standard creates pressure to dispose of slow-moving, obsolete stock accumulation if such stock is likely to lead to future uses. (A classical is the regular discount sales at some furniture companies). Since inventory turnover is frequently used by outside credit analysis, a company standing can be improved by fast inventory turnover into industry averages.

3.0.6 Investment in account receivable

The company credit policy should aid the execution of structure. This means that the liberality in granting credit to customers and in making connection should be consistent with the stress placed in credit as a sales appeal. Budgetary limit may be set for the total capital allocation to account receivable. Turnover ratios can be set to check the soundness of account and to avoid further long from an accumulation from uncollectible accounts.

The basic task of central management in the area of account receivable is to set policy regarding purpose, allocation of capital among competing uses and maintenance on the quality of the asset.

3.0.7 Policy Restraints on Current Assets

3.0.7 (A) Operating Needs for Inventory

The size and composition of inventory should be determined primarily by operating needs. The following factors should be considered: minimum inventory necessary for uninterrupted operations, EOQ, Advance purchases to get seasonal discounts, and anticipation of price changes and shortages of supply.

3.0.7 (B) Budgetary limits on inventory

Inventory absorbs capital. The cash spent for finished goods, work in process, and raw materials is not available for other uses as long as these stocks remain on hand. Consequently, financial policy dealing with the allocation of capital to competing uses frequently places an overall limit on the size of inventories.

3.1 Profits

Allocating capital among fixed and current asset is part of broader task of guiding the flow of capital in, around and out of the company. Management has significant discretion on how profit is calculated. Income taxes, reputation in the financial community and hence ability to raise new capital are affected by these calculations.

3.1.1 Account reserves

The extent to the account reserves are set up may affect company profit significantly. The issue of what expenses to anticipate in account reserves and what the decline in assets value to show in such reserves must be addressed. Expenses that involve an immediate outlay of cash such as a bill from the vendor of raw materials are easily recognized. On the other hand, expenses that require no immediate outlay of cash but that must be met eventually are subject to greater error or manipulation.

Depreciation of equipment or and building, provision for uncollectible account and unanticipated expenses such as unaccepted taxes or contingent loses are examples of these latter type. (Often the amount of the expenses is not known accurately and opinion may differ as to how much should be charged against the operation of a particular year). The customary way of handling such items is to make a reasonable estimate of the amount to be charged against operation each year, and then to include this figure along with other expenses as a deduction from gross income in the calculation of net profit.

At the same time, a so called “reserve” is setup on the account books in anticipation of the time when the cash payment (or the discarding of a assets) will take place (it should be remembered that this reserve is not a special cash fund put aside to meet an anticipated cash payment) such an account performs an important function in preventing the overstatement of profit.

3.1.2 Capitalization of disbursement

A similar issue arises in the treatment of product development expenses and improvement of fixed asset. Here the cash has been paid out but the question is whether to treat the disbursement in the current year and thereby reduce profit or to capitalize it (for instance when a wooden floor in the plant in replaced a concrete one, should the cost be treated in a repair, expense or should at least part of the outlay be shown as an asset?). Disbursement for intangibles for training are regularly treated as expenses but what of cost of elaborate demonstration model which were built for AU/ECA trade fair will be used for several additional years?

3.1.3 Inventory Valuation

Still another fuzzy area in the computation of profits is valuing inventory. Judgement has to be exercised in deciding what is obsolete, damaged beyond its point of usefulness, or missing an essential bearing. Value depend on future demand, as well as in physical condition of the inventory but future need in the company for repair point or demand, by customers often is uncertain is certain. The higher the value attached to inventory carried as an asset higher the current profit. Inflation adds further questions on inventory valuation. If inflation causes a specific item to rise in value while it is held in inventory, the company can sell that item at attractive nominal prices.

But the cost of placing the item has also risen. [So much or all of the normal profit used up just getting the physical inventory back to the starting size. Real profits haven been over stated in such a situation. One way reduce such a misleading statement of profit is to compute cost on a LIFO (Last In First Out) basis. Here the price of the most recently purchased item is used to compute profit. Thus, the use of LIFO helps to cut down over stating of profit during inflation].

3.1.4 Policy issues in profit determination

Limitation surrounds the size of reserves, the capitalization of costs and valuation of inventories. Federal tax regulations of what may be treated as an expense on income tax returns (and hence not taxed) are comprehensive. Securities and Exchange Commission stipulations stress full disclosure in annual financial report. Central management does not deal with current specific entry involved in profit computation. Instead, it should set general policy indicating the degree of conservation to be followed throughout the company. (When room for judgment is present, should it be resolved on low value of assets, large reserves, and to the extent that these entries are acceptable to the internal revenue service).

Like so many other policy problems, calculation of profit is interrelated with several aspect of central management. Protection of capital, cost for conservative estimation of profit, but income taxes, executive incentives and ease of using new capital also should be considered. In addition to these explicit factors, the policy should reflect the kind of company envisaged in its structure. A risk-taking, fast growth, volatile financial enterprise needs a public image quite different from a dependable, steady growth stable enterprise.

3.2 Distribution of Earnings (Dividend)

Net profits of a company after income taxes belong to the share holders. These does not mean that the share holders will receive a cash dividend equal to their share of profit the board of directors may decide that part or all of the profit should be kept in the company. However, policy regarding the disposition of profits varies widely.

3.2.1 Ploughing back profit

A common practice in business is to use profit as a source of additional capital. The process of ploughing earnings back into business rather than distributing them in the form of dividend has proved to be such a desirable practice in the past that some authorities advocated a standard policy of distributing no more than half of the profit to the owners inform of dividends. Such policies certainly contribute to the financial strength of a company, but it may lead to the accumulation of unnecessary capital if the company is not expanding the scope of its operations.

3.2.2 Inflation and dividends

Traditional attitudes frowns at the payment of divided in excess of current earnings. The tie between current earnings and dividends is especially sensitive during inflation. Inflation leads to an overstatement of earnings because the cost of materials taken out of inventory usually understated relative to replacement cost. And the cost of fixed asset (depreciation) is likewise understated.

These overstated earnings are insidious for three reasons:

- ►They give a false guide to the real profitability of the business.
- ►They are subject to income tax and this constitute a drain of capital out of the company.
- ►And they mislead management in pricing and other competitive moves.

The combine result is likely to be a shortage cash simply to maintain productive capability of the business. Consequently, during inflation it is particularly important to consider whether current earnings are adequate to warrant paying dividends or whether an even higher than usual percentage of stated earnings should be plough back into the business.

3.2.3 Stable dividends.

Another dividend policy is the payment to shareholders of a regular amount of dividend each year. Ordinary share and preferred stock on which dividends are paid regularly tend to have a better mark and are more likely to be regarded by purchasers as an investment rather than a speculation. To maintain a stable dividend rate, it often necessary to retain part of the profit earned in prosperous years, irrespective of the present needs of the company for additional capital, so that dividend in less prosperous can be assured.

Inflation also bears are dividend policy for example, if a company depreciate its fixed assets on historical cost (not replacement cost); it is failing to recoup its real costs. Such low costs lead to higher stated profit and higher dividend (then when the company must replace worn out asset, there is insufficient capital to pay the inflated prices of new equipment. This line of reasoning suggests that dividend policy should always be tied to real profit.

3.2.4 Need for adequate retain Earnings

It illegal to pay dividends that wipe out the retain earnings account and create on capital deficit. A relatively large retain earnings account is desired because any operating losses on dividends in excess of profit may be charged against this account without impinging the original invested.

3.3 Financial Instrument

The cultivation of adequate resources of capital is of prime concern to central management. The principal sources of capital available to most company are the owners long and short –term creditors.

3.3.1 Owners

Some cash for investment is generated within a company from a book keeping reduction in the value of assets, called depreciation which is an " expense" but involves no disbursement of cash. **A second internal source of cash is retained earnings.**

3.3.1 (A) Common stock

A share of common stock is simply a small percentage of ownership of a company. So, when we raise capital by selling stock, we are trading a bit of ownership for cash (If 100 shares are outstanding, each share reps 0.01 of the owners claim on company and on asset if the company is liquidated.

When additional shares are sold, profit have to divided into more piece, giving the original share holder a smaller portion of what they hope will be a bigger pie. The new shareholders pay in capital for the right to a piece of this bigger pie usually expressed as earning per share.

3.3.1 (B) Preferred stock

If a company issue, N10 preferred stock, a N10 dividend will be paid on each share before any dividend can be paid on common. In addition, addition preferred stock dividends are usually cumulative. Thus, if no dividends are paid on the preferred stock, just mentioned for two years, N20 for back and N10 for current dividend would have to be paid on each share of preferred stock in the third year before any dividend could be declared on common stock.

3.3.1 (C) Frequent use of stock to raise capital

The sale of additional stock is often used to raise money for expansion. To attract particular types of investors, a package of preferred and common stocks may be sold as a unit **(**sometime warrants entitling the bearer to purchase common stock at a stated price included with a share of preferred stock or current stock, thus giving the holder of the warrant an opportunity to benefit from the price rise).

3.3.2 Long term creditors

In addition to investment by owners, capital may be secured by borrowing it from long term or short term creditors.

3.3.2 (A) Trading on equity

The advantages and disadvantages of obtaining capital from long term creditor are illustrated in the situation facing Bolodeoku limited. This company with asset of about N4, 000,000 wished to finance an expansion programming that would cost N10, 000,000. The new expansion might have been financed by sale of additional stock. The present share holders however did not wish to use this source of capital because high income taxes make earnings of net profit more difficult than any money to pay bond interest and all profits would have to be shared with the new share holders). Interest on borrowed capital is an expense deducted from income before income taxes is computed.

Profits available for stock holders are net income after income tax has been paid. Consequently a corporation in the 48% income tax bracket has to earn almost N2 for each naira available to stockholders (if capital is borrowed, less earnings are needed to pay for the use of capital because the tax collection has not taken a toll.) The effect of these factors on the Bolodeoku limited can be seen by comparing this position of operating profit under bond on stock financing. The Bolodeoku already had outstanding N140, 000 of 9¾% bond, N90, 000 if 10% pr stock and N90, 000 of 10% preferred stock and N90, 000 at common stock to capital. It was estimated that an annual operating profit of N55,000 would be earned when the expansion was completed. The effect of borrowing the nec N90,000 at 9¾% or selling stock at par are shown in table 13.1.

		Borrowing N90,000 at 9¾%	Selling N90,000
Estimated annual operating profit		N55,000	N55,000
Less bond interest	22,425	22,425	13,650
Net profit before income tax	32,575	32,575	41,350
Income tax @ 48%	15,636	15,639	19,848
Net profit------------------------	16,939	16,939	21,502
Less preferred stock dividends		9,000	9,000
Available for common stock holders…………..		7,939	12,502
Rate of Return on par value of common stocks outstanding-------------------------		**8.8%**	**6.9%**

The present stock holder would profit by borrowing because a large rate of return will be earned on capital than would be required for interest. If for some reasonS however the operating profit should fall to N47,000 or N39,000 the earnings on common stock would have been altered as illustrated in table 13.2:

Rate of return on common stock outstanding

Annual operating Profit (~~N~~)	**Borrowing N90,000 at 9 ¾ %**	**selling N90,000 of common stock**
55,000	8.8%	6.9%
47,000	4.2%	4.6%
39,000	-0.4%	2.3%

Thus by borrowing the common stock holders increase their possibility for profit but also incur a greater risk of loss. Such use of bonds for raising capital is referred to as trading on the equity.

3.3.2 (B) Instrument for long term borrowing

Trading in equity may be accomplished through the use of any of the following instruments.

(i) **Mortgages:** To attract long term capital, a mortgage on real estate or other assets may be given as security. If the interest and principal of the loan are not paid on schedule, the lender may force the sale of the mortgaged property and use the proceed to repay the debt. If the proceeds do not cover the entire debt, the borrower is still liable for the remaining balance.

(ii) **Bonds:** To borrow large amount, the total can be divided into a series of bonds that can be resold to as many lenders as necessary to secure the sum desired. The bonds may be secured by mortgage or other pledged asset, or they may be debentures that rely only on the financial strength of the borrower. (Typically, a borrower who issues bond must continuous to meet stipulated requirements such as maintain minimum working capital, having no prior debt, paying conservative dividend.

Also must bonds either call serial payment year by year or have a sinking fund in which money to repay the debt is a communicated. Bonds usually are ***callable*** by the borrower if the borrower willing to pay a premium. This provision are stated to the bond in denture and administered by a trustee.

