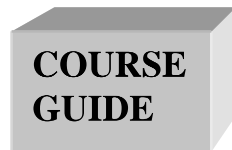
NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: ENT329

COURSE TITLE:STRATEGIC MANAGEMENT



ENT329
STRATEGIC MANAGEMENT

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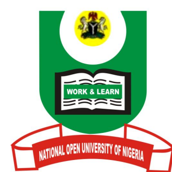

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Introduction

BHM329- Strategic Management is a two credit course for students offering programmes in the School of Business and Human Resources Management.

The course consists of fourteen (14) units. The material has been developed to suit undergraduate students taking management courses at the National Open University of Nigeria (NOUN), through an approach that highlights the key areas of management in private and public enterprises.

A student who successfully completes the course will surely be in a better position to manage different sections in private and public organisations.

The course guide, briefly, gives you an idea of what the course is about, what course materials you will be using and how you can utilise these materials. It suggests some general guidelines on the time you are likely to spend on each unit of the course, in order to complete it successfully. It also gives you some guidance on your tutor-marked assignments. Detailed information on tutor-marked assignment is found in the separate assignment file which will be made available to you.

Course Aims

The course aims to give you a thorough understanding of the theory and practice of strategic management. It concentrates on the role and responsibilities of general management and focuses on the structures and processes through which these responsibilities are discharged. To ensure that this aim is achieved, some important background information will be provided and discussed. They are as follows.

- Foundations of strategic management
- Strategic management process
- SWOT analysis
- Opportunity analysis and market targeting
- Total Quality Management (TQM)

Course Objectives

At the end of this course, you should be able to:

- explain the latest management strategies
- play a key role in the strategic development of a business

- do a SWOT analysis for any business
- familiarise yourself with strategic management decisions

Working through This Course

To complete this course, you are required to read the study units, read recommended books and read other materials provided by the National Open University of Nigeria (NOUN). You will also need to undertake practical exercises for which you need access to a personal computer.

Each unit contains self-assessment exercises, and at certain points during the course, you will be expected to submit assignments. At the end of the course, you will sit for a final examination. The course should take you about 17 weeks to complete. Below are the components of the course, what you have to do, and how you should allocate your time to each unit in order to complete the course successfully on time.

Course Materials

Major components of the course are listed below.

1. Course guide
2. Study units
3. Textbooks
4. Assignment file
5. Presentation schedule

Study Units

The study units in this course are as follows

Module 1

Unit 1 Overview of Strategic Management
Unit 2 Strategic Management Process
Unit 3 Strategic Decision-Making
Unit 4 *SWOT* Analysis
Unit 5 Opportunity Analysis and Market Targeting

Module 2

Unit 1 Strategy Formulation
Unit 2 Strategic Management Control and Evaluation
Unit 3 Strategic Management Planning
Unit 4 Corporate Planning
Unit 5 Total Quality Management (TQM)

Module 3

Unit 1 Strategic Alternative- Grand Strategies
Unit 2 Strategic Choice
Unit 3 Activating Strategy
Unit 4 Structural Implementation

Textbooks and References

Certain books have been recommended in the course. You should read them where you are so directed before attempting the exercises.

Assignment File

In this course, you will find all the details of the work you must submit to your tutor for marking. The marks you obtain for these assignments will count towards the final mark you obtain for this course. Further information on assignments will be found in the assignment file itself and later in the section on assessment in this course guide. There are tutor-marked assignments in this course; you should attempt all.

Tutor-Marked Assignment

There are about fifteen tutor-marked assignments in this course and you are advised to attempt all. Aside from the course material provided, you are advised to read and research widely using other references; this will give you a broader viewpoint and may provide a deeper understanding of the subject. Ensure all completed assignments are submitted on schedule before set deadlines. If for any reasons, you cannot complete your work on time, contact your tutor before the assignment is due. This is to give room for you to discuss the possibility of an extension; unless in exceptional circumstances, extensions may not be granted after the due date.

Final Examination and Grading

The final examination for this course will be of three hours' duration and have a value of 70% of the total course grade. All areas of the course will be assessed and the examination will consist of questions, which reflect the type of self-testing, practice exercises and tutor-marked assignment problems you have previously encountered. All areas of the course will be assessed.

Utilise the time between the conclusion of the last study unit and sitting for the examination to revise the entire course. You may find it useful to review your self-assessment tests, Tutor-Marked Assignments and comments written on them before the examination.

Presentation Schedule

The presentation schedule included in your course materials gives you the important dates in the year for the completion of Tutor-Marked Assignments (TMAs) and attending tutorials. Remember, you are required to submit all your assignments by the due date. You should guide against falling behind in your work.

Course Marking Scheme

The work you submit will count for 30% of your total course mark. At the end of the course, you will be required to sit for a final examination, which will also count for 70% of your total mark. The table below shows the actual breakdown of the marking scheme.

Table 1: Course Marking Scheme

Assessment	Marks
6 Assignments (TMAs)	4 assignments, best 3 will be used for C.A. = 10 x 3 = 30%
Final examination	70% of overall course marks
Total	**100% of course marks**

How to Get the Most from This Course

In distance learning, the study units are specially developed and designed to replace the conventional university lecturer/lecture room situation. Hence, you can work with these materials at your own pace, and at a time and place that suit you best. Visualise it as reading the lecture, instead of listening to a lecturer.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole.

Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

Activities are interspersed throughout the units, and answers are given at the end of the units. Working through these tests will help you to achieve the objectives of the units and prepare you for the assignments and the examinations. You should do each activity as you come to it in the study unit. There are also numerous examples given in the study units, work through these when you come across them, too.

Facilitators/Tutors and Tutorials

There are 15 hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the names and telephone number(s) of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulty you may encounter. You must mail your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor via telephone, e-mail, or through the discussion board if you need help.

You should try as much as possible to attend tutorials. This is the only opportunity to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from tutorials, prepare a question list before attending to them. You will learn a lot from participating in discussions.

Summary

This course intends to expose you to the nitty-gritty of managing enterprises- be it a private or public, corporate or small business enterprises, government or non-governmental organisations. Upon completing the course, you will be equipped with the knowledge required to produce a good research work.

We hope you will enjoy the course and wish you success in your endeavour.

Course Code ENT329
Course Guide Strategic Management

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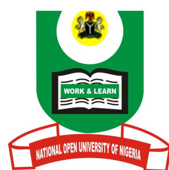

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MODULE 1

Unit 1 Overview of Strategic Management
Unit 2 Strategic Management Process
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UNIT 1 OVERVIEW OF STRATEGIC MANAGEMENT

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    3.2 Dimensions of Strategic Decisions
    3.3 Levels of Strategy
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1.0 INTRODUCTION

The complexity and sophistication of business decision-making requires strategic management. Managing various and multi-faceted internal activities is only part of the modern executive's responsibilities. The firm's immediate external environment poses a second set of challenging factors. This environment includes competitors- whenever profits seem possible, suppliers of increasingly scarce resources, government agencies monitoring adherence to an ever-growing number of regulations and customers whose often inexplicable preferences must be anticipated, monitored, assessed, and incorporated in top-level decision-making.

To deal effectively with all that affects the ability of a company to grow profitably, executives design strategic management processes they feel will facilitate the optimal positioning of the firm in its competitive environment. Strategic processes allow more accurate anticipation of environmental changes and improved preparedness for reacting to unexpected internal and competitive demands. In this unit, you will be

introduced to the dimensions of strategic decisions, levels of strategy, characteristics of strategic management decisions and formality in strategic management. You will also learn about the interactive and iterative flow of the strategic process, value of strategic management, benefits of strategic management and risks of strategic management.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- discuss the dimensions of strategic decisions
- highlight levels of strategy
- enumerate the characteristics of strategic management decisions
- describe what is meant by formality in strategic process
- explain interactive and iterative flow of strategic process
- state the value of strategic management
- list the benefits and risks of strategic management.

3.0 MAIN CONTENT

3.1 Meaning of Strategic Management

Strategic management is defined as the set of decisions and actions taken in formulation and implementation of strategies designed to achieve objectives of an organisation. It involves attention to no less than nine areas as shown below.

- Determining the mission of the company including broad statement about its purpose, philosophy, and goals
- Developing a company profile that reflects internal conditions and capabilities
- Assessment of the company’s external environment, in terms of competitive and general contextual factors
- Analysis of possible options uncovered in the matching of the company’s profile with the external environment
- Identifying the desired options uncovered when possibilities are considered in the light of the company mission
- Strategic choice of a particular set of long-term objectives and the strategies needed to achieve the desired options
- Development of annual objectives and short-term strategies combined with long-term objectives and grand strategies
- Implementing strategic choice decisions based on budgeted resource allocations and emphasising the matching of tasks, people, strategies, technologies, and reward systems
- Review and evaluation of the success of the strategic process as a basis for control and as an input for future decision-making.

As these nine areas indicate, strategic management involves the planning, directing, organising, and control of the strategy-related decisions and actions of a business. By strategy, managers mean their large-scale oriented plans for interacting with the competitive environment to ensure achievement of organisation objectives. Thus, a strategy represents a firm's "game plans". Although it does not precisely detail all future deployments (people, financial, and material), it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how to compete against whom, when, where, and for what.

3.2 Dimensions of Strategic Decisions

What decisions facing a business are strategic and therefore deserve strategic management attention? Typically, strategic issues have six identifiable dimensions, as shown below.

i. Strategic issues require top-management decisions. Strategic decisions overarch several areas of a firm's operations. Therefore, top-management involvement in decision-making is imperative. Only at this level is there the perspective for understanding and anticipating broad implications and ramifications, and the power to authorise the resource allocations necessary for implementation.

ii. Strategic issues involve the allocation of large amounts of company resources. Strategic decisions, characteristically, involve substantial resource deployment. The people, physical assets, or moneys needed must be either redirected from internal sources or secured from outside the firm. In either case, strategic decisions commit a firm to a stream of actions over an extended period of time, thus involving substantial resources.

iii. Strategic issues are likely to have a significant impact on the long-term prosperity of the firm. Strategic decisions, ostensibly, commit the firm for a long period of time, typically for five years; however, the time frame of impact is often much longer. Once a firm has committed itself to a particular strategic option in a major way, its competitive image and advantages are usually tied to that strategy. Firms become known in certain markets, for certain products, with certain characteristics. To shift from these markets, products, or technologies by adopting a radically different strategy would jeopardise previous progress. Thus, strategic decisions have enduring effects on the firm - for better or worse.

iv. Strategic issues are future oriented. Strategic decisions are based on what managers anticipate or forecast rather than on what they know. Emphasis is on developing projections that will enable the firm to select the most promising strategic options. In the turbulent and competitive free enterprises environment, a successful firm must take a proactive (anticipatory) stance towards change.

v. Strategic issues usually have major multi-functional or multi-consequences. A strategic decision is coordinative. Decisions include factors as customer mix, competitive emphasis, or organisational units. This necessarily involves a number of a firm's Strategic Business Units (SBUs), segmentations, divisions, or program units. Each of these areas will be affected by allocation or reallocation of responsibilities and resources related to the decision.

vi. Strategic issues necessitate considering factors in the final environment. All business firms exist in an open system and are impacted by external conditions largely beyond their control. Thus, if a firm is to succeed in positioning itself in future competitive world, its strategic managers must look beyond the limits of the firm's ownership. They must consider what other relevant factors (e.g., competitors, customers, creditors, government, and labour) are likely to do.

3.3 Levels of Strategy

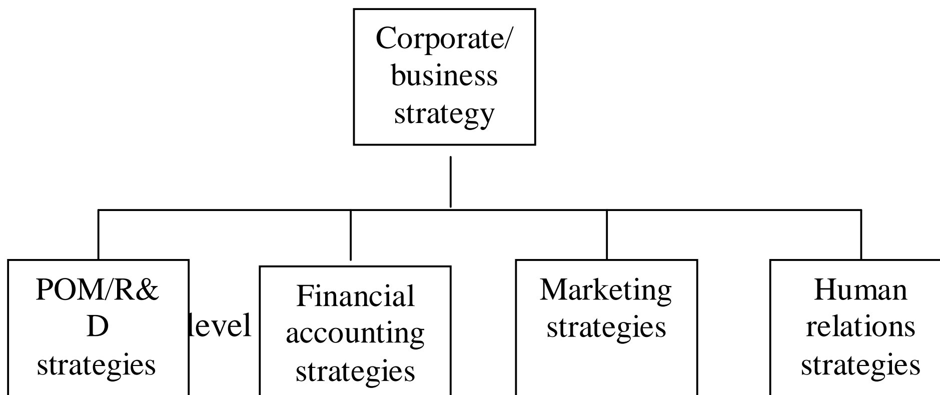
The decision-making hierarchy of business firms typically contains three levels, as shown below.

i. At the top is the corporate level, composed principally of management, board of directors and the chief executive and administrative managers. They are responsible for the financial performance of the corporation and for achieving the non-financial goals of the firm; for example, image and social responsibility. To a large extent, orientations and level reflect the concern of stakeholders and society at large.

ii. The second rung of the decision-making hierarchy is composed, principally, of business and corporate managers. This must translate the general statements of direction and intention of the corporate level into concrete, functional objectives and strategies of individual business divisions or *SBUs*. In essence, business-level strategies must determine the basis on which a company can compete in product-market arena. While so doing, they strive to identify most profitable and promising market segment.

iii. The third rung is the functional level, composed principally of product, geographic, and functional areas. It is their responsibility to develop annual objectives and short-term strategies in such areas as production, operations, research and development, finance and accounting, marketing and human relations. However, their greatest responsibilities are in the implementation or execution of a company's strategic plans. While corporate and business-level managers centre their planning concerns on "doing the right things", managers at the functional level must stress "doing things right". Thus, they directly address such issues as the efficiency and effectiveness of production and marketing systems, the quality and extent of customer service, and the success of particular products and services in increasing their market shares.

Alternative 1- Single-business firms



Alternative 2- Multiple-business firms

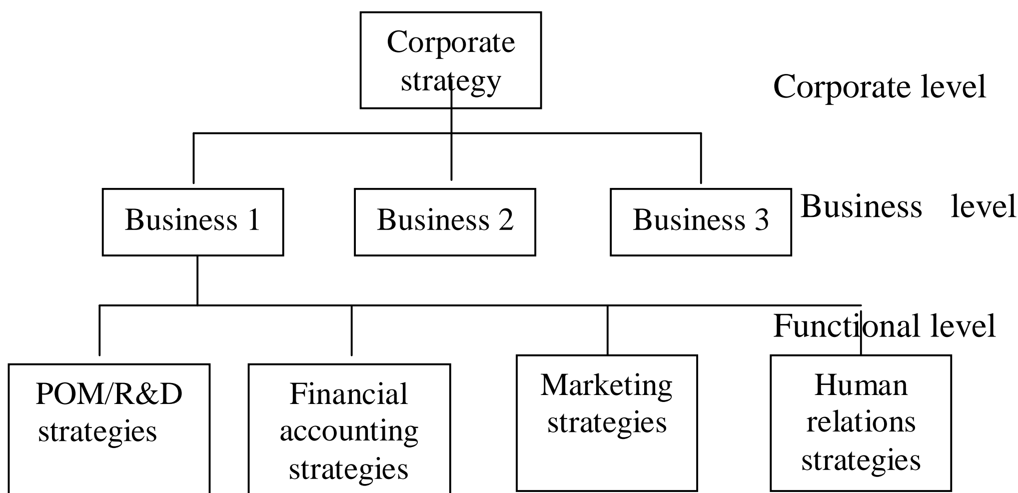


Fig. 1.1: Alternative Strategic Management Structures

Figure 1.1 depicts the three levels of strategic management as they are actually structured in practice. In alternative 1, the company is engaged in only one business and the corporate and business-level responsibilities are concentrated in a single group of directors, officers and managers. This particular structure is nearly synonymous with the organisational format of the small businesses that constitute approximately 95 percent of all business organisations in the United States.

Alternative 2 is a classical corporate structure comprised of three fully operative levels. The suprastructure is provided at the corporate level, with the superstructure at the business level giving direction and support for functional-level activities. You should note that the approach taken throughout this course is best depicted by alternative 2. Thus, whenever appropriate, topics will be covered from the perspective of each level of strategic management. In this way, this course presents one of the most comprehensive and up-to-date discussions of strategic management.

3.3.1 Characteristics of Strategic Management Decisions

The characteristics of strategic management decisions vary with the level of strategic activity considered. As shown in figure 1.2 below, corporate-level decisions tend to be value oriented, conceptual, and less concrete than those at the business or functional level of strategy formulation and implementation. Corporate-level decisions are also characterised by greater risk, cost and profit potential, as well as by longer time horizons and greater needs for flexibility. These characteristics are logical consequences of the more far-reaching futuristic, innovative, and pervasive nature of corporate-level strategic activity. Examples of corporate-level decisions include the choice of business, dividend policies, sources of long-term financing, and priorities for growth.

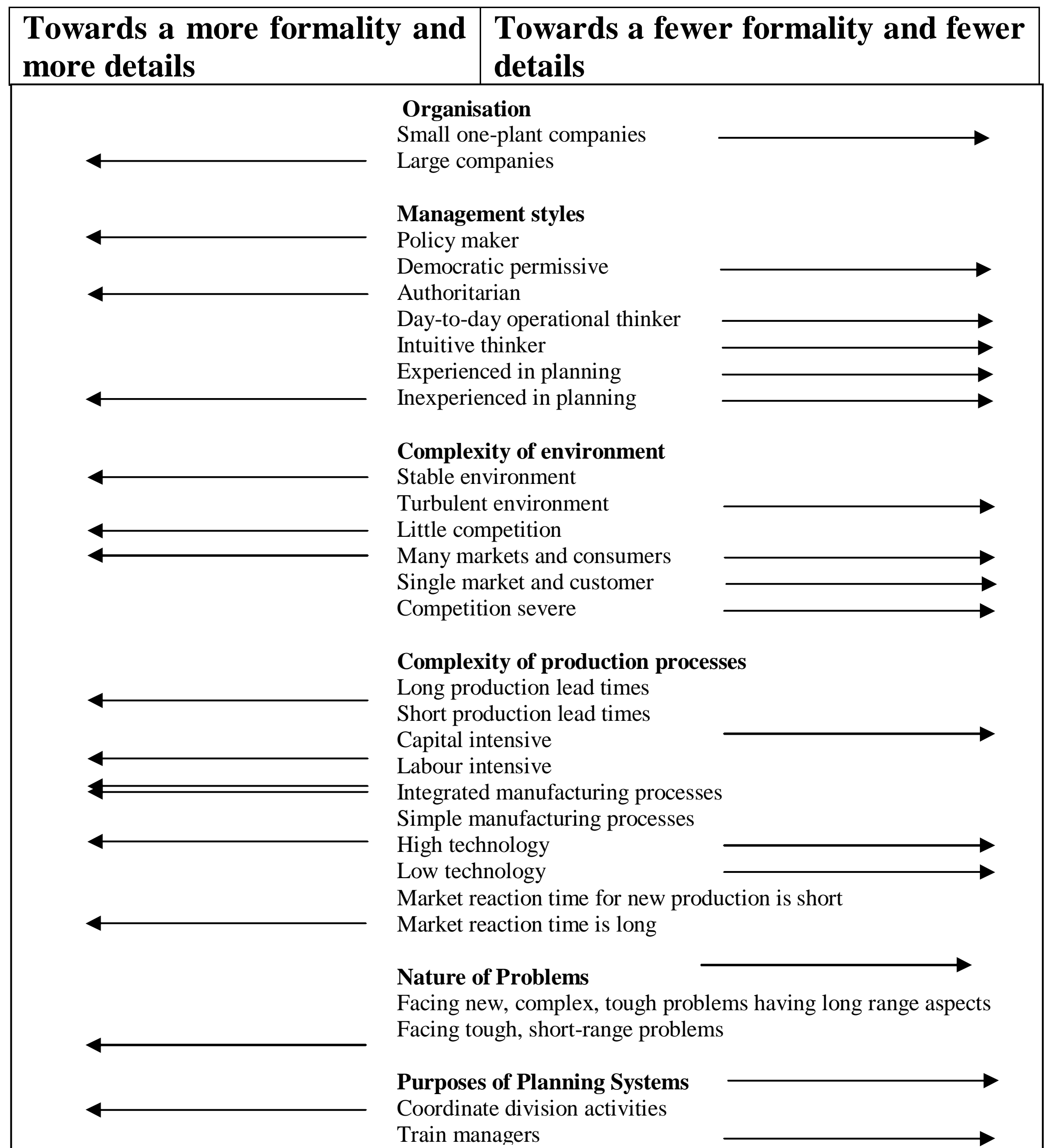
At the other end of the continuum, functional-level decisions principally involve action-oriented operational issues. These decisions are made periodically and lead directly to implementation of some part of the overall strategy formulated at the corporate and business levels. Therefore, functional-level decisions are relatively short range and involve low risk and modest costs because they are dependent on available resources. Functional-level decisions usually determine actions requiring minimal companywide cooperation. These activities supplement the functional area's present activities and are adaptable to ongoing activities so that minimal cooperation is needed for successful implementation. Since functional-level decisions are relatively concrete and quantifiable, they receive critical attention and analysis even though their comparative profit potential is low.

Characteristic	Level of strategy		
	Corporate	**Business**	**Functional**
Type	Conceptual	Mixed	Operational
Measurability	Value judgement dominant	Semi-quantifiable	Usually quantifiable
Frequency	Periodic or sporadic	Periodic or sporadic	Periodic
Adaptability	Low	Medium	High
Relation to present activities	Innovative	Mixed	Supplementary
Risk	Wide range	Moderate	Low
Profit potential	Large	Medium	Small
Cost	Major	Medium	Modest
Time horizon	Long range	Medium range	Short range
Flexibility	High	Medium	Low
Cooperation required	Considerable	Moderate	Little

Fig. 1.2: Characteristics of Strategic Management Decisions of Different Levels

Some common functional-level decisions include generic versus brand-name labeling, basic versus applied R&D, high versus low inventory levels, general versus specific-purpose production equipment, and close versus loose supervision.

Bridging corporate and functional-level decisions are those made at the business level. As figure 1.2 above indicates, business-level descriptions of strategic decisions fall between those for the other two levels. For example, business-level 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. Some common business-level decisions involve plant location, marketing segmentation and geographic coverage, and distribution channels.



Source: George A. Steiner, Strategic Planning (New York: Free Press, 1975, Copyright © 1979 by the Free Press, a division of Macmillan Publishing Co. Inc. with permission of Macmillan).

Fig. 1.3: Forces Influencing Design of Strategic Management System

3.4 Benefits of Strategic Management

The strategic management approach emphasises interaction by managers at all levels of the organisational hierarchy in planning and implementation. As a result, strategic management has certain behavioural consequences that are also characteristic of participative decision-making. Therefore, an accurate assessment of the impact of strategy formulation on organisational performance also requires a set of non-financial evaluation criteria – measures of behavioural-based effects. In fact, it can be argued that the manager trained to promote the positive aspects of these behavioural consequences is also well positioned to meet the financial expectations of the firm. However, regardless of the eventual profitability of particular strategic plans, several behavioural effects can be expected to improve the welfare of the firm.

1. Strategy formulation activities should enhance the problem prevention capabilities of the firm. As a consequence of encouraging and rewarding subordinate attention to planning considerations, managers are aided in their monitoring and forecasting responsibilities by workers who are alerted to needs of strategic planning.

2. Group-based strategic decisions are most likely to reflect the best available alternatives. Better decisions are probable outcomes of the process for two reasons- first, generating alternative strategies is facilitated by group interaction; second, screening of options is improved because group members offer forecasts based on their specialised perspectives.

3. Employee motivation should improve as employees better appreciate the productivity-reward relationships inherent in every strategic plan. When employees or their representatives participate in the strategy formulation process, a better understanding of the priorities and operations of the organisation’s reward system is achieved, thus adding incentives for goal-directed behaviour.

4. Gaps and overlaps in activities among diverse individuals and groups should be reduced as participation in strategy formulation leads to a clarification of role differentiations. The group meeting format, which is characteristic of the delineations of individual and subgroup responsibilities.

5. Resistance to change should be reduced. The required participation helps eliminate the uncertainty associated with

change, which is at the root of most resistance. While participants may no more be pleased with their own choices, then they would stick to authoritarian decisions, and their acceptance of new plans is more likely if employees are aware of the parameters that limit the available options.

3.5 Risks of Strategic Management

While involvement in strategy formulation generates behaviour-based benefits for participants and for the firm, managers must be trained to guard against three types of unintended negative consequences. First, while it is readily recognised that the strategic management process is costly in terms of hours invested by participants, the negative effects of managers spending time away from work is considered less often. Managers must be trained to schedule their duties to provide the necessary time for strategic activities while minimising any negative impact on operational responsibilities.

Second, if the formulators of strategy are not intimately involved in implementation, individual responsibility for input to the decision process and subsequent conclusions can be shirked. Thus, strategic managers must be trained to limit their promises to performance that can be delivered by the decision makers and their subordinates.

Third, strategic managers must be trained to anticipate, minimise, or constructively respond when participating subordinates become disappointed or frustrated over unattained expectations. Frequently, subordinates perceive an implicit guarantee that their involvement in even minor phases of total strategy formulation will result in both acceptance of their preferred plan and an increase in clearly associated rewards. Alternatively, they may erroneously conclude that a strategic manager’s solicitation of their input on selected issues will extend to other areas of decision-making. Sensitising managers to these issues and preparing them with effective means of negating or minimising such negative consequence will greatly enhance the overall potential of any strategic plan.

4.0 CONCLUSION

In this unit, you have learnt that strategic management is “ the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organization”. It involves long-term, future-oriented, complex decision-making, necessitating top-management action because of the resources required to formulate an environmentally opportunistic plan.

You have also been exposed to the fact that strategic management is a three-tiered process involving corporate, business and functional-level planners, and support personnel. At each progressively lower level, strategic activities were shown to be more specific, narrow, short-term, and action oriented with lower risks but fewer opportunities for dramatist impact.

You should note that the value of strategic management is a review of seven large-scale business studies. Using a variety of financial performance measures, each of these studies provides convincing evidence of the profitability of strategy formulation and implementation. In addition, the unit identifies five major behavioural benefits for the team-oriented, strategic-management-directed firm. Despite some noteworthy behavioural costs, the net behavioural gains justify the approach, almost irrespective of the hope of improved financial performance.

5.0 SUMMARY

In this unit, you have been taught the dimensions of strategic decisions, levels of strategy and characteristics of strategic management decisions. You have also been exposed to the formality in strategic management, the interactive and iterative flow of the strategic process as well as the value of strategic management.

Finally, the unit highlighted to you the benefits and risks of strategic management.

6.0 TUTOR-MARKED ASSIGNMENT

1. Find a recent copy of *Business Week* and read the "Corporate Strategies" section. Find out whether the main decision discussed is really strategic? At what level in the organisation is the key decision made?
2. In what ways do you think the subject matter in this strategic management/business policy course will differ from previous courses you have had?
3. Why do you believe the case method is selected as the best approach for learning the skills needed in strategy formulation and implementation?

7.0 REFERENCES/FURTHER READING

Fulmer, R.M. & Rue, L.W. (1974). "The Practice and Profitability of Long-Range Planning". *Managerial Planning* 22, pp. 1 – 7.

Herold, D.M. (1972). "Long-Range Planning and Organisational Performance: a Cross-Validation Study". *Academy of Management Journal,* March, pp. 91 – 102.

UNIT 2 STRATEGIC MANAGEMENT PROCESS

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1.0 INTRODUCTION

In this unit, you will be introduced to the concept and definition of strategic management, the process of strategic management, benefits or advantages and limitations or disadvantages of strategic planning and the reasons why strategic plans fail.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define the concept strategic management
- discuss the process of strategic management
- list and explain the advantages and disadvantages of strategic management
- state the reasons why strategic plans fail.

3.0 MAIN CONTENT

3.1 Definitions of Concept

Strategic management consists of competitive move and business approaches to produce successful performance. It denotes management game plan for:

- running the business
- strengthening a firm's competitive position
- satisfying customers
- achieving performance targets.

According to Lamb, (1984:IX), strategic management is-

- "an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and set goals and strategies to meet all existing and potential competitors, and then reassesses each strategy annually or quarterly, i.e. regularly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, new economic environment, or a new social, financial, or political environment".

Strategic management is the process of specifying the organisation's mission, vision and objectives, developing policies and plans, often in terms of projects and programmes, which are designed to achieve these objectives and then allocating resources to implement the policies and plans, projects and programmes.

Strategic management is management of change. This involves the system of corporate values, corporate culture, and all managerial process of change, such as leadership, planning, control and human resources management.

Strategic management provides overall direction to the enterprise and is closely related to the field of organisational studies. In the business administration, it is useful to talk about "strategic alignment" between the organisation and its environment or "strategic consistency". According to Arieu (2007), "there is strategic consistency when the actions of an organisation are consistent with the expectations of management, and these in turn are within the market and the environmental contexts.

3.2 Strategic Management Process

Churchman (1968), views strategic management as a series of steps in which top management should accomplish at least five tasks suggested below.

a. Firstly, to identify the business's fundamental values, goals and objectives that arises from them.
b. Secondly, to assess the business's environment i.e. forces outside the business itself that may be opportunities or threats.
c. Thirdly, to assess the business's resources and capabilities, i.e. those things within the control of the business, such as people, machinery, facilities, contracts, image and goodwill that can be allocated to achieve goals and objectives.
d. Fourthly, to identify or form the organisaiton's components i.e.

(i) internal units that receive allocated resources and carryout the business work, and
(ii) an organisational structure that includes the units themselves and the relationships of authority, responsibility and communication that they have with one another.

e. Fifthly, develop the management and decision-making structure, i.e. the process used to allocate the business's resources to its components so as to realise goals and sustained values within constraints of environment.

Churchman (1968) stresses that without knowledge of organisation's values, an organisation cannot develop a mission, goals and objectives.

Other interdependent factors in the strategic management process are listed below.

- Strategic planning
- Strategic formulation
- Stratetgic implementation
- Strategic evaluation

A. Strategic planning

Strategic planning is the key link between strategic management and an organisation's external environment. Resource management is the factor that links strategic management to the organisation's resources, including finances, facilities and equipment, land, access to information, goodwill and personnel. Strategic planning is a formal process where the assumptions, reasons and plans themselves are all written with figures to serve for future reference.

Strategic planning is systematic and logical planning process done at the corporate (top) level of the organisation, since it is mainly concerned with the long-term aspect of the business. Even research studies have

concluded that strategic management is an integral and important function of organisation life.

Strategic management process is seen as a powerful tool, and their value is with the executives and the ability to use the tool effectively in managing the enterprise.

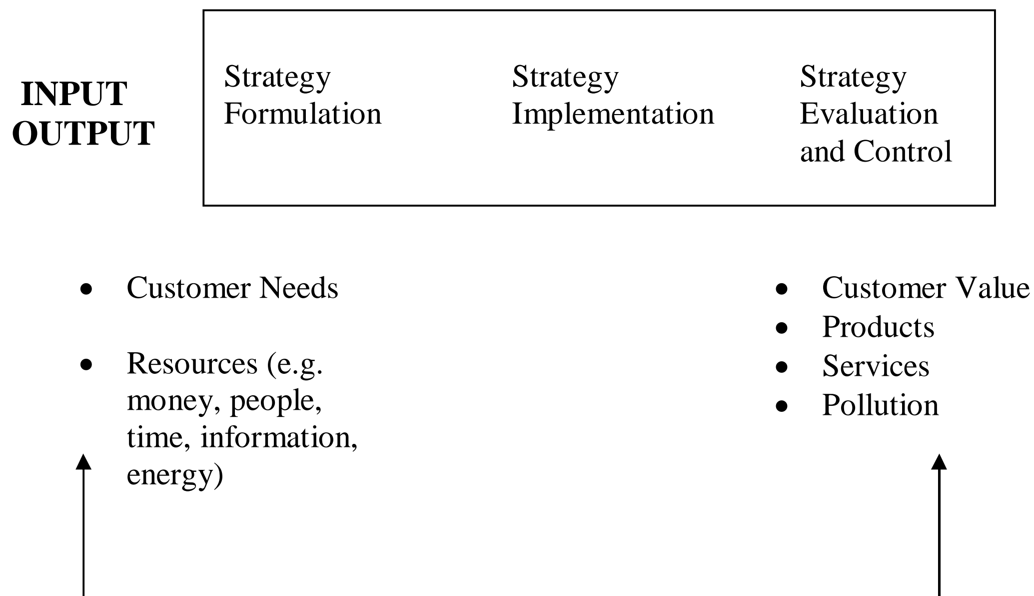

Fig. 2.1: An Example of Strategic Planning

B. Strategic formulation

This is setting objectives for the organisation. It is also performing a situation analysis, self-evaluation and competitors' analysis- both internal and external. Objectives can be in short-term and others can be on long-term. This involves crafting vision statements (long-term view of a possible future), mission statements (the role that the organisation gives itself in the society). Also, it states the corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic) and tactical objectives. All these objectives should suggest a strategic plan. The plan provides the details of how to achieve these objectives.

C. Strategic implementation

This involves allocation and management of sufficient resources (financial, personnel, operational support, times and technology support). Strategic implementation involves establishing a chain of command or some alternative structure (such as cross-functional teams). Strategic implementation requires assigning responsibility of specific

tasks or processes to specific individuals or groups. It equally involves managing the process. This includes monitoring results, evaluating the efficacy and efficiency of the process, controlling for variances and making adjustments to the process as necessary.

Strategy implementation (when implementing specific programmes) requires acquiring the requisite resources, developing the process training, process testing, documentation, and integration with (and or conversion from) legacy process.

Problems may occur or arise during the strategy implementation such as human relations and or the employee-communication problems. Usually, the greatest implementation problem involves marketing strategy, with emphasis on the appropriate time of the new products. However, an organisation with an effective management should try to implement its plans without signaling the fact to its competitors.

For a policy or strategy to work, the organisation must show a level of consistency from every worker and including the management. Since strategy implementation is the action stage of strategic management, it then means that all decisions made to install new strategy or reinforce the existing strategy are taken cognizance of and implemented fully.

D. Strategic evaluation and control

This is the final stage in strategic management process. Here, managers ensure that all chosen strategies work to achieve the organisation's objectives. The activities also include reviewing the internal and external factors that are the bases of current strategies and measuring performance and taking corrective measures.

Other strategic options are evaluated in the corporate strategy(according to Johnson and Scholes) in the following areas.

- **Suitability** (will it work?)
- **Feasibility** (can it be made to work?)
- **Acceptability** (will they work it?)

Now, let us consider these one after the other.