(iii) **Long term notes:** Large sum can be borrowed from a single financial institution like a life insurance company (or a trust company). Here dividing the loan into bonds is necessary. Instead 10---, 15---, or 20--- year promissory notes are used. However there is an agreement similar to a bond indenture stipulating various protective measures and the payment schedule **(**Such private placement avoids underwriting costs. Their use depends largely on the total to be borrowed and the comparative interest expenses. Then numerous variations can be used to lenders**)**. In addition to interest rate, maturity and protective features, some loans are convertible into common stock.

3.3.3 Short Term Creditors

Short term creditors are better adopted to supply funds for seasonal requirement or other temporary needs.

3.3.3 (A) Commercial bank

The most desirable way to borrowing from a commercial bank is to establish a credit line

3.3.3 (B) Merchandise creditors

Companies normally purchase product and services ***'on account'*** that is, they make payment 30-60 days after products are shipped with a continuing flow purchases, some bills will always be unpaid. Buying on trade credit is but a counterpart of the use of capital to finance account receivable from customers.

3.3.3 (C). Other short term credit

Postponing payment of taxes, installment on machinery and even advance payment by customers can be resorted to in periods of stringency

3.4 Financial Structure

The various sources of capital used by a company make up its financial structure. In establishing policy for obtaining capital, the overall capital structure must be considered because the relative importance of one source will affect the desirability of others. The size of the company, the nature of its assets, the amount and the stability of its earnings the condition existing in the financial market at the time the capital was raised; all have an influence in the sources of capital used by the company. At any given time, the right hand side of the balanced sheet of a company will reflect its financial structure.

3.4.1 Selecting Capital Sources

3.4.1 (A) Inventory Patterns

Typical financial structures of other companies in its industry will give management a lead on what financial community will accept as satisfactory. More often than not however, while variations in assets, in earrings, and in existing capital structure, in addition to differences in management makes the reliance upon typical industry pattern both unsatisfactory and even dangerous. The policy adopted should suit a particular company and the conditions existing at the time plans for the financial structure are made.

3.4.1 (B) Use of capital

Funds to finance seasonal peak or other temporary need can best be obtained from short term creditors such as commercial banks. On the other hand, capital for fixed assets or for circulating capital that will be permanently retained in the business calls for a different solution. As an effect guarantee that a loan will be repaid, a company many pledge a security of one or more of the following assets; ***inventories*** that can be readily sold in the market; ***machinery*** that is standard in design and that can be easily moved from one plant to another; ***building*** located and designed so that they are suitable for use by other companies or in ***marketable securities.*** If the funds are to be used for purposes that cannot be made to yield cash readily, the raising of capital from owners is indicated.

3.4.1 (C) Cost of capital

To ascertain the cost of capital, consideration should be given to the original cost of obtaining it and able to compensation to be paid for its use.

(i) Underwriting and Registration

Securing capital by issuing bonds or selling stock to the public often involves a considerable expenditure. Frequently this security is sold through an investment banker, and in most instances substantial commission must be paid to the investment bankers for their services. Also complicated legal requirement invest be complied with before such securities can be sold.

Federal legislation requires the registration of all the widely distributed securities with the security and exchange commission and the expenses involve in preparing the detailed statements required for registration is quite large. Private placement of bonds and long term notes also entails a legal account fees and perhaps a fee to consultant who helps arrange the loan. But the total expense is less than 50% of a public sale).

(ii) Use of Right

Some companies are able to sell securities directly to present stockholders. The characters of annually companies require that when additional stock in sold, it must be offered to the present shareholders and the present shareholders may exercise their right to the new issue. When this procedure is possible the cost of securing additional many be reduced substantially.

(iii) Adjusting sources to prevailing rate

The interest that must be paid for the use of capital not only varies according to the use to be made of the capital, but also it's often affected materially by the state of the finance market. Interest rate reflects the anticipated level of inflation during the period of a loan and also the efforts of the CBN to control inflation.

(iv) Return paid on new stock

When common stock in sold to obtain additional capital, the new stock holder will spare in any dividends paid and will reduce the amount dividends available to former stockholders. This sharing of dividends is a cost of capital as for on the former shareholders are concerned, many companies prefer to secure capital from the sale of stock even through it is anticipated that earnings necessary to this stock will exceed the interest that would have to be paid on the bonds. Their willingness in this lager cost lies in the fact that dividend do not have to be paid, when there is not a sufficient amount of earnings or cash to justify their declaration.

3.4.2 Rights granted with new securities

The final factor to be considered in selecting the source from which capital should be secured is the authority exercised by different contributors of capital.

3.4.2 (A) Rights granted to creditors

If capital is obtained from short term creditors they usually have no control over affairs of the company. However if their obligations are not paid at maturity, they have the right to bring legal actions against the company to enforce their claims. Likewise long term creditors have no voice in the current operation of the company although a bond indenture may impose certain restrictions on the management. The loan agreement may also restrict the freedom of the company to pay dividends.

3.4.2 (B) Right granted to stock holders.

If capital is secured by the sale of stock, the new shareholders have certain rights with reference to the company. The new shareholders have full voting rights and they become participant in future management and control of the company.

Preferred shareholders normally do not exercise control over company operations. Usually though, not always they have the right to vote for Directors just as the common stockholders. **[**The par value of a share of preferred stock however is typically higher than that of common stock **(**often at N100 and N1.00 respectively**)** so a given investment in preferred stocks gains considerably than an equal investment in common stock**]**.

4.0 Conclusion

Theoretically, an enterprise should have enough debt in its capital structure to boost its return on investment by applying debt to products and projects earning more than the cost of the debt. In low earning periods, too much debt in the capital structure of an organization can endanger stockholders' returns and jeopardize company survival. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. Some special concerns with stock issuances are dilution of ownership, effect on stock price, and the need to share future earnings with all new shareholders.

5.0 Summary

In this unit, we examine several finance/accounting concepts considered to be central to strategy implementation: acquiring needed capital, developing projected financial statements, preparing financial budgets, and evaluating the worth of a business. Some examples of decisions that may require finance/accounting policies are these:

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock
2. To lease or buy fixed assets
3. To determine an appropriate dividend payout ratio
4. To use LIFO (Last-in, First-out), FIFO (First-in, First-out), or a market-value accounting approach
5. To extend the time of accounts receivable
6. To establish a certain percentage discount on accounts within a specified period of time
7. To determine the amount of cash that should be kept on hand.

6.0 Tutor Marked Assignment

Successful policy and strategy implementation often requires additional capital. Use this statement to discuss fully the issues involved in ascertain the cost of capital.

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Unit 14: Social Responsibility of Business

Content

1.0 Introduction

The discussion of responsibilities of business to its environment which gained currency in the late nineteen century is still claiming more media time and space today. In the early days of business organization, it was generally agreed that business have only one objective, and that is to make profit to maximize the return on the shareholder's capital. Investors were traditionally perceived as the sole beneficiary or business organizations. Over the years, however, the identification or corporate objective in simple profit or financial terms became challenged.

Business organizations operate as a sub system within the larger system which is the society. The unique development of modern business is its affiliation with a pluralistic society. A society comprising of variety of organizations-labour unions, shareholders, consumers, government at various levels, other businesses, management, voluntary organizations/ ***NGOs*** etc with some degree of autonomy, but none entirely independent. This means that business is a joint venture with many of these organizations. Businesses as well as the diverse group have got their needs and desires. But the need of these various groups sum up to make the needs of the society. Until the second half of the nineteenth century, business often paid little attention to these needs.

Business became faulted for putting too much emphasis on profit only and too little on human-welfare values. The business firm is the focal point today for many environmental forces that come to bear on business in general. Social forces and market forces operate competitively to influence business success.

No management can afford to ignore the environment in which it operate and the success of business organizations may depends to a large extent on their public image. Today, partly owing to the interdependencies of the many groups in our society, the social environment of business has increased. *Modern business managers must continually be concerned with societal expectations by being socially responsible.*

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to:

1) Define corporate social responsibility as a concept
2) Discuss the fundamental expectation of building continuing exchange flows with resource suppliers
3) Highlight and explain the areas of social responsibility
4) State and comment on the arguments for and against the role of social responsibility as a business goal
5) Discuss the related issue of business ethics

3.0 The Concept of Social Responsibility

A business firm, like any other social institution, can endure only if it continues to contribute to the needs of society. And in our current topsy-turvy world, the actions of business firms, like all other facets of “the establishment,” are being challenged. “Why should business wield so much power over the use of materials, labour, capital, and other resources?” is a typical probe. It is important, then, that present – and aspiring – business managers understand how the companies they direct help meet social needs.

The concept of social responsibility is far from clear. Some idealists would like to include every reform that is socially desirable. But business executive have neither the competence nor the means to undertake improvements in prisons, churches, classrooms, and other areas remote from their normal activity. So, to give practical meaning to the idea, we need an approach to social responsibility for business managers that relates to action and outcomes directly affected by executive decisions.

A useful approach is to think of a manager as a resource converter. From the viewpoint of society, an enterprise justifies its existence by converting resources into desired outputs. (1) Resource inputs of labor, materials, ideas, government support, capital, and the like are converted by a firm into (2) Output of goods, services, employment, stimulating experiences, markets, and other things desired by those who provide the inputs. The job of central managers is to design and maintain a converting mechanism that will generate continuing flows of these inputs and outputs.

An auto garage, for instance, converts labor, parts, machinery, and capital into auto repair services, jobs, rent, etc. likewise, a poultry farmer converts chicks, feed, labour, equipment, and other resources into outputs of eggs, meat.

3.0.1 Social Responsibility and Central Management

Civilized society depends on a continuing flow of resource conversions. And when we talk of the social responsibility of business managers, we are mainly concerned about the effectiveness and the side effects of resource conversions. This concept of central managers dealing primarily with resource conversion puts the emphasis on constructive action***. Three basic elements are involved: (1)*** building continuing exchange flows with resource suppliers, ***(2)*** designing an internal conversion technology, and ***(3)*** integrating and balancing the external and internal flows.

3.1 Building Continuing Exchange Flows With Resource Suppliers

The relationship with each resource supplier always involves an exchange. Figure 14-1 shows these flows for five typical outside groups. For a specific company there will be a wider variety of subgroups, but the underlying concept is the same. Each group of contributors provides a need resource and receives in exchange part of the outflow of the enterprise.

Enterprise = Resource Converter

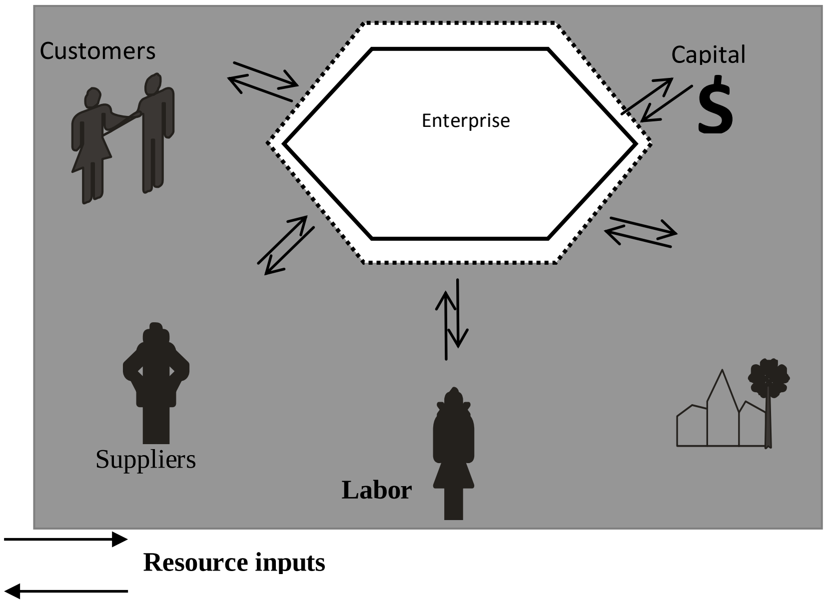

Figure 14.1: The exchange relationship among resource suppliers

Source: Newman, H.N; Logan, J.P and Hegarty, W.H (1985); Strategy, Policy and Central Management, published by South – Western Publishing Company; Ninth edition, USA.

Much more than money is involved. Typically, an array of conditions provides the basis for continuing cooperation. Employees, for instance, are concerned about meaningful work, stability of employment, reasonable supervision, future opportunities, and a whole array of fringe benefits in addition to their payment, convenient delivery times, and quality standards suited to their facilities, minimum returns, and the like.

Investors are concerned about uncertainty of repayment, security, and negotiability of their claims, veto of major changes, and perhaps some share in the management. For each resource contributor, mutual agreement about the conditions under which the exchange will continue is subject to evolution and periodic renegotiation. ***Because a steady flow of resources is necessary, wise central managers will***

1) Predict changes in conditions under which each resource group will be willing and able to continue its cooperation,
2) Conceive and promote revised exchanges of inputs and outputs that will (a) be attractive to the resource group and (b) be viable for the enterprise,
3).Start discussions of changes early to allow time for psychological as well as technical adjustments, and
4). Assist and work with other agencies concerned with the change.

Central managers devote a substantial part of their efforts to negotiating or guiding their subordinates in negotiating – these agreements covering the bases of cooperation. It is a never-ending process because in our dynamic world the needs of resource supplier shift, their power to insist on fulfilling their needs changes, and the value of their contribution to the enterprise varies. In fact, mot of the widely discussed "social responsibility" issues deal with some modification of previous conditions of cooperation, such as those shown in Table 14-1.

TABLE 14-1: SOME "SOCIAL RESPONSIBILITY" ISSUES

Input Group	Reason Prompting a Change
Labor	"Equal opportunity" for women and minorities
Investors	Inflations protection; public disclosure of information
Community	Environmental protection, growth in employment opportunities
Supplier of material	Predictable, long-run markets
Customers	"Consumerism" pressures for quality guarantees, informative labeling

The real core of social responsibility of a business executive is the maintenance of resources flows on mutually acceptable terms. And this is a very difficult assignment in time of rapidly changing values and expectations – as the succession of labour disputes and energy supply cries illustrates. But note that social responsibility, at least in our view, is not something new, tacked onto an executive's job. rather, it is reflected in the recognition of shifting social needs and the approach an executive takes in adapting to them. The concept of social responsibility of business has failed to enjoy a settled definition. Indeed, the question of what social responsibility of business really is still occupies discussions today; there is no complete agreement. For example, a group of interviewed managers agreed with the definition that: *"corporate social responsibility is seriously considering the impact of the company's action on society" (Koontz 1994).*

Another dimension of the concept defined social responsibility as; *business decision making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment.* **But for our purpose, CRS** *is defined as operating in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Social responsibility within this context refers to an organization response to social needs. That is the way in which a business behaves toward other groups and individuals in its social environment: customers, other businesses, employees and investors.* ***CRS*** is seen by company leadership as more than a collection of discrete practices of occasional gestures, or initiatives motivated by marketing public relations or other business benefits.

Rather it is viewed as a comprehensive set of policies, practice and programmes that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management. In this sense, social responsibility is an attempt to balance different commitments. It may therefore be summarized that the social responsibility of business dynamic resources converter on a continuous basis. From the view the society, an enterprise justifies its existence by converting resource inputs of labour, materials, ideals, government supports, capital etc. into output of goods, services, employments, stimulating experiences, markets, general welfare, community values etc. desired by those who provide the inputs. Hence all actions fundamentally taken by a business which to some extent helps society to achieve one or more of its objectives are socially responsible actions.

Various research evidences have shown that modern business leaders are themselves renewing pleas for a strong emphasis on socially responsible actions by corporate leader. The fact is that the public expects business managers to contribute a good deal more toward achieving the goals of a good society and many business people have also found out that by accepting to be socially responsible, they are equally enhancing their image and making more profit. However, the readiness of the business people to accept responsibilities has been attributed to the following reasons:

(1)=> The separation of ownership and management in modern business

(2)=> The represent level of interdependencies of the many organized groups in the society that represent various interests.

(3)=> That influence of the increased level of education of managers.

(4)=> The insistence of public opinion, and to some extent government regulations for business to be responsive to its community obligations.

(5)=> to a large extent also, social responsibility reflects the ethics of the individuals employed by a firm-especially its top management.

3.2 Areas of Social Responsibility

A business organization is typically confronted by a number of specific areas of concern when defining its sense if social responsibility. The following specific areas of concern are notable responsibilities toward the shareholders, customers, employees, environment community and to the government.

Responsibilities to the Shareholders

Despite being owners of a company a firm can still act irresponsibly toward its investors. This is can be through the abuse of a firm's financial resources and by misrepresentation of a company finances by not conforming to generally accepted accounting practices especially when reporting a firm's financial status. A company's obligations to the shareholders in respect of returns on their investment which required firms to manage their resources and more specifically to:

(1)=> Honestly disclose the company's financial transaction

(2)=> Secure owner's investment and then try to provide a reasonable return it

Responsibility toward customers

Fundamentally, the social and economic justification for the existence of a business is its ability to satisfy its customers. A company's this obligation through the medium of its product or service and unless it fulfills this purpose, a firm should not exist. Much of the current interest in business responsibility toward customers can be traced to the rise of ***CONSUMERISM:*** Social activism dedicated to protecting the rights of consumers in their dealings with businesses. Specific social responsibilities to the customer include;

(1)=> Providing quality product

(2)=> Fair product pricing

(3)=> fulfilling contractual obligations to others

Responsibility to Employees

Social responsibility toward employees requires firm to respect workers both as resources and as people who are productive when their needs are met. Specific responsibilities to employees would therefore include:

(1)=> Provision of good working conditions for employees with regard to their health and safety

(2)=> Existence of adequate opportunity for management employee communication

(3)=> Training opportunity for all level with great prospects for promotion

(4)=> Deliberate effort at fostering good human relations in the work place.

Indeed, the entire personnel activities – recruiting, training, promoting and compensating – are specific basis for social responsibility toward employees. For example, a company that provides its employees with opportunities for promotion with regard race, sex or other irrelevant factors is meeting its social responsibilities.

Responsibility toward the Environment

Environmental Pollution in all its forms is a major problem for society. It is damaging crops and exposing human and other living beings to health hazards. Chiefly from the air, water, a land and even noise, pollution remains the greatest problems in need of solutions from both governments and businesses. The public has become increasingly aware of what is happening to the and water so essential to its existence as the case of the oil producing Niger Delta region of Nigeria is classical to mention. This and other ecological disasters have become a significant challenge to contemporary business.

Society is particularly critical of business for not only putting too much emphasis on the profit objective but also for her unwillingness to accept more responsibility to work with government to improve the environment; and where they accept, for making slow progress. Social responsibility toward the environment therefore required firms to minimize pollution of air, water and land. Business organizations are expected to comply with and meet existing legislative standards pertaining to environmental pollutions. Yet again, companies are to spend massively to clean put the environment and to take further corrective action.

Responsibilities to the Community

The community has a multitude of needs arising from the various needs desires of the many organized groups in our society. Often time business organizations are looked or called upon to provide some of the needed resources. Obviously businesses must act in ways that enhance the community’s well-being; but no legislation forces business firms to contribute to the police, education, sport, charity homes e.t.c A whole lot of business enterprises are however putting something back to the community. In Nigeria, companies like Seven-up Bottling Plc, Nestle, Union Bank and others are involved in acts of community development through charitable donations and sponsorships.

Business organizations must create good relationships with the public at large and, in the local area(s) of operation and refrain from causing damages or nuisance to property or persons as the result of industrial or other activities.

Responsibility towards the Government

Business enterprises operate successfully because the legal system is in their favour. Government affects virtually every enterprise and every aspect of life. With respect to business, and government constitute the biggest customers, purchasing goods and services. Companies should in return to some of these priviledges from the government perform their obligations to the government. This may or not be compulsory. The compulsory responsibilities include.

(1)=> Payment of taxes promptly and honesty

(2)=> Obedience to laws regulating business operations

(3)=> Insurance of the fixed assets

Non-compulsory responsibility involves companies generous donations to financially assist government toward schools, hospitals, sport e.t.c.

3.3 Arguments for and Against the Role of Social Responsibility as a Business Goal

Today many businesses are involved socially responsible actions inspite of lack of complete agreement as to what the social responsibility of business really is? This dramatic differences of opinion concerning the role of social responsibility as a business goal, thus, requires careful examination of the arguments for and against such social actions. Some people, for example, oppose any business activity that threatens profit. At the opposite extreme are those who argue that social responsibility must take precedence over profits. Below are different shades of opinions on this issue.

Arguments for social Responsibility

Advocate of corporate social responsibility generally agree that:

(1)=> Industrial society faces serious human and social problems brought about largely by the rise of large corporation, and

(2)=> Managers must conduct the affairs of the corporation in ways to solve or at least ameliorate these problems.

On the basis of these assumptions, they argue that it is in the long-run self-interest of business to be socially responsible. This long-run self-interest view essentially holds that if business is to have a healthy climate in which to exist in the future, it must take actions now that will ensures its long-term viability.

It is also argued that failure to take voluntary action to solve or ameliorate the human and social problems generated by business will force government to intervene on behalf of society and regulate the offending business activities. A third reason for advocating corporate social responsibility is that business has the resource to solve some of the social problems that it generates. Not only does business have the managerial know-how, and technology, it also has the financial resources to fight environmental pollution, produce safe products, engage in fair advertising etc.

Through involvement in social responsibility, the company is able to build and maintain is corporate image and ensure its long-run survival. Generally, the firm that demonstrates a good sense of social responsibility earns the respects and loyalty of customers, employees, shareholders, suppliers and the community in which it does business. As such it gains government recognition, a merit award and generally improves its relations with government.

One final point is that "pro-acting is better than reacting". This position holds that it business pro-acts-anticipates and initiates, then this is a preferable and less costly posture than simply reacting to problems as they arise.

Argument against Social Responsibility

On the other hand, there are those who are strongly opposed to the idea of corporate social responsibility. Milton Friedman for example argued that business only has one responsibility: to maximize profit for owners; and that social matters are not immediate concern of business people. ***A second*** major objection to social responsibility is that business is not equipped to handle social problems. This position holds that managers of business enterprise do not have the necessary expertise-social skills – to make social decisions other reasons against the concept include:

(1)=> Involvement in social responsibility activities will dilute business primary purpose

(2)=> It will reduce the level of profit.

(3)=> The cost of social responsibility activities will lead to high production cost that will result in high product prices. That is, final consumer bears the ultimate burden.

(4)=> Business already has enough power-economic, technological and environment. Why should we place into business hands the opportunity to wield additional power?

(5)=> That business will be at a disadvantaged position in its international balance of payments calculation, since added cost of product will make companies increase prices and thus become less competitive in international markets.

(6)=> That government intervention to compel organizations to embark on socially responsible activities, will lead to corporate protectionism, withdrawal, breach of contracts, and resultant litigations.

4.0 Conclusion

Strategists the world over agree that organizations have tremendous social obligations. Strategists should however examine social problems in terms of potential costs and benefits to the firm, and focus on social issues that could benefit the firm most.

5.0 Summary

A useful approach is to think of a manager as a resource converter. From the viewpoint of society, an enterprise justifies its existence by converting resources into desired outputs. (1) Resource inputs of labor, materials, ideas, government support, capital, and the like are converted by a firm into (2) Output of goods, services, employment, stimulating experiences, markets, and other things desired by those who provide the inputs. The job of central managers is to design and maintain a converting mechanism that will generate continuing flows of these inputs and outputs.

6.0 Tutor – Marked Assignment

Would you subscribe to the argument that business is not equipped to handle social problems? Defend your answer.

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Unit 15 Business Ethics

Content

1.0 Introduction

In our competitive system of today, there is an immediate tension between ethics and business. The ideal of being a good citizen often is limited or replaced by the ideal of the acquisitive individual winner. Beginning in the last half of the 20^{th} Century, the human race has become aware that its economic activities on Earth are causing major threats to our environment, to our health and survival as well as to all life on our planet. All economies today therefore face the same fundamental issues of responsible business conduct—product quality, transparency in financial matters, workplace health and safety, protection of the environment, protection of workers, and compliance with laws and industry standards.

2.0 Unit Objectives

At the end of studying this unit, the learner should be able to:

1) Define the concept of ethics and clarify it different levels
2) State the reasons for the importance of ethics in business operations
3) Benefits of Business Ethical Behaviour
4) Building a Responsible Business Enterprise
5) Discuss Ethics as an Integral Part of Building Responsible Business Enterprise
6) Explain the extent of sustainability as a key goal for business ethics

3.0 Conceptual Mining

Business ethics is a form of applied ethics. It aims at inculcating a sense within a company's employee population of how to conduct business responsibly. Whilst there will inevitably be disagreements about what exactly constitutes 'ethical' business activity, it is possible at least to offer a fairly uncontroversial definition of the subject itself.

Good management requires the elimination of fraudulent practices that can damage the firm's reputation and subject it to costly civil and criminal liability. Ethical management similarly requires the suppression of dishonest practices that contravene fundamental normative principles and otherwise lack integrity. Some of the controversies regarding business ethics are no doubt, due to different understandings of what constitutes morality or ethics in the first place. In common usage, the terms 'ethics' and 'morality' are often used interchangeably. In many ways, it is probably true to say that this does not pose many real problems for most of us in terms of communicating and understanding things about business ethics.