Suitability

This addresses the overall rationale of the strategy. It checks whether the strategy tackles the key strategic issues underlined by the oragnisation's strategic position.

Certain questions are however asked and answered, to confirm suitability of such strategy. They are as follows.

- Does it make economic sense?
- Will the organisation obtain economies of scale?
- Will it be suitable in terms of environment and capabilities?

Tools that can be used to evaluate suitability include the following.

- Ranking strategic options
- Decision trees
- 'What if' analysis.

Feasibility

This is concerned with the resources required to implement the strategy that are available, and can be developed or obtained. Resources include- funding, people, time, and information. Tools that can be used to evaluate feasibility include the following.

- Cashflow analysis and forecasting
- Breakeven analysis
- Resource deployment analysis.

Acceptability

This is concerned with the expectations of the identified stakeholders (e.g. shareholders, employees and customers) with the expected performance outcomes, which can be return, risk and stakeholders' reactions.

- **Return** – deals with the benefits expected by the stakeholders.
- **Risk** – deals with the probability and consequences of failure of a strategy.
- **Stakeholders' reaction** – deals with anticipating the likely reactions of stakeholders. Stakeholders can oppose the issuing of new shares.

Tools that can be used to evaluate accepabtability include the followings.

- 'What if' analysis
- Stakeholders' mapping.

Strategy hierarchy

In very large corporations, there are several levels of management. Strategic management, however, is the highest of these levels of management; in the sense that it is the widest and it is touching all parts of the firm.

Strategic management in hierarchy gives direction to corporate values, corporate cultures, corporate goals, and corporate missions. Under the broad corporate strategy, let us consider the following.

i. Corporate strategy

Corporate strategies are plans to carry out values and performance objectives of a company. These plans become more specific and detailed the lower organisational level. Corporate strategy is the art of using organisational resources to render the goals defined by the organisation with minimum risk.

Also, it is marshalling the resources for definite missions and planning alternative strategies in anticipation of changing contingencies and creating flexible conditions in structure and employee attitudes favourable towards achieving the corporate goal.

ii. Business strategy

This is the aggregated strategies of a single business firm or is a strategic business unit in a diversified corporation. Each firm formulates a business strategy in order to achieve a sustainable competitive advantage.

iii. Functional strategies

These are the core-centres of activities in the organisation. Functional strategies include marketing strategies, legal strategies and supply-chain strategies. These departments emphasise the short and medium term plans which are limited to their functional responsibility. Each department attempts to do its part in meeting overall corporate objectives.

iv. Operational strategy

This was encouraged by Peter Drucker in his theory of Management By Objectives (MBO). This has to do with the day-to-day activities in the organisation. It must operate within the budget and cannot create a

budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.

3.3 History of Strategic Management

Strategic management, as a discipline, originated in the 1950s and 1960s. There were a lot of exponents on the literature. The most influential pioneers were Alfred D. Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker.

Alfred Chandler, for instance, recognises the importance of coordinating the various aspects of management under one all-encompassing strategy. He opines that a long-term coordinated strategy is necessary and will give a company structure, direction, and focus.

In 1957, Philip Selznick, in his own contribution, introduced the idea of matching the organisation's internal factors with external environment circumstances and factors. This idea was developed into what we now call SWOT analysis by the learned, Andrews and others at the Harvard Business School management group. Strengths and weaknesses of the firm are assessed in the light of the opportunities and threats from the business environment.

Igor Ansoff, in his own contributions, built on Chandler's work by adding a range of strategic concept and inventing a whole new strategy. He had a strategy grid that compared market penetration strategies, product development strategies, market strategies development and horizontal and vertical integration and diversification strategies. Igor Ansoff believes that management can use these strategies to systematically prepare for future opportunities and challenges. In 1965, he wrote on classic corporate strategy where he developed the *"gap analysis"* still used today. It is used to understand the gap between where we are currently and where we would like to be, and then develop what he called *"gap reducing actions"*.

Peter Drucker, a prolific writer on management gave his own contributions to strategic management in two areas that are very important.

Firstly, Peter Drucker stressed the importance of objectives. Any organisation having no clear objectives certainly cannot be profitable. Based on objectives principles, Peter Drucker wrote a book on management theory of Management By Objectives (MBO), in 1954. According to Drucker, the procedure of setting objectives and monitoring your progress should involve the entire organisation- top to bottom.

Secondly, Peter Drucker's contribution was in predicting the importance of what, today, we would call intellectual capital. He predicted the rise of what he called the "knowledge worker" and explained the consequences of this for management. He notes that knowledge work is non-hierarchical. Work will be carried out in teams, with the person most knowledgeable in the task at hand being the temporary leader.

In 1985, Ellen-Earle Charffee summarises what she thinks are the main elements of strategic management theory that are useful to business managers today. They include the following.

- Strategic management involves adapting the organisation to its business environment
- Strategic management affects the entire organisaation by providing direction
- Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process)
- Strategic management is done at several levels-overall corporate strategy and individual business strategy.

3.4 Importance of Strategic Management

A number of reasons were given by authors why organisations should embrace strategic management principles. Research studies made by Eastlack and McDonald (1970), Thune and House (1970), Asoff et al. (1971), Karger and Malik (1975) and Hofer and Schendel (1978) indicate that there are a lot of values or benefits to be gained from strategic management studies.

- Take note of the following, among others.
- Strategic management is needed to cope with and manage uncertainty in decision-making process.
- Strategic management provides a way to anticipate future problems and opportunities.
- Strategic management provides employees with clear objectives and directions for future of the organisation.
- Application of strategic management gives better performance.
- It increases employees' satisfaction and motivation.
- It gives faster and better decision-making process.
- It allows for identification and exploitation of opportunities.
- It allows more effective allocation of time and resources to all identified opportunities.

3.5 Limitations of Strategic Management

The limitations are as follows.

a. When a strategy becomes internalised into a corporate culture, it can lead to group think;
b. It can also cause an organisation to define itself too narrowly;
c. Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations.

3.6 Reasons Why Strategic Plans Fail

Some of the reasons why strategic plans fail include the following.

- Failure to understand the customer;
- Inability to predict environmental reaction;
- Overestimation of resource competence;
- Failure to coordinate;
- Failure to obtain senior management's commitment;
- Failure to obtain employee commitment;
- Failure to follow the plan;
- Failure to manage change;
- Poor communication.

4.0 CONCLUSION

In this unit, you have learnt that strategic planning, formulation, implementation and evaluation activities occur at three hierarchical levels, namely- corporate, divisional or strategic business unit, and functional. However, it is worthy to note that the strategic management process is dynamic and continuous. The process never really ends.

5.0 SUMMARY

In this unit, you have been exposed to strategic management process, the history or genesis of strategic management, and the importance and limitation of strategic management. You have also been taken through the reasons why strategic plans fail.

6.0 TUTOR-MARKED ASSIGNMENT

Write short notes on the following.

a. Strategic planning
b. Strategic formulation
c. Strategic implementation
d. Strategic evaluation

7.0 REFERENCES/FURTHER READING

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UNIT 3 STRATEGIC DECISION-MAKING

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
 3.1 Decision-Making Process
  3.1.1 Nature of Decision-Making
 3.2 Classification of Decision
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1.0 INTRODUCTION

Decision-making is one of the most crucial activities of management. The necessity to decide is the everyday preoccupation of management in all types of organisations, whether small enterprises or multi-national corporations. The decisions that management faces are sometimes simple and in other instances, complex and overwhelming. A decision to increase production in a particular industry can necessitate the employment of more labour, increase in plant capacity, acquisition of more equipment, borrowing of money and the mastering of new technological know-how. This decision can affect the entire economic climate resulting in full employment, with its attendant consequences– increase in money circulation and inflation.

In this unit, you will be introduced to decision-making and all that it entails.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define decision-making
- identify the process involved in decision-making
- classify decisions
- describe group decision-making
- discuss creative thinking and steps involved in creative thinking.

3.0 MAIN CONTENT

3.1 Decision-Making Process

A decision is the selection of alternative course of action from available alternatives in order to achieve a given objective. The decision-making process is influenced by the unique environment of the decision maker, his organisational position, available knowledge and experience in decision-making. A decision is a choice aimed at achieving optimum result in a given situation.

3.1.1 Nature of Decision-Making

In business, there are absolutely no right or wrong decisions but intelligent choices. What one considers a right decision in a particular time frame may turn out to be an unintelligent decision if the circumstances change. This is particularly true in developing countries where most of the variables required for intelligent decision are lacking. In some industries, the total production is unknown, the consumption pattern is not clear, the total population is a guess work, supply of raw materials is influenced by political consideration and the time for the supply of raw material is most unpredictable.

An entrepreneur may decide to import large quantities of raw material because it is under licence. The restriction can be lifted within a month after the importation, purely on political grounds without giving consideration to its consequences on the successful operation of the businessmen in the industry.

As pointed out earlier, decision-making presupposes the existence of alternatives. From these alternatives, the decision maker selects the one that will yield the desired result. This entails the existence of some criteria for measuring or comparing the desirability of the alternatives in relation to the purpose. Figure 3.1 below shows the structure of decision-making. According to Buffa, all decisions go through this process.

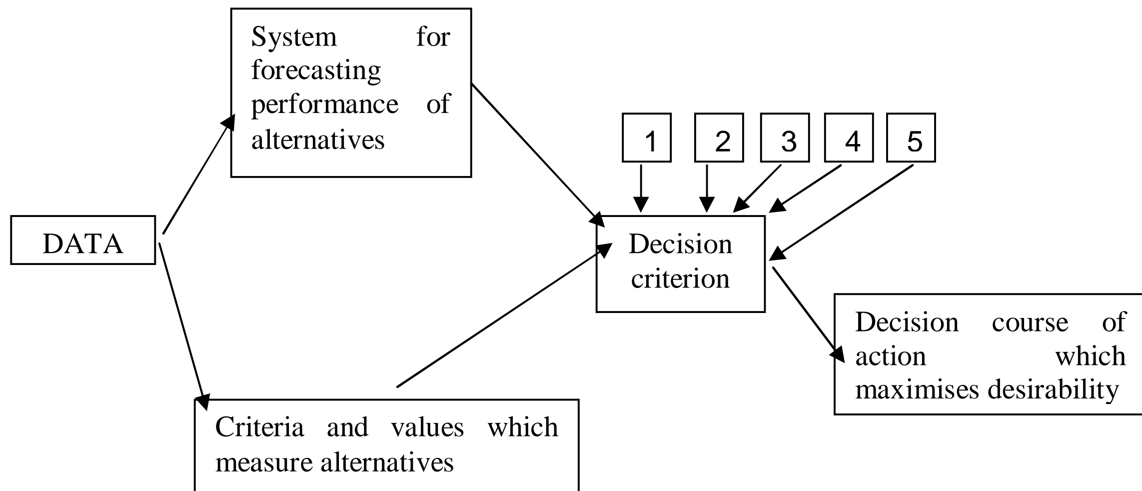

Fig 3.1: Structure of Decision-Making

Each alternative can have desirable and undesirable aspects. The alternative that appears to have the most desirable result, based on our ***decision criterion***, is the one to be selected. Every decision is based on a probability that the anticipated event will occur. If a quantitative method is used, the value of each alternative is computed; the course of action that maximises the final desirability is the rational decision.

3.2 Classification of Decision

Decision-making can be classified into three major groups as stated below.

- Decision-making under certainty
- Decision-making under risk
- Decision-making under uncertainty.

1. Decision-making under certainty

Certainty – here, it is assumed that there is a single-space, complete and accurate knowledge of the consequence of each event.

A decision made with full knowledge of the occurrence of an event is said to be decision under certainty. In this situation, the decision maker knows what the stated value of the pay-off is expected to be. If ,for instance, the value is 1.00, in making the decision one has to select the alternative that gives the expected pay-off of 1.00. Assuming that a service organisation wishes to determine the cheapest way of handling its security services and finds out that:

- if it subcontracts security service, it will cost ₦7,000 per annum;

- if it handles its own security by hiring 4 security-men, it will cost ₦10,000 per annum;
- if it installs burglary proof and other security measures it will cost ₦12,000 per annum.

In this situation, it is easy to select plan (a) since it entails the lowest cost.

2. Decision-making under risk

The consequence of each choice cannot be defined by a correspondent relationship, even within a probabilistic framework.

3. Decision-making under uncertainty

It is assumed that accurate knowledge about the probability distribution of the consequence of each alternative exists.

3.3 Stages in Decision-Making

Every decision-making process has some basic elements in order to be effective; the basic elements include the following:

- the formulation of goal or goals
- mental process to acquire knowledge on the situation
- analysis to determine alternative course of action
- choice procedure
- implementation.

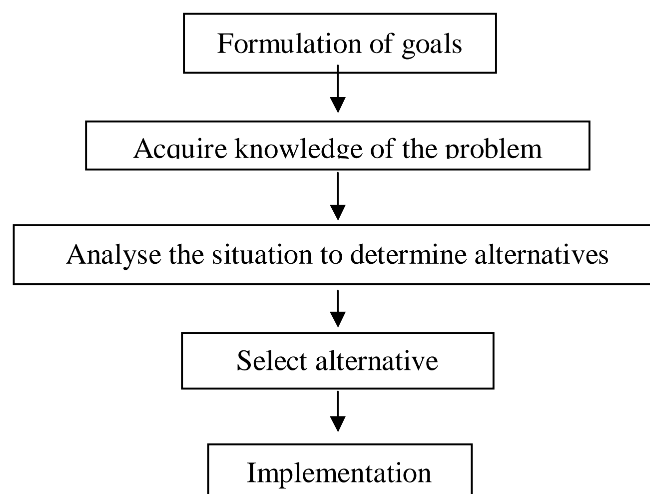

Fig. 3.2: Elements in Decision-Making

Let us take a look at the above one after another.

(a) Formulation of goals

For one to make a decision, one must have goals that one expects to achieve. The goals to be achieved may be determined by the organisation and can aim at minimising cost or maximising profit. In the case of the production manager, the decision at that level could be to reduce rejects by 20 percent or increase average output by 10 percent.

(b) Acquire knowledge

A rational decision requires the decision maker to have a thorough understanding of the problem in order to make an intelligent choice. This demands that the decision maker saturates himself with facts about the situation. At this stage he seeks information from employees who have expert knowledge about the situation under study. When vital decisions are to be made, "brainstorming" is encouraged in order to avoid costly, hasty decisions. It is advisable to hear both from those who are interested in the problem and those who are opposed to it. The step is likened to a situation where a "car won't start" in the morning. Why? What is the cause of the problem?

(c) Analysis to determine alternatives

The essence of analysis at this stage is to determine possible courses of action – the search for alternatives. The number of alternative ways of solving the problem that can be thought out depends on the effort expended by the decision maker in the search for alternatives. This is one of the crucial steps in rational decision-making. It involves the utilisation of the vital information gathered through the process of defining the problem. The decision maker can tap the brain of experts and engage in creative logical reasoning. This will help to achieve the objective with cost effectiveness in mind.

(d) Decision

Decision is the selection of the course of action believed by the decision maker to yield the best result under the circumstances. The final selection is influenced by the decision maker's past experience, his value judgement, the logical process that has been established and followed in the previous steps above.

It has to be pointed out that the selected solution may not necessarily be the most satisfactory solution but the most intelligent decision under the circumstance. An entrepreneur may decide in the circumstance to select the alternative that "minimises his risk or involves "minimum regret" or

gives him optimum result in the short-run. There is a tendency for Nigerian entrepreneurs to seek short-run instead of long-run growth.

It is important at this stage to ask four vital questions.

- Did I consider all possible alternatives that bear on the question?
- Does the selected alternative contribute to the realisation of the intended objective?
- Will the decision lead to the attainment of the preferred solution?
- Is this alternative capable of implementation?

(e) Implementation

A decision process is not complete until it is implemented. The essence of any decision is to secure action. If this stage is not properly carried out, the entire process is a waste of time and resources. For some important decisions to be implemented effectively, the decision maker has to seek and obtain the willingness of operation of all involved. He has to "sell" the decision to the workforce. Factors involved in securing acceptance include effective communication, motivating the employees into accepting the decision, and pointing out the advantages to be achieved, effective control of the process for the implementation of the decision and, promoting the timing of events to aid coordination.

3.4 Group Decision-Making

An organisation is not better than the people that make it up. The success or failure of an organisation depends on the creativity of its human resources. Efficient and effective utilisation of these people to make use of their intellectual abilities, in part, helps the growth of the organisation. The popular saying that *"two heads are better than one",* aptly illustrates the importance of participatory decision-making.

One of the major problems encountered in retaining young university graduates in many indigenous enterprises is the absence of participatory decision-making. The average entrepreneur is reluctant to involve young graduates in areas they believe they can contribute their best in the organisation. Thus, only 20 percent of the graduating class of the professional schools of the University of Nigeria, for instance, will elect to work for indigenous enterprises. Most people, who terminate their appointment with small businessmen, usually give lack of participation as one of the key reasons for doing so. Other key reasons include lack of future prospect, lack of prestige and inability to use their expertise. Employees like to be involved in decisions that affect the organisation, especially, those that affect them directly.

Decisions are expected to be made in a social environment. It is a situation in which each participant contributes his ideas towards the realisation of a predetermined goal. No idea is useless, no matter how stupid it sounds. In many instances, what some people call "stupid" or "crazy" ideas are those that disagree with their own. There is a popular saying that *"where the people always agree, only one person is doing the thinking"*. Group decision calls for varied views, some optimistic and some pessimistic.

In the final analysis, what determines whether a decision is to be made by an individual or group is the type of decision to be made, and the importance of the decision to the immediate attainment of organisational objectives.

3.4.1 Committee Decision

In modern organisations, committees are increasingly being used as effective administrative tools. In large and small organisations, committees are used for a variety of reasons. In large decentralised organisations, a committee is the device for achieving coordination of activities and sharing information among the various departments and divisions of a company.

A committee can be seen as a group of people assembled together to take action on an administrative task. In some organisations, there are committees for each key functional area such as finance, production, sales, auditing, purchasing, and engineering. These are generally permanent committees. These committees often meet regularly once or twice a month to discuss general problems affecting their operation. There are instances where committees are appointed to study and offer solution to a specified organisational problem. They stop functioning as soon as the assignment is completed. This is generally called an ad hoc committee.

Committees, such as salary adjustment committee, tenders board committee, employee grievance committee or question box committee can be ad hoc committees. They can also be permanent committees. The government makes use of some committees in dealing with specific assignments. In Imo state at a time, for instance, the government appointed a planning committee to help plan the state university; Anambra state, as well, appointed a television planning committee, sometimes ago. These are ad hoc committees which cease to exist as soon as their functions are completed.

3.4.2 Selection of Committee Members

The effective use of committees in the solution of organisational problems depends on the selection of the right people to serve in the committee. Most of the criticisms often voiced in the use of a committee as an effective device in decision-making depend on the quality of people appointed to serve on them. Committees are often seen as "a group of people who keep minutes and waste time and money". Hudson, writing on this important issue observes that:

- "Equally sad and costly are the "good" people who are un-trained to the rigours of sound committee working – the people who debate on ideas, who lack a gift for negotiation, the people who are spineless, irrational, hyper-sensitive and over-emotional people who are blindly devoted to an ideology, blindly loyal, or blindly combative".

The selection of members of a committee should be based on qualifications such as knowledge of the subject matter to be assigned to the committee, interests, responsibility, availability and emotional maturity.

The number of people to serve in a committee is to be determined by the nature of the assignment. A large number is sometimes very cumbersome to manage, and makes it often difficult to agree on a specific time and date for meetings.

3.4.3 Committee Chairman

The success or failure of a committee, in most instances, depends on the chairman. The chairman is expected to be a mature, intelligent, skillful, versatile person who is capable of accommodating varied opinions. A committee succeeds when the members believe that the chairman is equal to the task and is capable of leading the committee to arrive at mature conclusions. A capable chairman is in a position to help reduce some of the major disadvantages associated with committees such as cost, idle debates, danger of compromise and slow action.

3.4.4 Benefits and Limitations of Committees

Almost all formal organisations have committees because it has been very useful as one of the basic democratic ways of operation and the realisation that the concentration of tasks in one individual does not make for efficient and effective control.

The following are the basic advantages

a. It makes different viewpoints available. The interaction between members brings out different viewpoints that could not have been considered or given due weight if the decision was made by one person. Collective views make for thorough and complete analysis. Thus, it provides a forum whereby knowledge, experience and abilities of several experts are brought together.

b. Better coordination- committee decision helps to promote better coordination in the company. In any type of organisation, there is often constant need for coordination in order for everyone to pull in the same direction. The coordination of sales department with production, purchases and advertising departments brought about by their being in the same committee will help to achieve optimum results.

c. Committee as advisers- a committee can be advisory in nature. This type of committee is created to advise, counsel and make recommendations to the managing director to help him make an intelligent decision. An administrative commission of inquiry is a typical example of an advisory committee.

d. Collective responsibility for decision- when the chairman of the committee takes a decision, it becomes a collective decision of the committee irrespective of whether a member likes it or not. The decision becomes the decision of the "group" which they cannot afford to disagree with. In some instances, there is an "overtone" which suggests to members that he would like them to "go along". What he really demands from them is support.

e. One of the major disadvantages of a committee decision is that many committees only recommend or advise. To advise is not to decide, as the decision lies with the chief executive who is accountable for the outcome of the decision. In a committee decision, no one is held accountable or responsible for the decision because of the nature of the impersonality that characterises all committees. It has to be observed here that, depending on the nature and authority, a committee may just be advisory, or it may operate in an information coordination or final decision-making capacity.

3.4.5 Use of Committees in Nigerian Organisations

Committees, standing and ad hoc, are extensively used in Nigerian organisations. All organisations with more than 50 employees have one

form of committee or the other. In a study of Nigerian establishments, 78 percent of the organisations reported the existence of one committee or the other with varying degrees of authority and life span.

Interestingly, 58 percent of the respondents in industry, commerce and service organisations advocated the use of more committees while 28 percent of the respondents in the public service advocate for the use of more committees. Some managers(68 percent) serve in more than four committees at a time. Only 2 percent serve in only one committee.

The most popular committees in Nigerian organisations are given in Table 3.1below.

Table 3.1: Committees in Nigerian Organisations ₦ =240

Functional Areas	No. of Companies with the Committee	Percentage of total frequency of mention
General Management	204	85
Finance	96	40
Marketing	156	65
Production	84	35
Labour and Personnel	132	55
R & D New Products	108	45
Public Relations	132	55
Others	60	25

It is interesting to observe that a large percentage (55 percent) have labour and personnel committees. It is equally revealing to note that 40 percent of the respondents believe that committees are very efficient and only 28 percent believe that they are not efficient. The summary is shown in the table 3.2 below.

Table 3.2: Efficiency of Committees in Nigerian Organisations
₦ = 240

Degree of Efficiency	No. of Respondents	Percentage
Very efficient	48	20
Efficient	96	40
Not efficient	72	30
No opinion	24	10
Total		100

A cursory analysis of respondents by occupation shows that 55 percent of those in the public service reported that committees are very efficient as a device for decision-making. The reasons given ranged from the inability of committees to implement their decisions to committees serving as "rubber stamp" for management, to the entrenchment of highly centralised structures that cannot accommodate the decision of committees. It is true that the potential benefits of group participation in decision-making are seldom achieved in many instances. Nevertheless, this should not be seen as sufficient reason to underestimate the importance of committee decision. The quality of decision-making by a committee is a function of the environment for decision, the quality of leadership and the calibre of people in the committee.

3.5 Creativity in Decision-Making

A good committee can be very creative. A creative committee is one that comes up with new ideas, new approaches, and new ways of doing old things, doing a common thing in an uncommon way, a new product, or new application or a combination of existing knowledge. Creativity is one of the highly sought after talents in management. A creative manager seeks original solutions to existing problems. Creative thinking is necessary in business for the organisation is constantly in search of an imaginary solution to problems posed by its competitors and the total environment. Many organisations have individuals with great inventiveness; and the unusual ability to create new ideas is the realisation that some people are more creative than others. This is why committees are often used to find solutions to some organisational problems.

An ideal environment that is supportive of and promoting creative thinking is necessary for individuals to challenge that imagination. The recruitment of people who are creative is a necessary precondition to encouraging creativity in an organisation.

3.6 Steps in Creative Thinking

Studies have shown that certain steps are necessary in creative thinking. These can be summarised as follows.

a. Problem identification
b. Investigation
c. Incubation
d. Illumination
e. Verification
f. Problem identification

The first step in creative thinking is the perception that a problem exists. This can be in production, sales, customer relations or advertising. The discovery of this problem launches the creative individual immediately to seek for suitable solution. No creative work has been achieved without dissatisfaction with the existing situation which forces the "genius" to seek new ways.

a. Investigation

Investigation is the second step in creative thinking. In this step, the individual examines the problem and analyses old ways of performing the task. This can call for intensive research into existing knowledge on the subject. There could be an exploration into all the possible avenues that will lead to the discovery of such things as interrelationships, and associations. This step involves the accumulation of facts and figures that bear on the subject. A thorough examination which helps the individual to saturate himself with facts and figures on the problem will help to develop a creative solution.

b. Incubation

This is a very important stage in the process. Here, the entire mind reflects on the problem. Sometimes, a creative solution is not easily available and the individual leaves the subject for more reflection. Creative thinking is not a choice of alternatives as in decision-making. It is a process of mulling over the problem. It may involve the use of the unconscious mind. The creative person is at this time in a special state of mental "stress", and detaches himself from things around him. He could go around the circles with a real solution arising and he could at this stage leave the problems for a while to avoid mental fatigue. This period is characterised by frustration and helplessness.

c. Illumination

An ideal brainstorming session highlights the importance of new ideas. The rules for successful brainstorming session include the following.

- Criticism of ideas must be withheld until after the session
- The group must welcome *free-wheeling* and encourage the wildest of ideas
- Developing a greater quality of ideas increases the likelihood of having one really useful idea
- Each member of the group should improve and relate his own ideas to the ideas of others.

d. Verification

Some of the major criticisms of brainstorming are that it is time consuming. Many man-hours are spent in generating ideas and also in crystallising them. It also produces many superficial ideas.

Nevertheless, its usefulness in creative thinking can hardly be overstated. In many organisations, it is indispensable in determining the name of a new product and determining a new advertising slogan. Political parties in Nigeria use it very extensively.

3.7 Qualitative Methods of Decision-Making

The use of qualitative methods as aid in decision-making is well recognised in large organisations in developing countries, and to a less extent, in small industries. One of the major reasons for this is the limited education of the owners of small businesses. With increased education and the separation of owner-manager, these techniques will be increasingly found useful by small businessmen.

3.7.1 Operations Research (OR)

The mathematical techniques used as aid to decision-making are often called operations research. Churchman et al. defines operations research as:

- "an application of the scientific method to problems arising in the separation of a system which may be presented by means of a mathematical model and in solving of these problems by resolving the equation representing the system".

Operations research has gained wide acceptance because of its use in modern high speed electronic computers. Basically, operations research is the application of scientific method in the solution to business problems; operations research is applied in a variety of business problems which include the following.

- Productive scheduling
- New product development
- Long-range planning
- Warehouse location selection
- Retail outlet selection
- Product mix selection
- Air and highway traffic control
- Portfolio management.

The use of *OR* entails the building of models called equations to represent the system.

3.7.2 Linear Programming (LP)

Linear programming is a relatively new mathematical technique in situations requiring optimum allocation of resources, money, capital equipment, raw materials and personnel. It is useful in production management because allocation problem poses great complexity involving a large number of variables that can equally be solved through linear programming techniques. If the Nigerian Bottling Company, for instance, wishes to determine the best cost method of distributing its products from its four bottling plants to a number of warehouses located all over Nigeria, linear programming technique will be used.

3.7.3 Queuing Theory

Queuing theory is often called waiting-line theory. The system is used in determining the optimal utilisation of a facility in an intermittent service.

4.0 CONCLUSION

In this unit, you have learnt that decision-making is one of the most crucial activities of management. You have also seen that that there is the need to make decisions in all types of organizations, whether small enterprises or multi-national corporations. The decisions that management faces are sometimes simple and in other instances, complex and overwhelming.

5.0 SUMMARY

In this unit, you have learnt the definition of decision-making. You have also identified the process involved in decision-making and classification of various decisions. You are now conversant with group decision-making and you can now discuss creative thinking and the steps involved in it.

6.0 TUTOR-MARKED ASSIGNMENT

What do you understand by the term decision-making in management? List and discuss the process involved in decision-making.

7.0 REFERENCES/FURTHER READING

Hofstede, G. (1980). "Motivation, Leadership and Organisation: Do American Theories Apply Abroad?" *Organisational Dynamics*, Vol. 9, Summary, p. 43.

Satya, Saran Chatterjee (1966). "*An Introduction to Management: Its Principles and Techniques*". The World Press, pp. 184 – 186.

UNIT 4 SWOT ANALYSIS

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 Definition of *SWOT*
        3.1.1 Objectives of *SWOT*
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    3.3 Use or Advantages of *SWOT*
4.0 Conclusion
5.0 Summary
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1.0 INTRODUCTION

In this unit, you will be introduced to one of the principles of strategic management, which acronym is given as *SWOT*. *SWOT* represents-Strengths, Weaknesses, Opportunities and Threats. In a business organisation, *SWOT* relates to business environment, organisational strategies and policies and performance measures. Business environment means the surroundings of business activities. It is the totality of the interactions between business and the society.

Conceptually, business environment is the total of all external and internal forces that influence an individual or a community

2.0 OBJECTIVES

At the end this unit, you should be able to:

- analyse *SWOT* as an aspect of strategic management
- explain the origin of *SWOT* analysis model
- list the advantages of *SWOT* analysis.

3.0 MAIN CONTENT

3.1 Definition of *SWOT*

SWOT analysis is a strategic planning method used to evaluate the **strengths**, **weaknesses**, **opportunities**, and **threats** involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external

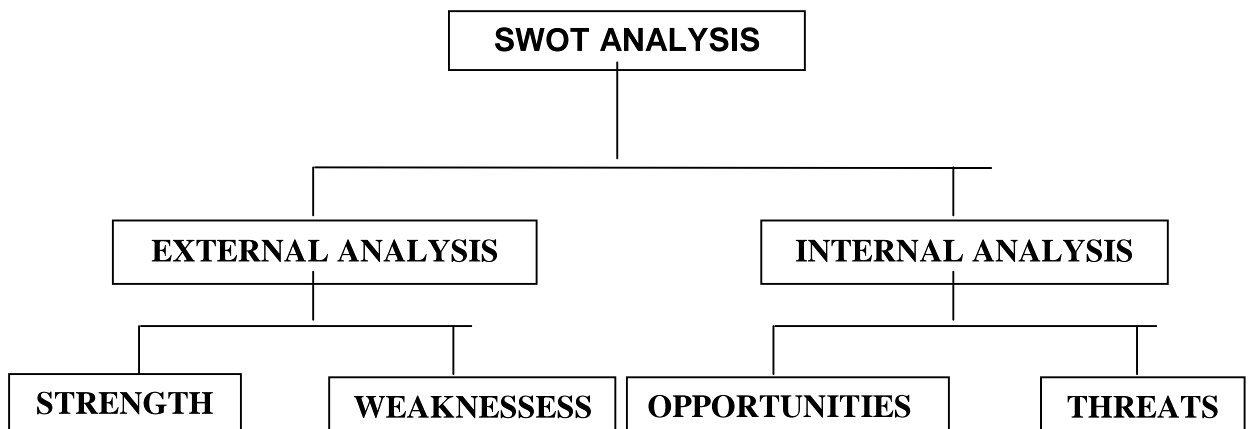
factors that are favourable and unfavourable to achieving the set objectives.

3.1.1 Objectives of *SWOT*

Naturally, in a business environment there are uncertainties, human needs, production, markets, technology and competition.

SWOT determines the strengths and weaknesses that are internal factors which create value or harmful to achieving the objectives of business. They can include assets, skills or resources that a company has at its disposal, compared to its competitors.

Opportunities and threats are external factors or conditions that can create value or destroy value of business performance. A company cannot control them (external factors), but they emerge from either the competitive dynamics of the industry/market or from demographic, economic, political, technical, social, legal or cultural factors.



Note: **Helpful → Strengths and Opportunities**
Harmful → Weaknesses and Threats

Fig. 4.1: SWOT Analysis Diagram

Typical examples of factors in a *SWOT* analysis

(A)
INTERNAL FACTORS

STRENGTHS	WEAKNESSES
Specialist marketing expertise; Exclusive access to natural resources; Patents; New, innovative product or services; Location of your business; Cost of advantage through owners knowledge; Quality processes and procedures ; Strong brand or reputation.	Lack of marketing expertise; Undifferentiated products and services; Location of your business; Competitors having superior access to distribution channels; Poor quality of goods and services; Damaged reputation.

EXTERNAL FACTORS

OPPORTUNITIES	THREATS
Developing markets (internet); Mergers, joint ventures; Moving into new attractive market segment; A new international market; Removal of international trade barriers; A market that is led by a weak competitor.	A new competitors in your home market; Price war; Competitor has a new, innovative substitute production service; New regulations; Increased trade barriers; A potential new taxation on your product or service.

(B) CONFRONTATION MATRIX

This is a tool to combine the internal factors with the external factors known as confrontation matrix.

	OPPORTUNITIES	THREATS
STRENGTHS	**Offensive** Make the most of these	**Adjust** Restore strengths
WEAKNESSES	**Defensive** Watch competition	**Survive** Turn around

Fig. 4.2: Confrontation Matrix

3.2 Origin of *SWOT* Analysis Model

Information on the origin of *SWOT* analysis was provided by Albert S. Humphrey. He was one of the founding fathers of *SWOT* analysis. He died on 31st October, 2005.

SWOT analysis emanated from the research conducted at Stanford Research Institute from 1960-1970 to find out why corporate planning failed. The research was funded by the collaborative efforts of 500 companies, essentially to find out what could be done about the failure of corporate planning. The research team was made up of Marion Dosher, Dr. Otis Benepe, Albert Humphrey, Robert Steward, and Birger Lie.

The research started with the corporate planning trend, first at Du Pont in 1949. By 1960, all the managers (or equivalent) and associations of long range corporate planners that had sprung up in both USA and the UK got involved. However, a unanimous opinion developed (in all the companies represented) that corporate planning in the shape of long range planning was not working, did not pay off, and was an expensive investment in futility.

It was widely held that managing change and setting realistic objectives carry the conviction of those responsible; which was difficult and often resulted in questionable compromises. The fact remained that despite the corporate and long range planners, the one and only missing link was how to get the management team agreed and committed to a comprehensive set of action/ programmes.