However, in order to clarify certain arguments, many academic writers have proposed clear differences between the two terms. Unfortunately, though, different writers have sometimes offered somewhat different distinctions, thereby serving more to confuse us than clarify our understanding. Nonetheless, we do agree that there are certain advantages in making a distinction between 'ethics' and 'morality', and following what we feel is the most common and useful way of distinguishing them, we offer the following distinction:

Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community.

Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules and principles are called ethical theories.

In this way of thinking then, morality precedes ethics, which in turn precedes ethical theory (see Figure 1). All individuals and communities have morality, a basic sense of right or wrong in relation to particular activities. Ethics represents an attempt to systematize and rationalize morality, typically into generalized normative rules that supposedly offer a solution to situations of moral uncertainty. The outcomes of the codification of these rules are ethical theories, such as rights theory or justice theory.

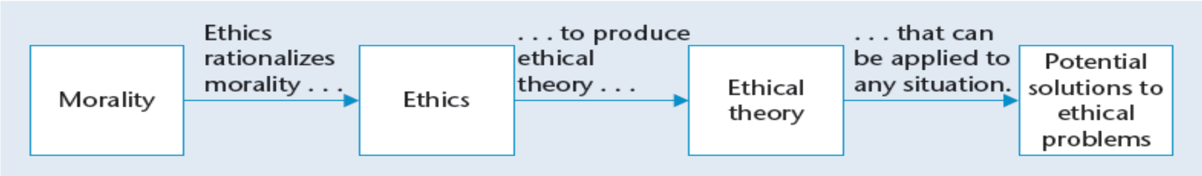

Figure 1. The relationship between morality, ethics, and ethical theory.

Source: Oliva, L. (2004); Ethics edges on to courses: Corporate Social Responsibility: Business Schools are taking the training of ethical managers seriously. *Financial Times – London Edition*.

So, in a nutshell, here is what we regard the subject of business ethics as:

> *Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed***.**

It is worth stressing that by 'right' and 'wrong' we mean morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by 'business' ethics, we do not mean only commercial businesses, but also government businesses, pressure groups, not-for-profit businesses, charities, and other organizations .

For example, questions of how to manage employees fairly, or what constitutes deception in advertising, are equally as important for organizations such as Lever Brothers, the University of Nigeria, or the Peoples Democratic Party of Nigeria as they are for Shell, PEUGOET, or ECOBANK. Business ethics is therefore more than just social responsibility. It covers the ethical behavior of the management as well. Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed**.**

Levels of Business Ethics

There are three levels of business ethics, according to Quinn (1997), to consider in deciding a strategy.

Macro Level

This concerns ethical issues at national and international levels. It may include consideration of a national/social system to international relations.

Corporate level

At the corporate level, a company should be concerned with how some of its strategies affect ethical issues e.g. products that cause environment problems, or scheme that encourage employee exploitation etc.

Individual level

This only applies when the individual occupying a position of influence e.g. a senior manager. Decisions that have business ethics implications made by such managers are made personally accountable.

3.1 Why is business ethics important?

There are many reasons why business ethics might be regarded as an increasingly important area of study, whether as students interested in evaluating business activities, or as managers seeking to improve their decision-making skills. Here then are the main reasons we think that a good understanding of business ethics is important:

1) The power and influence of business in society is greater than ever before. Evidence suggests that many members of the public are uneasy with such developments. Business ethics helps us to understand why this is happening, what its implications might be, and how we might address this situation.

2) Business has the potential to provide a major contribution to our societies, in terms of producing the products and services that we want, providing employment, paying taxes, and acting as an engine for economic development, to name just a few examples. How, or indeed whether, this contribution is made raises significant ethical issues that go to the heart of the social role in business in contemporary society.

3) Business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, as the founding editor of the *Journal of Business Ethics* has suggested, 'to improve the human condition'

4) The demands being placed on business to be ethical by its various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the means to appreciate and understand these challenges more clearly, in order that firms can meet these ethical expectations more effectively.

5) Few business people in Africa and elsewhere have received formal business ethics education or training. Business ethics can help to improve ethical decision making by providing managers with the appropriate knowledge and tools that allow them to correctly identify, diagnose, analyse, and provide solutions to the ethical problems and dilemmas they are confronted with.

6) Ethical infractions continue to occur in business. Business ethics provides us with a way of looking at the reasons behind such infractions, and the ways in which such problems might be dealt with by managers, regulators, and others interested in improving business ethics.

7) Business ethics can provide us with the ability to assess the benefits and problems associated with different ways of managing ethics in organizations.

8) Finally, business ethics is also extremely interesting in that it provides us with knowledge that transcends the traditional framework of business studies and confronts us with some of the most important questions faced by the society. The subject can therefore be richly rewarding to study because it provides us with knowledge and skills which are not simply helpful for doing business, but rather, by helping us to understand modern societies in a more systematic way, can advance our ability to address life situations far beyond the classroom or the office desk.

3.2 Benefits of Business Ethical Behaviour

Businesses around the world are designing and implementing business ethics programmes to address the legal, ethical, social responsibility, and environmental issues they face. By addressing these issues in a systematic way, enterprises can improve their own business performance, expand opportunities for growth, and contribute to the development of social capital in their markets. They can realize specific business benefits, such as:

i) Enhanced reputations and good will

ii) Reduced risks and costs

iii) Protection from their own employees and agents

iv) Increased profits

v) Stronger competitive positions

vi) Sustained long-term growth

vii) Expanded access to capital, credit, and foreign investment

viii) International respect for enterprises and emerging markets

Enterprises that excel in these areas create a climate of excellence for their employees, shareholders, and communities, and contribute to the economic wellbeing of their countries.

3.3 Building a Responsible Business Enterprise

Business ethics are an integral part of responsible business conduct. They describe an organization's commitment to a set of commonly understood core values and principles, which provide a basis for business decisions and conduct. Typically, business ethics presume that decisions will conform to standards articulated in law and regulations; internal policy and procedures; a set of core values determined by owners and managers, including honesty, integrity, respect, and fairness; and commercial principles such as profitability, customer satisfaction, product quality, health, safety, and efficiency. Business ethics issues range from practical, immediate ones, such as an enterprise's duty to be honest with its employees and customers, to broader social and philosophical questions, such as a company's responsibility to contribute to the welfare of the community and to preserve the environment.
Each enterprise nevertheless has a unique ethical character.

This character quietly guides what its members think, say, and do. It influences how external stakeholders view the enterprise. As Figure 3 suggests, an enterprise's identity as an responsible business enterprise (RBE) has at least four levels: compliance, risk management, reputation enhancement, and value added. Setting objectives in all four levels—and achieving them—is a goal of a business ethics programme. The identity of an RBE reflects how well it meets its responsibilities as a member of a community. Responsible businesses conduct—ethics, compliance, and social responsibility—are an essential part of this identity. It influences the way the enterprise sees itself and the way the community views the enterprise.

Indeed, how the enterprise deals with responsible business conduct issues may be the most important aspect of defining an enterprise's identity.

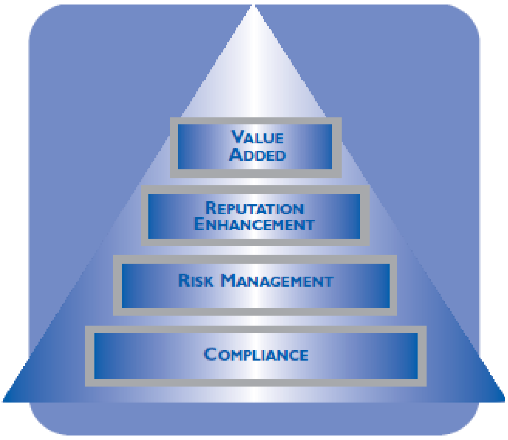

Figure 3 Levels of an Enterprise's Identity
Source: Kenneth W. Johnson and Igor Y. Abramov (2005) Business Ethics; a Publication of the Good Governance Programme A manual for Managing a Responsible Business Enterprise in Emerging Market Economies.

A business ethics programme provides the essential core of the competitive strategy of an RBE. Programmes more limited in purpose—called ethics and compliance programmes—typically address the two lowest levels because compliance and risk management are the most obvious levels of identity. However, a business ethics program addresses the higher levels as well—reputation enhancement and value added—in a systematic way. A business ethics programme helps an enterprise establish the essence of its identity in the community: its core purpose, core values, and envisioned future. It is an effective tool for establishing standards and procedures to ensure that enterprise values are reflected in all that employees and agents think, say, and do. A business ethics program employs a systematic process to reach a wide range of stakeholders more effectively so that it achieves its expected program outcomes.

3.4 Impact of Values and Ethics on Corporate Strategy

The corporate strategy is greatly affected by the values, ethics, and motives of the people who are involved in its formulation process. In formulating corporate strategy, managers cannot isolate their feelings, and preferences from economic considerations. Normally, there is a tendency on the part of mangers to impose their preference and priorities in the process of strategy implementation. Corporate strategy is affected by personnel values of the chief executive and of the key executives, right from the stage of setting objectives. For instance, a chief executive with high profit orientation would give priority to those areas which generate higher rate of return while setting objectives, whereas a chief executive with high social orientation would give greater importance to social factors or areas while setting objectives.

The personal values and perceptions of top executives are reflected in operational policies framed to execute the strategy. For instance, a participate leader would encourage his subordinate to take part in framing suitable policies required to implement the strategy, whereas a dominant autocratic leader would himself frame the policies and impose them on his subordinates to implement the strategy.

Reconciliation - the conflict of personal values and strategy There is often a conflict between personal values and rational business strategy. For strategy to be effectively implemented in the organizations, there is a need for commitment and support on the part of top executives including the chief executives. Therefore, personal values and preferences of the top executives must be given considerations and a strategy based on rational considerations needs to be modified. Such a modification in the strategy would receive support from the top executives as far as its implementation is concerned, as they know that their values and preferences are in taken into account.

In any organization there is a need to reconcile between the rational economic strategy and the personal values and preferences of the key executives of the organization, and also the conflict among the key executives. The conflict can be resolved by making an attempt to analyse the values and preferences of different executives and then to apprise them of such analysis so that they be may fully aware of the prejudices and biases, which influence their behaviour. Such analysis may help the executives to do way with certain values and preferences, which are not conducive for the growth of the organization. For instance, in one the organizations, a new chief executive was appointed, who was born and brought in posh environment, wanted rich interiors and exteriors of the company's head office, involving huge sum of money, was finally convinced by the finance director that such heavy spending would drain company's funds and that the company may face acute cash crunch.

Reconciliation of conflicts among individual values and preferences for the formulation and implementation of strategy needs imagination, and cooperative spirit on the part of executives. They must sort out their differences, and modify their values and preferences in the interest of the organization. One of the best alternatives is to appoint an external expert to frame sound economic strategy with the support of the top executives of the organization, and the top executives should not unduly influence upon the external expert of their personal values and preferences. However, it is to be noted that if personal values and preferences are vital to the interest of the organization, then such values must considered in framing and implementing the strategy of the organization.

4.0 Conclusion

Repeated unethical conduct below the customary standards in a society generally results in punishment or an additional cost imposed by the community. This chapter concludes that commerce and industry can be an activity in the interest of all parties and society if behaved ethically and in a socially responsible manner. At an individual level if a company sells a useful product, it renders a service to the buyer. At a macro level commerce and industry generally raise the level of wealth and alleviate poverty.

5.0 Summary

No society anywhere in the world can compete very long or successfully with people stealing from one another or not trusting one another, with every bit of information requiring notarized confirmation, with every disagreement ending up in litigation, or with government having to regulate businesses to keep them honest. Being unethical is a recipe for headaches, inefficiency, and waste. History has proven that the greater the trust and confidence of people in the ethics of an institution or society, the greater its economic strength. Business relationships are built mostly on mutual trust and reputation. This unit has essentially dealt with the critical issues of Business social responsibilities and ethics.

6.0 Tutor Marked Assignment

How would you define the following terms; ***(i)*** Ethics and ***(ii)*** Business Ethics? How can firms' best ensure that their code of business ethics ensure is read, understood, believed, remembered, and acted on, rather than ignored?

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Unit 16: Global Issues in Strategic Management – the Global Challenges, Strategies for Competing in Global Markets, Local Markets and Cultural Variations.

Contents

1.0 Introduction

Globalization is the process of linking a nation‟s economy with the global economy. The policy initiated by the Government of India in the form of structural reforms through liberalization, privatization and globalization will enable the country to become an active participant in the global market. The business community particularly the large business houses concerned with exporting, how to understand the message of globalization in the right perspective.