To create this link, starting from 1960, Robert F. Stewart at SRI, in Mento Park Carlifornia led a research team to discover what was going wrong with corporate planning, and then to find some sort of solution; or to create a system for enabling management teams agreed and committed to development work, which today, we call “managing change”.

The research was carried on from 1960 through 1969. 1,100 companies and organisations were interviewed and a 250-item questionnaire was designed and completed by over 5,000 executives. Seven key findings led to the conclusion that in corpoations, chief executives should be the chief planner, and that his immediate functional directors should be the planning team.

SWOT analysis template and method- free *SWOT* analysis examples are as shown below.

1 - Value
2 - Appraise
3 - Motivation
4 - Search
5 - Select
6 - Programme
7 - Act
8 - Monitor and repeat steps 1, 2, and 3.

The team then discovered that they could not change the value of the team or set the objectives for the team, so they started- as the first step, by asking the appraisal question i.e. what's good and bad about the operation? They began the system by noting that- what is good in the present is *Satisfactory*, good in the future is an *Opportunity*; bad in the present is a *Fault,* and bad in the future is a *Threat*. This was called the *SOFT* analysis.

When this was presented to Urick and Orr in 1964, at the seminar in Long Range Planning at the Dolder Grand in Zurich, Switzerland, they changed the *F* to a *W* and called it *SWOT* analysis.

SWOT was then promoted in Britain by Urick and Orr as an exercise in and of itself. As such, it has no benefit. What was necessary was the sorting of the issues into the programme planning categories of:

- product (what are we selling?)
- process (how are we selling it?)
- customer (to whom are we selling it?)
- distribution (how does it reach them?)
- finance (what are the prices, costs and investment?)
- administration (and how do we manage all this?)

A planning process was then designed through trial and error and resulted finally in a 17-step process beginning with *SOFT/SWOT* with each issue recorded separately on a single page called a planning issue.

However, the process has been used successfully in coping with today's problems of setting and agreeing realistic annual objectives without depending on outside consultants.

3.3 Use or Advantages of *SWOT* Analysis

The *SWOT* analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organisations (both profit and non-profit). *SWOT* is an acronym for Strengths, Weaknesses, Opportunities and Threats.

- *SWOT* analysis helps in analysing business and environmental factors.
- *SWOT* helps in setting objectives.
- *SWOT* analysis helps marketers to focus, especially, on their relative competitive strengths and weaknesses.
- *SWOT* analysis makes marketing managers to examine each competitor's cost structure, sources of profits, resources, competencies, competitive positioning and product differentiation.
- *SWOT* analysis is a tool used in management and strategic planning.
- *SWOT* analysis works well in brainstorming meetings.
- *SWOT* analysis is used for business planning, strategic planning, competitors' valuation, market research and product development and research reports.

4.0 CONCLUSION

In this unit, you have been exposed to the fact that *SWOT* is a practical way of assimilating internal and external information about the business unit, and setting business objectives. Also, it is a tool for corporate planning, strategic planning and management process. *SWOT* analysis helps decision-making process in all levels of management as well as strategy formation.

5.0 SUMMARY

In this unit, the nitty-gritty of *SWOT* analysis has been made known to you. The unit has also traced the history of *SWOT* analysis and highlighted the advantages of *SWOT* analysis to business organisations.

6.0 TUTOR-MARKED ASSIGNMENT

What do you understand by the acronym *SWOT*? What are the benefits of *SWOT* analysis to business organisations?

7.0 REFERENCE/FURTHER READING

Hofstede, G. (1980). "Motivation, Leadership and Organisation: Do American Theories Apply Abroad". *Organisational Dynamics*, Vol. 9, Summary, p. 43.

UNIT 5 OPPORTUNITY ANALYSIS AND MARKET TARGETING

CONTENTS

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2.0 Objectives
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3.3 Market Segmentation
3.3.1 Benefits of Market Segmentation
3.3.2 Bases for Market Segmentation
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1.0 INTRODUCTION

The development and implementation of marketing strategy can be complicated and quite challenging. At its pinnacle, marketing strategy involves the selection of markets and the development of programs to reach these markets. This process is carried out in a manner that simultaneously benefits both the markets selected (satisfying the needs or wants of buyers) and the organisation (typically, in dollar profit terms).

Within this framework, a necessary first task is **opportunity analysis**, **market segmentation**, and **market targeting**. This unit describes to you analytical concepts and tools that marketing managers find useful in performing **opportunity** analyses, segment markets, selecting **market** targets, and estimating **market** and sales potential.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- enumerate the interrelated activities involved in opportunity analysis
- define the term market
- describe market segmentation
- explain what is meant by market targeting.

3.0 MAIN CONTENT

3.1 Opportunity Analysis

Opportunity analysis consists of some interrelated activities, as outlined below.

i. **Opportunities** arise from identifying new types or classes of buyers, uncovering unsatisfied needs of buyers, or creating new ways or means of satisfying buyer needs. Opportunity analysis focuses on finding markets that an organisation can profitably serve.

ii. **Opportunity** – ***organisation matching*** determines whether an identified market opportunity is consistent with the definition of the organisation's business, mission statement, and distinctive competencies. This determination usually involves an assessment of the organisation's strengths and weaknesses and an identification of the success requirements for operating profitably in a market. A *SWOT* is often employed to assess the match between identified market opportunities and the organisation.
For some companies, market opportunities that promise sizeable sales and profit gains are not pursued because they do not conform to an organisation's character.

iii. **Opportunity** ***evaluation*** typically has two distinct phases – qualitative and quantitative. The qualitative phase focuses on matching the attractiveness of an opportunity with the potential for uncovering a market niche. Attractiveness is dependent on the following:

- competitive activity
- buyer requirements
- market demand and supplier sources
- social, political, economic and technological forces and
- organisational capabilities.

Each of these factors in turn must be tied to its impact on the types of buyers sought, the needs of buyers, and the means for satisfying these needs.

iv. **Opportunity *identification*-** matching and evaluation are challenging assignments because subjective factors play a large role and managerial insight and foresight are necessary. These activities are even more difficult in the global arena, where social and political forces and uncertainties related to organisational capabilities in unfamiliar economic environments assume a significant role.

3.2 What is a Market?

The fact that an opportunity has been identified does not necessarily imply that a market exists for the organisation. Although definitions vary, a ***market*** may be considered to be the prospective buyers (individuals or organisations) willing and able to purchase the existing or potential offering (product or service) of an organisation.

This definition of a market has several managerial implications.

First, the definition focuses on buyers, not on products or services. People and organisations whose idiosyncrasies dictate whether and how products and services will be acquired, consumed or used make up markets.

Second, by highlighting the buyer's willingness and ability to purchase a product or service, this definition introduces the concept of *effective demand*. Even if buyers are willing to purchase a product or service, exchange cannot occur unless they are able to do so. Likewise, if buyers are able to purchase a product or service, but are unwilling to do so, exchange will not occur. These relationships are important to grasp because a marketing strategist must ascertain the extent of effective demand for an offering in order to determine whether a market exists. To a large degree, the extent of effective demand will depend on the marketing-mix activities of the organisation.

Third, use of the term *offering*, rather than *product or service*, expands the definition of what organisations provide for buyers. Products and services are not purchased for the sake of purchase; they are purchased for the values or benefits that buyers expect to derive from them.

Frequently, one hears or reads about the automobile market, the soft drink market or the healthcare market. These terms can be misleading because each refers to a composite of multiple minimarkets. Viewing a

market as composed of minimarkets allows a marketer to better gauge opportunities. Consider, for example, the breakdown of market into multiple markets. With this breakdown, the manager can more effectively identify who is competing in the caffeinated versus the decaffeinated markets and how they are competing, monitor changes in sales volume and appreciate differences between buyer taste preferences and competition.

Finally, how a market is defined has a crucial effect on the concept of market share. Market share can be defined as the sales of a firm, product, or brand divided by the sales of the "market". Obviously, market definition is critical in calculating this percentage.

3.3 Market Segmentation

A useful technique for structuring markets is market *segmentation* – the breaking down or building up of potential buyers into groups. These groups are typically termed *market segments*. Each segment is thought of as possessing some sort of homogeneous characteristic relating to its purchasing or consumption behaviour, which is ultimately reflected in its responsiveness to marketing programs. Market segmentation grew out of the recognition that, in general, an organisation cannot be all things to all people.

The idea that an organisation can, effectively, apply one marketing strategy to satisfy all possible buyers is not viable in today's marketing environment. At the other extreme, unless the organisation is highly specialised and sells only to, one buyer-for instance, it is often not feasible to treat each potential buyer as unique. Thus, as one marketing authority has so aptly written, market segmentation "is a compromise between the ineffectiveness of treating all customers alike and the inefficiency of treating each one differently".

Advances in information technology and flexible manufacturing and service delivery systems have made "segments of one" a reality in some settings. Mass *customisation* – tailoring products and services to the tastes and preferences of individual buyers in high volumes and at a relatively low cost– combines the efficiencies of mass production and the effectiveness of designing offerings to a single buyer's unique wants.

3.3.1 Benefits of Market Segmentation

Market segmentation offers three principal benefits with regards to the development of marketing strategy. They are as follows.

- **Identifies opportunities for new product development.** The analysis of various segments of present and potential buyers can reveal one or more groups whose specific needs are not being well satisfied. These segments represent possible opportunities for new product development.

- **Helps in the design of marketing programmes that are most effective for reaching homogeneous groups of consumers.** In addition to product development, segmentation permits refinements in the pricing, advertising and promotion, and distribution elements of the marketing mix.

- **Improves the allocation of marketing resources.** Market segmentation also can provide guidance in directing marketing resources. All market segments are not necessarily equal in terms of an organisation's ability to serve them effectively and profitably. As with any opportunity assessment, a company's strengths and capabilities relative to each identified segment's needs and competitive situation must be considered.

3.3.2 Bases for Market Segmentation

Two broad types of variables are commonly used for market segmentation. Socioeconomic characteristics of consumers, such as gender, age, occupation, income, family life cycle, education and geographic location make up one type. The other type consists of behavioural variables, including benefits sought from products and services, usage behaviour, lifestyle, and attitudes.

For industrial buyers, socioeconomic characteristics may include company size and location, and industry or customers served. Behavioural variables may include purchasing objectives and practices, as well as product and service benefits. The appropriateness of any one or combination of variables in a specific situation will depend on whether or not a variable relates to purchasing, use, or consumption behaviour and responsiveness to marketing programs. The choice of variable(s) to be used to segment a market often depends on insights into buyer behaviour, provided by creative research.

Based on consumer usage, lifestyles, and individual preferences, a company can identify six market segments as outlined below.

- "Basic" consumers who need voice connectivity and a durable style;
- "Expression" consumers who want to customise and personalise features;

- "Classic" consumers who prefer a traditional appearance and web browser function;
- "Fashion" consumers who want a very small phone as a fashion item; and
- "Communicator" consumers who want to combine all of their communication devices (e.g., telephone, pager, PDA). The company subsequently developed and marketed cell telephone models for each of these segments.

3.3.3 Requirements for Effective Market Segmentation

Ultimately, market segmentation is a means to an end: to identify and profile distinct groups of buyers who differ in their needs, preferences, and responsiveness to an organisation's marketing programs. Effective market segmentation should provide answers to six fundamental buyer-related questions for each market segment.

- *Who are they?*
- *What do they want to buy?*
- *How do they want to buy?*
- *When do they want to buy?*
- *Where do they want to buy?*
- *Why do they want to buy?*

More often than not, the answers should be expressed in a narrative form documented with quantitative and qualitative research. From a managerial perspective, effective market segmentation means that each segment identified and profiled satisfies fundamental requirements. Each market segment should be:

- **measurable.** The size and buying power of a market segment can be quantitatively determined.
- **differentiable.** A market segment is distinguishable from other segments and responds differently to different marketing programs.
- **accessible.** A segment can be effectively reached and served through an economically viable marketing program.
- **substantial.** A segment should be large enough in terms of sales volume potential to cover the cost of the organisation serving it and return a satisfactory profit.

3.3.4 Market Matrix

Four possible user groups (or market segments) are business, scientific, home and school. Displaying offerings and user groups in this manner

facilitates identification of competitors and their offerings and possible gaps in the calculator market reflected in empty cells in the matrix. Knowing where competitors are prominent provides a basis for determining whether a market opportunity exists. Identification of gaps in the market and knowledge of competitive activities in specific offering– market cells should assist the marketing manager in gauging the effective demand for an organisation's offering and the likelihood of developing a profitable marketing program.

3.3.5 Market Targeting

After a market has been segmented, it is necessary to select the segment(s) on which marketing efforts will be focused. Market targeting (or target marketing) is merely the specification of the segment(s) the organisation wishes to pursue. Once the manager has selected the target market(s), the organisation must decide which marketing strategies to employ.

Two frequently used market targeting approaches are *differentiated marketing* and *concentrated marketing*. In a differentiated marketing approach, the organisation, simultaneously, pursues several different marketing segments, usually with a unique marketing strategy for each.

In a concentrated approach, an organisation can focus on a single market segment. An extreme case will be one in which an organisation marketed a single product offering to a single market segment. More commonly, an organisation will offer one or more product lines to a single segment.

Furthermore, concentrated marketing provides operating economics through specialisation in manufacturing and marketing. However, concentrated marketing has risks. Specialising in one segment can limit a company's growth prospects, particularly, if the segment size declines. Also, competitors may invade the segment.

3.3.6 Market Sales Potential and Profitability

An essential activity in opportunity evaluation is the determination of market sales potential and profitability. Estimating a market's sales potential for offerings is a difficult task even for a seasoned marketing executive. Markets and offerings can be defined in numerous ways that can lead to different estimates of market size and sales potential.

For innovative offerings or new markets, market analysts must often rely almost entirely on judgement and creativity when estimating market sales potential. Therefore, it is understandable that market sales

potential estimates vary greatly for high-definition television (HDTV) and hybrid (gasoline and battery-powered) automobiles.

The underlying technology for both offerings is still evolving as is the physical form. In such dynamic settings, measures for identifying prospective market segments are uncertain.

3.3.7 Estimating Market Sales Potential

Market sales potential is a quantitative approximation of effective demand. Specifically, market sales *potential* is the maximum level of sales that may be available to all organisations serving a market in a specific period, given:

- *the marketing-mix activities and effort of all organisations, and*
- *a set of environmental conditions.*

As this definition indicates, market sales potential is not a fixed amount. Rather, it is a function of a number of factors, some of which are controllable and others not controllable by organisations. For instance, controllable marketing-mix activities and marketing-related expenditures of organisations can influence market sales potential. On the other hand, consumer disposable income, government regulations, and other social, economic, and political conditions are particularly relevant in estimating market sales potential in developing countries.

For example American, European and Japanese passenger car manufacturers have come to realise that automobile market sales potential in China, the world's most populous country, is affected by obstacles outside their control. In China, sudden government policy shifts towards foreign manufacturers are common. There are less than 1,000 auto distributorships in the entire country.

Three variables are commonly considered when estimating market sales potential. These include:

- the number of prospective buyers (Z) who are willing and able to purchase an offering;
- the quantity (Q) of an offering purchased by an average buyer in a specific time period, typically one calendar year; and
- the price (P) of an average unit of the offering.

Market sales potential is the product of these three variables:

Market sales potential = B x Q x P

Though simple, this expression contains the building blocks for developing a more complex formulation through what is called the *chain ratio method*, which involves multiplying a base number by several adjusting factors that are believed to influence market sales potential. An application of this method by Coca-Cola and Pepsi-Cola is shown in the following calculation of cola-flavoured carbonated soft drink potential in a South American country.

Market sales potential for cola-flavoured carbonated soft drinks in a country:

- Population age, 8 years and over x proportion of the population that consumes carbonated soft drinks on a daily basis x proportion of the population preferring cola-flavoured carbonated soft drinks x the average number of carbonated soft drink occasions per day x the average amount of consumed per consumption occasion (expressed in ounces) x 365 days in a calendar year x the average price per ounce of cola.

The chain ratio method serves three important purposes. First, it yields a quantitative estimate of market sales potential. Second, it highlights factors that are controllable and not controllable by organisations. Clearly, a country's population, aged 8 years and older is an uncontrollable factor. However, the other factors are controllable or can be influenced to some degree.

For example, organisations can influence the proportion of a population that consumes their products through primary demand advertising and the cost of the products through pricing. If either of these two factors change, market sales potential changes, other things being equal. Finally, it affords a manager flexibility in estimating market sales potential for different buyer groups and different offerings.

3.3.8 Sales and Profit Forecasting

Sales and profit forecasting follows estimating of market sales potential. A sales forecast is the level of sales a single organisation expects to achieve based on a chosen marketing strategy and an assumed competitive environment. An organisation's forecasted sales are typically some fraction of estimated market sales potential. Forecasted sales reflect the size of the target market(s) chosen by the organisation and the marketing mix chosen for the target market(s). Forecasted sales also reflect the assumed number of competitors and competitive intensity in the chosen target market(s).

For example, suppose an organisation's target market represents one-fourth of one million prospective buyers for a particular offering. The marketing channel chosen for the offering provides access to about three-fourths of these buyers and the communication program (advertising) reaches these same buyers. Suppose further that the average purchase rate is 20 units of an offering per year and the average offering unit price is N10.00. Using a version of the chain ratio method, forecasted sales may be calculated as follows:

- Total estimated prospective buyers 1 million times
- Target market (25% of total buyers) x .25
- Distribution / Communication coverage x .75 (75% of target market) times
- Annual purchase rate (20 units per year) x 20 times
- Average offering unit price N10.00 x N10.00
- Forecasted sales N37.5 million

The N37.5 million sales forecast does not consider the number of competitors vying for the same target market nor does it consider competitive intensity. Therefore, this sales forecast should be adjusted downward to reflect these realities. Forecasting sales, like estimating market sales potential, is not an easy task. Nevertheless, the task is central to opportunity evaluation and must be undertaken.

Finally, a *pro forma* income statement should be prepared showing forecasted sales, budgeted expenses, and estimated net profit. When completed, the marketing analyst can review the identified opportunities and decide which can be most profitably pursued, given organisational capabilities.

3.4 Opportunity Analysis and Market Targeting I

This will be discussed by looking at a number of variables as follows.

a. An important building block

The result of needs assessment relates to an analysis of your potential market. The concerns for each market sector and the information needed by each customer or potential customer. Information audit will help you analyse what products the library is capable of offering and how effective it has been in marketing its services.

Your next step will be to synthesise what you have learned about your organisation, what your current and potential customers want and what the library is best able to deliver. The market opportunity analysis will help you determine the information services you should be offering,

based on the needs of the organisation and the library's capabilities. The market opportunity analysis will help you in the following ways.

- Determine what new products need to be developed
- Determine how existing products can be modified to better serve a market need
- Evaluate which existing products should be eliminated
- Determine how your library's structure may be reoriented to better serve your community.

b. Identify and analyse the opportunities which exist

Understanding the motivation of each client– that is, why the client needs the information will help you determine how to effectively market your products.

(i) In marketing the product itself, you will be promoting its benefits. A benefit is something that helps the customer solves his problem. Those benefits, your selling points, will differ from customer to customer.

(ii) The key questions to answer are as follows.

- What needs are not being satisfied with the library's current products?
- Is the library targeting all potential customers of its existing products?
- How effectively is the library targeting those users that have a particular appreciation for the value of information?

(iii) During the needs assessment, you may have uncovered problems in a group's use and management of information

(a) Use market opportunity analysis to address these issues as well, not necessarily with a new product from your library, but by suggesting to your clients how they may improve the collection and applications of information they receive.
(b) If you know that information already exists but the group is not aware of it, You can share this knowledge with them.

(iv) Work to facilitate information exchange

Putting groups in touch with one another to share or exchange information, eliminating duplication of efforts, and facilitating communication between groups, are all important tasks for an active, involved librarian. This person not only manages the information for

which the librarian is directly responsible but helps others manage information as well.

c. Developing new products for your marketplace

(i) What is a new product?

Keep in mind that your new products can include products that:

- *are common elsewhere but are new to your library's offerings*
- *are already existing products that have been modified to improve their use or repackaged for a new market segment*
- *have been created by you and are original.*

(ii) Prioritise the market segments you want to reach

Take the results of your information needs assessment and look for the areas most critical to your organisation's success. These groups of people or departments should be heavy users of the library's services and logically should be the first targets for the new products your library plans to develop.

(iii) Group current product users according to their needs

Classifying your customers enables you to develop prototypes of generic products and services that can be tailored to specific groups or individuals. The product should be useful to the widest possible group to assure the greatest return on investment.

(iv) Integrate your products vertically by offering a range of complementary products to a particular group of users, and extend your products by marketing them horizontally to other groups in the organisation.

This will ensure maximum sales through minimum effort. Developing products that foster repeated use will ensure that your efforts are not wasted.

(v) Find ways that you may attract a customer away from a competitor's product to one that the library develops.

Useful techniques include adding value, offering a comparable product at a lower cost, fast turnaround, or personal service. Adding value to your product by including more information or by providing it for less money will be the key to developing a successful product.

Take into account how the customer will apply the information when you design your information product and make it more appropriate in terms of content or form.

Develop information products with the needs of your clients in mind. Look for what makes them more valuable to their customers.

(vi) Present the results of your needs assessment for each department that you consulted for feedback and offer the ideas that you and your staff have generated.

These may be new products you plan to offer or merely an improvement on technique or technology currently used. Ask the group to help you rank the improvement projects in descending order of probity.

It is important that the group determine those areas in which improvement will be most beneficial. Once you have asked for input, don't ignore the suggestions which have been made.

Ask for suggestions as to how your current product line can be altered to best serve them. Have the various groups contribute to the design of any new products you plan to offer.
[
Create a strategic alliance with your clients by making them a partner in your endeavour. Their participation at the outset will serve to keep you on track throughout the development process.

(vii) For each product and service, formulate detailed proposals to your customers according to the products you will offer, including content, format, schedule for implementation, staffing, training and technology required.

Remember to set goals and milestones by which to evaluate your progress and be certain that you have allotted adequate resources to the project – people, time and money.

3.5 Opportunity Analysis and Market Targeting II

This is being discussed in line with the following considerations.

(A) Product definition and customisation

1. Be aware of your competitors: know who your competitors are, both within the firm and external to it, their capabilities and limits.

Position yourself and your information products with the competitor in mind.

2. Make sure your product is identifiable and distinct from your competitors'.
   Make it stand out from all the others in style as well as in content.
3. Target the products to specific markets or customer groups and market to them.
   Each group will have a particular characteristic that binds its members together; identify this characteristic and use it as a selling point.
4. Just as companies customise their products, you must tailor your products to your customers.
   Understand the differences between customers of each of your products and services and try to address these differences.
5. As corporate strategic alliances become important, so does monitoring potential partners and acquisition targets.
   In addition to supplying the information, ascertain the financial considerations as to what makes one company more attractive than another.
   Adopt the same criteria– for instance, a Return On Investment (ROI) ratio-for your information products that your firm uses when it evaluates an acquisition target.
6. Create strategic alliances with your suppliers and customers.
   Vendors can help make you stronger if you let them know how they can be of service; customers can become advocates of your services and marketers of your products.
7. Decrease production costs by using the technology available to you in the acquisition, formatting and delivery of information.
   Do not be intimidated by the technology. If you don't know how to do something, find out. Never be afraid to ask for help from those within your organisation as well as outside of it.
8. Help others in the organisation to use information and information technology;
   Are there areas in which using a computer or particular database might help? Will the use of the database on CD-ROM be more cost-effective in the long run?
9. Just as products are matched to a specific user group, so are the techniques you will use to market those products.
   Remember, you are not selling the library but the individual services it provides. Each service will require a separate marketing plan.
10. Know what business you are in, but determine what business it will be advantageous to appear to be in.

This may vary from customer to customer. Once you understand the needs of each customer, what motivates the customer to purchase your

product and how much the customer is prepared to spend; you can develop useful services and market them effectively.

Remember, you are selling solutions to your customers' problems, not products. Use your needs assessment research to determine what each group is seeking from your product, and market with these needs in mind.

(B) A market opportunity analysis checklist

1. Have you set the library's priorities in terms of your organisation's priorities?
2. Are you being flexible, showing your customers a willingness to tailor your services to their needs?
   Are you working with your customers to design and redesign your products?
3. Are you offering products and services that you can support over the long-haul?
   Don't make promises to deliver what you cannot.
4. Have you designed the library's services with a sensitivity to the pressures under which your clients work?
5. Can you recommend ways in which your organisation can make better, more productive use of the information to which it already has access?
6. Have you developed the library's products and services to complement the information resources that currently exist within the organisation?
7. Have you assessed the existing policies, procedures and practices governing the management and use of information throughout the organisation?
   Can you recommend any specific improvements in the process; for example, centralisation of subscription ordering?
8. Have you determined the future direction of the organisation as a whole, as well as individual market segments?
9. Can you predict their information requirements in the future, including cost? Are you preparing to meet those needs?
10. Have you set targets for selling your products?

Make it a game by setting goals and then raising the target once you've achieved those goals. Be realistic in your expectations as to how receptive potential clients will be and how much they will expect for the price they are paying for your services.

Have you developed an adequate and efficient strategy to support each product and service you have developed?

i. The Opportunity

- Don't be bound by preconceived notions of what the library can offer.
- Broaden the base of products and services offered by the library.

ii. Case Study

There seems to be some need to organise the way in which the company acquires information regarding its competitors.

The library offers several different products, to various departments, all addressing some aspects of competitor's activity. A coordination of these services seems warranted.

Competition is getting tougher and one major department has been caught twice by a smaller firm. New products were introduced at a lower price, and the smaller company walked off with two major accounts which management thought were locked up.

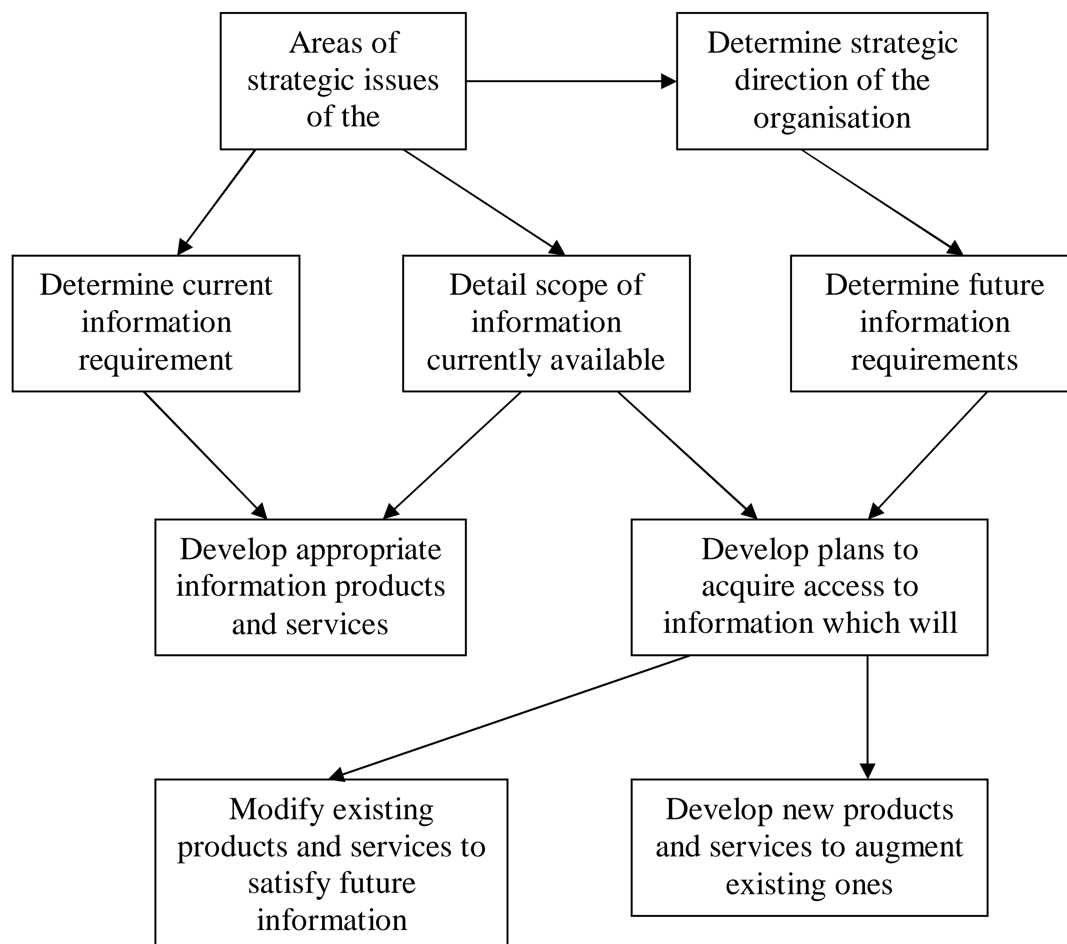

Fig. 5.1: The Information Process

4.0 CONCLUSION

In this unit, you have learnt that opportunity analysis and market targeting are crucial strategies that will position an organisation to achieve pre-determined objectives.

5.0 SUMMARY

In this unit, you have learnt the definition of opportunity analysis, market segmentation and market targeting.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss opportunity analysis.

7.0 REFERENCES/FURTHER READING

Roger, A. Kerin; Eric N. Berkowitz; Steven Hartley & William Rudelius *Marketing* (7th Ed.). Burr Ridge, IL: McGraw-Hill/Irwin, pp. 239-242.

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MODULE 2

Unit 1 Strategy Formulation
Unit 2 Strategic Management Control and Evaluation
Unit 3 Strategic Management Planning
Unit 4 Corporate Planning
Unit 5 Total Quality Management (TQM)

UNIT 1 STRATEGY FORMULATION

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
 3.1 Definition of Concept
 3.2 The Mission Statement
  3.2.1 What is a Mission or Vision?
  3.2.2 Values
  3.2.3 Organisational Culture
  3.2.4 Goal
 3.3 Strategy Implementation
 3.4 Improving Corporate Performance
 3.5 Implementing Strategy in Single Industry
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 Reference/Further Reading

1.0 INTRODUCTION

You are being introduced to yet another scintillating topic-strategy formulation.

Strategy is a road map or guide by which an organisation moves from its current state of affairs to future desired state. It is a source from which daily decisions are made. Also, it is a tool with which long-range future plans and courses of action are constructed.

Strategy allows a company to position itself effectively within its environment to reach its maximum potential, while constantly monitoring the environment for changes that can affect it so as to make changes in its strategic plan accordingly. Strategy defines where you are, where you are going, and how you are going to get there.

Discussions in this unit will take us through definition of concept, through mission statement, strategy implementation to implementation of strategy in a single industry.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define the concept of strategy formulation
- describe mission statement
- discuss strategy implementation
- explain what is meant by implementation of strategy in a single industry.

3.0 MAIN CONTENT

3.1 Definition of Concept

Strategy formulation is the process of determining appropriate courses of action for achieving organisational objectives and thereby accomplishes the purpose. Strategy formulation is the task of analysing the organisation's external and internal environments and selecting an appropriate strategy that will achieve the corporate objectives.

Top management plays a vital role in strategy formulation which is the outcome of a formal planning process. The first step in strategy formulation by top management of an organisation is to craft a 'mission statement'.

3.2 The Mission Statement

This statement is a description or a declaration of why a company is in operation, which provides the framework or context within which **strategies** are formulated.

Mission or **vision** explains the reason for the organisation or company's **values** or **guiding standards** that will drive and shape the actions and behaviours of employees and a statement of major **goals** and **objectives**.

3.2.1 What is a Mission or a Vision?

This is a formal declaration of what the company is trying to achieve over the short-term and long-term. The terms **vision** and **mission,** as used, are mainly to provide a platform for thinking strategically.

To formulate mission statement, it is important to come up with the definition of the organisation's business. Essentially, the definition answers these questions:

- what is our business?
- what will it be?
- what should it be?

Responses to these questions guide the formulation of a mission statement.

3.2.2 Values

The values of a company states how managers and employees should conduct themselves, how they should do business, the kind of organisation they should build to help the company achieve its mission. As much as possible, values help to drive and shape behaviours of workers in the company. They are therefore commonly seen as the bedrock of a company or organisational culture.

3.2.3 Organisational Culture

The organisational culture is the set of **values**, **norms** and **standards** that control how employees work to achieve an organisation's mission and goals. Major goals and objectives is the second strategy to be formulated by the strategic managers.

3.2.4 Goal

A goal is a desired future state, or objective that a company attempts to realise. A well constructed goal should show certain characteristics. A goal must be precise and measurable, should address crucial issues, changing but realistic, and shows a time period. However, it is worthy to note that, it is more profitable for business managers to adopt long-term goals (as opposed to short-term), the attainment of which will increase the long-run performance and competitiveness of their enterprise.

Long-term goals address the following issues in an organisation-product development, customer satisfaction, employees' productivity and emphasis on efficiency, quality and innovation.

Next is the strategic management process on the analysis of the organisation's external operating environment. Essentially, external analysis is to identify strategic **opportunities** and **threats** in the organisation's operating environment that will affect how it pursues its mission.

There are three interrelated environments that need to be examined as outlined below.

- Industry environment – this relates to the environment in which the organisation operates.
- The country or national environment.
- The wider socioeconomic or macro environment.

Analysing the industry environment requires an assessment of the competitive structure of the organisation's industry, including the competitive position of the specific or focal organisation and its major rivals. It also requires analysis of the nature, stage, dynamics and history of the industry.

Since many markets are now global markets, analysing the industry environment also means assessing the impact of globalisation on competition with an industry. Analysing the macro-environment consists of examining macroeconomic, social, government, legal, international and technological factors that may affect the organisation.

Internal analysis, another strategic management process, is carried out mainly to highlight the **strengths** and **weaknesses** of the organisation issues like identifying the quantity and quality of a company's resources and capabilities and ways of building skills, competencies are considered in area of competitive advantage.

Building and sustaining a competitive advantage requires a company to achieve superior efficiency, quality, innovation and responsiveness to its customers. The company's strengths lead to superior performance in these areas and company's weaknesses translate to inferior performance.

3.3 Strategy Implementation

Once a strategy to achieve a competitive advantage and increase in performance had been chosen, managers must put that strategy into action. Strategy has to be implemented. Therefore, strategy implementation involves the activities and decisions that are made to install new strategies or support the existing ones. Some refer to it as operational management. Strategy implementation is often called the action stage of strategic management which is made up of so many activities that are primarily administrative.

Strategy implementation requires personal commitment, discipline, sacrifice, and an ability to motivate employees. Strategy is implemented in the following ways:

- corporate performance, governance and ethics
- implementing strategy in a single industry
- implementing strategy across industries and across countries.

3.4 Improving Corporate Performance

The profitability of a company suffering from persistent low profitability, usually involves a large turnaround in the way the company operates and the strategies it pursues. However, in most successful turnaround situations, a number of common features are present, such as changing the leadership structure, changing the culture of the organisation, changing the organisation itself, i.e. moving the organisation to a new state with a new structure, and also changing the strategies of the company.

3.5 Implementing Strategy in Single Industry

Strategy implementation in single industry refers to how a company should create, use and combine organisational structure, control system and culture to pursue strategies that lead to a competitive advantage and superior performance.

Organisational structure assigns employees to specific value, creating tasks and roles and specifies how these tasks and roles are to be performed, linked together in a way that increases efficiency, quality, innovation and responsiveness to customers.

The purpose of organisational structure is to coordinate and integrate the efforts of employees at all levels so that they work together in the way that will allow it to achieve its corporate goals.

A diagram showing an example of strategy implementation in a single industry is shown below:

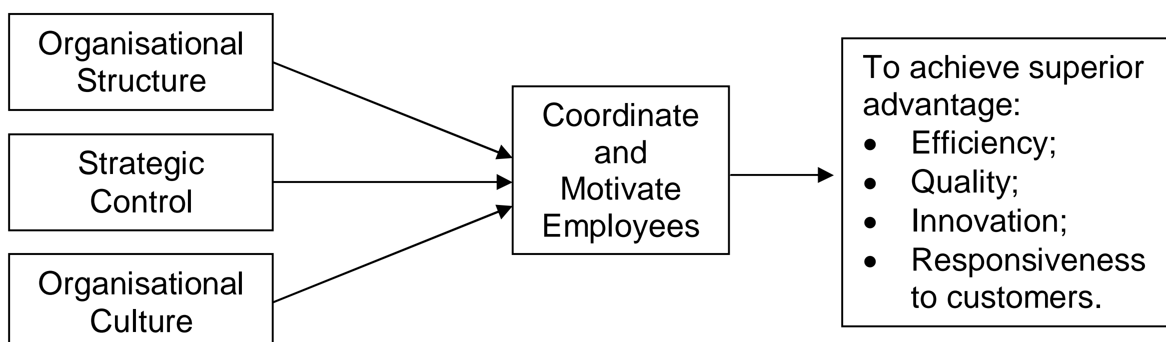

Fig. 1.1: Strategy Implementation in a Single Industry

Once a strategy has been implemented, its execution must be monitored to determine the extent to which strategic goals and objectives are actually being achieved and to what degree a competitive advantage is being created and sustained.

This vital information and knowledge is passed back up to the corporate level through the set-up system in the organisation which becomes an input for the next round of strategy formulation and implementation.

4.0 CONCLUSION

You have learnt in this unit that strategy formulation is the process of determining appropriate courses of action for achieving organisational objectives and thereby accomplishing a desired purpose.

5.0 SUMMARY

In this unit, you have learnt the definition of strategy formulation, mission statement, vision, values, organisational culture and goals. You have also been exposd to what is meant by strategy implementation, improving corporate performance and implementing strategy in a single industry.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the issues involved in strategy formulation up to implementation level.

7.0 REFERENCE/FURTHER READING

Hofstede, G. (1980). "Motivation, Leadership and Organisation: Do American Theories Apply Abroad". *Organisational Dynamics,* Vol. 9, Summary, p. 43.

UNIT 2 STRATEGIC MANAGEMENT CONTROL AND EVALUATION

CONTENTS

1.0 Introduction
2.0 Objectives
4.0 Main Content
    3.1 Definition of Strategic Control and Evaluation
    3.2 Objectives of Strategic Management Control and Evaluation
        3.2.1 Types of Strategic Control System
    3.3 Strategy Evaluation
    3.4 Steps of Strategy Evaluation and Control Process
        3.4.1 Benefits of Strategy Evaluation and Control
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

1.0 INTRODUCTION

In this unit, you will learn about strategic management and evaluation control, types of strategic control system and strategy evaluation. Strategic management control is to provide managers with the following tools.

- A set of incentives to motivate employees to work towards increasing efficiency, quality, innovation and responsiveness to customers
- To provide a feedback on how well an organisation and its members are performing and building a competitive advantage so that managers can frequently take action to strengthen a company's business model.

Structure provides an organisation with a skeleton but control gives it the muscles, sinews, nerves and sensations that allow managers to regulate and govern its activities.

Strategic management control and evaluation is the primary governance mechanism established within a company to reduce the scope of the agency problems between levels of managers. These systems are the formal target setting, measurement and feedback systems that allows managers to evaluate whether a company is executing the strategies necessary to maximise the long-run role and in particular, whether the

company is achieving superior efficiency, quality, innovation and customer responsiveness.

This unit will also highlight the steps of strategy evaluation and control process and the benefits of strategy evaluation and control.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define strategic management control and evaluation
- list the types of strategy evaluation and control process
- highlight the benefits of strategy evaluation and control.

3.0 MAIN CONTENT

3.1 Definition of Strategic Control and Evaluation

In governance terms, the purpose of strategic control and evaluation is to make sure that lower-level managers- as the agents of top managers are acting in a way that is consistent with the manager's goals, which should be to maximise the wealth of stakeholders, subject to legal and ethnic constraints. Organisation's structure does not, by itself, provide the set of incentives through which people can be motivated to make it work, hence, there is a need for control systems.

Strategic control systems are developed to measure performance at four levels in a company, namely- (a) corporate; (b) divisional; (c) functional; and (d) individual. Managers at all levels must develop the most appropriate measures to evaluate corporate, business and functional level performances. Balanced score card model guides managers through the process of creating the right kind of strategy control system to enhance organisational performance. According to the model, managers used primarily financial measures of performance to measure and evaluate organisational performance.

Also, it is important that managers should use the four building blocks of competitive advantages, namely- **efficiency**, **quality**, **innovation** and **responsiveness to customers** to measure organisation performance. Balanced score card operates, basically, on organisational **mission** and **goals**. Strategic managers develop a set of strategies to build competitive advantage to achieve these goals. They can establish an organisational structure to use resources to obtain a competitive advantage to evaluate how well the strategy and structure are working.

Managers develop, specifically, performance measures that assess how well the four building blocks of competitive advantages are being achieved.

- **Efficiency** – measured by the level of productivity costs, the productivity of labour, the productivity of capital;
- **Quality** – can be measured by number of rejects, number of defective products returned from the customer, and also the level of product reliability over time.
- **Innovation** – this can be measured by the number of new products introduced and the percentage of revenue generated from the new products.
- **Responsiveness to customers** – can be measured by the number of repeat customers, customers' defection rates, level of on time delivery to customers and level of customer service.

The above measures should be tied closely, as much as possible, to the goals of achieving superior **efficiency**, **quality**, **innovativeness** and **responsiveness to customers**.

Strategic managers choose the organisational strategies and structure they hope will allow the organisation to use its resources most effectively, to pursue its business model and create value and profit. Then they create strategic control system tools that allow them to monitor and evaluate whether in fact their strategies and structure are working as intended, how they could be improved and how they should be changed if they are not working.

Strategic control system helps managers to obtain superior efficiency, quality, innovation and responsiveness to customers which are the four basic building blocks of competitive advantage.

a. **Control and efficiency** – To determine how efficiently they are using organisational resources, managers must be able to measure accurately many units of inputs i.e. raw materials, human resources etc. being used to provide a unit of output.

b. **Control and quality** – today, competition often revolves around increasing the quality of goods and services. Strategic control is important in determining the quality of each company's product or goods and services as it gives managers feedback on product quality.

c. **Control and innovation** – strategic control helps to raise the level of innovation in an organisation. Successful innovation comes when managers create an organisational setting in which employees feel empowered to create and have authority to

decentralise employees so that they feel free to experiment and take risks.

d. **Control and responsiveness to customers**- strategic managers can help make their organisations more responsive to customers if they develop a control system that allows them to evaluate how well employees which customers deal with are performing their jobs. Monitoring employees' behaviour can also help managers to find ways to help increase employees performance level.

Strategic control systems are the formal target setting, measurement and feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation and customers' responsiveness and implementing its strategy successfully.

An effective control system should have three characteristics. It should be flexible, and should provide accurate information and should supply managers with the information in a timely manner.

The model below shows an effective strategic control system, involving four steps.

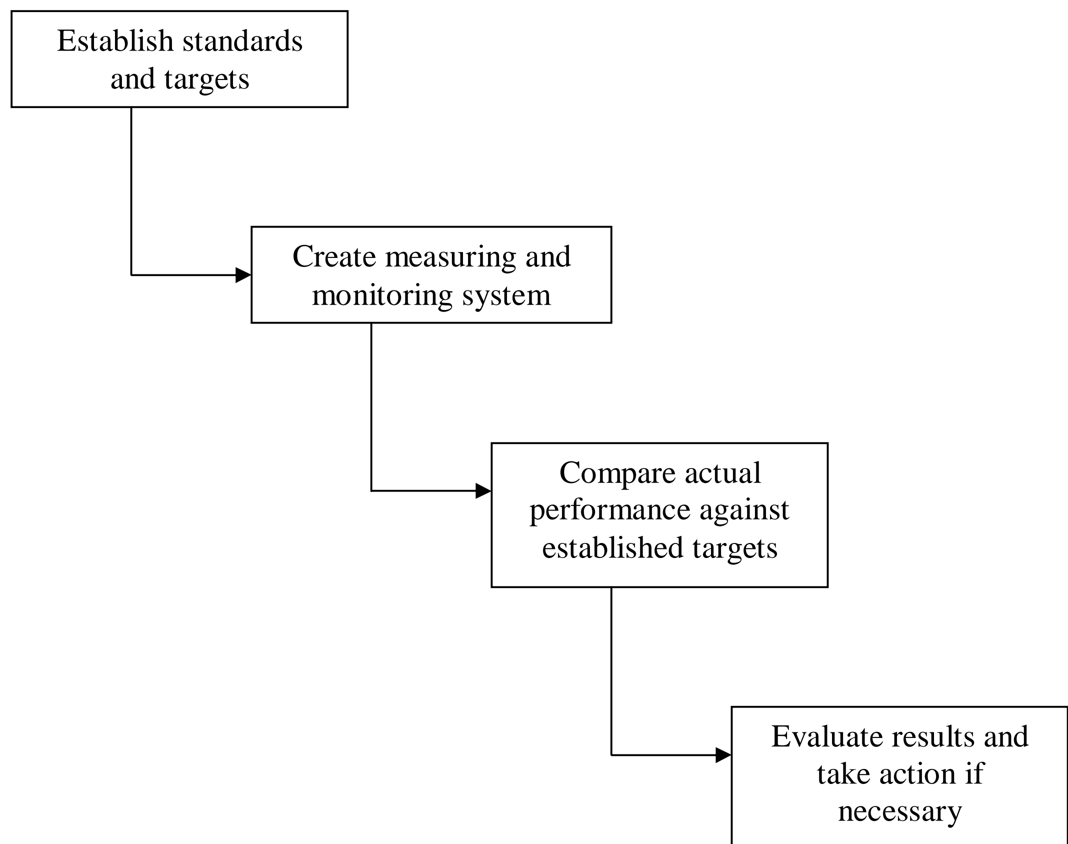

Fig. *2.1:* A Sample Strategy Control System

3.2 Objectives of Strategic Management Control and Evaluation

The objectives of strategic control are as follows:

- to establish standards and targets against which performance can be measured
- to create systems for measuring and monitoring performance on a regular basis
- to compare actual performance against the established targets
- to evaluate results and take corrective action, if necessary.

3.2.1 Types of Strategic Control System

Below are the types of strategic control systems.

a. **Personal control** – is the desire to shape and influence the behaviour of a person in a face-to-face interaction in the pursuit of company's goals. Supervision of workers by managers is the most obvious method. Here, managers can ask questions about problems or issues.

b. **Output control** – here managers forecast appropriate performance goal for each division, while departments and employees are measured against actual performance relative to these goals.

c. **Behaviour control** – is achieved by putting in place rules and regulations binding the organisation and to direct actions or behaviours of divisions, functions and individuals. This is to standardise a way of reaching their goals.

3.3 Strategy Evaluation

The purpose of strategy evaluation and control is to examine the effectiveness and efficiency of organisational strategy in achieving set goals and objectives (Kazmi, 1995). Therefore, organisational strategy evaluation and control may be seen as the process of determining the effectiveness and efficiency of a given organisational strategy in achieving set organisational goals and objectives and taking corrective action whenever necessary.

The final stage in strategic management process is to evaluate and control an organisation's performance. Organisational management should ensure that the set strategies generate the performance necessary to achieve set goals and objectives. Strategic evaluation and control therefore involve the activities and decisions that keep the process on track. Evaluation and control include the follow-up on goal

accomplishment and giving feedback to the decision-makers on the result achieved so far.

Strategic evaluation is important because organisations face dynamic business environments in which major internal and external factors often change quickly and drastically. Strategic evaluation includes three activities, as outlined below.

- Reviewing bases of strategy or setting standards of organisation performance
- Measuring organisational performance
- Analysing deviations between standards and measures of performance
- Taking corrective actions.

According to Glueck (1980), the products of a business strategy evaluation are answers to these questions.

- Are the objectives of the business appropriate?
- Are the major policies and plans appropriate?
- Do the results obtained to-date confirm or refute critical assumptions on which the strategy rests?

3.4 Steps of Strategy Evaluation and Control Process

The following are steps of strategic evaluation and control process.

- Determine what to control and evaluate
- Set control and evaluation standards
- Measure performance
- Compare standards and performance
- Determine the reason for variations between performance and taking corrective action.

3.4.1 Benefits of Strategy Evaluation and Control

According to Albanese (1978), organisations stand to gain the following from strategy evaluation and control.

- It helps to achieve objectives and goals
- Provides clear guidelines with respect to expected performance from personnel
- Directs energy because of employee performance towards expectation.

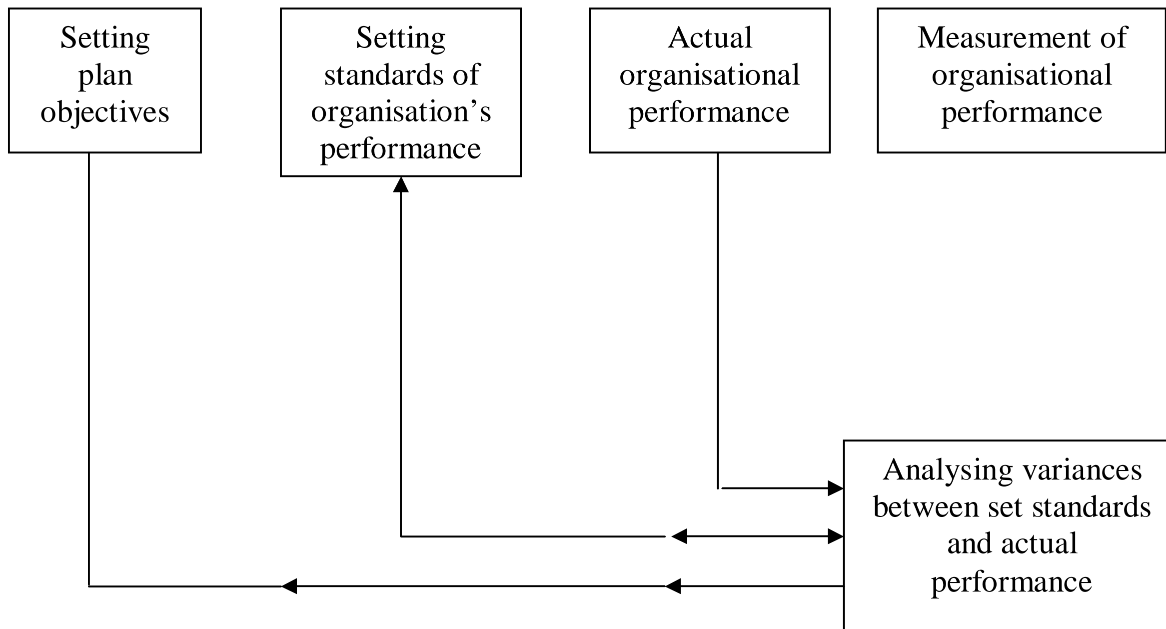

Fig. 2.2: Strategic Evaluation Process
Source: Kazmi (1995).

4.0 CONCLUSION

In this unit, you have learnt that organisational strategy must be responsive to changing condition. After implementing a strategy, strategic evaluation and control are necessary in order to keep the organisational strategy on track and to make adjustments for environmental changes.

6.0 SUMMARY

In this unit, you have learnt about strategic management control and evaluation, its definition, the objectives, steps in strategic management and evaluation process and benefits.

6.0 TUTOR-MARKED ASSIGNMENT

Strategic evaluation and control are necessary in order to keep the organisational strategy on track and to make adjustments for environmental changes. Discuss.

7.0 REFERENCES/FURTHER READING

Chandan, J.S. (2004). *Management Theory & Practice*.

Hofstede, G. (1980). "Motivation, Leadership and Organisation: Do American Theories Apply Abroad". *Organisational Dynamics*, Vol. 9, Summary, p. 43.

UNIT 3 STRATEGIC MANAGEMENT PLANNING

CONTENTS

1.0 Introduction
3.0 Objectives
3.0 Main Content
    3.1 Scope and Definition
    3.2 Components of the Strategic Planning Process
    3.3 Formulating a Mission Statement
    3.4 Action Planning
    3.5 Why Strategic Planning Fail
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

1.0 INTRODUCTION

In this unit, you will be studying strategic management planning, its scope and definition, and the components of strategic planning process. Planning typically includes several major activities or steps in the process. Different people often have different names for these major activities. Strategic planning includes use of several key terms. Different people may use or apply different definitions for these terms as well.

You will learn how mission statement is formulated in this unit; also, you are going to be exposed to action planning and why strategic planning fails.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define the concept and scope of strategic management planning
- explain how mission statement is formulated
- describe action planning
- discuss the reasons why strategic planning fail.

3.0 MAIN CONTENT

3.1 Scope and Definition

Strategic management planning is a systematic process of determining goals to be achieved in the foreseeable future. It consists of the following.

(1) Management's fundamental assumptions about the future economic, technological and competitive environments
(2) Setting of goals to be achieved within a specified time frame
(3) Performance of *SWOT* analysis
(4) Selecting main alternatives or strategies to achieve these goals
(5) Formulating, implementing and monitoring the operational or tactical plans to achieve the interim objectives.

However, implementation involves designing an appropriate organisational structure and control system to put the organisation's chosen strategy into action.

One way to look at strategic planning activities is by looking at the **strategic analysis**. Strategic analysis is the review or scanning of the organisation's environment e.g. the political, social, economic and technical environment.

3.2 Components of the Strategic Planning Process

Planners carefully consider various driving forces in the environment such as increasing competition, changing demographics, etc. Equally, planners look at the various **S**trengths and **W**eaknesses, **O**pportunities and **T**hreats (SWOT) regarding the organisation.

Some people take this wide look around after they have identified or updated their **mission statement**, **vision statement**, **value statement** etc. These statements are briefly described below.

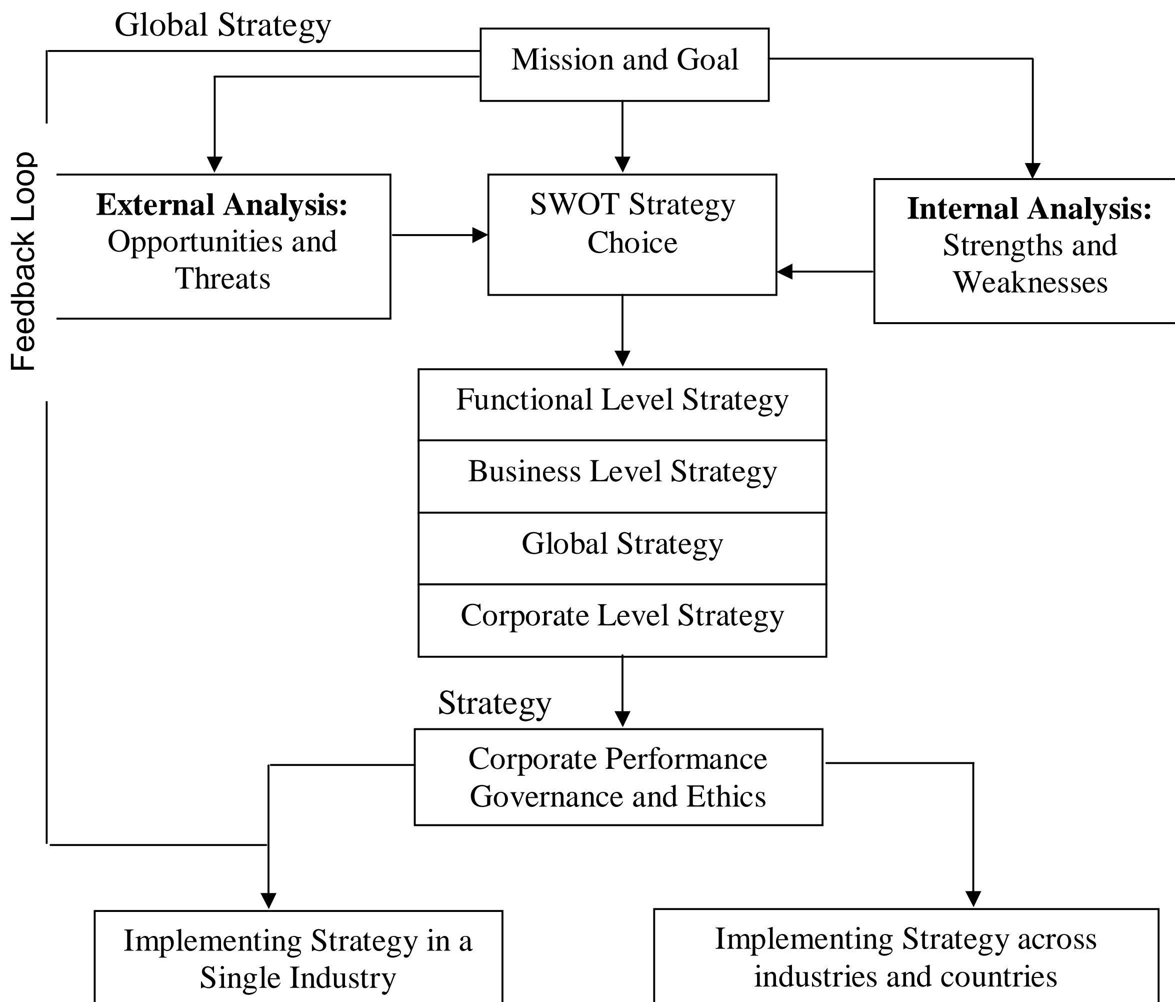

Fig. 3.1: Main Components of the Strategic Planning Process

Planners carefully look at the major issues and opportunities facing the organisation and the first step of strategic management is crafting the organisation's **Mission Statements**. A mission statement is a brief written description of the purpose of the organisation, and why a company is in operation. It also provides the framework with which strategies are formulated.

A mission statement, however, has three main components as itemised below.

1. A **statement** which gives reason why the organisation came into existence; this refers to the **mission** or **vision** of the company.
2. **Vision** of the Company.
3. The statement of the key **values** or guiding standard which will drive and shape the actions and behaviours of employees and a statement of major goals or objectives.

Meanwhile, mission statements vary in nature; it can be very brief or quite comprehensive. It includes a specific purpose statement that is part of the overall mission statement. Many people consider the value statement and vision statement to be part of the mission statement.

Today, vision and value statements are increasingly used. Vision statements are usually a compelling description of how the organisation will or should operate at some point in the future and how customers or clients are benefiting from the organisation's products and services.

Value statements list the overall priorities on how the organisation will operate. Some people focus the value statement on moral values. Moral values are values that suggest overall priorities on how people ought to act in the world e.g. integrity, honesty, respect, etc.

3.3 Formulating a Mission Statement

This is the first important step, and it is to give a definition of the organisation's business. Definition will answer the following questions.

- What is our business?
- What will it be?
- What should it be?

However, the responses to these questions above guide the formulation of a mission statement. Next is the formulation of goals and objectives from the mission statement, etc. A goal is a desired future statement or objective that a company attempts to realise.

Therefore, from the model in figure 3.1 above, it is clear that strategic planning is an ongoing event, it never ends. Once a strategy has been formulated, its execution or implementation must be monitored to determine the extent to which strategic goals and objectives are actually being achieved and to what degree competitive advantage is being created and sustained.

Once the corporate level of the organisation collects that information, it becomes *input* for the next round of strategy formulation and implementation.

3.4 Action Planning

Action planning is carefully laying out how the strategic goals will be accomplished. Action planning often includes specifying objectives, or specific results, with each strategic goal. Often, each objective is associated with a tactic, which is one of the methods needed to reach an

objective. Therefore, implementing a strategy typically involves implementing a set of tactics along the way, and in that sense, tactic is still a strategy.

Action planning also includes specifying responsibilities and timeliness with which each objective is being met and who needs to do what and at what time? Action planning should also include methods to monitor and evaluate the plan, which includes knowing how the organisation will know who has done what and when?

It is also common to develop an annual plan which is sometimes called the operational plan that includes the strategic goals, strategies, objectives, responsibilities and timeliness within which that should be done in the coming year.

3.5 Why Strategic Planning Fails

One reason for the failure of strategic planning in an organisation is that strategic managers in their initial enthusiasm for planning techniques may forget that the future is full of uncertainties and highly unpredictable.

Another reason for strategic planning failure is that even where you have the best designed strategic planning system, it may fail to produce the desired results if managers do not use the information available at their disposal.

4.0 CONCLUSION

In this unit, it has been made known to you that strategy is an action that a company takes to attain one or more of its goals. Strategic planning has a positive impact on the overall performance of an organisation especially in the areas of profitability.

6.0 SUMMARY

In this unit, you have learnt about strategic planning, components of strategic planning, mission statement formulation, action plan and reasons for the failure of strategic planning.

6.0 TUTOR-MARKED ASSIGNMENT

What steps should be taken to ensure that strategic planning do not fail?

7.0 REFERENCES/FURTHER READING

Charles, W.L.; Hill, & Gareth, R.J. (2007). *Strategic Management :An Integrated Approach* (6th Ed.).New Delhi: biztantra .pp.296-316.

Hofstede, G. (1980). “Motivation, Leadership and Organisation: Do American Theories Apply Abroad”. *Organisational Dynamics*, Vol. 9, Summary, p. 43.

UNIT 4 CORPORATE PLANNING

CONTENTS

1.0 Introduction
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    3.1 Definition of Corporate Planning
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1.0 INTRODUCTION

This unit will introduce you to corporate planning, define the concepts 'corporate planning' and corporate objectives', list out the examples of basic corporate objectives and discuss it peculiarities, highlight the objectives of corporate planning, benefits of corporate planning, limitations of corporate planning and highlights the reasons why corporate planning fail.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define the terms 'corporate planning' and 'corporate objectives'
- discuss the peculiarities of corporate objectives
- highlight the objectives of corporate planning
- explain the benefits and limitations of corporate planning
- state the reasons why corporate planning fail.

3.0 MAIN CONTENT

3.1 Definition of Corporate Planning

This concept is defined as the process of drawing up detailed action plans to achieve organisational goals and objectives, taking into account the resources of the organisation and the environment within which it operates.

Corporate planning represents a formal structured approach to achieving objectives and to implementing the corporate strategy of an organisation. This was traditionally seen as the responsibility of senior management. The use of the term became predominant during the 1960s but has now been largely superseded by the concept of strategic management.

3.2 Corporate Objectives

The purpose of an organisation represents the basic reason for which it was established. Corporate objectives represent general statements relating to future results or conditions upon which corporate desires are to be achieved. The organisation's objectives are those **'ends'** which it must achieve in order to implement or meet its mission.

Corporate objectives should reflect the desires and aspirations of the organisation as interpreted by the owners or top management. Corporate objectives must be reached within the limits of available resources and must recognise organisation's environments.

3.2.1 Examples of Basic Corporate Objectives

Some of the examples of basic corporate objectives are:

- to carry on a diversified growing and profitable manufacturing business;
- to achieve high return on investment;
- to pursue staff development,vigorously;
- to ensure massive distribution of products.

The setting of corporate objectives is usually the main duties of the top management. Also, these objectives will be formulated according to the accepted philosophies of the organisation and its management. A company's objectives should be set out as clearly and as concisely as possible.

According to Kazmi (1995), corporate objectives are put in place to achieve the following ends.

- Corporate objectives define the company's relationship with its internal and external environments
- Help a company to pursue, to a logical conclusion, its corporate mission and purpose
- Corporate objectives provide the basis for corporate strategic decision-making
- Corporate objectives provide the standards of performance appraisal.

3.2.2 Peculiarities of Corporate Objectives

Kazmi (1995) posits that corporate objectives should possess the following desirable peculiarities in order to be effective or achievable.

- Corporate objectives should be understandable
- Corporate objectives should be specific and concrete
- Corporate objectives should be based on specific time frame
- Corporate objectives should be standardised, measurable, and controllable
- Corporate objectives should be challenging and not demotivating;
- Corporate objectives should correlate with each other
- Corporate objectives should be set considering internal and external consultants.

According to Peter Drucker (1974), corporate objectives have to be set in the areas of marketing, innovation, productivity, physical and financial resources, profitability, management performance and attitudes, and social responsibility.

3.2.3 Factors Affecting the Formulation of Corporate Objectives

According to Glueck and Jauch (1974), formulation of corporate objectives is affected by the following:

- the forces in the internal and external environment
- realities of the organisation's resources and internal power relationships
- the value system of the top management of the organisation
- the awareness by the organisation's management.

3.3 Objectives of Corporate Planning

The basic purpose of corporate planning is to improve strategic decision-making in the organisation so that resources and talents are applied to the most profitable use.

a. It is therefore targeted at enhancing corporate performance. Corporate planning serves the following objectives.
b. It assists in the fair and reasonable allocation of resources among divisions and units
c. It helps top management level in the analysis and consideration of alternative course of action, so new opportunities are identified and exploited
d. It ensures that organisations adjust to environment opportunities and threats thereby ensuring a better fit between the business and its environment;
e. Corporate planning also makes it easy for the objectives set, strategy and tactics to be appraised regularly
f. It also encourages internal examination of the firm’s internal strengths and weaknesses
g. It equally develops futuristic outlook for the organisation.

3.4 Benefits of Corporate Planning

Several benefits accrue from a sound and effective corporate planning.

They are as follows.

- It provides a comprehensive view of the company
- It creates clarity of purpose and better awareness of corporate goals and problems
- It improves the ability of a firm to cope with change and uncertainties
- It encourages innovative thought and creativity thereby introducing a spirit of dynamism in the organisation
- It helps to improve communication at all levels of the organisation
- It helps to take risks and think ahead
- It helps to improve the motivation, morale and job satisfaction of employees
- It also improves the quality of managerial decisions
- It provides a new way of controlling the business.

3.5 Limitations of Corporate Planning

The limitations of corporate planning include the following.

- Planning is time consuming and expensive
- It is not useful in a dying company
- Planning does not guarantee that the company will not be affected by adverse circumstances
- It involves a measure of judgement
- It is subjective and subject to errors
- It could reduce organisation's flexibility
- Planning itself cannot produce results – timely and appropriate actions are required for success
- Corporate planning programme cannot be suddenly started and expected to be an overnight success.

3.6 Reasons why Corporate Plan Fail

There are several reasons why corporate planning fail. They include, but not limited to the following.

- Lack of support from top management
- Poor attitude towards issues coming from a unit or department
- Inability to recognise the multiplicity of objectives
- The rules of bureaucracy
- Over-emphasis on short-term results to the neglect of long-term goals
- Poor and ineffective communication system
- Failure to allocate sufficient resources
- Failure to allow the planning organisation to grow to maturity
- Too much reliance on committees
- Faulty implementation of the plans.

4.0 CONCLUSION

In this unit, you have been exposed to corporate planning in all its ramifications including the benefits, limitations and the reasons why corporate planning fails.

5.0 SUMMARY

In this unit, you learnt the definition and the concept of corporate planning, and you are now conversant with the term corporate objectives. Examples of corporate objectives and factors that affect formulation of corporate objectives were also discussed to drive the points home. The benefits and limitations of corporate planning and the reasons why corporate planning fails were also discussed.

6.0 TUTOR-MARKED ASSIGNMENT

What do you understand by the term 'corporate planning'? Why do corporate plans fail and what can be done to rectify their failures?

7.0 REFERENCE/FURTHER READING

Chandan, J.S. (2004). *Management Theory &Practice*.

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UNIT 5 TOTAL QUALITY MANAGEMENT (TQM)

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    3.1 Definition of Total Quality Management (TQM)
    3.2 Origin of Total Quality Management (TQM)
    3.3 Basic Principles of Total Quality Management (TQM)
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1.0 INTRODUCTION

In this unit, you will be introduced to another management principle – Total Quality Management (TQM). You will also learn about the origin, as well as the basic principles of Total Quality Management.

Finally, the implementation strategies of Total Quality Management will be highlighted and explained to you.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define the concept 'total quality management'
- trace the history of total quality management
- list and discuss the basic principles of total quality management and
- explain the implementation strategies for total quality management.

3.0 MAIN CONTENT

3.1 Definition of Total Quality Management (TQM)

Simply put, Total Quality Management or *TQM* is the application of quality management principles to all aspects of the organisation, including customers, suppliers and employees, their integration with the key business process in order to ensure that things are done right the first time, while eliminating defects and wastes from the operations.

TQM is "a management approach for an organisation, centred on quality, based on the participation of all its members and aimed at long-term success through customer satisfaction, and benefits to all members of the organisation and to the society" (ISO 8402:1994).

In the alternative, when used together as a phrase, the three words in this expression have the following meanings.

- **Total**- involving the entire organisation, supply chain and product life cycle.
- **Quality**- with its usual definitions, with all its complexities – fitness for purpose or use.
- **Management**- the system of managing with steps like planning, organising, controlling, leading and staffing.

3.2 Origin of Total Quality Management

The origin of the expression 'Total Quality Management' from researchers is unclear. However, some consultants, business managers and researchers have contributed immensely to the concepts and principles of management over the years. They include **W. Edwards Deming** (1986) who was considered by many authors to be the 'godfather' of Japanese industrial success. He saw quality as aiming at the needs of the consumers- both present and future.

Also, Oakland (1993), sees quality as simply meeting the customers//clients' requirements or delighting the customers/clients. According to **Cole** (1994), quality is one of the most consistent themes to be found in mission statements/goals/objectives of organisation, hence; both profit and non-profit organisations pay greater attention to providing quality products and service to both customers and their employees.