2.0 Objectives

At the end of studying this unit, the Learner should be able to:

(i) Define the concept of globalisation

(ii) Comment on the impact of strategic management on globalisation

(iii) Explain Electronic Commerce and its Impact

(iv) Discuss Global Challenges in Strategy Implementation

(v) Describe the Stages of International Development

(vi) Explain the Centralisation or Decentralisation of authority in Organisations.

3.1 Definitions of Globalization

Globalization is not only a very controversial topic in the public debate; it is also a very contested term in academic discourse. Apart from the fact that – mirroring the public debate – the camps seems to be divided into supporters and critics, there is growing concern about whether globalization is a fact at all. So, for example, some argue that there is nothing like a 'global' economy, because roughly 90 per cent of world trade only takes place either within or between the three economic blocks of the EU, North America, and East Asia, leaving out all other major parts of the globe.

The Controversy notwithstanding, globalization has been defined as the functional integration of national economies within the circuits of industrial and financial capital. McGrew and Lewis Particularly defined globalization as a set of processes which embrace most of the globe or which operate worldwide; the concept therefore has a special connotation………. On the other hand it also implies intensification in the levels of interaction, interconnectedness or interdependence between the state and societies which constitute the world community".

Impact of Globalization

Today, everything has changed. Globalization, the internationalization of markets and corporations, has changed the way modern corporations do business. To reach the economies of scale necessary to achieve the low costs, and thus the low prices, needed to be competitive, companies are now thinking of a global (worldwide) market instead of a national market. Nike and Reebok, for example, manufacture their athletic shoes in various countries throughout Asia for sale on every continent. Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structures in which product units are interwoven with country or regional units. International assignments are now considered key for anyone interested in reaching top management.

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position the company for long-term competitive advantage. For example, Maytag Corporation purchased Hoover not so much for its vacuum cleaner business, but for its European laundry, cooking, and refrigeration business. Maytag's management realized that a company without a manufacturing presence in the European Union (EU) would be at a competitive disadvantage in the changing major home appliance industry. See the Global Issue feature to learn how regional trade associations are changing how international business is conducted. Similar international considerations have led to the strategic alliance between Air India and Lufthansa and to the merger between Daimler-Benz and Chrysler Corporation.

3.2 Impact of Electronic Commerce

Electronic commerce refers to the use of the Internet to conduct business transactions. A 1999 survey conducted by Booz-Allen & Hamilton and the Economist Intelligence Unit of more than 525 top executives from a wide range of industries revealed that the Internet is reshaping the global marketplace and that it will continue to do so for many years. More than.90% of the executives believed that the Internet would transform or have a major impact on their corporate strategy within two years.

According to Matthew Barrett, Chairman and CEO of the Bank of Montreal, "We are only standing at the threshold of a New World. It is as if we had just invented printing or the steam engine. Not only is the Internet changing the way customers, suppliers, and companies interact, it is changing the way companies work internally. In just the few years since its introduction, it has profoundly affected the basis of competition in many industries. Instead of the traditional focus on product features and costs, the Internet is shifting the basis for competition to a more strategic level in which the traditional value chain of an industry is drastically altered.

A 1999 report by AMR Research indicated that industry leaders are in the process of moving 60 to 100% of their business to business (B2B) transactions to the Internet. The net B2B marketplace includes;

(a) Trading Exchange Platforms like VerticalNet and Technologies's TradeMatrix, which support trading communities in multiple markets;
(b) Industry Sponsored Exchanges, such as the one being built by major automakers; and
(c) Net Market Makers, like e-Steel, NECX, and Build Point, which focus on a specific industry's value chain or business processes to mediate multiple transactions among businesses.

The Garner Group predicts that the worldwide B2B market will grow from $145 billion in 1999 to $7.29 trillion in 2004, at which time it will represent 7% of the total global sales transactions. The above mentioned survey of top executives identified the following seven trends, due at least in part, to the rise of the Internet:

1). The Internet is forcing companies to transform themselves. The concept of electronically networking customers, suppliers, and partners is now a reality.
2). New channels are changing market access and branding, causing the disintermediation (breaking - down) of traditional distribution channels. By working directly with the customers, companies are able to avoid the usual distributors, thus forming closer relationships with the end users, improving service, and reducing costs.
3). The balance of power is shifting to the consumer. Now having unlimited access to information on the Internet, customers are much more demanding than their "nonwired" predecessors.

4). Competition is changing. New technology- driven firms plus older traditional competitors are exploiting the Internet to become more innovative and efficient.

5). The pace of business is increasing drastically. Planning horizons, information needs, and customer/supplier expectations are reflecting the immediacy of the Internet. Because of this turbulent environment, time is compressed into "dog years" in which one year feels like seven years.

6). The Internet is pushing corporations out of their traditional boundaries. The traditional separation between suppliers, manufacturers, and customers is becoming blurred with the development and expansion of extranets, in which cooperating firms have access to each other's internal operating plans and processes. For example, Bharat Petroleum Corporation Limited (BPCL), the Indian PSU oil major has networked with satellite unlinking through KU band. The technology can be further used to network the retail outlets for better market response and monitoring. Various interesting alternative uses of this technology are feasible which are being studied and would be deployed suitably.

7). Knowledge is becoming a key asset and a source of competitive advantage. For example, physical assets accounted for 62.8% of the total market value of U.S. manufacturing firms in 1980 but only 37.9% in 1991. The remainder of the market value is composed of intangible assets, primarily intellectual capital.

3.3 Global Challenges in Strategy Implementation

An international company is one that engages in any combination of activities, from exporting/ importing to full-scale manufacturing, in foreign countries. The multinational corporation (MNC), in contrast, is a highly developed international company with a deep involvement throughout the world, plus a worldwide perspective in its management and decision making. For a Multinational corporation to be considered global, it must manage its worldwide operations as if they were totally interconnected. This approach works best when the industry has moved from being multi domestic (each country's industry is essentially separate from the same industry in other countries; an example is retailing) to global (each country is a part of one worldwide industry; an example is consumer electronics).

Strategic alliances, such as joint ventures and licensing agreements, between a multinational company (MNC) and a local partner in a host country are becoming increasingly popular as a means by which a corporation can gain entry into other countries, especially less developed countries. The key to the successful implementation of these strategies is the selection of the local partner. Each party needs to assess not only the strategic fit of each company's project strategy, but also the fit of each company's respective resources.

A successful joint venture may require as much as two years of prior contacts between both parties. The design of an organization's structure is strongly affected by the company's stage of development in international activities and the types of industries in which the company is involved. The issue of centralization versus decentralization becomes especially important for a multinational corporation operating in both multi domestic and global industries.

Regional Trade Associations replace National Trade Barriers

Previously known as the Common Market and the European Community, the European Union (EU) is the most significant trade association in the world. The goal of the EU is the complete economic integration of its 15 member countries-Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom-so that goods made in one part of Western Europe can move freely without ever stopping for a customs inspection. One currency, the euro, is being used throughout the region as members integrate their monetary systems.

The steady elimination of barriers to free trade is providing the impetus for a series of mergers, acquisitions, and joint ventures among business corporations. The requirement of at least 60% local content to avoid tariffs has forced many American and Asian companies to abandon exporting in favor of a strong local presence in Europe.

The EU has agreed to expand its membership to include the Czech Republic, Hungary, Estonia, Poland, Malta, Cyprus, and Slovenia by 2004; Latvia, Lithuania, and Slovakia by 2006; and Bulgaria and Romania by 2010. Turkey is being considered for admission in 2011. Canada, the United States, and Mexico are affiliated economically under the North American Free Trade Agreement (NAPTA). The goal of NAFTA is improved trade among the three member countries rather than complete economic integration. Launched in 1994, the agreement requires all three members to remove all tariffs among themselves over 15 years, but they are allowed to have their own tariff arrangements with nonmember countries. Cars and trucks must have 62.5% North American content to qualify for duty-free status.

Transportation restrictions and other regulations are being significantly reduced. Some Asian and European corporations are locating operations in one of the countries to obtain access to the entire North American region. Vicente Fox, President of Mexico, is proposing that NATTA become more like the European Union in that both people and goods would have unlimited access across borders from Mexico to Canada. In addition, there have been some discussions of extending NAFTA southward to include Chile, but thus far nothing formal has been proposed.

South American countries are also working to harmonize their trading relationships with each other and to form trade associations. The establishment of the Mercosur (Mercosul in Portuguese) free-trade area among Argentina, Brazil, Uruguay, and Paraguay means that a manufacturing presence within these countries is becoming essential to avoid tariffs for non-member countries. Claiming to be NAFTAs southern counterpart, Mercosur has extended free-trade agreements to Bolivia and Venezuela. With Chile and Argentina cooperating to build a tunnel through the Andes to connect both countries, it is likely that Chile may soon form some economic relationship with Mercosur.

Asia has yet no comparable regional trade association to match the potential economic power of either NAFTA or the EU. Japan, South Korea, China, and India generally operate as independent economic powers. Nevertheless, the Association of South East Asian Nations (ASEAN)-composed of Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietriam-is attempting to link its members into a borderless economic zone. Increasingly referred to as ASEAN+3, it is already including China, Japan, and South Korea in its annual summit meetings. The ASEAN nations are negotiating the linkage of the ASEAN Free Trade Area (AFTA) with the existing FTA of Australia and New Zealand. With the EU extending eastward and NAFTA extending southward to someday connect with Mercosur, pressure is already building on the independent Asian nations to soon form an expanded version of ASEAN.

3.4 Stages of International Development

Corporations operating internationally tend to evolve through five common stages, both in their relationships with widely dispersed geographic Markets and in the manner in which they structure their operations and programs. These stages of international development are:

► ***Stage I*** (Domestic Company): The primarily domestic company exports some of its products through local dealers and distributors in the foreign countries. The impact on the organization's structure is minimal because an export department at corporate headquarters handles everything.

► ***Stage 2*** (Domestic Company with Export Division): Success in Stage I leads the company to establish its own sales company with offices in other countries to eliminate the middlemen and to better control marketing. Because exports have now become more important, the company establishes an export division to oversee foreign sales offices.

►***Stage 3*** (Primarily Domestic Company with International Division): Success in earlier stages leads the company to establish manufacturing facilities in addition to sales and service offices in key countries. The company now adds an international division with responsibilities for most of the business functions conducted in other countries.

► ***Stage 4*** (Multinational Corporation with Multidomestic Emphasis): Now a full-fledged multinational corporation, the company increases its investments in other countries. The company establishes a local operating division or company in the host country, such as HLL of Unilevers, to better serve the market.

The product line is expanded, and local manufacturing capacity is established. Managerial functions (product development, finance, marketing, and so on) are organized locally. Over time, the parent company acquires other related businesses, broadening the base of the local operating division. As the subsidiary in the host country successfully develops a strong regional presence, it achieves greater autonomy and self-sufficiency. The operations in each country are, nevertheless, managed separately as if each is a domestic company.

► ***Stage 5*** (Multinational Corporation with Global Emphasis): The most successful multinational corporations move into a fifth stage in which they have worldwide personnel, R&D, and financing strategies. Typically operating in a global industry, the MNC denationalizes its operations and plans product design, manufacturing, and marketing around worldwide considerations. Global considerations now dominate organizational design. The global MNC structures itself in a matrix form around some combination of geographic areas, product lines, and functions. All managers are now responsible for dealing with international as well as domestic issues.

Research provides some support for the stages of international development concept, but it does not necessarily support the preceding sequence of stages. For example, a company may initiate production and sales in multiple countries without having gone through the steps of exporting or having local sales subsidiaries. In addition, any one corporation can be at different stages simultaneously with different products in different markets at different levels. Firms may also leapfrog across stages to a global emphasis. Developments in information technology are changing the way business is being done internationally. See the Global Issue feature to see how FedEx is using its expertise in information technology to help customers sidestep the building of a costly logistical infrastructure to take advantage of global markets. Nevertheless the stages concept provides a useful way to illustrate some of the structural changes corporations undergo when they increase their involvement in international activities.

3.5 Centralization versus Decentralization

A basic dilemma a multinational corporation faces is how to organize authority centrally so that it operates as a vast interlocking system that achieves synergy, and at the same time decentralize authority so that local managers can make the decisions necessary to meet the demands of the local market or host government. To deal with this problem, MNCs tend to structure themselves either along product groups or geographic areas. They may even combine both in a matrix structure-the design chosen by 3M Corporation and Asea Brown Boveri (ABB), among others.31 One side of 3M's matrix represents the company's product divisions; the other side includes the company's international country and regional subsidiaries.