Joseph Juram (1980) sees quality as fitness for purpose or use. **Crosby** (1979) sees quality, primarily, as conformance to requirements. In his research studies, Crosby proposes fourteen steps that management can take to improve quality throughout in an organisation. These steps are:

- creating an awareness about quality and gaining collaboration for the achievement of zero defects
- publish for all employees a statement of the company's mission statement (aims and objectives) and ensure that all managers demonstrate their commitment to it
- from top to bottom, everyone in the organisation must learn the new idea of improving customers satisfaction

- employ inspection function primarily for improving production, instead of detecting and correcting errors
- award business to suppliers on the basis of consistent quality, reliability of their products as well as competitive prices
- ensure adequate training for both employees and suppliers.

Furthermore, the philosophy underlying *TQM* as articulated by Edwards Deming is based on the following five steps:

- improved quality means that costs will decrease because of less rework, fewer mistakes, fewer delays and better use of time and materials
- as a result of productivity, quality improves in the organisation
- there is better quality which leads to higher market share and allow the company to raise price
- quality increases the company's profitability and allows it to stay in business
- and when the company stays in business, the company creates more jobs.

3.3 Basic Principles of Total Quality Management

The basic principles for Total Quality Management (TQM) philosophy of doing business are to satisfy the customers, satisfy the suppliers, and continuously improving business processes. In the process, these questions have to be answered.

- How do you satisfy the customers?
- Why should you satisfy the suppliers?
- What is continuous improvement?

i. Customer satisfaction

The first and major *TQM* principle is to satisfy the customer with quality product or service. The person who pays for the product or service (customer) wants to get value for his/her money.

ii. Company philosophy

A company that seeks to satisfy the customer by providing them value for what they buy and the quality they expect will get more repeat businesses, and less complaints.

iii. Internal customers

A worker should have the mindset of satisfying internal customers in order to keep his or her job and to get a raise or promotion.

iv. Chain of customers

Often, in a company, there is a chain of customers, each improving product and passing it along until it is finally sold to the external customers. Each worker must not only seek to satisfy the immediate internal customer, but he or she must look up the chain to try to satisfy the ultimate customer.

v. Satisfy the supplier

TQM's principle is to satisfy the supplier, which is the person or organisation from whom you are purchasing goods or services.

vi. External suppliers

A company must seek to satisfy external suppliers by providing them with clear instructions and requirements and then paying them fairly on time. It is only in the company's best interest that its suppliers provide it with quality goods or services, if the company hopes to provide quality goods or services to its external customers.

vii. Internal suppliers

A supervisor must try to keep his or her workers happy and productive by providing good task instructions, the tools they need to do their jobs and good working conditions. To maximally succeed, the supervisor must also motivate and reward the workers with commendation and good pay.

viii. Get better work

The reason for this is to get more productivity out of the workers, as well as to keep the good workers. An effective supervisor with a good team of workers will certainly satisfy his or her internal customers.

ix. Continuous improvement

The third principle of *TQM* is continuous improvement. You can never be satisfied with the method used, because there is always room for improvements. Since competition is fast improving, it is very necessary to strive to keep ahead of the game. Workers are often a source of

continuous improvements. They can provide suggestions on how to improve a process and eliminate waste or unnecessary work.

x. Setting standards

However, in the final analysis, a total quality management system should set out the following standards:

- the aim of the *TQM* system is to prevent errors; not their detections and corrections
- the motto of every staff in the organisation should be "get it right, the first time"
- organisational management must be totally committed to the total quality policy/ strategy
- it should meet customers' requirements
- quality implies continuous improvement in process and strategies
- quality is the responsibility of everybody including suppliers.

3.4 Implementation of Total Quality Management - Reliability

It is important to note that *TQM* is a cross-functional process, which for its implementation requires close cooperation among all functions in the pursuit of the common goal of improving quality.

i) Building organisational commitment to quality

The Chief Executive Officer (CEO) of an organisation and other top management should get training on *TQM*; this should even go down the ladder by ensuring the training of others. Top management has the responsibility of exercising leadership required to make commitment to quality on the organisation's goal.

ii) Focus on customers

TQM practitioners see or focus on customers as the starting point. It needs to identify what customers want and what the company provides to the customers.

iii) Set goals and create incentives

Top management of the organisation should set a challenging quality goal and create incentives for reaching it, pay rewards and bonus to team members.

iv) Relationship with supplier

To reduce product defects, a company has to work with suppliers to improve on the quality of the items or parts supplied. This responsibility falls on the materials management functions which interact with suppliers. Top management staff and leaders, production, marketing, research and development, information systems, human resources, all play a vital role in implementing *TQM* in an organisation.

4.0 CONCLUSION

In this unit, you have learnt that the principles of Total Quality Management rest on seeking to satisfy internal and external customers with quality goods and services, as well as continuously improving process. *TQM* practice is gaining momentum in business organisation in Nigeria because the forces of competition around quality have been set in motion. Both in the international and local arena, companies risk losing out to competitors if they cannot match their rapidly rising levels of quality and productivity in a sustained way.

Some Nigerian firms have continued to seek solutions to their competitive problems through traditional methods, i.e. by arbitrary cash-cutting solution which ignores customers/clients needs and also penalising local organisation staff. However, in the long-run, it is only those companies that maximise quality to their customers/clients, and at the same time meeting the needs of their organisational staff that will succeed. Success comes to those companies that can fully internalise and adapt the new *TQM* strategy to their own business environment (Cole, 1993).

5.0 SUMMARY

In this unit, you have learnt the definition of Total Quality Management, the genesis of the concept, basic principles of Total Quality Management and implementation strategy of *TQM* (Reliability).

6.0 TUTOR-MARKED ASSIGNMENT

How would an organisation apply TQM to ensure that it retains its customers, staff and suppliers?

7.0 REFERENCES/FURTHER READING

Chandan, J. S. (2004). *Management Theory & Practice*.

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MODULE 3

Unit 1 Strategic Alternative- Grand Strategies
Unit 2 Strategic Choice
Unit 3 Activating Strategy
Unit 4 Structural Implementation

UNIT 1 STRATEGIC ALTERNATIVE-GRAND STRATEGIES

CONTENTS

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    3.1.2 Steps in Strategy Formulation
    3.1.3 Determinants of Strategic Choice
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    3.1.6 Examples of Strategy Development
  3.2 Dimension of Grand Strategies
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  3.7 Alternative Functional Strategies
4.0 Conclusion
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1.0 INTRODUCTION

This unit exposes you to the range of strategic alternatives facing the company for adoption, implementation and evaluation. It also takes you through the various dimensions of strategy and factors determining them.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- define strategic alternative
- describe foundations of strategy
- state scope and steps in strategy formulation
- explain criteria for assessing strategic alternatives and the benefits.

3.0 MAIN CONTENT

3.1 Foundations of Strategy

The term strategy was derived from the Greek word "Strategos" which means 'general'. The concept of strategy was originally used in military science and art, where it implies '(the art of the general to improve the probability of winning a war)'. Chandler (1962) defines strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources to carry out these goals.

Andrew (1980) sees corporate strategy as the pattern of decisions in a company that determines and reveals its objectives, purposes or goals; produces the principal policies and plans for achieving these goals. It also defines the range of business the company is to pursue, the kind of economic and human organisation it is or intends to be and the nature of the economic and non-economic contribution it intends to make to its shareholder, employees, customers and communities. Corporate strategy defines the business in which a company will compete, preferably, in a way that focuses resources to convert distinctive competence into competitive advantage.

The above definitions suggest that strategy is the choice of major directions for pursuing objectives and the allocation of supporting resources. It represents a firm's "game plan". It is a large scale future oriented plans for interacting with the competitive environment to optimise achievement of organisational objectives.

It specifies how the organisation will be operated and run, and what entrepreneurial, competitive and functional area approaches and actions will be taken to put the organisation into the desired position in order to realise its stated objectives. Although it does not precisely detail all future deployments (people, financial and material), it however, provides a framework for managerial decisions. Strategy therefore

reflects a company's awareness of how to compete, against whom, when, where and for what.

Strategy formulation can be defined as the process whereby management develops an organisation's strategic mission, derives specific strategic objectives, and chooses a strategy which includes all the direction-setting components of managing the total organisation. Strategies are usually formulated in relation to the current and potential activities of competitors.

Strategies are also formulated to deal with the vagaries of the business environment. Formulation is an intellectual activity that is devoid of shrewd corporate manoeuvering or connivance. It is a continuous or systematic process aimed at challenging current and potential threats while utilising current and potential opportunities to improve company's results.

3.1.1 Scope of Strategy

Ansoff (1965), submits that strategy consists of four components including product-market scope, growth vector, competitive advantage and synergy. Product-market scope specifies the particular industries to which the firm confines its product market position and wherein it wants to compete.

Growth vector indicates the direction in which the firm is moving with respect to its current product market exposure.Competitive advantage implies isolating characteristics or unique opportunities within the field defined by the product-market scope and the growth vector.

The three components-product-market scope, growth vector and competitive advantage, collectively, describe the firm's product market path in the external environment. The first defines the scope of search; the second provides directions within the scope, and the third indicates the firm's ability to make good the individual entries. The first three components of strategy describe the firm's search for inherent profitable opportunities in the external environment.

Synergy is the fourth component of the common thread/strategy that measures the firm's ability to make good on a new product market entries. By providing capabilities for success in new ventures, synergy enables the firm to realise its full profit potential. Synergistic efforts involve the creation of business units that support and complement each other. Synergistic effect may arise from acquisition, vertical integration, research competence, marketing network etc.

A company may adopt an aggressive or defensive posture to capitalise on its synergy. The firm uses its outstanding competence such as a nationwide retail network, under its aggressive posture, to enter into new product-markets. For a defensive posture, new entries are required to provide some key competence which the firm does not possess.

Most importantly strategy has content, construct and context scope. The context scope covers the structure, the type, the size and the environment of the strategy (i.e. the conditions and circumstances of the strategy). The construct scope refers to the form or make of the strategy; it may be constructed as growth; competitive, survival or turn around strategies. The content scope of strategy refers to the capacity of the strategy to hold an identified threat or opportunity towards good results. Strategy may also be scoped along formulational, implementational and evaluational processes, as a managerial dimension.

Recently, Mintzberg (1987) broadens the scope of strategy by inventing, and scoping strategy from five diverse but overlapping definitions which are mutually exclusive. They are 5ps, as shown below.

(1) Strategy as plan
Viewed as a consciously intended course of action
(2) Strategy as ploy
Viewed as a specific manoeuver intended to outwit a computer
(3) Strategy as pattern
Viewed as consistency in behaviour whether intended or not.
(4) Strategy as position
Viewed as a means of locating an organisation in an environment
(5) Strategy as perspective
Viewed as an ingrained way of perceiving the world

This is not to suggest that strategy operates within the scope of semantics, in fact it transcends semantics.

3.1.2 Steps in Strategy Formulation

Formulation of corporate strategy requires the following task-processes.

(1) Assess external environment to identify and forecast opportunities and threats. Analyse the significant industry also.
(2) Assess internal environment of your organisation to identify your competitive strengths and weaknesses.
(3) Assess the values of top managers and stakeholders to identify shared values.

(4) Match external environment (including the relevant industry) analysis with both the internal organisational analysis and value analysis (**SWOT Analysis**).
(5) From the *SWOT* analysis in (4) above, identify strategic mission or purpose for the organisation.
(6) From the company's strategic mission, formulate long-term or strategic objectives which would be narrowed down to quantitative or verifiable objectives later.
(7) From the strategic objectives formulated, identify and appraise all possible alternative ground designs or strategies with which the organisation can pursue formulated objectives.
(8) Make a feasible choice out of the strategic alternatives that are open to the firm, in the light of company exigencies, situations and capabilities.

(**NB:** *see strategy development pyramid, in figure 1.1 below)*

3.1.3 Determinants of Strategic Choice

A good number of factors will influence the choice of a particular strategy by the company. The factors are listed below.

(1) The history of the organisation which sets the path for the organisation into the future; it will not be appropriate for the organisation to abandon the path.

(2) The purpose or mission of the organisation within the realm of its product-market definition will also suggest what strategy should be selected.

(3) The socio-political-economic environment of the organisation also presents specific opportunities and threats, which may warrant specific adaptive strategy e.g. a competitive threat, may suggest a competitive strategy as a response.

(4) Stakeholders of the organisations may come up with new resources, needs, expectations, agitation, threats and opportunities which may be strategically responded to e.g. suppliers may come up with new materials or inputs that may lead to new product development or diversification.

(5) Organisational resources of any particular organisation will also suggest the type and the limit to which a strategy can be operated. The Nigerian Football Association (NFA) will be deluding itself if it wants to sit ten million people (capacity strategy) at the National or Liberty Stadium within any 90-minutes of play.

(6) The shared values of owners and top managers will also determine the choice of a particular strategy. If the core values of the owners and top executives of the University of Lagos can be located in research, publication and teaching (academic values), then academic strategies will be selected. If the value shifts in the direction of competition with other institutions, then competitive strategies such as courses concentration (focus), differentiation, or low cost market leadership will be selected.

However, if the value is growth oriented, then new courses, new departments, new outreaches, new outlets will be opened. The university may even go international to open foreign offices. It will not only run undergraduate or postgraduate courses, but also postdoctoral courses. It will also create "Institute of Professors", and the likes, which will be similar to "Institute of Directors".

(7) The distinctive competence of a particular organisation will also dictate what strategy the organisation can adopt. Nigerite Nigeria Plc (the makers of roofing sheets) can, probably, add an output-strategy for solar energy, but this will not make use of its current distinctive competence, whereas the addition of output strategy (product development) for sex-care and/or creams and lotions by Lever Brothers Nigeria PIc will be much more germane to its current discriminating competencies.

(8) The objective pursued by an organisation will help in identifying all feasible alternative strategies from which a choice can be made. An objective to pursue market share extension or market leadership will engender the adoption of competitive strategies; whereas a growth and survival objectives may require growth and survival strategies respectively (e.g. integration etc.).

(9) Government policies may also have a direct bearing on strategic choice. A policy of government that all business organisations should source seventy percent (70%) of their input locally (local value-added) will lead many organisations to integrate vertically backward. Also, regulations concerning prices, wage rates, interest, taxes, dividend, investment, imports-exports, safety and pollution have a direct bearing on the formulation and implementation of strategies.

3.1.4 Criteria for Assessing Strategic Alternatives

All feasible strategic alternatives should be judged against the criteria below before a choice can be made.

(1) Appropriateness to available resources

Various strategies should be related to the available resources which management is willing to commit for the purpose.

(2) Appropriate time horizon

All strategic alternatives must also be related to time horizon which management is willing to commit for the purpose. Strategic time horizon must be longer. It must also allow for extended time horizon for strategy modification and maintenance of consistency over time.

(3) Internal consistency

The proposed strategies must be assessed as consistent with established mission statements, values and objectives. The selected strategy must fit these and other strategic elements.

(4) External consistency

Strategies must also be evaluated against the static and dynamic forces of the external environment. A coping strategy must be capable of arresting threats while utilising profitable opportunities. A strategy that cannot do this, is unfit.

(5) Acceptable degree of risk

The firm knows the degree of risk it can assume. Degree of risk assumable depends on:

- the amount of resources which the continued existence or value is not assured;
- the length of time period for which resources are committed;
- the proportion of resources committed to a single venture.

The degree of risk increases with an increase in these factors. Risk and payoff are correlated. High risk strategies promise high payoff but at the same time they pose threat to the survival of the enterprise, when things go wrong.

3.1.5 Benefits of Strategic Adoptions

Strategy formulation and implementation provides the following benefits.

(1) Facilitates company growth and expansion
(2) Leads a company to act rather than react
(3) Provides a basis for measuring performance
(4) Brings about strategic learning experiences in managers
(5) Insures the setting and the acceptance of common goals
(6) Trains and develop managers to inculcate strategic action skills
(7) Furnishes early indication of financial needs and other needs as well
(8) Helps a company to capitalise on opportunities and cope with boundary threats (e.g. growth, survival and competitive threats).

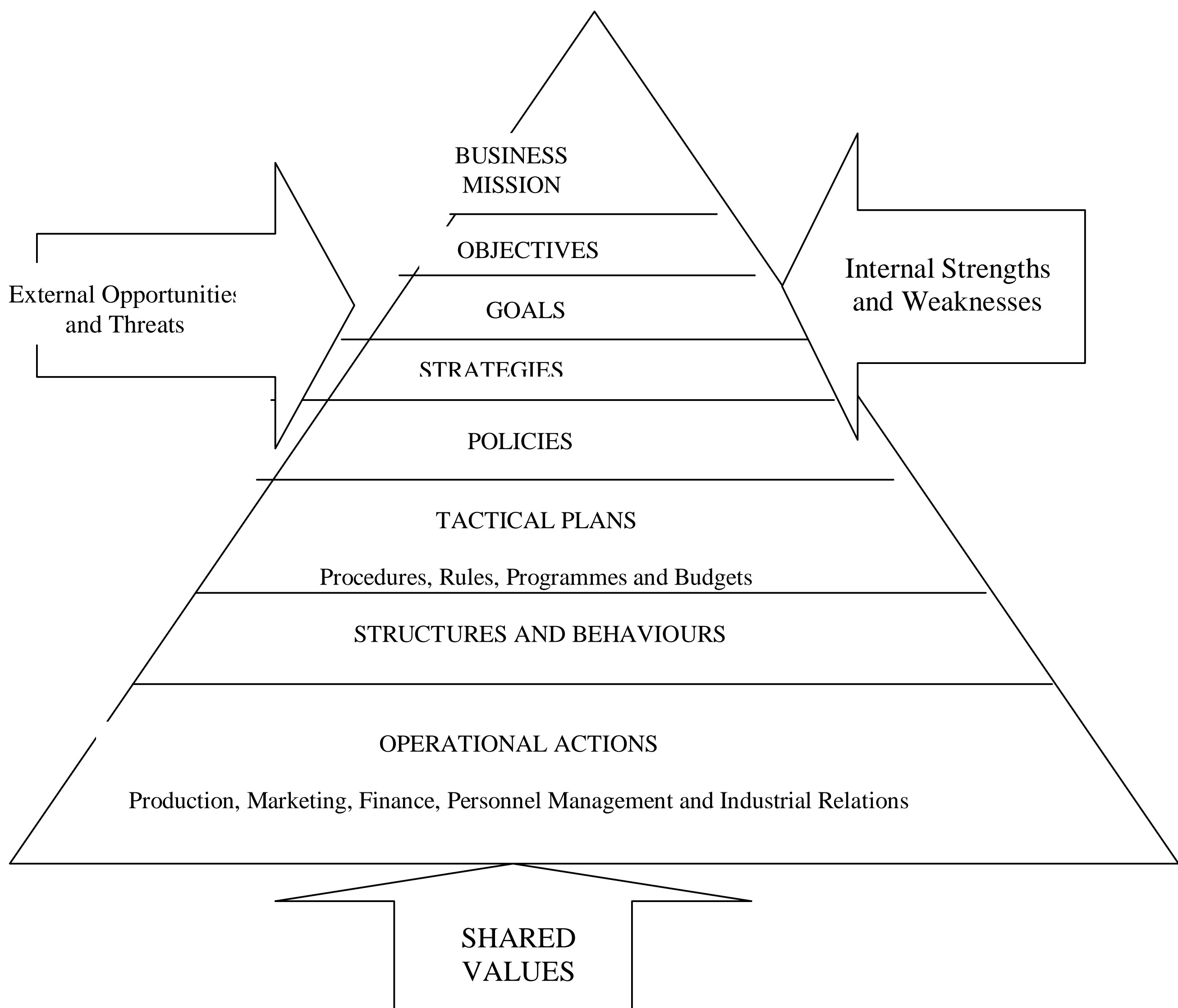

Figure 1.1: Strategy Development Pyramid

3.1.6 Examples of Strategy Development

Let us see some common examples of strategy development.

(a) Mission statement

"To serve our customers with beverage drinks and ensure stakeholders' satisfaction".

(b) Derived objective

(1) To improve shareholders return on invested capital
(2) Market growth and expansion.

(c) Derived goals

(1) To achieve a 30% return by the end of the year 2015 (currently 12%)
(2) To increase market share from 40% (current) to 85% by the year 2015.

(d) Derived strategies

(1) Pursuance of market penetration strategy by stimulating current customers to increase their current rate of usage or consumption
(2) To expand capacity by opening ten new plants and twenty new depots in suitable areas of Nigeria before the year 2008.

(e) Derived policies

(1) Increase promotion budget as and when necessary
(2) Select plant and depot locations on the basis of reasonable but profitable expansionary reasons.

3.2 Dimensions of Grand Strategies

The following are the dimensions of strategic changes or transformations. They are in most cases associated with grand or systemic strategies.

(1) Internal/external dimension

- Internalisation is the extent to which the strategy adopted by an organisation is independent of any other entity.
- Externalisation is the extent to which the strategy adopted by an organisation is dependent or in association with another entity.

2. Relatedness/unrelatedness dimension

- Relatedness is the extent to which the strategy adopted by an organisation is related to current business definition (customer groups, customer functions, product group or alternative technologies).
- Unrelatedness is the extent to which the strategy adopted by an organisation is at variance and unrelated to its current business definition. Relatedness is also called concentration (concentric); while unrelatedness is also called conglomerate.

3. Horizontal/vertical dimension

- Horizontalisation is the extent to which a newly adopted strategy enlarges or complements the current business definition of an organisation (customer groups, customer function, product class or technological alternative).
- Verticalisation on the other hand is the extent to which a newly adopted strategy enriches the current business definition of a company. Enrichment could be backward or forward or both from the current organisational position.

4. Active/passive dimension

- The active dimension is the extent to which a newly adopted strategy is offensive (aggressive) in anticipation or reaction to environmental threats and opportunities.
- Passive dimension is the extent to which a newly adopted strategy is defensive (protective) in anticipation or reaction to environmental threats and opportunities.

(5) Basic/derived dimension

- A basic dimension (also called grand, generic, systemic or holistic) is the extent to which a newly adopted strategy affects the entirety or totality of the organisation (corporate).
- A derived dimension is the extent to which a newly adopted strategy is restricted to a specific organisation's function e.g. production strategies such as choice of plant layout or plant maintenance strategy.

(6) Local/multinational dimension

- Localisation is the extent to which a newly adopted strategy is restricted to a single business or businesses at home.

- Multinationalisation is the extent to which a newly adopted strategy is operated both at home and abroad (host economies).

(7) Diversity/integratedness dimension

- Diversity is the variety of the adopted strategies or the extent to which adopted strategies are heterogeneous (diversification), or extent to which a newly adopted strategy can be differentiated from the existing strategies in the organisation.
- Integration as a dimension is the extent to which a newly adopted strategy collaborates or coordinates, or is in harmony with existing strategies of the organization.

(8) Intensiveness/extensiveness dimension

- Intensiveness is the extent to which a newly adopted strategy intensifies, reinforces or increases organisation's operations within the current or potential product-market definition.
- Extensiveness is the extent to which a newly adopted strategy expands the current or potential product-market definition of a company.

(9) Cooperation/competitive dimension

- Cooperative dimension is the extent to which a newly adopted strategy is in alliance or is joined with other entity's strategies.
- Competitive dimension is the extent to which a newly adopted strategy rivals other entity's strategies.

(10) Complete/facial dimension

- Full or complete dimension is the extent to which a newly adopted strategy has permanent, interminable or durable existence (e.g. complete merger, full integration) or the extent to which an adopted strategy allows an organisation to participate in all stages of the process of getting products into the hand of final users. Partial dimension is the extent to which a newly adopted strategy is non-durable, terminable or having temporary existence or limited in participating in all stages of production (e.g. cartels, syndicates, pools, price rings, corners, partial integration).
- The former may be long-term and sometimes compulsory or binding, but the latter is short-term and voluntary.

(11) Current/potential dimension

- Current dimension is the extent to which a strategy is put to existing or actual use or is actualised with reference to the present time.
- Potential dimension is the extent to which a strategy is put to latent use with reference to a future time.

3.3 Alternative Grand Strategies

Grand strategies are common/master strategies intended to furnish basic or generic direction for strategic actions. They are the basis of collaborative and enduring efforts directed towards the accomplishment of long-term business objectives. A grand strategy can be defined as a comprehensive general approach that guides major actions toward the realisation of long-term objectives. Other authors often refer to grand strategies as master, general, basic, generic, overall systemic or holistic strategies. The discussion of grand strategies are attractive conceptual academic packages, which certain problems have restricted their use in practice.

First, decision-makers often do not recognise the range of alternative grand strategies available. Strategic managers tend to muddle through by building incrementally from the status quo. This often limits their search for ways to improve results. Other traditional executives have simply never considered the options available as attractive grand strategies.

Second, decision-makers may generate lists of promising grand strategies but lack the skill as well as the logical and systematic approach to selecting an alternative. Strategy formulation or modification requires the consideration of available strategic alternatives for necessary choice.

Strategic alternatives revolve around the questions of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector.

Grand strategic alternatives can be classified in these ways.

i. Stability strategies

Stability strategies are adopted by an organisation that desire incremental improvement of functional performance in all or any of its product market definition, either singly or collectively. Examples of such strategies include provision of special service to customers,

provision of after sales service or modernisation of plant to increase efficiency, productivity and stability.

Adoption of stability strategies will not require the company to go beyond what it is presently doing, that is, serving the same markets with the present products, using existing technology.

A stability strategy may be adopted for the following reasons (Kazmi 1995).

(a) It is less risky, involves less changes and people feel comfortable with things as they are
(b) The environment is relatively stable
(c) Expansion may be perceived as being threatening
(d) Consolidation is sought through stabilising after a period of expansion.

ii. Expansion/growth strategies

An expansion or growth strategy is adopted when a company broadens the scope of its product-market definition. It is an elaborate redefinition of the current product-market scope. The redefinition of scope usually leads to expansionary or extended alteration of the corporate philosophy, identity, character, size and image of the business of the organisation.

Growth strategy may be intensive, integrative or diversified, as the case may be. Any of these has great impact on company's internal configuration causing extensive changes or transformations in almost all aspects of internal functioning. Strategies here are more risky than stability strategies. Growth strategies may be adopted for the following reasons.

a. It is a more appropriate answer when the environment demands increase in pace of activity
b. It provides strategists with a psychological feeling of satisfaction with the prospects of growth from expansion. *CEOs* may take pride in presiding over organisations perceived to be growth-oriented.
c. Increasing size may lead to more control over the market vis-a-vis competitors.
d. Advantages from the experience curve and scale of operations may accrue.

iii. Competitive strategies

A competitive strategy is adopted when a company wants to cope with the boundary threats of its rivals. They are a combination of offensive, defensive and functional area/support strategies employed to cope with the five competitive forces enunciated by Porter (1980) in order to achieve target objectives.

The three genetic competitive strategies include the following.

(a) Striving to be the overall low-cost producer in the industry
(b) Seeking to differentiate ones product offering in one way or another from rival product.
(c) A focused approach based on cateting (via low cost leadership or differentiation) to a narrow portion of the market rather than going after the whole market.

iv. International business entry strategies

International business entry strategies are adopted when a company wants to realise global business objectives through efficient and effective use of available resources across national border in two or more countries of the world.

Global business objectives sought may include profitability, growth, survival competitive position, development and/or public responsibility.

From these objectives, one can observe that strategic entry path for international business may be plural path including the use of growth, survival, competitive and development strategies.

The three international business entry strategic alternatives are listed below.

(a) Trading strategies

The options here include exporting, importing and/or exporting (re-exporting of imported items) strategies.

(b) Joint/cooperative strategies

The alternatives include licensing, franchising, management contracts, leasing, contract manufacturing, contractual joint venture (consortium) and joint equity partnership.

(c) Direct private investment strategies

The alternatives include starting up a wholly owned subsidiary plant, buying a going-concern through merger or acquisitions, forming a joint venture plant or a tripartite venture partnerships that result in the creation of fixed assets.

These multinational business entry strategies are well discussed later in the course.

v. Contraction/retrenchment/turnaround strategies

A retrenchment strategy is followed when an organisation substantially reduces the scope of either its customer groups, customer functions, or alternative technologies, singly or jointly, in order to improve its performance.

Sometimes war strategists may think it is better to retreat rather than to advance. Retrenchment therefore involves total or partial withdrawal from either a customer group, customer function or alternative technologies e.g. an hospital abandoning treatment of general cases to concentrate on specialty treatment. A training outfit may serve its clientele through distance learning system and discard its face-to-face interaction methodology of training to reduce expenses, use of existing facilities and personnel more efficiently.

Retrenchment strategies "trim the fat" results in a slimmer organization, benefit of unprofitable customer groups, customer functions or alternative technologies.

vi. Combination strategies

This strategy is followed when an organisation adopts a mixture of stability, expansion, new business entry, competitive and retrenchment strategies either at the same time in its different business or at different times in the same business with the aim of improving performance.

This strategy as an alternative is a complex response or solution to complex-dynamic environmental problems and complications of real life business.

3.4 Alternative Growth Strategies

Generic growth strategies can be classified into three groups as follows.

(a) Intensive growth strategies

These include market penetration or concentration, product development and market development.

(b) Integrative growth strategies

These include horizontal integration, background vertical integration and forward vertical integration.

(c) Diversification growth strategies

These are made up of concentric or related "diversification, horizontal diversification and conglomerate or unrelated diversification".

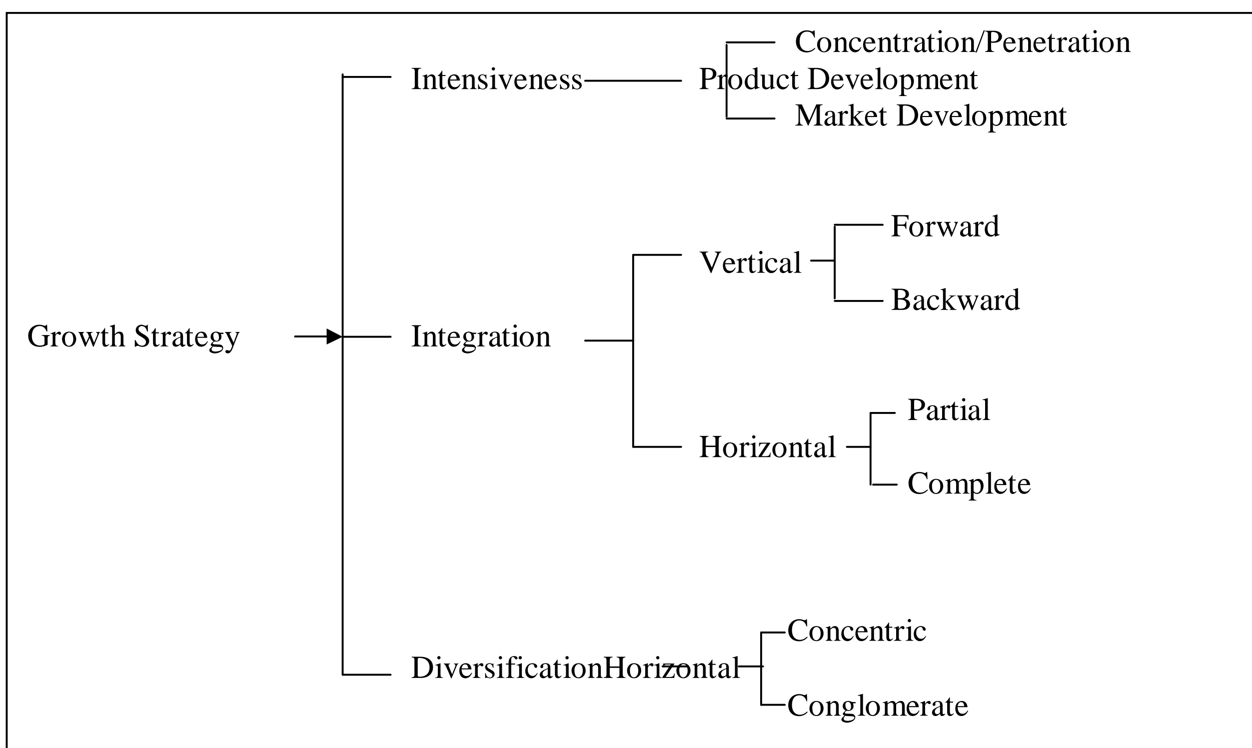

Fig. 1.2: Alternative Growth Strategies

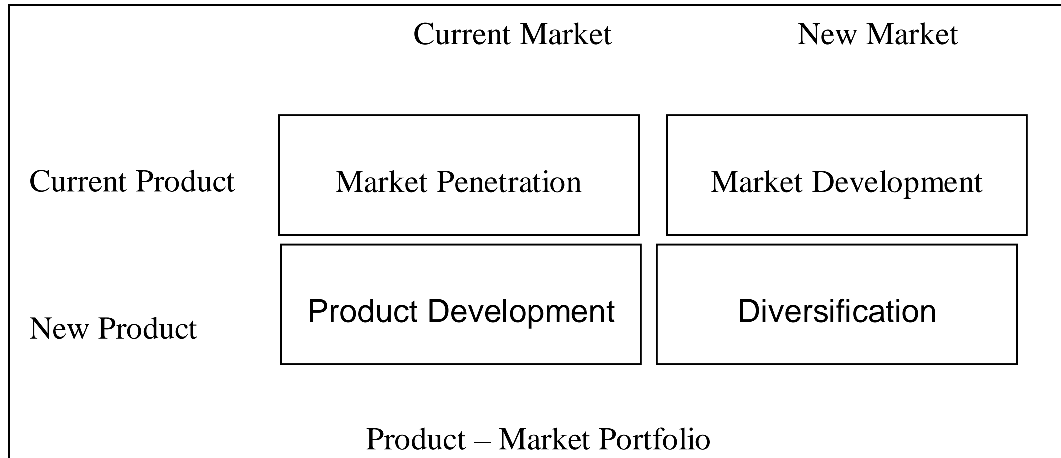

Fig. 1.3: Ansoff's Product-market Windows/Portfolio

3.5 Alternative Generic Competitive Strategies

Figures 1.2 and Figure 1.3 above illustrate the alternative growth strategies that a company may assess for adoption. The second figure shows the growth path along current/new product versus current/new market dimensions. Three sets of strategic intensiveness plus diversification strategy are visible from these combinations in the window.

Each of these types of growth strategies are explained below.

(A) Intensive growth strategies

Alternatives are listed below.

(1) Market penetration/concentration

Market penetration consists of the companies seeking increased sales for its current products in its cutrent markets through more aggressive marketing effort. This concentration or penetration strategy is effective and suitable in the following situations.

(i) When the usage rate of present customers can be significantly increased.
(ii) When current markets are not saturated with one's particular product or service.
(iii) When the correlation between sales revenue and marketing expenditure is historically high.
(iv) When increased economies of scale provide major competitive advantages.
(v) When the market shares of major competitors have been declining while total industry sales have been increasing.

Penetration may be achieved through intensive attraction of the company's current customers, competitors' customers and current non-users. Each of these actions suggests the usage of specific set of alternative or aggressive efforts such as trade allowances, promotion, price reductions, package improvements etc. Of all the grand strategies, concentration is the lowest in risk and no additional resources are required.

The strategy is called concentration strategy because the organisation concentrates on a single line of business. Concentration brings about directional clarity and unity of purpose from top to the bottom, in the hierarchy of the organisation. Managers and workers have an in-depth knowledge about the single business. Concentrating on a single line of business poses the risk of putting all of a firm's egg in one industry basket. If the industry stagnates, declines, or becomes unattractive, then the single-business enterprise future outlook dims, the company's growth rate becomes tougher to sustain, and superior profit performance is much harder to achieve.

A single business with a concentrated strategy may be hampered by changing customer needs, technological innovation or the introduction of new substitutes. Such a company may, ultimately, become a victim of its own narrow corporate goal definition; this is symbolic of all mono-product companies.

(2) Market development

Market development consists of the company seeking increased sales by taking its current products into new markets. This strategy like the concentration strategy is less costly and less risky compared to some senior grand strategies.

By this strategy the firm enters into new markets by developing product versions that appeal to new market segments. The firm may also enter into new geographical areas through local, regional, national or international expansion. Companies that open offices in new places, states or countries are practicing market development.

Companies marketing products, sometimes with slight cosmetic modifications to customers in related market areas, by adding different channels of distribution or by changing the content of advertising or promotional idea are practising market development. Situations in which market development may seem a profitable opportunity to a company include the following.

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

- When an organisation is highly efficient and effective at what it does.
- When new untapped or unsaturated markets exist.
- When the company has needed capital and human resources to manage expanded operations.
- When the firm has excess or surplus production capacity.
- When an organisation's basic industry is rapidly becoming global in scope.

(3) Product development

Product development consists of the company's seeking increased sales by developing new or improved products for its current markets. A company can develop new product features or content by attempting to adapt, modify, magnify, minify, substitute, rearrange, reverse or combine existing features (product reformulation) (Kotler,1980).

Another method of developing new product is by creating different quality versions of the product. A product can also be developed by creating additional models and sizes (product proIiferation).

Product development strategy are very effective under the following situations:

- When the company wants to prolong the life cycle of its current product that is already at maturity stage by attracting present customers who are satisfied with company's initial products and services.
- When the company competes in an industry that is characterised by rapid technological developments.
- When major competitors offer better quality at comparable prices.
- When the company competes in a high growth industry that is strategically attractive.
- When the company has very strong research and development capabilities.
- When the company wants to take advantage of its favourable reputation and brand name.

By way of example, a second formula of skin-care creams and lotion, a revised edition of a textbook and a new model of a popular brand of car such as German Mercedes Benz, Peugeot, or Japanese Toyota constitute product development strategy.

(B) Integrative growth strategies

(1) Backward Integration

Backward-vertical integration takes place when a company is seeking ownership or increased control of its supply systems. Backward integration can be achieved by a company via its own internal start-up entry into inputs supply stage in the industry's activity chain or can choose to acquire an enterprise already positioned in the supply stage of inputs. Backward integration is a profitable growth opportunity under the following situations.

- When an organisations current suppliers are too expensive, unreliable or incapable of meeting the firm's needs for parts, components, assemblies or raw materials.
- When the number of suppliers are few, whereas there are many competitors scrambling for scarce inputs.
- When a company competes in an industry that is growing rapidly.
- When a firm has the capabilities (capital, competence and human resource) needed to manage the business of producing or supplying its own raw materials.
- When the advantages of stable prices are particularly important so as to stabilise the cost of raw material production.
- When present suppliers realise high profit margins, suggesting that the business of supplying products or services in the given industry is a worthwhile venture.
- When an organisation needs to acquire a needed resource quickly.

It may be a policy directive or a legislative dictation from the government; for instance the Shagari regime in Nigeria demanded 50% local added inputs in manufacturing of company products.

Increasing the local content of Nigerian industrial output is a central objective of government industrial policy. The Raw Materials Research and Development Council (RMRDC) allocates resources to research and development of identified raw material substitutes or alternatives.

In Nigeria, Lever Brothers Nigeria Plc (LBN) blazed a successful and enviable trail by looking inward and sourcing raw materials for itself and others locally. The company invested heavily in the development of local substitutes such as palm oil, kernel oil, agricultural annual crops such as sunflower and lemon grass. It has a 2,000 hectare tea plantation on the Mambila Plateau in Taraba State of Nigeria.

It also provides invaluable technical and financial support to local manufacturing ventures which produce intermediates such as alkaline, sodium silicate and the local mining of feldspir and Kaolin in Plateau

and other states of Nigeria. Other products include bleaching earth and some special adhesive for soap wrappers. *LBN* is also involved in the production of sulphuric acid, emulsifiers as well as special oil blends for companies manufacturing ice creams, condensed milk, beverages and other foods. *LBN*, therefore, is appreciatively self-reliant. The company depends largely local sources (up to 70%) for its basic raw material needs. Thus, inward looking and local sourcing of raw materials ensure increased employment in the country and consolidate survival and continuity of the companies involved.

Other well known examples of backward integration are Cadbury Nigeria PIc, Guinness Nigeria PIc, UAC of Nigeria PIc, Nestle Foods Nigeria PIc to mention but a few, all of which sufficiently own agricultural plantations and/or are in reliable partnering arrangements with contract farmers and outgrowers which make them to benefit from the technical advice and assistance of the company's agricultural services department, and at the same time guarantees the company’s continuous supply of grains that meet its quality standards.

(2) Forward integration

Forward integration (in a company) entails seeking ownership or increased control of distribution systems. It is a form of vertical integration. This may be achieved by a company internal start-ups or by acquiring businesses that can serve as a distribution (wholesale or retail) outlets for the firms products (e.g. warehouses for finished products, departmental stores, depots etc). Forward integration can be a profitable growth strategy under the following conditions.

- When the company's present distribution systems are especially expensive, unreliable or incapable of meeting the firms distribution needs.
- When the availability of quality distributors is so limited as to offer a competitive advantage to those firms that integrate forward.
- When a firm competes in an industry that is growing and is expected to continue to grow remarkably.
- When an organisation has the capabilities, capital and human resources needed to manage the business of distributing its own products.
- When the advantages of stable production are particularly high so as to be able to predict demand levels.
- When present distributors have high profit margins or are engaging in sharp practices detrimental to the image of the manufacturer.

It may be a legal or legislative requirement, in a developing economy, for proper rationing of scarce output.

In Nigeria, Leventis Nigeria PIc, Nigerian Bottling Company, UAC of Nigeria Plc, certain shoe manufacturers and oil companies through their various filling stations have integrated forward to market their own products through their own delivery trucks, depots, warehouse, departmental shops, demand centres, mail ordering, direct marketing and sales efforts.

Forward integration strengthens a firm's market position and secures it for a competitive advantage. Forward integration is usually motivated by a desire to realise the profit potential of a smooth economical production flow, product differentiation, having one's own capability for assessing end-user markets and/or a distribution cost advantage to eliminate adultration of products by existing distributors (Thompson and Strickland, 1987).

(3) Horizontal Integration

Horizontal integration entails a company seeking ownership or increased control of some of its competitors. It involves integrating with other businesses at the same level of supply, production or marketing processes. It expands the business at the same level of business. Horizontal expansion of a business may be achieved in a partial or full dimension.

Firstly, firms carrying on the same type of business combine or merge partially or completely, and temporarily or permanently. The major objectives of temporary merger is to reduce or eliminate rivalries or competition between rivals and regrouping such firms to improve efficiency.

Temporary mergers tend to develop in times of recession and are likely to break up with the return of more favourable conditions. During membership, the companies coming together preserve their separate identities and also a large measure of autonomy.

Examples of temporary merger include the cartel, the syndicate, pools, rings and corners. Cartels may also be divided into selling cartels (syndicate quota selling), product cartel or product ring (each company specialises in product production e.g. suades, sandals, boots, slippers etc.), production cartels and regional or geographical cartels (e.g. East India company, United Africa company, West India company).

Permanent merger are more durable type of association necessitating complete amalgamation or merger involving the creation of some form of permanent organisation. Examples of permanent merger are amalgamations/combinations, consolidations (e.g. joint venture), absorption (takeover bids or acquisitions), holding companies, interlocking directorates etc.

Corporate strategy can also aim at becoming fully or completely integrated. That is, participating in all stages of the processes of getting products into the hands of final users, or the strategic objective may be limited to becoming partially integrated; that is choose either to be vertically integrated (forward or backward) or horizontally integrated.

Horizontal integration is a profitable expansionary opportunity under the following situations.

- When a firm can gain monopolistic characteristics in a popular area or region without being challenged by the federal government for colluding to reduce competition.
- When a company competes in a growing industry.
- When increased economies of scale provide major competitive advantages.
- When an organisation has the capability and the resources needed to successfully manage an expanded organisation.
- When competitors are faltering due to lack of managerial competence.

It must be pointed out that not all mergers are horizontal in nature. Apart from horizontal merger, others may be vertical merger (forward or backward), concentric merger, conglomerate merger, partial merger, full merger, temporary merger, permanent merger etc.

However, horizontal merger or integration always lead to the formation of absorptions (acquisitions), consolidations (e.g. joint venture) and combinations (firms of almost equal wealth and assets coming together).

Mergers may also be short-term (tactical) such as technical assistance agreement (e.g. licensing, management contract and franchising), pooling agreement (e.g. leasing, contract manufacturing quota production etc.) agency or board and cartels (common interests).

Long-term horizontal mergers may be interchange of directors (interlocking directorates) that is, competitors are using common bosses, voting trust or a board of trustees, takeover bids or acquisitions etc.

(C) Diversification strategies

The alternatives are as follows.

(1) Concentric or related diversification

Concentric diversification entails seeking to add new products that have technological and/or marketing synergies with existing product line; these products normally will appeal to new classes of customers.

This means that the additional business, product or service created is related to existing business definition of the firm either in terms of customer groups, customer functions, production technology or product class. This strategy may be achieved through internal-start up or generation (spin-off) or the acquisition of separate businesses with synergistic possibilities counterbalancing the two business strengths and weaknesses. The new businesses selected possess a high degree of compatibility with the current businesses. The combined company profits increase strengths and opportunities as well as decrease weaknesses and exposure to risk.

Concentric diversification may be of three types as shown below.

(i) Technology-related concentric diversification

The new product or service added is offered with the help of a related or existing organisational technology but not related to the market.

(ii) Marketing related concentric diversification

The new product or service added is not produced from existing technology (inputs, process/methods and skills), but is related to current markets (customer group or customer need).

(iii) Full concentric diversification

This is the addition of a new product or service that is related to existing organisational technology as well as to its market; that is, it will be sold through the same existing distribution channel, to satisfy the needs of current customers. Either (i) or (ii) above are regarded as partial concentric diversification.
Concentric diversification becomes a suitable growth opportunity where the following conditions prevail.

- When an organisation competes in a no growth or slow-growth industry.

- When the addition of a new, but related products will significantly enhance the sale of current products.
- When new, but related products can be offered at highly competitive prices.
- When new, but related products have seasonal sales levels, that counter balance a company's existing peak and valleys.
- When a company's products are currently in the decline stage of the product life cycle.
- When an organisation is blessed with high-fliers in terms of strong and effective management team.

Glueck (1980) observes that a concentric diversification strategy, taken through the path of acquisition, will engender the following benefits.

- Increase the firm's stock value
- Increase the growth rate of the firm
- Make an investment that represents better use of funds than ploughing them into internal growth
- Improve the stability of earnings and sales by acquiring firms whose earnings and sales complement the firms peak and valleys.
- Balance or fill out the product line.
- Diversify the product line when the life cycle of current products has peaked.
- Acquire a needed resource quickly, for example, high quality technology or highly innovative management.
- Tax reasons- purchasing a firm with tax losses that will offset current or future earnings.
- Increase efficiency and profitability, especially if there is synergy between the two companies.

Related diversification offers a way to exploit what a company does best; it helps to transfer company's distinctive competence from one business to another. It allows the company to maintain a degree of unity in its business activities, gain the benefits of strategic fit and cost sharing, while at the same time spreading the risks of enterprise over a broader base.

Related diversification is more attractive than unrelated diversification because of its opportunity to capitalise on "strategic fit".

Following from Porter (1985), strategic fit exists when the activity-cost chains of different businesses are sufficiently related that opportunities exist to reduce costs, to enhance differentiation, or to manage more effectively by coordinating those particular activities in the industry chains that are closely related.

A diversified firm which exploits these activity-cost chain interrelationships and captures the benefits of strategic fit can achieve a consolidated performance that is more than the sum of what the businesses can earn pursuing independent strategies (Thompson and Strickland 1987).

Three types of strategic fit exit.

a. Market-related fits occur when the activity-cost chains of different business overlap so that the products are used by the same customers, sold essentially by the same marketing and sales methods in the same geographic market, or distributed through common dealers and retailers.

b. Operating fits occur from interrelationship in the procurement of purchased inputs, in production technology, in manufacture and assembly, and in such administrative support areas as hiring and training, finance (efficiency in raising investment capital and in utilising working capital), government relations, accounting and formation systems, security and facility maintenance.

c. Management fits occur when different business units present managers with comparable or similar types of entrepreneurial, technical, administrative or operating problems, thereby allowing accumulated managerial know-how associated with one line of business to spill over and be useful in managing another line of business. Transfers of managerial know-how can occur anywhere in the activity-cost chain.

(2) Conglomerate or unrelated diversification

Conglomerate diversification entails a strategy that gives little concern to creating product/market synergy with existing businesses. The firm operates in business which have different product markets with the sole aim of improving overall profitability, flexibility, and top management power-base. Businesses without common theme are integrated together. Conglomerate diversification has no common thread with the firm, but concentric diversification has common thread with the firm either through marketing or technology.

Ways of becoming a conglomerate include internal spin-offs into diversified portfolio of businesses, acquiring companies in any line of business (so long as projected profit opportunities equal or exceed minimum criteria). Also, a debt-heavy firm may seek to acquire a debt-free firm in order to balance the capital structure of the former and

increase its borrowing capacity; a firm with a strong seasonal and cyclical sales patterns diversifying into areas with a counter seasonal or counter cyclical sales pattern. A cash-rich but opportunity-poor company may seek to acquire a number of opportunity-rich but cash poor enterprises, or a company may build a diversified portfolio of three or four unrelated groups of business, striving for some degree of relatedness within each group.

Conglomerate diversification may be more suitable in the following situations.

- When a company's basic industry is experiencing declining annual sale and profits.
- When a company has the capital and diverse managerial talent needed to compete successfully in a new industry.
- When the firm has the opportunity to purchase an unrelated business that is an attractive investment opportunity.
- When there exist financial synergy between the acquired and acquiring firm, note that a key difference between concentric and conglomerate diversification is that the former should be based on some commonality of markets, products or technology whereas the latter is based more on profit considerations.
- When existing markets for an organisation's current products are saturated.
- When antitrust action could be charged against an organisation that has historically concentrated on a single industry.
- When a firm wants to minimise risk by spreading it over several businesses.
- When growth in existing business is blocked due to environmental and regulatory factors.

The Achilles' heel of this strategy is the big demand it places on corporate-level management to have complicated skills in dealing with the problems of each portfolio of business within a diversified structure, so as to bail it out of troubles when they arise. A question that good managers must answer is- to what extent must a company be diversified to attain objectives and remain healthy, viable entity, capable of competing successfully? Classic examples of a conglomerate in Nigeria are the UAC of Nigeria PIc, John Holt PIc etc.

(3) Horizontal diversification

Horizontal diversification entails a company seeking to add new products that can appeal to current customers though technologically unrelated to its current product line. In addition to cement production and marketing by West African Portland Cement PIc (Nigeria), the

Portland Paints division produces various quality of paint under the brand name Sandtex paints.

This additional product range is related to current cement customers' (market) need but it is not related to the technology for producing cement. Horizontal diversification therefore requires another type of competence to be successful. Another example is- a publisher of tertiary institution's textbooks may decide to produce and sell either dresses/wears or musical video/audio discs desired by students of tertiary institutions. This is a market-related diversification.

Horizontal diversification may be preferred under the following situations.

- When revenues derived from a company's current products or services will significantly increase by adding the new market related products.
- When a firm competes in a highly competitive and/or a no-growth industry, as indicated by low industry profit-margins and returns.
- When a company' s current channels of distribution can be used to market the new products to current customers.
- When the new products have counter-cyclical sales patterns, compared to an organisations current products.
- When an organisation understands the behaviour and needs of its customer or clientele.

3.6 Alternative Generic Retrenchment Strategies

Porter (1985) identifies three generic competitive strategies that can be used either singly or jointly to compete in any industry.

(1) Overall cost leadership strategy

This strategy aims at becoming a low cost producer, and competing on an industry wide basis. Low cost relative to competitors is entirely the central theme of the company's strategy. Nine major types of cost drivers come into play to determine costs in each activity segment of the chain. They are economies or diseconomies of scale, learning and experience curve effects, percentage of capacity utilisation, linkages with other activities in the chain, sharing opportunities with other business units within the enterprise, the extent of vertical integration, timing considerations associated with first-mover advantages and disadvantages, strategic choices and operating decisions, and locational variables (wage levels, tax rates, energy costs, transportation cost.etc).
However, low cost advantage can be achieved by revamping the make up of the activity-cost chain. These include the following:

- Stripping away all the extras and offering only a basic, no-frills product or service
- Using a different production process
- Automating a particularly high-cost activity
- Finding ways to use cheaper raw materials
- Using new kinds of advertising media and promotional approaches relatives to the industry norm
- Selling directly through one's own sales force instead of indirectly through dealers and distributors
- Relocating facilities closer to suppliers and/or customers
- Achieving a more economical degree of forward or backward vertical integration relative to competitors.

Going against the "something for everyone" approach of others and focusing on a limited product/service to meet a special, but important, need of the target buyer segment.

(2) Differentiation strategy

This is achieved by developing attributes of a product or service that distinguish it from those of its competitors. Differentiation is most likely to produce an attractive and lasting competitive edge when it is based on technical superiority, quality, providing customers more support services or through the appeal of more value for money.

According to Porter (1985), a firm can differentiate by doing any thing to lower the buyer's total cost of using a product or by raising the performance a buyer gets from using a product or service. Specific ways to reduce a buyers total costs include the following.

- Reducing waste and scrap in raw material use.
- Lowering labour costs.
- Minimising down time or idle time.
- Faster processing times.
- Lowering delivery, installation or financing cost.
- Reducing inventory cost.
- Reducing maintenance cost.
- Reducing need for other inputs.
- Higher trade-in value for used models.
- Free advice and technical assistance on end use applications etc.

Specific ways to enhancing the performance of the product from the perspective of the buyer are as listed below.

- Greater convenience and ease of use.
- Capacity to add on or change later.
- Optional extras to meet occasional needs.
- Ability to fill non-economic needs such as status, image, prestige, appearance, comfort.
- Capability for meeting the customer's need to accommodate future growth and expansion requirements.

(3) Focus or specialisation strategy

By this strategy, the firm specialises in serving only a portion or segment of the total market. The central issues here are concerned with choosing which industry segment to compete and building competitive advantage in the target segment.

The segment to choose must:

- have sufficient size and purchasing power to be profitable.
- have good growth potential.
- not be too crucial to the success of major competitors.

The focusing firm must have skills and resources to serve the segment effectively. The firm must also be ready to defend itself against challengers via customer goodwill and superior ability to serve buyers in the segment.

Other alternative grand strategies are internal retrenchment or turnaround, divestment and liquidation strategies. All can be referred to as contraction strategies. They are discussed as follows.

(A) Internal/definite retrenchment or turnaround strategies

Internal retrenchment or turnaround strategy may be necessary if the firm finds itself in a position of declining results, especially profits. Causes of such decline may be economic recessions, production inefficiencies and innovative break through by the firm's competitors. The list is not exhaustive. However, strategic managers believe that the firm can survive or recover if proper re-organisation can be carried out.

Therefore, retrenchment or turnaround strategies are sometimes called survival or re-organisation strategies. Retrenchment therefore is a temporary retreat and trimming back in the face of adverse conditions. It is a short-run defensive strategy for responding to conditions of general economic recession, persistent negative cash flows, negative profits, declining market share, physical facilities deterioration, uncompetitive products or services, mismanagement, public criticisms, harsh

regulation's etc. These conditions are indicators that turnaround or retrenchment strategy is needed to allow the organisation to survive. Retrenchment strategies may be adopted in the following situations.

- When a firm has clear distinctive competence, but has consistently failed to meet its objectives or goals.
- When a company is one of the weakest competitors in a given industry.
- When an organisation is surrounded by inefficiencies, ineffectiveness, low profitability, poor employee morale and stakeholders' pressure to improve performance.
- When an organisation has failed to capitalise on external opportunities, minimise on external opportunities, minimise external threats, take advantage of internal threats, take advantage of internal strengths, and overcome internal weaknesses over time.
- When the company has grown so large, so quickly, that internal reorganisation is needed.

Retrenchment strategies may be definite/internal or indefinite/external. External retrenchment often leads to divestment or liquidation while internal retrenchment is concerned with improving internal efficiency through re organisation. There are many types of internal retrenchment/turnaround strategies; they include the following.

- Human resources reduction/retrenchment strategy
- Asset reduction/retrenchment strategy
- Top management retrenchment strategy
- Revenue-increasing strategies
- Business portfolio retrenchment strategy.

Each of these retrenchment strategies is explained below.

(1) Human resources retrenchment strategy

Personnel retrenchment strategy is a cost reducing turnaround strategy. It should be used when the ailing company is close to breakeven point. A belt-tightening emphasis on budget and cost control will lead to elimination or reduction of jobs and firing of workers. There are four strategies to achieve this aim.

i) Downsizing

This is general reduction in the size of organisational activities which will necessitate a cut in the size of employees to eliminate wage bills

that are out of tune with revenue earnings. It consists of shutting down or selling off obsolete or unproductive production or service lines. Reasons for downsizing including threatened organisational survival, dwindling profit, dwindling market, technological change, depressed economy, lack of raw material etc.

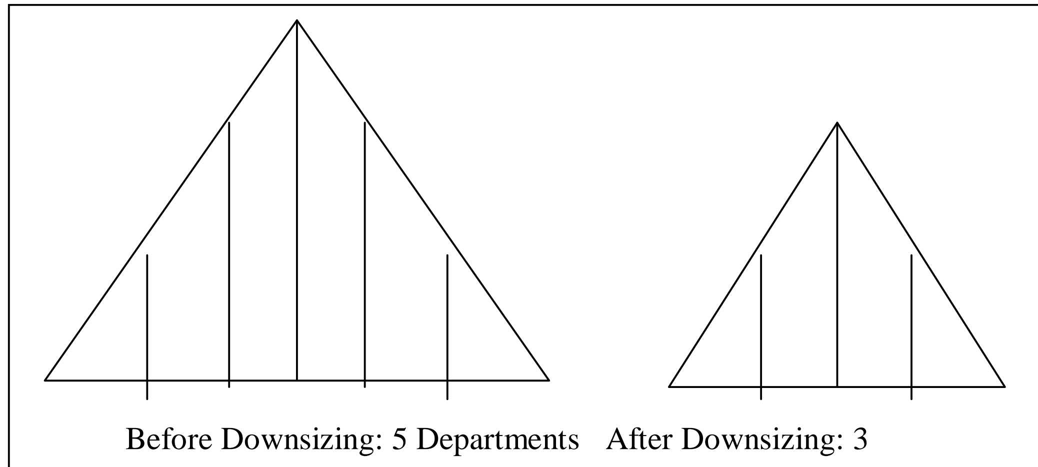

Fig. 1.4: Downsizing

ii) Delayering

This is a strategy that cuts down on the layers or levels of authority between lower level employees and the highest ranked employee *(CEO)*. Reasons for delayering may include resource constraints (time, effort), wastages, increasing wage bill/cost, market contraction, technological changes, threatened survival, depressed economy, delayed decision-making and implementation.

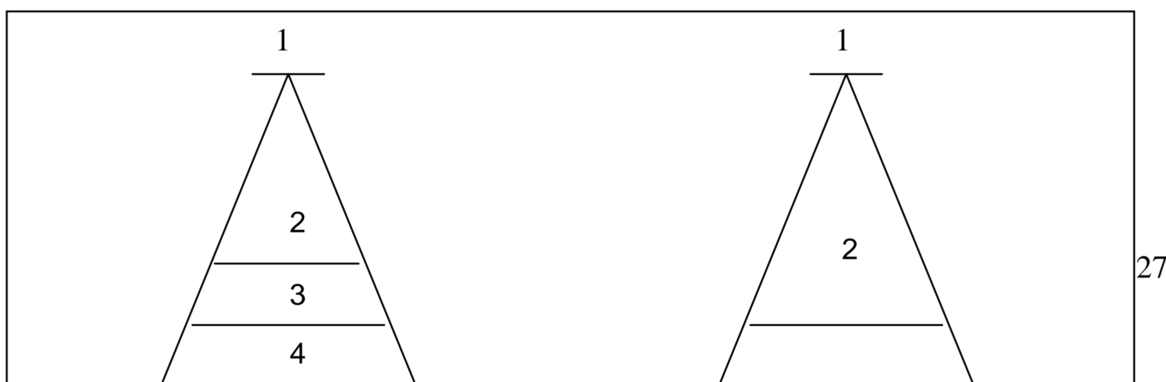

Fig. 1.5: Delayering

iiii) Outsourcing

This strategy contracts out certain services rendered by organisational (e.g. catering, laundry, security, transport provision, etc.) to reputable outside contractors, vendors or suppliers. This allows the firm to concentrate on financing its major tasks, products or services. Employees retrenched are those on the affected jobs or services.

iv) Re-engineering

This strategy reinvents the way the business operates in order to meet the demands of a modern economy. Recently, West African Portland Cement Plc. (Nigeria), re-engineered its operations both at Shagamu and Ewekoro. This led to mechanisation of certain process undertaken by employees before, which eventually led to compensated retrenchment of many employees. The re-engineering processes are in consonance with cost reduction and the dictates of modern technology.

2. Assets retrenchment strategy

Asset retrenchment on reduction strategy rescues a firm facing cash flow problem. Cash may be generated through the sale of some assets (e.g. plant and equipment, land, patents, inventories, or profitable subsidiaries), and sale of older or obsolete plants etc. Cash realised are used to strengthen the remaining activities.

3. Top management retrenchment strategy

This strategy sacks a low or non-performing top executive team and replaces their positions with a new team. Bringing in new managers will

introduce fresh ideas and values within the organisation, raise employee morale, facilitate drastic but positive actions and discourage in-breeding. In most cases, only the *CEO* may be changed.

4. Revenue-increasing turnaround (Price retrenchment)

This strategy reduces or retrenches the price (price cut) so that more items can be sold to increase revenue. Price cut may be responded to by other competitors, therefore, the strategist must be fully prepared for repercussions of this strategy. There could also be cutbacks on customer services.

(B) Indefinite/external retrenchment strategies

External retrenchment strategies include abandonment, divestiture and liquidation strategies. They are discussed below.

(1) Abandonment strategy

In any business, misfits or partial fits cannot be completely avoided. Poor performance of businesses often raises the question of whether to continue. Sometimes diversification moves may lack compatibility of values essential to temperamental fit (e.g. diversification into cosmetic may not carry the same temperamental respect for diversification into production of miracle drugs; there is no temperamental unity in the two). When a business lacks or looses temperamental appeal, the best solution is abandonment. Continuation in such business may amount to resources wastage. Poor performance in terms of business, that is dogs and misfits must be systematically abandoned (planned abandonment), especially if the company has diversity of business portfolios. Abandonment may be temporary or permanent, partial or total and vertical or horizontal.

(2) Divestment strategy

A divesture or downscoping strategy involves the sale of a business or a major business component. Where internal retrenchment fail to accomplish the desired turnaround, strategic managers often decide to sell the business.

Before divestment decision can be made, management must identify the portfolio of its businesses, that is, its Strategic Business Units (SBUs). Identification should be followed by classification of *SBUs* in a way that will reveal their resource allocation merit. This will enable management to decide which businesses to build, maintain (hold), phase down

(harvest or milk) and phase-out (divest). Divestment aims at selling or liquidating the business so that the resources can be used elsewhere.

In divestment, the prospective buyer should be made to pay a premium above the value of fixed asset for the divested concern. Divestment means a cutback. A divestment strategy may be adopted for several reasons.

- When a company pursued a retrenchment strategy but failed to accomplish needed improvements.
- When a division needs more resources to be competitive than the company can provide.
- When a division is responsible for an organisation's overall poor performance.
- When a division is a misfit with the rest of an organisation, this can result from radically different markets, customers, managers, employees, values or needs.
- When a large amount of cash is needed quickly and cannot be reasonably obtained from other sources.
- When government antitrust action threatens an organisation.
- When it is impossible for a firm to invest in technological upgrade of the ailing division.
- When a better growth or expansion alternative is available for investment and cash is needed for this profitable investment opportunity.

Divestiture may be partial (spinning it off as a financially and managerially independent company with the parent company retaining partial ownership or not), or total (selling the unit outrightly). The unit should be sold to the highest bidder; highest bidding suggests that he seriously desires it and the divested interest may strategically fit his other operations.

Divestment is a painful exercise to management because it suggest management's failure. Divestment is a way of acquiring short-term cash to meet certain financial obligations or to provide financial stability. Part of the payment may be in stock holding. When divestment fails to work, liquidation becomes the only strategic alternative left.

(3) Liquidation strategy

This is the most extreme, the most unattractive and unpalatable external retrenchment strategy. It involves closing down a company and selling its assets. It is a strategy of last resort that is very unattractive because it produces serious consequences such as loss of employment for employees, termination of opportunities where a firm can pursue any

future activity, it also carries the stigma of failure. The business is sold in parts for its tangible asset value and not as a going concern. As a long-term strategy it minimises the loss to all stakeholders of the firm.

Liquidation is adopted in the following circumstances.

(a) when a company has pursued internal retrenchment strategies and divestiture to no avail
(b) when an organisation's only alternative is bankruptcy and liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organisation's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital
(c) when the stakeholders of a company can minimise their losses by selling the organisaiton's assets.

When liquidation is immiment, an abandonment plan may be desirable. Planned liquidation will be worthwhile to reap the maximum benefits for the firm and shareholders in the wake of liquidation.

Liquidation for a single-business enterprise means terminating the organisation's existence, for a multibusiness company, it means liquidating one of its lines of business, which may inject wellness into the remaining businesses, to wax stronger in health and performance, though the reputation of the business and the names of the trial managers may be soiled, and their careers ruined.

3.7 Alternative Functional Strategies

Apart from strategies established at both the corporate and Strategic Business Unit (SBU) levels, strategies are also located within functions. Such strategies are also established by functional managers in conjunction with the top management team especially the Chief Executive Officer (CEO) of the company. Such strategic functional factors are only identified in this section for the various organic business functions.

(1) Production management

Strategic decision issues here include plant location and the distribution of depots, warehouses,,stockyards and departmental stores, plant capacity decision, plant layout and the choice of a method of production, product design, make or buy decision, production and social responsibility decision, plant equipment selection and maintenance strategy, etc.

(2) Marketing management

Strategic issues include product development, market development, market penetration, innovative pricing strategies, branding, packaging strategies, marketing research strategies, (offensive or defensive), promotion and distribution strategies.

(3) Personnel management

Issues here include chief executive selection, succession plan for chief executive, management reward system, training and development strategy, management-union conflict resolution strategies, leadership strategies, organisation development strategies, human resources absorption and retrenchment strategies, negotiation/bargaining strategies.

(4) Financial management

The strategies include fund sourcing strategies, fund utilisation strategies, fund control strategies, auditing and investigation strategies, profit sharing strategies, insurance strategies etc.

4.0 CONCLUSION

This unit highlighted the concept of strategy formulation and its consequence. Alternative generic strategies came under analysis. Growth, competitive and retrenchment strategies were reviewed as being necessary to be adopted by strategists.

5.0 SUMMARY

In this unit, you have learnt about the concept of strategy formulation, as well as the various processes involved in strategy formulation and alternative strategies opened to top management of organisations.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the dimensions along which grand strategies may be shaped.
2. When is divestment necessary as a strategy for adoption?
3. Differentiate between internal and external retrenchment strategy. Which one is preferred by top management and why?
4. Identify the business firms in Nigeria that appear to rely principally on any one of the grand strategies discussed so far.

7.0 REFERENCE/FURTHER READING

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UNIT 2 STRATEGIC CHOICE

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1.0 Introduction
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  3.2 Strategic Portfolio Analysis
  3.3 Behavioural Factors in Strategic Choice Decisions
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1.0 INTRODUCTION

This unit will take you through how a choice of strategy is made among alternatives. It explores the quantitative and the qualitative factors often considered in strategic choice. This unit also explains the concept of contingency strategy and the content of a strategic plan.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- enumerate steps in strategic choice
- discuss the quantitative and qualitative factors often considered in strategic choice
- explain the concept of contingency and the content of a strategic plan.

3.0 MAIN CONTENT

3.1 Steps in Strategic Choice

Strategic choice is one step in strategic decision-making. Glueck et al. (1984), defines strategic choice as "the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise objectives". Strategic choice decision can also be viewed as consisting of some steps which require elaboration.

1. Focusing alternatives

Alternatives gathered must be ranked according to their scale of preference. Alternatives that are high on this scale can be focused and targeted for proper analysis. The alternative focused must be those that are relevant to realising the strategic objectives of the organisation. The alternatives must be limited to a reasonable number for effective consideration and proper management. Factors such as the dimensions of the company's mission, the resources available to the company, company's distinctive competence, the history of the organisation and the attributes of the environment in which the business is operating are also crucial. Analysis of performance will also suggest what strategic alternatives to accept for consideration.

2. Consider selection factors

The strategic alternatives focused must be assessed in terms of certain criteria. Criteria for assessing them must be gathered. These criteria are called selection factors. Selection factors may be objective (quantitative) or subjective (behavioural or qualitative). Objective factors which make use of hard data, are based on rationality (optimisation) and are normative or prescriptive.

Subjective factors, which are non-rational and emotional, utilise personal judgement and may be based on objective factors such as cost, guaranteed functional requirements, existing market availability, availability of needed materials, technical and financial feasibilities, risk assessment etc.