The PRODUCT-GROUP STRUCTURE of American Cyanamid enables the company to introduce and manage a similar line of products around the world. This enables the corporation to centralize decision making along product lines and to reduce costs. The geographic-area structure of Nestl6, in contrast, allows the company to tailor products to regional differences and to achieve regional coordination. This decentralizes decision making to the local subsidiaries. As industries move from being multi-domestic to more globally integrated, multinational corporations are increasingly switching from the geographic-area to the product-group structure. Texaco, Inc., for example, changed to a product-group structure by consolidating its international, U.S., and new business opportunities under each line of business at its White Plains, New York, headquarters. According to Chairman Peter Bijur, "By placing groups which will perform similar work in the same location, they will be able to share information, ideas, and resources more readily-and move critical informationthroughout the organization.

Simultaneous pressures for decentralization to be locally responsive and centralization to be maximally efficient are causing interesting structural adjustments in most large corporations. Companies are attempting to decentralize those operations that are culturally oriented and closest to the customers - manufacturing, marketing, and human resources. At the same time, the companies are consolidating less visible internal functions, such as research and development, finance, and information systems, where there can be significant economies of scale.

4.0 Conclusion

There are five main modes of entering a foreign market: 1) exporting, 2) licensing, 3) franchising, 4) entering into a joint venture with-a host country company, and 5) setting up a wholly owned subsidiary in the host country.

Each entry mode has its advantages and disadvantages, and companies must weigh these carefully when deciding which mode to use.Market Entry Strategy (Export Marketing). There are various strategies of entering an international market. Each of these strategies has certain advantages and disadvantages. A strategy, appropriate for one market, may not be suitable for another market with a different business environment. Therefore, an exporter should select an appropriate strategy keeping in mind internal and external factors.

5.0 Summary

Different strategies that the multi country organizations adopt when they expand outside their domestic market place and start to compete on a global scale. One alternative available for companies is to follow the same strategy worldwide, which is referred to as a global strategy. Selling the same product the same way in every nation (standardisation) allows a company to realise substantial cost savings from greater economies of scale. These cost savings can then be passed on to consumers in the form of lower prices, enabling firms to gain market share from competitors. However, to succeed in a new marketplace, it may have to customise its product offering to cater to the tastes and preferences of local consumers. While this may help, the shorter production runs associated with such a strategy sometimes raise the costs of competing and lower a firm's profit margins.

6.0 Tutor Marked Assignment

How does the rise of the internet helps explain the growth of worldwide business to business (B2B) market?

7.0 References

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Unit 17: Strategic – Management Case Analysis

Content

1.0 Introduction

The purpose of this unit is to help you analyze strategic-management cases. Guidelines for preparing written and oral case analyses are given, and suggestions for preparing cases for class discussion are presented. Steps to follow in preparing case analyses are provided. Guidelines for making an oral presentation are described.

2.0 Unit Objectives

At the end of studying this unit, the Learner should be able to:

1. Describe the case method for learning strategic-management concepts.
2. Identify the steps in preparing a comprehensive written case analysis.
3. Describe how to give an effective oral case analysis presentation.
4. Discuss special tips for doing case analysis

3.0 What Is a Strategic-Management Case?

A case study is a written record of the events that occurred at a particular company or within a particular industry over a number of years. The details included in a case study may include, but are not limited to:

→ Information about a company, industry, or project
→ Objectives, strategies, and challenges established and encountered
→ Responses, results, and recommendations.

A *strategic-management case* describes an organization’s external and internal conditions and raises issues concerning the firm’s mission, strategies, objectives, and policies.

Most of the information in a business policy case is established fact, but some information may be opinions, judgments, and beliefs. Strategic-management cases are more comprehensive than those you may have studied in other courses.

They generally include a description of related management, marketing, finance/accounting, production/operations, R&D, computer information systems, and natural environment issues. A strategic-management case puts the reader on the scene of the action by describing a firm's situation at some point in time. Strategic-management cases are written to give you practice applying strategic management concepts. The case method for studying strategic management is often called *learning by doing*.

3.1 Objectives of Case Method

The objectives of the case method are to:

► help you to acquire the skills of putting text book knowledge about management into practice. Managers succeed not so much because of what they know but because of what they do.

► get you out of the habit of being a receiver of facts, concepts and techniques and get into the habit of diagnosing problems, analysing and evaluating alternatives, and formulating workable plans of action.

► train you to work out answers and solutions for yourselves, as opposed to relying upon the authoritative crutch of the teacher/counsellor or a text book.

► provide you exposure to a range of organisations and managerial situations (which might take a life time to experience personally), thus offering you a basis for comparison in your working as a career manager.

Reading books, articles and listening to lectures alone cannot develop managerial skills. For most managerial problems, readymade answers do not exist, or perhaps cannot exist. Each situation is different, requiring its own diagnosis and evaluation before action can be initiated.

Case studies allow learning by doing to occur. They stimulate the reality of a managerial situation and a manager's job. In a sense, cases are laboratory materials and offer a reasonable substitute for actual experience by bringing a variety of management problems and opportunities into the class room. Students often ask their teacher/counsellor, "What is the right answer/solution?" If the discussion in the class concludes without clear answers or a clear consensus on what actually happened or what should/ought to be done, some students feel frustrated. While in some cases it would be possible for you and the counsellor to develop a consensus, in other cases it may perhaps not be possible. As in real world, hard answers to cases do not exist.

Therefore, issues are discussed and various alternatives and approaches are evaluated. Usually, a good argument can be made for more than one course of action. The important thing for students to understand in case analysis is that, it is the exercise of identifying, diagnosing, and recommending that counts rather than discovering the "right answer". The essence of case analysis is to become skilled in the process of designing workable action plans through evaluation of the prevailing circumstances.

If case method rests on the principle of learning by doing, it all depends on you as to how much gain you can derive by making your own analysis and reaching your own decisions, and then participating in the class room in a collective analysis and discussion of the issues. Since a case assignment emphasises student participation, it is obvious that the effectiveness of the class discussion depends upon each student having studied the case before hand.

A case assignment therefore requires conscientious preparation before class. You cannot expect to get much out of hearing the class discuss a case with which you are unfamiliar or not fully prepared for. The pedagogical objective of case method is very much different from the usual teaching, the class room Instead of the professor / instructor / counselor; it is the students who do most of the talking. The counselor / instructor's role is to solicit student participation and guide the discussion. The counsellor might begin by restating the questions given at the end of each case or he might even propose or frame some new questions, like: What is the organisation's strategy? What are the strategic issues and problems confronting the company? What is your assessment of the company's situation? Is the industry an attractive one to bc. in? Is management doing a good job? Are the organisation's objectives and strategies compatible with its skills and resources?

The students are expected to engage in discussion with each other, with the counsellor listening to them patiently and providing direction/guidance as and when required so that the whole, discussion remains on the track. It is the students who carry the main burden of analysing the situation and then presenting and defending their analysis in the counselling sessions. You should therefore not expect your counsellor to say: "Here is how to do it", "Here is the right answer", etc. Although you should do your own independent work and thinking, you should not hesitate to discuss the case with other students.

3.2 Benefits of Case Analysis Method

The case method offers students an opportunity to communicate and convince their fellow students and their counsellors of the correctness of their viewpoints. This is analogous to the situation where a manager must persuade others to accomplish organisational purposes. The case analysis and discussion help the students in developing analytical, communication and interpersonal skills which are vital for success in management.

The method also provides some opportunity to the students to relate their viewpoints with those of the others. While defending his own viewpoint, a student has also to develop an appreciation for the viewpoints held by others. Table-16.1 lists the management skills which are improved by case analysis.

Action Skills Reinforced by Cases

1► Think clearly in complex ambiguous situations. Successful experiences with cases give students the practice and confidence necessary for clear intensive thinking in ambiguous situations where no one right answer exists. Since problems in management and administration are full of these situations. The skills are valuable to acquire.

2► Devise reasonable, consistent, creative action plans. Most cases require the student to detail a course of future action.

3► Apply quantitative tools: The management of modern organization demands the use of such quantitative tools and theory as net present value, ratio analysis, and decision tree analysis. Active employment of these techniques in actual situations requires more knowledge than one typically gains by introductory theory and problems. Cases give the student practice in using quantitative tools in these realistic situations.

4► Recognize the significance of information. Theories and observations of modern management have shown that managers sift through large masses of information, both formal reports and informal channels (the "grapevine"). The manager's task of defining problems and their solutions demands the ability to classify information.

5► Determine vital missing information. Successful decision makers must know where and be able to determine when to seek more information. Cases give the student practice in solving problems with the information at hand in the case. In researching standard industry sources, and in identifying the missing information that is vital to the formulation of an action plan.

6►Communicate orally in groups: Both the in-class discussions of cases and small group discussions preceding class are an integral part of learning by cases. The ability to listen carefully to others, to articulate one's views, and to rapidly incorporate the views of others into one's position is all important skills for managers.

7►Write clear, forceful, convincing reports. Managers and their staffs have to express themselves in writing. The best way to improve one's writing skills are to write; hence, the usefulness of the case report.

8► Guide students' careers: Many students would benefit from a greater awareness of the day-to-day tasks and responsibilities of managers. The wide variety of actual situations described in cases gives students valuable knowledge about the functions of many job positions.

9► Apply personal values to organizational decisions. Modem industrial society forces managers to make decisions which trade among business profits, government expenses, and the welfare of individuals and the public. This area of ethics and social responsibility is important and problematic in a professional education. The 'process of stating and defending positions in case discussions sharpen a student's awareness and maturity in the subjective area of value and moral judgements.

3.3 Guidelines for Preparing Case Analyses

The Need for Practicality

There is no such thing as a complete case, and no case ever gives you all the information you need to conduct analyses and make recommendations. Likewise, in the business world, strategists never have all the information they need to make decisions: information may be unavailable or too costly to obtain, or it may take too much time to obtain.

So in preparing strategic-management cases, do what strategists do every day—make reasonable assumptions about unknowns, clearly state assumptions, perform appropriate analyses, and make decisions. *Be practical*. Avoid saying, "I don't have enough information." You can always supplement the information provided in a case with Internet and library research.

The Need for Justification

The most important part of analyzing cases is not what strategies you recommend but rather how you support your decisions and how you propose that they be implemented. There is no single best solution or one right answer to a case, so give ample justification for your recommendations. This is important. In the business world, strategists usually do not know if their decisions are right until resources have been allocated and consumed.

The Need for Realism

Avoid recommending a course of action beyond an organization's means. *Be realistic*. No organization can possibly pursue all the strategies that could potentially benefit the firm. Do not prepare a case analysis that omits all arguments and information not supportive of your recommendations. Rather, present the major advantages and disadvantages of several feasible alternatives. Try not to exaggerate, stereotype, prejudge, or overdramatize. Strive to demonstrate that your interpretation of the evidence is reasonable and objective.

The Need for Specificity

Do not make broad generalizations such as "The company should pursue a market penetration strategy." Be specific by telling *what, why, when, how, where,* and *who*. Failure to use specifics is the single major shortcoming of most oral and written case analyses. For example, rather than concluding from a Strategic Position and Action Evaluation (SPACE) Matrix that a firm should be defensive, be more specific, saying, "The firm should consider closing three plants, laying off 280 employees, and divesting itself of its chemical division, for a net savings of =N=20.2 million in 2015." Use ratios, percentages, numbers, and naira estimates. Businesspeople dislike generalities and vagueness.

The Need for Originality

Do not necessarily recommend the course of action that the firm plans to take or actually undertook, even if those actions resulted in improved revenues and earnings. The aim of case analysis is for you to consider all the facts and information relevant to the organization at the time, to generate feasible alternative strategies, to choose among those alternatives, and to defend your recommendations. You can become a good strategist by thinking through situations, making management assessments, and proposing plans yourself. *Be original*. Compare and contrast what you recommend versus what the company plans to do or did.

The Need to Contribute

Strategy formulation, implementation, and evaluation decisions are commonly made by a group of individuals rather than by a single person. Therefore, your professor may divide the class into three- or four-person teams and ask you to prepare written or oral case analyses. Members of a strategic-management team, in class or in the business world, differ on their aversion to risk, their concern for short-run versus long-run benefits, their attitudes toward social responsibility, and their views concerning globalization. There are no perfect people, so there are no perfect strategies. Be open-minded to others' views. *Be a good listener and a good contributor*.

3.4 Preparing a Written Case Analysis

In addition to asking you to prepare a case for class discussion, your professor may ask you to prepare a written case analysis. Preparing a written case analysis is similar to preparing a case for class discussion, except written reports are generally more structured and more detailed. There is no ironclad procedure for preparing a written case analysis because cases differ in focus; the type, size, and complexity of the organizations being analyzed also vary.

When writing a strategic-management report or case analysis, avoid using jargon, vague or redundant words, acronyms, abbreviations, sexist language, and ethnic or racial slurs. And watch your spelling! Use short sentences and paragraphs and simple words and phrases. Use quite a few subheadings. Arrange issues and ideas from the most important to the least important.