Subjective factors involved may be management value and support, environmental opportunities or threats, designers' factors, needs, tastes and preferences of consumers over a long time, related product design steps etc.

Selection of plant site will also be based on objective and subjective factors such as cost, profit, proximity to sources of raw materials, power, social facilities, human resources and market. Other factors are preference of owners and top management, patriotism, politics, communal tolerance, etc.

In 1976, the choice of Abuja as the federal capital of Nigeria was based on factors such as centrality, topography (relatively undulating land), accessibility, low density rural area that will permit future expansion with little payment of compensation, acceptability to all, cost considerations and values of top government officials then, etc.

In essence, the selection of a particular strategy is not usually based on exclusive objective and subjective factors. Rather, it is always based on consideration of both the objective as well as judgemental factors, which must be assembled in any way.

3. Evaluation of strategic alternatives/portfolio

Evaluation requires the appraisal or analysis of selected or available factors. This involves the use of mathematical or non-mathematical tools based on the strategists environment which may be one of certainty, risk or uncertainty. The strategist's company's environment will suggest methods of analysis.

Under environment of certainty, techniques such as linear programming, input-output analysis, use of computer, activity analysis, product life-cycle analysis, experience curve analysis, trade or economic cycle analysis, business trend analysis (etc), may be used to assess the situation facing the company.

Evaluation of strategic alternatives under risk assumes that the strategist has a partial knowledge of outcomes of decision alternatives. The common techniques of analysis here include the calculation of Expected Maximum Value (EMV), the Boston Consulting Group (BCG) matrix, the General-Electric Nine-cell matrix, Hofer's Product-market, 15-cell Evolution matrix, Directional Policy Matrix (DPM), Strategic Position and Action Evaluation (SPACE) etc. The alternatives or Portfolio with the Expected Maximum Values (EMV) are usually considered the best.

Evaluation of strategic alternatives or portfolio under the environment of uncertainty requires that the probabilities associated with the states of nature are known. Evaluation is very difficult for absolute lack of knowledge of information. Each action here will lead to one outcome or known set of outcomes, each with known probabilities. Examples of strategic alternatives here include, introduction of a new product to a new market (diversification), new business establishment in foreign environment etc. Evaluation here will require objective or hand data but will also involve subjective judgement such as the experience or skill of the strategist.

The choice of evaluation technique must always fit the environmental situation of a company, but the strategist must never loose sight and consideration of subjective factors.

4. Making strategic choice

After careful evaluation of strategic portfolio, one or two or more than two strategic alternatives may be selected for adoption, implementation, modification or continuation.

Strategic choice is a simple step that is not simple. Like the evaluation step, it is also based on the skill and competence of the strategist. We have witnessed or read of how management lords or even political or religious lords have failed in matters of strategic alternatives, evaluation and choice. Theirs are also success stories.

A situation of only one rigid mission, one rigid objective and one rigid course of action, is not a decision-making situation, and those who find themselves in such a situation are neither human beings nor true gods. The world is a world of alternatives for human beings, and the processes of reaching a particular goal, objective or mission is equifinal. If the process is not equifinal, then, what one is trying to reach is not a goal but an assumption drained in mythologies. Strategic management transcends the level of vision. It includes adjustments to visionary threats and opportunities, selection of mission, objectives and strategies, then implementation and evaluation.

A strategic blueprint is the strategic plan which discusses how the strategies will operate, states the conditions required and also states the contingency strategies associated with the chosen strategies. Choice must be based on evaluation, weighing and comparison of strategic alternatives. The point at which choice or selection of strategy is concluded represents the point at which strategic decision is formulated. What immediately follows it, is implementation and follow-up.

SELF-ASSESSMENT EXERCISE 1

List and explain the steps in strategic choice.

3.2 Strategic Portfolio Analysis

Strategic alternatives can be evaluated or analysed for selection in a number of ways. Some of the available techniques, in the hands of strategy experts are for assessing the health or choice of a company

Portfolio of products or businesses include, Boston Consulting Group (BGC) matrix or product portfolio matrix, the General-Electric Nine-cell matrix, Hofer's Product-market 15-cell evolution matrix, Directional Policy Matrix (DPM), Strategic Position and Action Evaluation (SPACE) and the experience curve. Each technique is explained below.

1. Experience curve

Experience curve, by itself, is not a portfolio analysis technique, but it helps the strategist to gain insight into how to apply a portfolio approach.

According to this concept, unit costs in many manufacturing industries and in some service industries, decline with "experience" or a particular company's cumulative volume of production. The experience curve is broader than the "learning curve" which refers to the efficiency achieved over a period of time by workers through much repetition.

The causes of decline in unit costs are combination of factors, including economies of scale, the learning curve for labour, capital-labour substitution, product redesign, other learning effects, technological improvements in production, etc.

The decline in costs creates a barrier to entry because new competitors with no "experience" face higher costs than established ones (particularly, the producer with the largest market share) and also have difficulties catching up with the entrenched competitors.

Therefore, within the context of strategic management, the concept of experience curve of established firms pose barriers to new firms contemplating entry into business. This helps to build market share, discourages competition and helps the firm to sustain rapid market growth as long as possible. It is a characteristic of growth stage in a product or business life cycle. The firm with experience curve in this growth stage often pursues any or all of the following market-expanding strategies, which will increase its competitive position.

- Improving product quality and adding new features models;
- Entering new market segment (market development);
- Using new distribution channels to gain additional product exposure;
- Shifting promotion strategy from building product awareness to building product acceptance and purchase;
- Lowering product prices at the right time to attract the next layer of price sensitive buyers into the market.

The firm, at this stage, faces a trade off between high market share and high current profit. By investing in product improvement, promotion and distribution, it can capture a dominant position, but it foregoes maximum current profit in the hope of making up for it at the maturity stage.

However, it is not all cases that the choice of a strategy will be based on experience curve or cost decline. The significance of the experience curve for strategic choice depends on what factors are causing the decline. Ability of the experience to erect a barrier on new entrants also depends on the sources or causes of cost decline.

2. Product Life Cycle (PLC)

This is also a useful concept rather than portfolio technique to guide strategic choice. *PLC* is an *S*-shaped curve which shows the relationship of sales with respect to the time a product goes through the four successive stages of **introduction** (slow sales growth), **growth** (rapid market acceptance), **maturity** (slow down in growth rate) and **decline** (sharp downward drift).

The concept can be used to diagnose the stages of product or business portfolio with a view to prescribing necessary strategic choice. For instance, businesses or products at the introduction or growth stages may require expansionary growth strategies. While products or businesses at maturity stages may be used as sources of cash for investment in other businesses which need resources, and retrenchment strategies may be selected for businesses or products at decline stage. So, the *PLC* stage may point to relevant strategic choice for a firm.

3. Trade cycle analysis

Like the product life cycle analysis, a trade cycle for an organisation or a country may also be divided into boom or buoyancy, recovery, recession and depression. A business within the boom or recovery stages may suggest the use of expansionary growth strategies, while business at depression stage may indicate the use of retrenchment strategies. However, businesses or product at recessionary stage may also warrant the choice of competitive strategies based on focus, differentiation or overall cost leadership to outsmart rivals.

4. Directional Policy Matrix (DPM)

DPM was developed by Shell Chemicals of U.K. It uses two variables of “business sector prospects” along the *abscissa* and “company’s competitive abilities” along the ordinate (Hussey, 1978). Based on factors such as market growth, market quality, market supply and other factors, business sector prospects can be rated on three-point semantic scales such as unattractive, average or attractive.

Also, company’s competitive abilities based on capability analysis can also be rated on a three-point semantic scales such as weak, average or strong. This engenders a 3 x 3 matrix which can be used to prescribe

baseline strategies (Rowe et al., 1982). An extension of *DPM* into "risk matrix" furnishes an alternative way to analyse environmental risk. In a risk matrix, environmental risk is taken as a third variable and it is divided into four categories from low risk to very high risk. Each risk position is determined on the basis of environmental threats and probability of their occurrence.

Company's competitive abilities

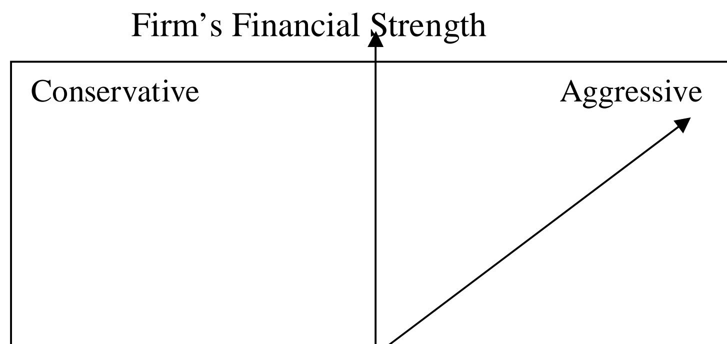
Weak	Divestment	Imitation/Phased withdrawal	Phased withdrawal /cash generation
Average	Phased withdrawal/ Merger	Maintenance of position/ market Penetration	Expansion/Product differentiation
Strong	Diversification/cash generation	Growth/Market segmentation	Market Leadership
	Unattractive	Average	Attractive

(Business sector prospects)

Fig. 2.1: The Directional Policy Matrix (DPM)

5. Strategic position and action evaluation

SPACE is a technique that considers the firm's strategic position in tandem with the industry's strategic position. The firm's strategic position is viewed from the perspectives of both financial strength (e.g. leverage, *ROI*, liquidity, etc.) and competitive advantage (e.g. product quality, market share, etc). The industry's strategic position is also viewed from the perspectives of both industry's strength (e.g. growth, profit potential, etc) and environmental stability (e.g. technological changes, competitive pressures, etc.) (Rowe *et al*. 1982). When these two dimensions of variables are combined, it will suggest or pinpoint likely strategic choice such as aggressive, defensive, conservative and competitive strategies based on simple rating system of the four variables put together (see figure 2.1).



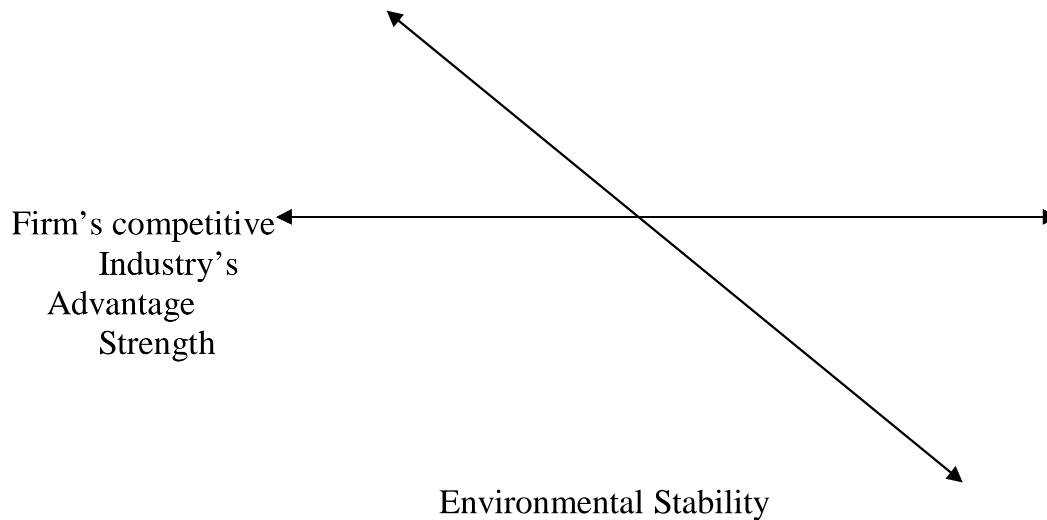


Fig. 2.2: A Model of SPACE

Suggested strategies for each of the corners are as follows.

- **Aggressive posture**

Firms with this outlook may select either concentric diversification or vertical integration strategies.

- **Defensive posture**

Firms in this situation will select from divestment, liquidation or retrenchment strategies, all contraction strategies.

- **Conservative posture**

Firms in this situation will select from concentration (stability) and conglomerate diversification strategies.

- **Competitive posture**

Firms having this posture will select from any of concentric merger, conglomerate merger or turnaround strategies.

Note that the conservative posture may also suggest a no-growth strategy. Two related forms of no-growth strategies are redeployment and redeployment with concentration. Redeployment involves selling existing assets while purchasing and deploying assets in a different area such that the total assets of the firm remains essentially constant.

The strategy of redeployment with concentration involves redeploying existing assets, but in manner that makes one existing business unit a greater percentage of total corporate assets without increasing the total assets of the firm.

6. Hofer's product-market evolution matrix

Hofer and Schendel (1978) offer a 15-cell life cycle portfolio matrix. The matrix utilises two variables.

The stage of the development of the product or market. This factor is divided into five stages, which include- development, growth, competitive shake-out, maturity-saturation and decline - along the ordinate.

The competitive position of different business units in a firm's corporate portfolio is also divided into strong, average and weak along the *abscissa*.

As appropriate in any of the 15 cells, circles are used to represent the sizes of the industries involved while pie wedges or segments are used within the circle to denote business market share. Business can therefore be represented according to their industrial size and market shares. As can be seen in figure 2.3 below, business 'A' represents a product/market with high growth potential and deserves expansion strategies. Business 'B' has a strong competitive position but has a product that is entering the shake-out stage; it requires a cautious expansion strategy. Business 'C' is a potential loser and probably a dog; while 'D' represents a business which can be used for cash generation that could be siphoned to A and B. Business 'E' is a loser and may be considered for divestment.

In this way, the product-market evolution matrix tells stories about the distribution of the firm's businesses across the stages of industry evolution. What is required is analytical accuracy and completeness in describing the firm's current portfolio position. The ultimate purpose, of course, is to discern how to manage corporate portfolio and get the performance from the allocation of corporate resources.

Product Market

Evolution Stage

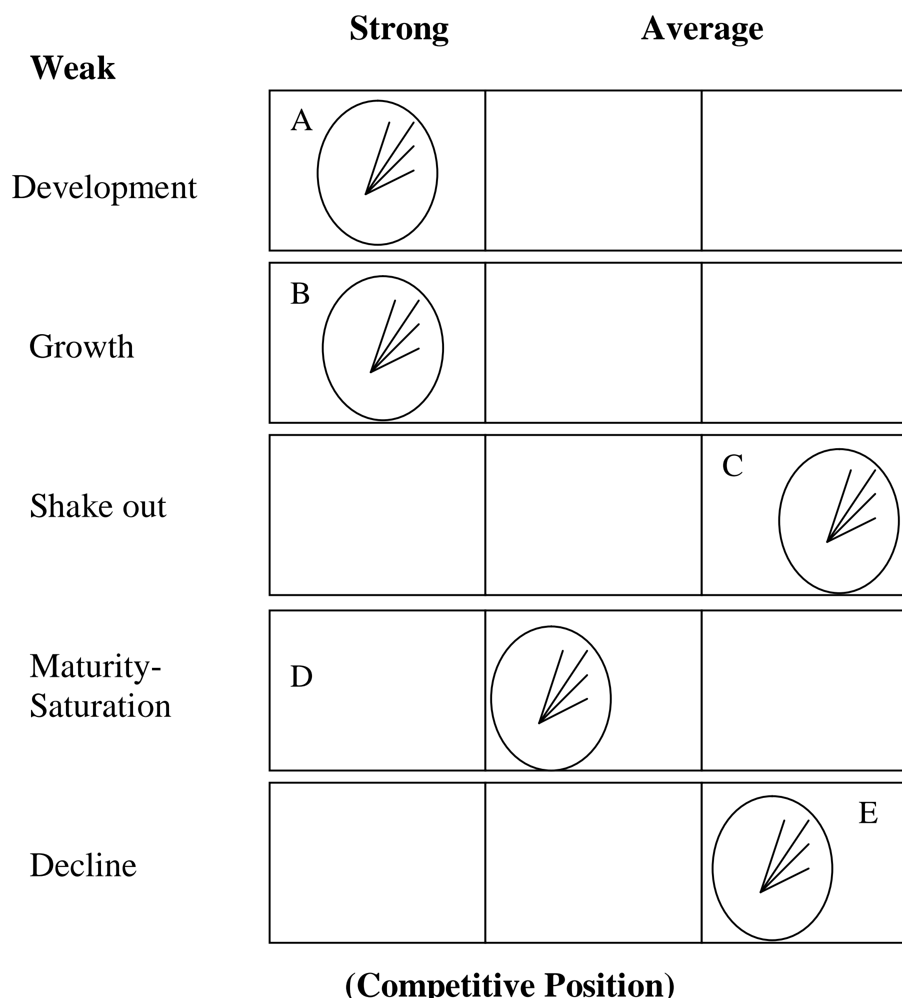


Fig. 2.3: Product/Market Evolution Matrix

7. Boston Consulting Group (BCG) matrix

This is the first business portfolio matrix to receive widespread usage. It is a four-cell growth-share matrix pioneered by a leading management consulting firm – Boston Consulting Group (BCG). The matrix utilises two variables, which include:

- industry/market growth rate (y-axis);and
- relative market share position (x-axis). This represents the relative competitive position of the firm.

The relative market share (relative competitive position) is defined as the ratio of business's market share to the market share held by the largest rival firm in the industry, with market share measured in terms of unit volume, not monetary value. The factor therefore shows the relative strengths of different businesses or products.
The market growth rate is represented in terms of percentage growth in sales projected for a particular market served by a particular business. It

is usually measured as the percentage increase in a market sales or unit volume over the two most recent years.

The market growth rate provides an indicator of the relative attractiveness of the market served by each of the businesses in the corporation's portfolio business unit. Circles drawn with the four cells represent different business units. The size of the circle represents the proportion of corporate revenue generated from the business unit.

Different circles of different sizes therefore enable the management of the firm to visualise the current importance of the portfolio of businesses (divisions, product lines and product, brands) as a revenue generator. The matrix shows which businesses to flush out and which promising ones to add. Market growth rate is usually lacerated into high and low areas by an arbitrary 10 percent growth line. Relative competitive position is usually divided as a relative market share between 1.0 and 1.5, so that a high position signifies market leadership. A *BCG* growth/share matrix therefore produces four cells of different strategic implications.

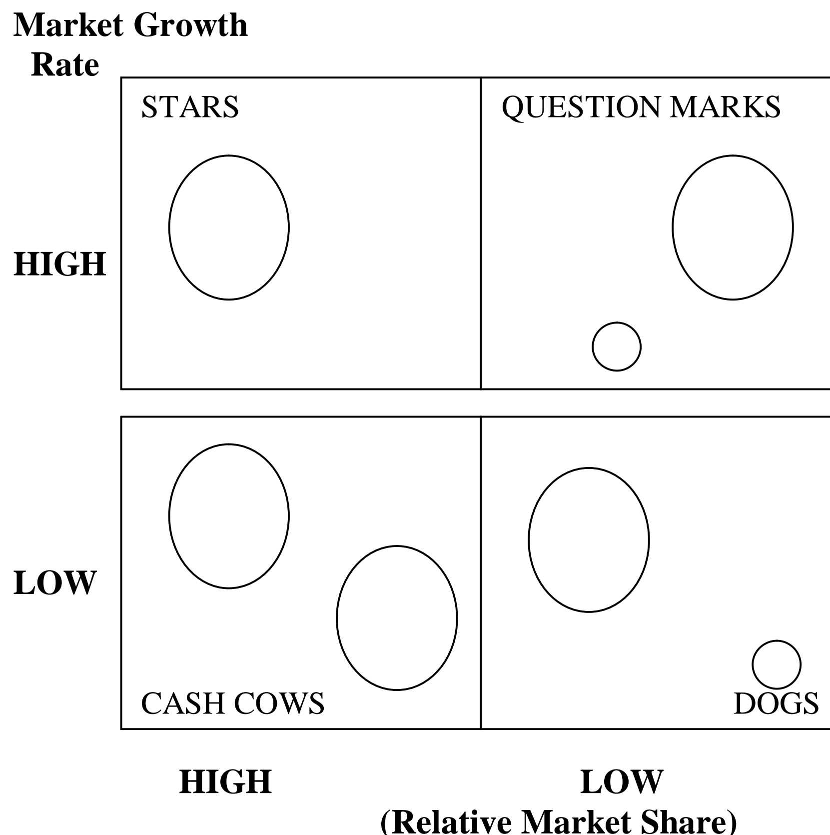


Fig. 2.4: BCG Growth/Share Matrix

The four emerging cells are stars, cash cows, question marks (or problem children and dogs). They are explained below.

a. Stars

These represent high growth and high competitive position. They are businesses in rapidly growing markets with large market shares. The *SBUs* in this category require lots of cash to finance their rapid growth which will enable the firm to maintain (and expand) their strong position in a growing market. The financial requirement is often in excess of what can be generated internally.

The star cells are similar to the growth stage of the Product Life Cycle (PLC). Expansionary growth strategies are warranted to establish and maintain a strong competitive position with regard to star businesses. Star businesses are short-term high priority and gargantuan consumers of company's resources within the total business Portfolio. Eventually, their growth will slow down, and will turn into cash cows and become major cash generators that will support other *SBUs*.

b. Cash cows

Cash cow businesses have high relative market share or competitive position in maturing, low-growth markets or industries. They generate large amounts of cash in excess of what they need.

They require minimal reinvestment cash requirements for growth. Their surplus cash are selectively and sufficiently 'milked' by other *SBUs,* especially stars and question marks that are cash users.

Cash cow businesses are similar to businesses at the mature stage of Product Life Cycle (PLC) that are enjoying the benefits of experience curve. They often warrant the use of stability strategies, and where long-term prospects are distinctively bright, they can adopt limited expansion strategies.

Cash cow businesses are yesterday's stars, and are currently the strong base of the firm's corporate Portfolios. They generate the cash to pay corporate overhead and dividends, they also provide debt capacity. They are managed to maintain their strong market share while efficiently generating excess resources for company's wide use.

As 'cash cow' industries lose their attractiveness and tend towards decline, a phased retrenchment strategy may be called for, firms that are well entrenched in established markets are examples of cash cows.

c. Question Marks

These businesses are also called "problem-children" or "wildcats". They are low market share *SBUs* in high-growth industries or markets.

They require large amounts of cash to maintain or increase their market share. Management must think hard about whether to spend more to build these question marks into leaders or to phase them down or out.

Question marks are usually new products or services which have a good profit potential. Such *SBUs* are cash guzzlers because their cash needs are high as a result of rapid growth, while their cash generation is low as a result of small market share. If management is ready to spend the resources required on these wildcats, then, their market share may be increased for movement to the star group of *SBUs*. The long run shift from question marks to star will require expansion strategies.

However, the wisdom of experience curve suggests that a company that is leading others in the market will enjoy cost advantages and market leadership which will create entry barrier for other competitors. This wisdom suggests that if the firm with the "problem children" cannot do enough to turn these wildcats into stars, then a contractor strategy (divestment, retrenchment, liquidation) will be a feasible alternative. This will enable the company to reposition the resources there from the other *SBUs*. Question mark businesses are similar to businesses at the introduction stage of Public Liability Company (PLC).

d. Dogs

These are businesses within the company portfolio having low relative market share in slow-growth industries or markets. They are also called "cash traps". The businesses are in mature or declining markets with low profit margins. Such businesses may generate enough cash to maintain themselves. They also neither generate nor require large amounts of cash. Such businesses face cost disadvantages due to low market share as a product of experience curve.

The only way out for the dogs is to increase their market share in relation to their competitors. This is a remote solution because of the high costs involved. However, the feasible alternative for dog business units is nothing other than contraction strategy which may be any of retrenchment, divestiture or liquidation alternatives.

However, dogs can be managed for short-term cash flows (through ruthless cost cutting or control) to supplement corporate level resource needs before the eventual contraction of the *SBUs* involved.
In conclusion, the *BCG* approach is an all inclusive technique that prescribes the total business portfolio of a company. The ideal balanced portfolio would have the largest sales in cash cows and stars, with very few question marks and dogs.

The major limitations of the *BCG* technique are listed below.

- The rather simplistic assumption that the growth rate of an industry represents market attractiveness while market share represents profitability is sometimes not the case in reality.
- There are always practical difficulties in measuring the respective market shares and in identifying the market leaders especially in an oligopolistic setting.
- There are always practical difficulties in measuring growth rate of a particular industry.
- The high/low dichotomy of the matrix fails to recognise markets with average growth rates and businesses with average market shares.
- The matrix is not particularly helpful in comparing relative investment opportunities across business units in the corporate portfolio. For example, how should one question mark be compared to another to know whether it should be built into a star or divested? Is every star better than a cash cow?
- Strategic appraisal of company's portfolio of businesses transcends the examination of only two factors of relative market share and market growth rate. Other considerations may be technological, seasonal, organisational capability, etc.
- The four-cell categorisations in the *BCG* matrix oversimplify the types of businesses one can find in a corporate portfolio.
- The four *BCG* labels – star, cash cow, dog and question marks – do not enjoy popular usage among executives, as they create motivational problems in managers.

The terms are seen as negative and unnecessarily graphic. The terms are also static rather than dynamic (such as build/hold/harvest) and action oriented. The terms have meaning only within a *BCG* context, they do not evoke universal acceptance, validity and clarity of strategy.

(8) General Electric's nine cell matrix

The General Electric (GE) of USA, supported by the consulting firm of Mckinsey and Company, was popularised as adaptation of the BCG portfolio analysis technique. The *GE* Nine-cell planning grid tries to overcome some of the matrix weaknesses of the *BCG* technique. The 9-cell grid utilises multiple factors to assess the industry's attractiveness and business strength instead of the single measures (market share, market growth) used in the *BCG* matrix.

Also, the *GE* grid expanded the matrix from four cells to nine cells by replacing the high/low axes with high/medium/low axes to fine-tune the distinctions between business portfolio positions. The ordinate of the

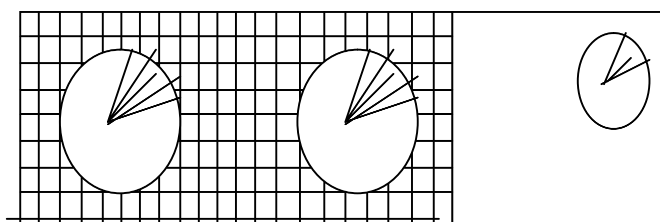
matrix represents industry attractiveness which is a weighted composite rating based on eight different factors. These eight dimensions of industry attractiveness are market size and growth rates, industry profit margin, competitive intensity, cyclicality, seasonality, economies of scale, technology and social/environmental/legal/human factors.

The *abscissa* of the matrix represents business strength (competitive position) which is also a weighted composite rating of seven factors. These seven dimensions of business strength are relative market share, profit margins, ability to compete on price and quality, competitive position, technology caliber of management, and knowledge of customer and market. The two composite values for industry attractiveness and business strength are plotted for each business in a company's portfolio.

The circles drawn within the cells represent the proportional size of the industry and the segment within each circle denotes the company's market share. The industry's attractiveness is rated on a scale of high-medium-low, while business strength is rated on a scale of strong-average-weak. This produces a 9-cell matrix in all.

The nine cells are clustered into three zones of three cells each, represented by green, yellow and red colours. This is why the *GE* grid is sometimes also called "stoplight strategy matrix" reminiscent of traffic lights which displays green, amber and red colours for movement signals (see Figure 2.5) below.

Industry Attractiveness



High

Medium

Low

Strong **Average** **Weak**
(Business Strength)

Key

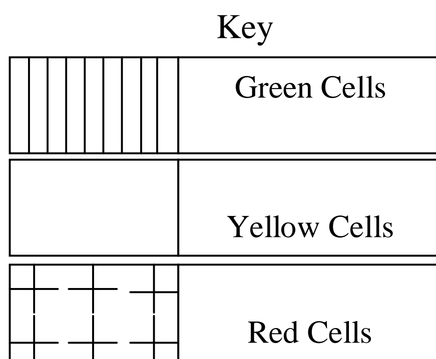


Fig 2.5: GE Nine-Cell Matrix

The various zones are discussed below.

a. Green cells

For the green zone, the signal is 'go ahead' to grow and build investments. This indicates the choice of expansion strategies. Businesses in this zone as well as industries have favourable industry attractiveness and also have strong business strength. They therefore have the green light to invest and grow. Management should select **build/improvement** strategy. The aim is to improve market position with the willingness to forgo short-term earnings to realise this goal.

b. Yellow cells

The yellow zone consists of the diagonal cells stretching from the lower left to upper right. The zone indicates industries or businesses that are medium in overall attractiveness and business strength. The yellow signal means “wait and see”, indicating that the company should adopt **hold/maintenance/preservation** strategies aimed at stability and consolidation. The strategy would preserve or maintain the market position or share of an *SBU* rather than reduce it or have it grow.

c. Red cells

Industries or businesses in this zone are low in overall attractiveness and business strength. The red light signal means “stop”. This indicates that the firms here must give serious consideration to harvesting or divesting. The company must adopt retrenchment strategies either to divest and liquidate the business or take a rebuild approach for adopting turnaround strategies.

The **harvesting** strategy aims at getting short-term increase in cash flow regardless of the long-term effect. It is an appropriate strategy for businesses whose future is dim and from which more cash flow is needed. **Divestment** strategy aims at selling or liquidating the business regardless of the long-term effect. It is very appropriate for dogs and for question marks which the company cannot finance for growth.

The *GE* 9-cell matrix, apart from correcting most of the limitations of the *BCG* matrix, is also a powerful analytical tool to channel corporate resources to businesses that combine medium to high position. The major limitation of the *GE* matrix is that it only furnishes wide strategic prescriptions rather than the specifics of business strategy.

On the whole, corporate portfolio analysis offers the following benefits.

- It helps companies with diverse businesses to develop feasible strategic alternatives
- It allocates resources among the diverse businesses
- It provides skills for understanding the relationship between diverse businesses with a view to making strategic decisions
- It furnishes strategic vocabulary and graphic aid for strategic communications
- It helps strategy implementation through increasing focus and objectivity which in turn enhances commitment.

Portfolio analysis is always limited by measurement, organisation, motivational and allocational (resource) problems. Portfolio analysis

however deals with objective rather than subjective factors. Portfolio evaluation should be conducted regularly and frequently to encourage the generation and allocation of resources amongst business units, to realize objectives.

SELF-ASSESSMENT EXERCISE 2

What do you understand by strategic portfolio analysis? List and describe the techniques of strategic portfolio analysis.

3.3 Behavioural Factors in Strategic Choice Decisions

No one set of factor is sufficient to influence strategic choice. Strategic choice is often based on both quantitatively objective and qualitatively subjective factors. We have considered the various quantitative or analytical techniques in the previous section. This section explains the subjective or behavioural factors that may influence strategic choice.

Strategies may be examined or evaluated on the bases of such judgemental factors before actual selection. Such factors are government policies, role of past strategic actions, perception of critical success factors and distinctive competence, top management decision style and attitudes towards risks, degree of firms' external dependence, internal political considerations, competitive reaction and timing. The factors are explained below.

1. Government policies

Government economic systems may be one of capitalism, socialism or mixed economy. Within any of these systems, the government of a country may formulate policies that may facilitate, promote, regulate, restrict, protect, advice or participate in business activities. Also, government intervention in business may be partial or total, significant or insignificant and ad-hoc or permanent. Strategies to be adopted by business may be arrived at at the instance of government through its policies. Expansion and contraction strategies can only be selected if they are not an aberration to government policies. Government policies are therefore a major subjective factor in screening strategic alternatives for firms.

The government industrial policy in Nigeria that large companies should utilise about 50 percent local value added, suggests that such companies must give emphasis to backward integration. Most multinational companies in Nigeria have selected this strategy for adoption based on government directive. Change in government is of utmost significance to industrialists as they are concerned with shifts in industrial policies

and priorities and the effect they will have on business. A substantial part of chairmen's report in Annual Reports of companies is usually devoted to the impact of government's industrial and commercial policies on organisational performance. This suggests that government policy is a subjective factor that cannot be waived in strategy selection.

2. Role of past strategic actions

Current strategic actions are usually the strategic choice of the past. Familiarity and commitment to past strategy in terms of devoted time, actions, resources and personnel are, usually, enormous and common knowledge within the company. Therefore, any strategic choice that will take the organisation too far away from its existing position may not be welcomed. The past follows a track into the future. This strategic track has an idea of what the company may choose as strategy for future adoption. The strategists may not be willing to depart from this track or path that is set for the future. The track is usually cumulative and incremental in terms of experience and what strategy to adopt.

Mintzberg (1972) suggests that past strategy, fundamentally, influences strategic choice. The older and more successful a strategy is, the harder it is to replace. Such a strategy becomes very difficult to change, because organisational momentum keeps it going. Even when such strategy begins to fail due to the vagaries of the environment, strategists still continue to increase their commitment to such past option by replacing key executives (Staw, 1976).

3. Top management style and attitudes toward risk

Management style and attitude towards risk are major determinants of strategic choice. The style of top managers may be aggressive and proactive or defensive and reactive. The style may also be conservative or competitive. The style of top management will influence the manager's attitude toward risk. Managers who initiate aggressive or competitive style will favour high risk taking orientation. They are likely to be entrepreneurial and growth oriented. They will select expansion strategies.

Managers who initiate defensive or conservative style will favour a conservative risk avoidance strategy. Such managers are likely to be cautious, pragmatic and favour stability- oriented strategies. They will give emphasis to the market of true and tried products, avoid research and development, they will favour productivity to low risk, average return on investments, internal financing of investments and adopt philosophy of cooperative co-existence with rivals.

Risk favouring managers will give emphasis to research and development, technological leadership, innovations, productivity to high risk, high return on investments, external financing of investments and competitive "undo-the-rivals" philosophy (Khandwalla, 1977). Both management style and attitude to risk are also dependent on the requirements of a particular business and its environmental contexts. They, however, act as fundamental subjective factors in strategic choice.

Risk orientation favours the choice of offensive, opportunistic strategies while risk aversion favours the selection of defensive, safe strategies. Industry volatility will require managerial propensity towards risk while industry stability may lead managers towards risk aversion and stability strategies.

Apart from style and industry's situation, another factor that will influence attitude towards risk is the product-market evolution or *PLC* concept. Firms in the early stage of evolution must operate with greater risk and growth strategies; whereas firms in the later stage of evolution cycle must operate with less risk and contraction or defensive strategies to minimise firm's weaknesses and external threats.