Arrange recommendations from the least controversial to the most controversial. Use the active voice rather than the passive voice for all verbs; for example, say "Our team recommends that the company diversify" rather than "It is recommended by our team to diversify." Use many examples to add specificity and clarity. Tables, figures, pie charts, bar charts, timelines, and other kinds of exhibits help communicate important points and ideas. Sometimes a picture *is* worth a thousand words.

3.4.1 Steps in Preparing a Comprehensive Written Analysis

In preparing a **written** case analysis, you could follow the steps outlined here, which correlate to the stages in the strategic-management process and the chapters in this text. (Note—The steps in presenting an **oral** case analysis are given on pages 356–358, are more detailed, and could be used here).

Step 1 Identify the firm's existing vision, mission, objectives, and strategies.
Step 2 Develop vision and mission statements for the organization.
Step 3 Identify the organization's external opportunities and threats.
Step 4 Construct a Competitive Profile Matrix (CPM).
Step 5 Construct an External Factor Evaluation (EFE) Matrix.
Step 6 Identify the organization's internal strengths and weaknesses.

Step 7 Construct an Internal Factor Evaluation (IFE) Matrix.

Step 8 Prepare a Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix, Boston Consulting Group (BCG) Matrix, Give advantages and disadvantages of alternative strategies.

Step 9 Recommend specific strategies and long-term objectives. Show how much your recommendations will cost. Clearly itemize these costs for each ¬ projected year. Compare your recommendations to actual strategies planned by the company.

Step 10 Specify how your recommendations can be implemented and what results you can expect. Prepare forecasted ratios and projected financial statements. Present a timetable or agenda for action.

Step 11 Recommend specific annual objectives and policies.

Step 12 Recommend procedures for strategy review and evaluation.

3.5 Making an Oral Presentation

Your professor may ask you to prepare a strategic-management case analysis, individually or as a group, and present your analysis to the class. Oral presentations are usually graded on two parts: content and delivery. ***Content*** refers to the quality, quantity, correctness, and appropriateness of analyses presented, including such dimensions as logical flow through the presentation, coverage of major issues, use of specifics, avoidance of generalities, absence of mistakes, and feasibility of recommendations. ***Delivery*** includes such dimensions as audience attentiveness, clarity of visual aids, appropriate dress, persuasiveness of arguments, tone of voice, eye contact, and posture. Great ideas are of no value unless others can be convinced of their merit through clear communication. The guidelines presented here can help you make an effective oral presentation.

(i) Organizing the Presentation

Begin your presentation by introducing yourself and giving a clear outline of topics to be covered. If a team is presenting, specify the sequence of speakers and the areas each person will address.

(ii) Controlling Your Voice

An effective rate of speaking ranges from 100 to 125 words per minute. Practice your presentation aloud to determine if you are going too fast. Individuals commonly speak too fast when nervous. Breathe deeply before and during the presentation to help yourself slow down. Avoid a monotone by placing emphasis on different words or sentences. Speak loudly and clearly, but don’t shout. Silence can be used effectively to break a monotone voice. Stop at the end of each sentence, rather than running sentences together with *and* or *uh*.

(iii) Managing Body Language

Be sure not to fold your arms, lean on the podium, put your hands in your pockets, or put your hands behind you. Keep a straight posture, with one foot slightly in front of the other.

Do not turn your back to the audience; doing so is not only rude, but it also prevents your voice from projecting well. Avoid using too many hand gestures. On occasion, leave the podium or table and walk toward your audience, but do not walk around too much. Never block the audience's view of your visual aids. Maintain good eye contact throughout the presentation. This is the best way to persuade your audience.

(iv) Speaking from Notes

Be sure not to read to your audience because reading puts people to sleep. Perhaps worse than reading is merely reciting what you have memorized. Do not try to memorize anything. Rather, practice unobtrusively using notes. Make sure your notes are written clearly so you will not flounder when trying to read your own writing. Include only main ideas on your note cards. Keep note cards on a podium or table if possible so that you won't drop them or get them out of order; walking with note cards tends to be distracting.

(v) Constructing Visual Aids

Make sure your visual aids are legible to individuals in the back of the room. Use colour to highlight special items. Avoid putting complete sentences on visual aids; rather, use short phrases and then orally elaborate on issues as you make your presentation. Generally, there should be no more than four to six lines of text on each visual aid. Use clear headings and subheadings. Be careful about spelling and grammar; use a consistent style of lettering.

4.0 Conclusion

Strategic management case analysis gives you the opportunity to learn more about yourself, your colleagues, strategic management, and the decision-making process in organizations. The rewards of this experience will depend on the effort you put forth, so do a good job. Discussing business policy cases in class is exciting and challenging. Expect views counter to those you present. Different students will place emphasis on different aspects of an organization's situation and submit different recommendations for scrutiny and rebuttal. You can take advantage of www.strategyclub.com and utilize that information and software in preparing your case analysis.

5.0 Summary

A case is written description of an organisation (or any of its parts) covering all or some of its aspects for a certain period of time. It sets forth the events and organisational circumstances surrounding a particular managerial situation. Most cases contain information about the organisation's history, its internal operations and its external environment.

Though there is no standard order of presentation, many cases include information about the industry, the competitive conditions, the products and markets, the physical facilities, the work climate, the skills and personality of, managers, the organisational structure, together with the financial and quantitative data relating to production, marketing, personnel, and so forth. Cases may relate to profit seeking government or public service organisations.

6.0 Tutor – Marked Assignment

How do you understand the case method approach to strategic management? What are the issues involved in the oral presentation of case studies.

7.0 **References**

David, Fred R. (2011) Strategic management: concepts and cases.—13th ed. Copyright ©, by Pearson Education, Inc., publishing as Prentice Hall, One Lake Street, Upper Saddle River, New Jersey 07458. ***Page 348 – 355.***

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Unit 18: Strategic Management Sample Case studies and Answers

1.0 Introduction

If you want the case study analysis to be professional and accurate, you must have a clear understanding of the issues that the company or industry faced. Read the case thoroughly before you start. Feel free to take notes as you read and when you have finished, consider re-reading the case just to make sure you haven't missed anything. Once you are comfortable with the information, begin the step-by-step instructions offered below to write a case study analysis.

Tips:

(1) Know the case backwards and forwards before you begin your case study analysis.
(2) Give yourself enough time to write the case study analysis. You don't want to rush through it.
(3) Be honest in your evaluations. Don't let personal issues and opinions cloud your judgement.
(4) Be analytical, not descriptive.
(5) Proofread your work!

CASE 18.1 ► **Read the following case and answer the questions at the end:**

DD is a premier public service broadcaster with more than 1,000 transmitters covering 90% of the country's population across an estimated 70 million homes. It has more than 20,000 employees managing its metro and regional channels. Recent years have seen growing competition from many private channels numbering more than 65, and the cable and satellite operators (C & S). The C & S network reaches nearly 30 million homes and is growing at a very fast rate.

DD's business model is based on selling half-hour slots of commercial time to the programme producers and charging them a minimum guarantee. For instance, the present tariff for the first 20 episodes of a programme is N30, 000 plus the cost of production of the programme. In exchange the producers get 780 seconds of commercial time that he can sell to advertisers and can generate revenue. Break-even point for producers, at the present rates, thus is N75, 000 for a 10 second advertising spot. Beyond 20 episodes, the minimum guarantee is N65,000 for which the producer has to charge N1,5000 for a 10 second spot in order to break-even. It is at this point the advertisers face a problem – the competitive rates for a 10 second spot is =N=.

50,000 Producers are possessive about buying commercial time on DD. As a result the DD's projected growth of revenue is only 6-10% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy. DD has three options before it.

First, it should privatise, second, it should remain purely public service broadcaster and third, a middle path. The challenge seems to be to exploit DD's immense potential and emerge as a formidable player in the mass media.

(i) What is the best option, in your view, for DD?
(ii) Analyse the SWOT factors the DD has.
(iii) Why to you think that the proposed alternative is the best? (20 Marks)

Answer

(i) For several years Doordarshan was the only broadcaster of television programmes in India. After the opening of the sector to the private entrepreneur (cable and satellite channels), the market has witnessed major changes. The number of channels have increased and also the quality of programmes, backed by technology, has improved. In terms of quality of programmers, opportunity to advertise, outreach activities, the broadcasting has become a popular business. Broadcasters too have realised the great business potential in the market. But for this, policies need to be rationalised and be opened to the scope of innovativeness not only in term of quality of programmes. This would not come by simply going to more areas or by allowing bureaucratic set up to continue in the organisation.

Strategically the DD needs to undergo a policy overhaul. DD, out of three options, namely privatisation, public service broadcaster or a middle path, can choose the third one, i.e. a combination of both. The whole privatisation is not possible under the diversified political scenario. Nor it would be desirable to hand over the broadcasting emotively in the private hand as it proves to be a great means of communication of many socially oriented public programmers. The government could also think in term of creating a corporation (as it did by creating Prasar Bharti) and provide reasonable autonomy to DD. So far as its advertisement tariff is concerned that can be made fairly competitive. However, at the same time cost of advertising is to be compared with the reach enjoyed by the doordarshan. The number of viewers may be far more to justify higher tariffs.

(ii) The SWOT analyses involve study of strengths, weaknesses, opportunities and threats of an organisation. SWOT factors that are evidently available to the Doordarshan are as follows:

S – Strength
→More than 1000 transmitters.
→ Covering 90% of population across 70 million homes against only 30 million home by C & S.
□More than 20,000 employees.
W – Weakness
→ Rigid pricing strategy. Low credibility with certain sections of society. □Quality of program's is not as good as compared to C & S network

O – Opportunities
→ Infrastructure can be leased out to cable and satellite channel. Digital terrestrial transmission.
→ Regional focused channels. Allotment of time, slots to other broadcasters.
T – Threats
→ Desertion of advertisers and producers may result in loss of revenues. Due to quality of program the reach of C & S network is continuously expanding. As the C & S network need the trained staff, some employees of DD may switchover and take new jobs. Best of the market-technology is being used by the private channels.

(iii) It is suggested that the DD should adopt a middle path. It should have a mix of both the options. It should economise on its operational aspects and ensure more productivity in term of revenue generation and optimisation of use of its infrastructure. Wherever, the capacities are underutilised, these may be leased out to the private operations. At the same time quality and viewership of programmes should be improved. Bureaucracy may reduce new strategic initiatives or make the organisation less transparent. Complete privatisation can fetch a good sum and may solve many of the managerial and operational problems. However, complete public monopoly is not advisable because that denies the government to fully exploit the avenue for social and public use. The government will also lose out as it will not be able to take advantage of rising potential of the market.

CASE 18.2 ► Read the following case and answer the questions at the end:

Dr. Agbaman inherited his father's Dey's Lab in Nigeria in 1995. Till 2002, he owned 4 labs in the National Capital Region (NCR). His ambition was to turn it into a National chain. The number increased to 7 in 2003 across the country, including the acquisition of Platinum lab in Brass. The number is likely to go to 50 within 2-3 years from 21 at present. Infusion of =N=28,000 for a 26% stake by Pharma Capital has its growth strategy. The lab with a revenue of =N=75,000 is among top three Pathological labs in Nigeria with Atlantic (=N=77,000) and Pacific (=N=55,000). Yet its market share is only 2% of Rs. 3,500 crores market. The top 3 firms command only 6% as against 40-45% by their counterparts in the USA.

There are about 20,000 to 1, 00,000 stand alone labs engaged in routine pathological business in India, with no system of mandatory licensing and registration. That is why Dr. Sukumar has not gone for acquisition or joint ventures. He does not find many existing laboratories meeting quality standards. His six labs have been accredited nationally whereon many large hospitals have not thought of accreditation; The College of American pathologists accreditation of Dey's lab would help it to reach clients outside India.

In Dey's Lab, the bio-chemistry and blood testing equipments are sanitised every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1650 variety of tests. Same day reports are available for samples reaching by 3 p.m. and by 7 a.m. next day for samples from 500 collection centres located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting is also available.

There is a huge unutilised capacity. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to Encash preclinical and multi-centre clinical trials within India and provide postgraduate training to the pathologists.

3. (i) What do you understand by the term Vision? What is the difference between 'Vision' and 'Mission'? What vision Dr. Agbaman had at the time of inheritance of Dey's Lab? Has it been achieved?
(ii) For growth what business strategy has been adopted by Dr. Agbaman?
(iii) What is the marketing strategy of Dr. Agbamanto overtake its competitors?
(iv) In your opinion what could be the biggest weakness in Dr. Agbaman's business strategy?

Answer

(i) A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity.

A company's Mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organisation's present capabilities, customer focus, activities, and business makeup. Mission is also an expression of the vision of the corporation.

To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

Dr. Agbaman's vision at the initial stage was to turn his one pathological laboratory firm into a national chain of pathological laboratories. He is in the process of achieving the vision as a number of Labs have been opened and others are in pipeline. However, at the same time the market share is low when compared with the external benchmark from West Africa market.

(ii) To a large extent Dr. Dey's Lab has opted the business strategy of internal growth rather than going in for acquisitions or joint ventures. The reason for such a strategy is that Dr. Agbaman does not find many existing laboratories meeting the quality standards. To fund its growth and raise funds it has also given a 26% stake to Pharma Capital.

(iii) Dr. Agbaman's marketing strategy is superior to its competitors. Over a period of time it is able to evolve itself as reference lab for many leading hospitals. This is a testimony of the level of confidence it enjoys among the medical professionals. It provides a high level of customer services because of the following:

→Product mix: It possesses technical expertise to conduct 1650 variety of tests.

→Quality: The laboratories use modern methods to conduct tests.

Even routine tests are conducted with highly sophisticated procedures. Technology such as bar coding and automated registration of patients is also used. Thus there are no mistakes in the identity of samples. There is also daily sanitisation and validation of lab equipments.

→Speed: Laboratories are working round-the-clock. Further, using modern systems the company is able to deliver test results faster.

→Convenience: There are 500 collection centres for the laboratory, thereby the reach is more. Additionally, system of collection of samples from home also provide convenience to the patients and others.

(iv) A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it. In the case it is given that Dr Agbaman has not gone for mergers and acquisition as he does not find many prospective laboratories meeting the quality standards. Thus its biggest weakness is its inability to capitalise the opportunities through mergers and acquisitions. Acquisitions and partnerships can help in leveraging the existing goodwill.

Many of these labs must be enjoying a lot of goodwill in their region. In fact, a business in the medical field such as a pathological laboratory, trust and faith are important. On account of its size and available resources Dey's Lab could have easily acquired some of these labs and built upon their names. With resources it should be feasible to modernize them to make them compatible with the business ideology and quality systems of the Dey's Lab. However, it appears that the company lacked capability to modernise an existing laboratory.

CASE 18.3 ► Read the following case and answer the questions at the end:

BB Ltd., is a business organized as three divisions and head office. The divisions are based on market groupings, which are retail, wholesale and Government. The divisions do not trade with each other. The main method of control of the divisions has been the requirement to earn a return on investment (ROI) of 15% p.a. The definition of return and capital employed is provided by head office, at the criterion ROI rate of 15%.

The recent experience of BB Ltd., is that the group as a whole has been able to earn the 15% but there have been wide variations between the results obtained by different division. This infringes another group policy that forbids cross-subsidization, i.e. each and every division must earn the criterion ROI. BB Ltd. Is now considering divestment strategies and this could include the closure of one or more of its divisions. The head office is aware that the Boston Product Market Portfolio Matrix (BPMPM) is widely used within the divisions in the formulation and review of marketing strategies. As it is so widely known within the group and is generally regarded by the divisions as being useful, the head office is considering employing this approach to assist in the divestment decision.

You are required to:
(i) Evaluate the use by BB Ltd. Of the concept of ROI and its policy that forbids cross subsidization.
(ii) Describe the extent to which the BPMPM could be applied by BB Ltd. in its divestment decision. Evaluate the appropriateness of the use of the BPMPM for this purpose.
(iii) Recommend, and justify, two other models that could be used in making a divestment decision. Demonstrate how BB Ltd. Could utilize these models to make this decision.
Answer

(i) Evaluation of the use of the concept of ROI by BB Ltd.

ROI is an accounting measure that estimates the level of profits as a proportion of the capital employed over the year. The concept of ROI is widely used by different companies to measures its performance. Therefore BB Ltd. is not unusual in using this concept of ROI as a means of performance monitoring of its different divisions. Perhaps on division of BB Ltd., may have failed to meet its ROI because it might have recently purchased new fixed assets. Perhaps another division might be using old assets that have been written off. Further one division might be riskier than another division.

ROI and cross subsidization:

There could be a lot of problems with cross subsidy. This issue of cross subsidies is more complex than it first appears. We do not know how the investment funds have been allocated if the head office allocates them, and the divisions cannot take their own investment decisions, there is a cross subsidization by the back door as it were.

Further one division's hard earned cash might be used to buy another division's assets. Arguably, cross-subsidization is the advantage of a business like BB Ltd. Further, if the businesses have different business cycle, they are able to bail each other out when appropriate, whilst ensuring that the shareholders receive a fairly constant return.

(ii) Application of BPMPM by BB Ltd. In its divestment decision:

BPMPM aims to link the overall growth of the market for a product, the growth in the market share of a product, with the product's cash-generative activities. BPMPM classifies a company's products in terms of potential cash generation and cash expenditure requirements into cash cows, dogs, stars and question marks.

• Stars are products with a high share of a high growth market. In short term, term require capital expenditure, in excess of the cash they generate, in order to maintain their market position, but promise high returns in the future. In due course, however, stars will become cash cows, which are characterized by a high market share, but low sales growth.

• Cash cows need very little capital expenditure and generate high level of cash income. The important strategic feature of cash cows is that they are already generating high cash returns that can be used to finance the stars.

• Question marks are products in a high-growth market, but where they have a low market share. A decision needs to be taken about whether the products justify considerable capital expenditure in the hope of increasing their market share, or whether they should be allowed dying quietly.

• Dogs products with a low share of a low growth market. Dogs should be allowed to die, or should be killed off.

Appropriateness of use of BPMPM: BPMP is conventionally assumed to apply to products and it is perhaps unusual to see it applied to businesses and divisions.

The problem is that we do not know enough about the firm's product range to suggest how the matrix could be applied. Rather than assuming that a whole division is a dog and divesting it, is possible that a through review of the product range of each division could be examined to see whether certain products can be pruned from the range.

BPMPM should not be used in isolation. Further it needs to be modified from time to time.

(iii) Models for making a divestment decision:

A no. of models is available, which could be used by the co. in making a divestment decision. Two such models could be: **(a)** Porter's five forces model and **(b)** The product life cycle.

Porter's five forces model:

This model can be used to place each division in the competitive context. The five forces model suggests that the competitive environment is determined by five factors viz.

→The threat of new entrants.
→The threat of substitute products,
→The bargaining power of customers,
→The bargaining power of suppliers and
→The state of competitive rivalry within the industry.

The value of this model is that it examines each division's strengths in a competitive context. If the trend is for entry barriers to get lower, or if a major new entrant is no the horizon, this must influence the divestment decision, if the business is a marginal player in the market or if the resources required to fight off such a challenge are too expensive.

Similarly, if the customers are powerful or suppliers are powerful, then the margins would get eroded steadily and firm's business would become less attractive. Similarly if the threat of substitute products becomes serious, then divestment might become a sensible choice.

The product Life cycle: This model bears similarities to the BCG matrix. This model suggests that a firm's products have a natural life cycle that can be analyzed into the phases of introduction, growth, maturity and decline. **In the introduction phase,** the product still has to make money. **In the growth phase**, it starts to make profit. **Maturity** occurs when the demand is no longer growing. The demand and the profit are at its peak. **In the decline phase**, demand falls off, profits fall and eventually no profits are made. ***Thus BB Ltd. can use this model to examine the condition of the products in each of the divisions.***

CASE 18.4 ► Read the following case and answer the questions at the end:

Novascotian Crystal

Denis Ryan current Chair of the board (and former band lead with Ryan's Fancy) had looked for fine Canadian crystal in the early 1990's. Denis used his Irish roots and convinced experienced glass blowers to come to Canada. By late 1996 they were producing and selling the only mouth-blown, and cut crystal in Canada. The company had grown rapid. Rod McCulloch, President and CEO had to address the company's future options.

1. What is the current strategy of Nova Scotian Crystal? What are the goals, value proposition, product market focus and core activities?

2. What are the forces at work in the environment and what are the implications in terms of specific strategic opportunities and challenges?

3. What are the resource requirements for the current and new strategic proposal?

4. What are the strategic preferences of the key managers in the business?

5. Are the resource capabilities and organization of the firm consistent with those required for the current and new strategic proposal?

6. If you were in the position of President and CEO Rod McCulloch what actions would you take? Why?

CASE 18.5 ► Read the following case and answer the questions at the end:

Cameco in Kyrgyzstan: Corporate Social Responsibility Abroad

Based in Saskatoon, Canada, Cameco was the world's largest uranium mining company. It had developed its policy for corporate social responsibility in northern Saskatchewan where it had its major mining operations and where there were a large indigenous population of Cree and Dene Indians. The issue centres on whether the same corporate social responsibility policy can be applied to the company's joint venture with the Kyrgyzstan government to operate a gold mine in eastern Kyrgyzstan. Complicating the decision was a chemical spill that had occurred several months before, and relations with citizens in nearby communities were at an all-time low. The joint venture's vice-president of human resources and corporate relations must decide which of the programs might be successfully implemented in Kyrgyzstan, what new programs might need to be developed, and how best to communicate company policy to the local community.

Suggested questions for thinking:

1. Who are the stakeholders and what are their interests?
2. Given the recent evidence that the toxicity of the cyanide spill was relatively insignificant, what can and should Duret do to diffuse the negative reactions of the Kyrgyzstani people?
3. What actions should Duret take immediately to address the crisis?
4. What could Cameco do to rebuild its relationship with the nearby communities and the country?
5. Will the activities that Cameco initiated in Saskatchewan be effective in Kyrgyzstan? Why or why not?

6. Is Cameco's corporate social responsibility policy adequate for northern Saskatchewan, Kyrgyzstan or any other future operations?
7. Does Cameco get good value for its investment in corporate social responsibility? Are the stakeholders' interests being looked after?

CASE 18.6 ► Read the following case and answer the questions at the end:

Victoria Heavy Equipment – 2001

Victoria Heavy Equipment was a family opened and managed firm which had been led by an ambitious, entrepreneurial chief executive officer who now wanted to take a less active role in the business. Victoria had been through two reorganizations in recent years, which contributed to organizational and strategic issues which would need to be addressed by a new president. The position of president with Victoria Heavy Equipment is becoming available in the near future. It pays $375,000 per year salary (guaranteed for a five year period) and has a bonus based on profits.

Suggested questions for thinking:

1. What qualifications does the new president require?
2. If you were to accept the position, what exactly would you do in the new job?
3. What are the major elements of Victoria's strategy and organization which must be addressed?
4. What are your recommendations for the new president?

CASE 18.7 ► Read the following case and answer the questions at the end:

Yunnan Baiyao: Traditional Medicine Meets Product/Market Diversification

In 2003, 3M initiated contact with Yunnan Baiyao Group Co., Ltd. to discuss potential cooperation opportunities in the area of transdermal pharmaceutical products. Yunnan Baiyao (YB), was a household brand in China for its unique traditional herbal medicines. In recent years, the company had been engaged in a series of corporate reforms and product/market diversification strategies to respond to the change in the Chinese pharmaceutical industry and competition at a global level. By 2003, YB was already a vertically integrated, product-diversified group company with an ambition to become an international player. The proposed cooperation with 3M was attractive to YB, not only as an opportunity for domestic product diversification, but also for international diversification. YB had been attempting to internationalize its products and an overseas department had been established in 2002 specifically for this purpose. On the other hand, YB had also been considering another option namely, whether to extend its brand to toothpaste and other healthcare products. YB had to make decisions about which of the two options to pursue and whether it was feasible to pursue both.

Suggested questions for thinking:

1. What would be the effects of Yunnan Baiyao further broadening its existing products and market focus?
2. Does it make more sense to focus on market diversification OR product diversification OR both?
3. Which of the following specific options should the company pursue? Can it pursue both options? Why or Why not?

a. Brand extension to healthcare products such as toothpaste (product diversification)
b. Alliance with 3M in the area of transdermal products (domestic product diversification international geographic diversification)

6. Is the pace of diversification too great?

CASE 18.8 ► Read the following case and answer the questions at the end:

Innovation Without Walls: Alliance Management at Eli Lilly and Company

The newly appointed executive director of the Office of Alliance Management (OAM) at Eli Lilly and Company (Lilly) was returning to his office after his first meeting with his supervisor, the senior vice-president of Corporate Strategy and Business Development (CSBD). The executive director had been promoted to the position just a week earlier, and now the senior vice-president has asked him to conduct a complete review of the OAM strategy. The senior vice-president made it clear that it was fine to leave the strategy as it currently existed, or to change it radically if the situation warranted. Now the executive director must decide what Lilly should do to build and maintain its leadership in alliance capability. ***What should they do?***