4. Internal political considerations

Strategic choice determines where resources of the organisation will go. Politics is who gets what, when and how. Strategy formulation and choice may therefore be viewed as a political game where power tactics and interrelationships are structured and balanced by coalition of interests. Strategic decisions in business are frequently settled by power rather than by analytical maximisation procedures (Stagner, 1969).
The CEO is a major source of power in companies. In small firms, he is the dominant force in strategic choice, and this is also often true in large firms with strong or dominant CEOs. When the CEO begins to favour a particular choice, it is often overwhelmingly and unanimously selected. Sometimes, power groups or coalitions within the organisation often agitate for a particular strategic choice in their own favour to suite their own whim and caprices. Strategic choice considerations are often seen as a means of balancing power relationships/structures in organisations.

Such judgemental political negotiations for a strategic choice are often preferred to rational systematic analysis in organisations. Sometimes, the emergence of too many political groups or interests, each negotiating for a strategic choice in its favour, may suggest that the CEO is weak and unable to hold the "centre of the centre" in strategic decisions. It may also suggest that he is participative-oriented in his decision style.

If political behaviours are defined as those activities that are not required as part of one's formal role in the organisation, but which influence or attempt to influence the distribution of advantages and disadvantages within the organisation, then, both legitimate and illegitimate political behaviours may tend to strategic choice decisions.

The use of power tactics such as sabotage, whistle blowing, symbolic protests, assaults, double crossing etc., to compel or manoeuvre the choice of a particular strategy represents hard ball playing or illegitimate behaviour. However, the use of power tactics such as forming coalitions, assertiveness, application of reasons, convictions, friendliness, bargaining etc., to drive at the selection of a particular strategy constitute legitimate behaviour in corporate politics.

In the government sector businesses, bureaucrats and politicians influence strategic choice, while multinational headquarters also sometimes try to influence the strategic choice of their subsidiaries. The importance of internal politics cannot be overemphasised as a subjective factor in strategic choice.

5. Organisational distinctive competence

The most important skill of the organisation or what it can do best is called distinctive competence. For instance, Lever Brothers Nigeria Plc has strong expertise in the application or usage of vegetable oil. Whatever can be produced from edible oil is one of its provinces of competence.

Any strategic choice to be made by any organisation will depend on its distinctive competence. A strategic choice that will require a type of competence that is not on the ground for now will be eliminated from consideration in favour of any strategy that will make use of the competence available.

Apart from the competence, organisations will also select strategies that are based on the industry's Critical Success Factors (CSFs) e.g. low cost production, raw material supply assurance, quality of after-sales service, etc.

Any organisation that is devoid of the industry's critical success factors may have to look at another strategy by applying contraction strategies. Distinctive competence that fits industry's success factors may therefore engender the right competitive strategy in a particular industry. It is another subjective factor.

6. Degree of a firm's external dependence

A selected strategy is to guide company's performance in the external environment. Owners, customers, suppliers, government, competitors and unions are some of the institutions of the firm's external environment. The needs of these institutions may discriminate what type of strategy a company can select. If a company is highly dependent on one or more environmental institutions, its strategic alternative and ultimate choice must accommodate this dependence (Pearce II et. al, 1988).

The greater the company's external dependence, the lower its range and flexibility in strategic choice. That is, the higher the firm's dependence, then the lower the flexibility in strategic choice or vice versa.

7. Competitive reaction

The selection of any particular strategy must also consider the repercussion of the strategy on key competitors and also perceive what their reactions may likely be. For instance, the selection of an aggressive strategy by a firm may challenge a key competitor to retaliate by mounting an aggressive counter-strategy. In this wise, the initiator – strategists will have to evaluate the capacity of the competitor to retaliate and the probable impact of the retaliatory strategy on one's success. If the retaliatory strategy will be of no effect, the initiator firm can forge ahead with the original strategic choice; but if retaliation will spell doom for the initiator, he has to consider another strategic choice.

8. Timing considerations

Time is irreversible, irreplaceable and irrecoverable. Time element has considerable influence on strategic choice. Time itself is a strategic factor. External time constraints may limit strategic analysis and evaluation. Where time serves as a constraint, the choice of defensive strategies may seem appropriate, but where time presents opportunities, then expansion strategies may be exploited.

Also, a good strategy may be endangered if it is undertaken at a wrong time. A wrong time may be too early or too late. Undertaking a strategy at too early a time may stretch the company's inventory capacity, lead to rising costs and space over-utilisation etc. Strategy undertaken at too late a time may lead to production problems, marketing problems, unnecessary cost escalations, etc. Strategy should be selected and adopted at the right time to avoid the problems of time extremes.

An early choice may lead to disruptive retaliation while a late choice may be over-delayed and so suffer from disruptive piracy of ideas.

Also, strategy selection will also be influenced by the difference between management's current time horizon and the lead time (pay-off time) associated with different choices.

Another dimension of time is the future; therefore, strategic choice will depend on various assumptions about future conditions or future forecasts. Factors that may change future assumptions or forecasts are largely contextual e.g. economic downturn, labour strike, fuel problem, technological breakthrough, material shortages and other contingencies. Changes in future time condition like this may require a contingency approach which would warrant the development of contingency strategies from scenarios.

SELF-ASSESSMENT EXERCISE 3

Critically examine the behavioural factors involved in strategic choice decision.

3.4 Contingency Strategies

Strategic choices are based on various external and internal assumptions. A change or shift in these assumptions may invalidate the chosen strategies. If the changes are drastic and draconian, abandonment of the chosen strategies may be warranted. if the changes are simple and gradual, the strategies may have to be modified. To cope with such unforeseen contingencies, contingency strategies must be developed in advance to deal with uncertainties of the business future.

The external environment of the business is the powerhouse of future changes that may be gradual or drastic. For instance, changes within the social environment are usually gradual, while changes within the regulatory or market environment are usually frequent, sudden and drastic and may only leave little time for strategic adjustments.

The external environment for different industries differs. The industries face different environmental attributes such as diversity, complexity, turbulence, hostility. Industries facing relatively dynamic environment require contingency strategies more than those facing relatively static or serene environment.

Companies facing serious turbulence may require the development of three scenarios – pessimistic, most likely, and optimistic – based on variegated assumptions in relation to critical variables. Many models exist to help firms develop and implement contingency strategies. A model based on contingency planning process consists of three steps.

- Identify contingency events critical to the company;
- Establish the trigger points, and
- Develop strategies and tactics to deal with the dynamic situations.

Contingency strategies are of inestimable value to grand strategy masters in dealing with transient phenomenon like the business environment. However, a final step before strategy implementation is the formulation of a strategic plan.

SELF-ASSESSMENT EXERCISE 4

What are contingency strategies?

3.5 Strategic Plan

A strategic plan, also known as corporate, or group or perspective plan, is a document which furnishes information on the different elements of strategic management and the manner in which a company and its strategic gurus propose to put strategies into action.

Kazmi (1992) summarises the content of a comprehensive strategic plan as follows.

- A clear statement of business definition, mission, purpose and objectives.
- Results of environmental appraisal, major opportunities and threats, and critical success factors of an industry.
- Results of corporate appraisal, major strengths and weaknesses, and distinctive competencies.
- Strategic choice made and the assumptions under which the strategies will be relevant. These are contingent strategies to be used under different conditions.
- Strategic budget for the purpose of resource allocation for implementing strategies and the schedule for implementation.
- Measures to be used to evaluate performance and assess the success of strategy implementation.

SELF-ASSESSMENT EXERCISE 5

Define strategic plan. List what the contents of strategic plans are.

4.0 CONCLUSION

The unit has exposed you to the steps in strategic choice, the techniques of corporate portfolio analysis, subjective factors that may influence

strategic choice, the need for developing contingency strategies with strategic choice, and the contents of a strategic plan.

7.0 SUMMARY

In this unit, you have learnt about strategic choice, the techniques of corporate portfolio analysis and the subjective factors that may influence strategic choice. You have also learnt about contingency strategies along with strategic choice and the contents of a strategic plan.

8.0 TUTOR-MARKED ASSIGNMENT

1. A diversified company desires to identify strategies for the various businesses in its portfolio. How does it go about doing this?
2. The consideration of only objective factors in exercising strategic choice is not exhaustive. Explain.

7.0 REFERENCES/FURTHER READING

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UNIT 3 ACTIVATING STRATEGY

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1.0 INTRODUCTION

This unit explains to you how standing plans (policies, procedures and rules) as well as single-use plans (programmes, projects and budgets) amplify strategy in preparation for tactical actions. These various elements of tactical and operational plans narrow down the scope of long-range strategic plans into what can be manageable within a short range of time. Each of these elements guide and activate the implementation of strategy and are therefore given sharper elaboration in this unit.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- explain policy and examine its nature
- define procedures
- analyse organisational procedure
- discuss programme development
- enumerate types and sources of resource planning for implementation.

3.0 MAIN CONTENT

3.1 Meaning of Policy

Policy is the fourth element of a corporate plan; other elements according to their hierarchy include- purpose/mission, objectives, strategy, procedures, rules, programmes and budgets. It therefore follows that "policies" amplify or explain and are derived from the first three elements, and it also gives birth to the last four elements. Policies are directives designed to guide the thinking, decisions and actions of managers and their subordinates in implementing the organisations strategy. According to Hicks (1967), policies, procedures and rules are different types of standing plans which are used over and over again. They are different from single-use or single-purpose plans such as programmes, projects or budgets which are designed to attain specific objectives within short period of times.

Accordingly, policies are general statements that guide decision-making, they define the boundaries within which decision can be made, and they direct decisions toward the accomplishment of objectives. In progression from objectives to policies to procedures to rules, the limits of broadness become increasingly narrower. For Haimann and Scott (1970), policies are broad guides which lead to effective action. They are general statements which channel the thinking of personnel charged with decision-making. Although they are broad, policy guides do set up definite limitations. As long as subordinates stay within these limitations, he will make appropriate decision. The basic policy permeates all company activities.

However, for Longenecker and Pringle (1981), a policy is a basic statement serving as a guide for administrative action. As a guide, it does not usually specify detailed answers to particular problems. The manager has some degree of freedom or discretion with regards to policy in contrast to rule which permits no discretion regarding action to be taken (e.g. no smoking) and also in contrast to a procedure, which specifies the chronological sequence of steps or tasks. Mission, objectives and strategies find expression in policies. The three elements are abstract statements until they become embodied in policies. An example of policy is "no discrimination in locating plants". This policy

does not indicate geographical choice; it simply eliminates one factor as an element in the choice. It would still be desirable to analyse the suitability of all sites.

According to Pearce et. al. (1988), policies provide guidelines for establishing and controlling the ongoing operating processes of the firm, in consistence with the firm's strategic decisions. Policies are often referred to as standard operating procedures and serve to increase managerial effectiveness by standardising many routine decisions to limit the discretion of managers and subordinates in implementing.

3.1.1 Sources of Policy

The major sources of policy in organisation may be classified as follows.

1. Original policy

This is the most significant. It is a policy created by management. Such creation is one of the most important functions of management. Once it is originated as one of the broad policies by management, then it must be pursued by the lower managers. Policies may also be originated at or near the bottom of an organisation and flow upward. That is, they are generated at the operating and first line supervisory levels and imposed upward. This is the practice in Japan.

However, if certain matters are not recognised or provided for by the set policies adopted, or if regularly adopted policies are not enforced, customs may gradually emerge and achieve the generality, permanence, and authority of true policies (Haiman et al. 1970).

It is possible, at times, for policy to be formulated simultaneously from both directions. Such policy will incorporate top management's point of view, but at the same time, it will give ample thought to first line supervisory levels or even the employees, who are largely affected by the policy and who feel what it should contain.

2. Appealed policy

An appealed policy has a different origin. It is most often formulated in order to cope with some exceptional problem. They come from the appeal of exceptional cases up the hierarchy of authority by subordinates who are not given adequate authority to handle exceptions. Such appeals are decided and re-decided upon and become precedents and guides for future managerial action.

Appealed policies are usually made to solve current problems. There is the danger that such appeals may be many, conflicting with one another and sometimes full of discrepancies. In this event, such policies may be referred to top management for more coverage, updating or clarification, before they are checked into originated policies.

3. Externally-imposed policies

This means that policy has been imposed upon the enterprise by external factors such as the government, labour unions or trade associations.

The word "imposed" indicates compliance, with the use of force. Trade association, for instance, may desire to try to protect their members from destructive practices and competition.

4. Implied policies

These are policies which are neither stated in writing nor verbally. They are borne out of the fact that the policies are either too difficult to state, or that the nature of the company is too dynamic to set policies in certain areas or that the managers do not want to limit the freedom of employees too drastically.

Implied policies develop from actions which people see about them and believe to constitute them. It is real policies or lack of them that are implied. For instance, a company may state that there is no policy with respect to the upper age limits for hiring workers. However, an examination of the ages of those hired during a given year may indicate that no one, over forty years of age, was employed. In such a case, there seems to exist an implied policy not to hire persons above this age. A similar implied policy can often be observed in the failure to employ women or members of ethnic minorities.

Also, some executives do develop new ideas about certain operations contrary to established or real policies. With time, imputed policy may become the guideline for the specific operation.

3.1.2 Types of Policies

Policies may be written and formal or unwritten and informal. The positive reasons for informal, unwritten policies are usually associated with some strategic need for competitive secrecy. However, unwritten informal policies may be contrary to the long-term success of strategy. Yet managers and employees often like the latitude granted when policies are unwritten and informal.

Written and formal policies must be carefully and explicitly stated and communicated so that those in the organisations, who are to apply them, will fully understand them. Formal-written policies have multiplicity of advantages, as outlined below.

a. The policy is explicit, so misunderstandings are reduced.
b. Managers have the chance to think through the meaning of the policy, its content and intended use.
c. Unalterable transmission of policies is ensured.
d. Equitable and consistent treatment of problems is more likely.
e. Authorisation of sanction of the policy is more clearly communicated.
f. A convenient and authoritative reference can be supplied to all concerned with the policy.
g. The key purposes of policies, which is indirect control and total coordination, are systematically enhanced.
h. It is a useful aid in training and guiding staff, both old and new.
i. It can help annual management audit.
j. Written policy enhances the states of each department by showing that top management attaches importance to the function.
k. It provides a reference point against which principles and practices of strategic management can be evaluated.
l. Writing helps precision and clarity. The mere process of writing them down will uncover discrepancies, conflicts and omissions.

3.2 Developing Procedures for Implementation: Meaning of Procedure

Procedure means a subsystem. It is a planned sequence of operation for handling recurring business transactions uniformly and consistently e.g. procedures for processing an order, shipping of goods, accounting for the shipment, receiving payment for the sales, handling claims and adjustments, and analysing sales (sales system). For each operation within a procedure, there is a method for accomplishing that phase of the work. A system is made up of many procedures or subsystems. A method is a manual or mechanical ways by which each operation is performed e.g. vacation procedures, exam procedures.

3.2.1 Objectives of Procedures

The objectives of procedures are as follows.

- Elimination of unnecessary information, unessential forms, records, and processes.
- Combination of business forms and processes.
- Simplification of the forms both in content and in method of preparation.
- Mechanisation of the repetitive, routine tasks at reduced cost.

3.2.2 Benefits of Procedures

Below are the benefits of procedures.

- Reduction/elimination of waste motion, delays and errors in the smooth flow of work.
- Reduction in the cost of performing routine company's work.
- Responsibility is more easily fixed for satisfactory performance.
- Training of personnel is simplified and becomes more effective.
- Improvements are constantly made on existing procedures due to past experience.
- Procedures help annual audit.
- Detailed procedure for a particular department shows managerial support for it.

3.2.3 Guidelines for Control Procedures/Follow-up Procedures

These guidelines must be followed in planning and controlling procedures.

a. Minimise procedures to those which are called for and necessary.
b. Design procedures to reflect and help accomplish organisational objectives and policies.
c. Analyse procedures to ensure a minimum of duplication, overlapping and conflict.
d. Recognise procedures as subsystems of a particular system, interrelated and interdependent.
e. Estimate the cost benefit of procedures to show the worthwhileness of any procedure.
f. Police procedures to accomplish the job intended by making available a procedural manual, training and employees by following up (review).
g. Review procedures, annually, like performance appraisal to modify or eliminate within financial constraints.
h. Constant "tinkering" with procedures may be the biggest morale-degenerator.

3.2.4 Establishing Organisational Work Procedures

The first step in establishing a procedure is to look at the whole organisation "in the round".

The manager has to establish:

- what the main objective of the organisation is;
- what work is involved in achieving the objective;
- who is doing the work, this entails listing all staff, and their present contributions to the work;
- what are the methods used to perform each operation;
- the quality of the work being done.

Then it is necessary to make a full and detailed analysis of each operational step. Each step in the analysis must be examined closely.

- To check whether it is necessary, that is, whether it achieves a specific purpose
- To see whether and where bottlenecks are occurring (to maintain the flow of work, these must be eliminated), and
- To identify the interaction of the work involved with other sections/departments of the organisation.

The manager must watch the following in establishing and maintaining work procedures.

- The more a system grows, the more the chance of duplication of work,and records. This must be guided against.
- Unnecessary writing, movement or effort must be avoided.
- The procedures should be devised in such a way as to make exceptions unnecessary, or at least, as few as possible.
- Ensure that the cost of operating the procedure is effective in terms of increased efficiency, whether productivity or any other benefit.

3.3 Developing Programmes and Projects for Implementation

Programmes, projects and budgets are the various elements of single-purpose plan. Single use or single purpose plans are designed to attain specific objectives within a stipulated, but relatively short period of time. They are not like standing plans that are used over and over again. A programme is a sequence of activities evoked by some stimulus, such as a customer's order or the failure of the delivery truck to arrive on time, or a worker quitting a job (Khandwalla, 1977).

If the stimulus is one of those that keep on recurring, a routine will be developed to handle the situation promptly and efficiently whenever it

occurs. Once such a routine is developed, there is little problem-solving activity with regards to stimuli of the kind for which the routine is developed. In this way, a programme minimises cognitive strain, because solutions to recurring problems need not be discovered over and over again.

A programme serves as a control device since it specifies what must be done in specific circumstances and it is an important part of the mechanics by which activities in an organisation are coordinated. A programme requires goals, policies, procedures, rules, assignments, resources to be employed, events, activities, sequence of activities duration and other elements necessary to carry out a given course of action. Examples of programmes are expansion programmes, asset replacement programmes, management development programmes, training programmes.

Programme term is the total length of time covered by a programme. Programmes can be developed in various areas of business functions including the following.

a. Production Management

Examples are production programme, maintenance programme, plant layout programme, product or process development programme, and purchasing programme.

b. Marketing Management

Examples are sales programme, product promotion programme, distribution programme, research and development programme, pricing programme, etc.

c. Personnel Management

Examples are recruitment/hiring programme, training and development programme, safety and welfare programme, wellness programme, etc.

d. Financial Management

Fund sourcing programme, billing programme, cost reduction programme, fund control programme, profit escalation programme, etc.

In any of these functions, programme term can be of three types. These include long-term programme, annual programme and short-range programme. Programming has four components which include the existence of an objective function, alternative courses of action, limited

resources which may create supply or demand constraints, existence of skill and competence to get results within the limited resources.

3.3.1 Steps in Programming, Programmes or Projects

The following steps ensure better action programming.

- Identify the objective of the organisation and the functional or derivative goals.
- Identify the choice of a strategy e.g. diversification.
- Narrow the strategy into the required corporate and functional policies, procedures and rules to guide implementation.
- Within your own function, divide all the operations necessary to achieve functional and corporate objectives into parts, activities and events. State whether they are critical or slack activities.
- Examine the relationship between and sequence of each of these activities. Observe the preceding and succeeding activities, and note activities that can be performed unilaterally, jointly or concurrently and their sequence.
- Decide who will perform each of these activities or parts.
- Decide how each part will be completed and the required resources needed to complete them.
- Estimate the duration or time required for each activity or part (scheduling).
- Assign definite dates (hours) when each activity is to take place.
- Revise programmes, take new opportunities, and consider the effect of shifting resources from ordinary (slack) to bottleneck activities. These steps can be aggregated into design, implementation and evaluation phases.

3.3.2 Benefits of Long-range Programming

Long range programming has the following advantages.

a. It provides a record of the logical progression of activities involved in a programme or a project.
b. It enables a realistic completion time to be estimated.
c. It schedules the earliest and latest possible dates of all events in the network.
d. The initial construction of the network forces management to think logically and carefully about all aspects of the project before actually starting to do anything and incurring commitments.
e. It enables, by means of PERT/COST, the optimum economic scheduling of activities to be achieved.

f. It identifies the critical path and the critical or bottleneck activities needed in achieving the project completion time. To management, this indicates control priorities that a unit of time longer (e.g. a day), on any critical activity, will delay the whole project or programme , using extra resources/costs.
g. It identifies sub-critical activities which can be allowed to expand. The floats of these sub-critical activities indicate the degree of such expansion that can be accommodated.
h. It allows long-cycle actions to be started promptly so as not to miss opportunity; for instance, a new product that requires three to five years for research, development, testing, process engineering and marketing.
i. Long range programming, psychologically, prepares top executives for a change as it aids adjustments to new and emerging conditions, whether good or bad.
j. Long range programming allows activities to be properly coordinated e.g. selection of executives for key posts, licensing of a company, patent, etc.

The major weaknesses of long range programming include what programmes or projects to cover, what period to cover them (e.g. five years), how will revisions be made and who is to develop the plan – a strategist, a tactician or an outside consultant?

3.3.3 Types of Programmes

Programmes vary in type, as shown below.

a. Major versus minor programmes

Any programme requiring heavy capital outlay and long duration is a major programme, e.g. an acquisition programme to takeover a ₦100 million company, a five-year programme to improve the status and quality of supervisors.

A minor programme requires relatively less capital assessment and short duration e.g. cleanliness programme instituted only in one department of the organisation by its head of department.

b. Primary versus derivative programme

A programme that is generic or operates at the corporate level is a basic or primary programme e.g. adoption of a postgraduate programme by a

university (a generic programme) would call for various derivative programmes (that is, derived from the basic programme).

Such generic term embraces current academic staff inventory programme, hiring of more competent professionals, training of current academic staff, building of post-graduate school complex, design of various derivative programmes such as masters degree programmes for all departments, postgraduate certificate and diploma programmes for all departments, design of doctoral degree programmes for all departments, support-staff development programmes, etc.

- Long range versus short range programmes
- Long range programmes are those that have long duration e.g. five to ten years. Such programmes are underplayed by well-defined strategy. They are in fact programmes for general purposes. Short range programmes cover a relatively shorter duration of time in relation to long range programme. Their cycles range between few months to two years.

These types of programmes are delegated to functional executives by top executives. However, top executive may take active part in such programmes if the amount of resources committed to all departments is large or when external relation and image is involved. The programmes are special purpose programmes; e.g. expansion programmes, revision programmes, etc.

c. Discretionary versus routine programmes

Programmes are routine if they have a high degree of recurrence, frequently observable, easily controllable and share strong interdependent relationship with other programmes e.g. programme of maintenance of equipment,and production, sales programmes and the extension of credit to customers.

However, programmes are discretionary if they have a low degree of occurrence and are not easy to supervise. Activities constituting the programme are relatively uneasy to observe but the output is easy to observe, supervise or measure, and shares less interdependent relationship with other programmes e.g. programme to secure a rate of return on employed capital of 20 percent, a programme to achieve a cost reduction of 15 percent, a programme to capture the market share of a competitor, a programme to defeat the opposing candidate.

d. Standing versus ad-hoc programmes

A standing programme is an enduring or interminable chain of activities, events and duration designed to capture objectives on a **recurrent** basis, e.g. bachelor of science degree programme, examination programme, staff appointment and promotion programme, raw material programme, etc.

An ad-hoc programme is a transient but terminable chain of activities, events and duration designed to capture specified objectives on **current** basis only. Another name for an ad-hoc programme is **project**.

A Higher National Diploma (HND) course is therefore a programme to the school running it (on recurrent basis), but it is a project to students who want to graduate, rather than to students who want to continue as students. An MBA course is a programme to the University authority, but a project to the students going through it unless they decide otherwise. In the same vein, existence (life) is a project, a very short one to creatures such as human beings, but it is a programme to God.

A road contract is a project if the contractor has a terminable duration to hand it over to government, but it becomes a programme if the contractor is given the mandate to construct it and manage it thereafter for government. It seems therefore that programme embarkment harbours a lot of preventive controls, while project embarkment will harbour a lot of costly corrective controls. The former seems a better option.

3.3.4 Programme Planning Methods

Three major methods of network planning are in use.

a. Critical Path Method (CPM) (CPA) (1957)

Critical Path Method (CPM) (analysis) – developed by E.I. Du Pont De Nemours and company and Remington Rand for the control of construction projects. It was first applied to maintenance scheduling in the chemical industry.

b. Programme Evaluation and Review Technique (PERT) (1958)

Programme Evaluation and Review Technique was developed by U.S. Navy and was first used in connection with the construction of the

Polaris missile system by the consulting firm of Booz, Allen and Hamilton.

c. Metra Potential Method (MPM)

Metra Potential Method – was developed by '*SEMA'* – European Consulting Group and was first applied to the construction of atomic power plants.

They all make use of project activities, precedence relationship between the activities and time estimates duration. Duration is the analytical point of departure between *CPM* and *PERT*. The duration for activities and the project in *CPM* are deterministic and known with certainty, while the duration for *PERT* is probabilistic.

The network analysis methods can be used to manage political campaigns, personnel training programmes, design of academic programmes, construction projects, research and development, new project development, surgical operations, planned maintenance of machines and buildings, new business start-up, advertising/promotion campaigns, development and implementation of computer programmes, computer installation, congressional investigation, cash programming, etc.

Network, therefore, is a programmatic re-presentation of all activities and events and their relationships in specified procedure order. By way of example, the Nigerian National Petroleum Corporation (NNPC) carries out two types of projects for oil and gas, namely upstream and downstream projects. The upstream projects consist of all activities related to exploration, discovery and extraction of oil and gas, their treatment in either flow-stations or compressor stations for oil and gas respectively, and their transportation and delivery to designated export terminals or to processing plants or refineries.

The downstream project consists of activities following delivery of crude to designated export terminals or processing plants. Such activities include refining and subsequent conversion of crude oil and gas into petrochemical products, transportation and marketing of the finished products and related ancillary services.

All organisations discharge one type of activities or the other, such as resource acquisition, workflow, control, identification and homeostatic activities, etc. Sometimes, projects are part of specific programmes.

SELF-ASSESSMENT EXERCISE 1

Differentiate between Programmes and Procedures.

3.4 Resource Planning for Implementation: Types and Sources of Resources

Resources are inputs which organisations deploy to realise strategic objectives. Strategic plan of the organisation represents the hopes and aspirations of the strategies. The development of standing plan (policies, procedures and rules) guides decision-making and actions by furnishing a manual or a handbook that represents the standard operating procedure of the organisation.

If the organisation is small, a manual which consists of the structural, policy and procedural aspects may be produced. Where the organisation is large, separate organisational policy and procedural manuals may be produced. They all guide the implementation of functions derived from corporate strategy of the organisation. While programmes and projects detail the task activities, their network and duration, budget allocates resources to the various programmes and projects for tactical implementation.

Resource planning therefore is the processes of generating or acquiring resources, allocating it among different user units, effective utilisation and control of it to realise intended strategic objectives. The resources needed to execute task activities include- human resources, material resources (such as plant and machinery, inputs for processing), financial resources (short and long-term finance), natural resources (such as land), ideational resources (the ideas used by the organisation and the language in which these are expressed and communicated) and the resources constituting the operating field, that is, the market of the organisation (e.g. a market segment for a firm).

The financial, physical, human and infrastructural resources are derived from different sources. Financial resources drive other resources in its train; without finance, other resources cannot be achieved; finance is therefore the basic resource used for creation and maintenance of other resources. All resources can be sourced both internally and externally. For example, internal sources of finance may include retained earnings, depreciation provisions, taxation provisions and other types of reserves like development rebate and investment allowance reserves.
External sources of finance consist of equity and debt (for long-term finance) and bank credit, hire purchase debt, trade credit and fixed deposits (for short-term finances). Whether resources are sourced internally or sourced from outside, they carry merits as well as demerits of source. However, much depends on the top management policy relating to resource planning.

3.4.1 Resource Terminologies

Resource development for strategy implementation is centred around resource marshalling, allocation and deployment.

a. Resource Marshalling

This refers to the processes of sorting out and sorting in and/or selection or choice of appropriate and adequate resources for a particular purpose. In a broad sense, it comprises the choice of techniques, the choice of sources of funds, sourcing and selection of human resources, sourcing and selection of material resources, etc. It means resource generation and acquisition.

The success and growth of a firm depend, to a great extent, on the quantity and quality of resources marshalled. Factors that may endanger or limit the amount and quality of resources marshalled may be environmental such as legal constraint, government policies, rules and regulations, inadequate or limited supply of resources, etc.

For instance, choice of a particular plant for production purposes may be limited by import restriction policy. Norms on debt-equity ratios may not permit choice of funds. Marshalling of critical human skills may also be hampered by manpower shortage. Resources marshalling can be measured in efficiency and effectiveness ratio.

b. Resource Activation

This means the company develops its own resources within its internal capabilities. Human resources can be activated through training and development, such as on-the-job and off-the-job training. Material resources can be developed through backward vertical integration or through external supplier development effort. Financial resources can also be activated through internal source, e.g. ploughing back, etc.

c. Resource Allocation

This means the distribution of funds and other resources among different user departments. Resources may be distributed on the bases of priorities of programmes and projects.

Techniques for allocating (capital) resources among projects include the payback period, the Accounting Rate of Return (ARR), the Internal Rate of Return (IRR) and the Net Present Value (NPV) techniques.

d. Resource Deployment

This is the manner and the extent to which the marshalled and the allocated resources are actually utilised. Organisational structure is the vehicle for the deployment of resources. Deployment involves the use of funds or resources after allocation is made. Factors that may engender resource deployment include- government policies, competitive conditions, market demand technology, etc.

3.4.2 Means of Resource Allocation

Budget is the only means by which organisational resources can be allocated. A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources allocation of an enterprise for some specific period of an enterprise for some specific period in the future (Pandey, 1979).

The process by which a budget is produced is called budgeting. Budgetting is a systematic and formalised approach for stating and communicating the firm's expectations and accomplishing the planning, coordination and control responsibilities of management in such a way as to maximise the use of given resources to realise objectives (Pandey, 1979).

Put in a simple way, budgeting is the process of planning and controlling financial expenditure to aid the organisation in goal attainment. The following types of budgets are used to allocate resources.

a. Master/comprehensive budget

This is a generic budget which takes into consideration many changes, corporate activities and their impact on corporate objectives. It consists of three important budgets prepared from it. They are capital budget, operating budget and financial budget; they all show the total resource allocation of the company.

b. Capital budget

It allocates resources for new projects or products, and also for expansion programmes and projects, together with their timing of estimated cost and cash flows for each project.

c. Operating budget

It allocates resources to various functional programmes or activities, as well as for individual responsibility e.g. production budget, sales budget, purchasing budget, advertising budget, training and development budget.

d. Financial budget

This is the financial implication of resources allocated to various operations. It consists of expected cash inflows and outflows, financial position and operating results. Its components include cash budget, projected proforma, balance sheet and income statement, and statement of changes in financial position of the company (sources and uses of funds).

e. Zero-based budget

This reflects resource allocation based on fresh calculation of cost (nil or zero base) for each year, rather than, on the basis of previous year's budget for new implementational activities. Good for allocating resources among competing units such as *ZBB, it* does not perpetuate past anomalies and inefficiencies.

f. *PLC*-based budget

This budget allocates resources on the basis of stages in a product's *(SBU's)* life cycle. A product in the introduction and growth stages may attract more resources and these resources may be diverted from the high-profit yielding products that have reached the maturity stage of their life cycle.

g. *BCG*-based Budget

Boston Consulting Group (*BCG*) matrix is also used for allocating resources. In the matrix, *SBU's* or products are identified as stars, question marks, cash cows and dogs. Investment decisions an be made on the basis of the type of *SBU* or product. Resources can be diverted, for instance, from a cash-cow to a question mark or a star. *BCG* matrix can, therefore, be a potent method of multi-product resources allocation.

h. *Parta* system

'Parta' is a control device used for daily evaluation of net cash flow from operations, before tax and dividend. The budgeted *'parta'* is a predetermined amount agreed upon between the chair person of the

company and the business unit concerned. The total *'parta'* system could be taken as a daily budgeting and reporting system.

i. Strategic budget

This is also called planning programming budgeting system *(PPBS)*. It takes into consideration environmental changes, corporate strengths and weaknesses and their impact on corporate objectives. Considerations of achievable results over-ride considerations for expenditure incurable. A time-table is usually drawn up, setting out stages or processes of prosecution and it is against that programme that resources are allocated and reviewed from time to time.

Apart from the benefit of resource allocation, other benefits derivable from budgeting include planning, control, communication, co-ordination and motivation advantages. All these positive impacts have bearings with successful strategy implementation.

3.4.3 Factors that Enhance Resource Allocation (Budgeting)

The factors that enhance resource allocation or budgeting are as detailed below.

- Top management must support resource allocation.
- The presence of a structure or a committee for effecting resource allocation.
- Participation in budget preparation by all managers is required to commit allocated resources to implementation.
- Departmentalising of company activities into responsibility centres or cost centres to which allocated resources will go.
- There should be budget training and development programmes for managers.
- There should be budget education on company-wide basis.
- Availability of standard against which programmes and works can be translated into needs for labour, space and resources. Standards will also aid the evaluation of resource utilisation.
- There should be realistic goals to which resources will be committed for attainment.
- Designate somebody as a budget director. He will be responsible for coordinating budgets drawn from other departments from time to time.
- Produce a budget manual – a written set of instructions and pertinent information that serve as rules and reference for the implementation of a budget programme. It expresses objectives,

goals, procedures, structure, authority and responsibility relationship in the organisation.

- Set the planning period for clarity sake. Planning period may be fixed or rolling.
- In this case of a fixed plan period, a new plan for a specific period begins as the previous one ends e.g. (1995 – 1999), (2000 – 2004), (2005 – 2009), etc. This makes for definite accountability and responsibilities.

In a rolling plan, the first year of the plan is dropped and a new year is added to the plan at the end of each year, so that plan period remains the same length e.g. (1995 – 1999), (1996 – 2000), (1997 – 2001), etc. This method provides flexibility and forward planning. Planning period definition captures strategy implementation objectives over a long time.

SELF-ASSESSMENT EXERCISE 2

How do you plan resources for implementation?

4.0 CONCLUSION

This unit has explained to you how strategic plan is amplified and activated into tactical plan, in preparation for definite tactical actions. Strategic plan is implemented by breaking it into standing tactical plans such as policies, procedures and rules which guide implementation on recurrent bases. Strategic plan also finds attitudinal expression in the development of single purpose, tactical plans such as programmes, projects and budgets which identify activities to be done, their sequence, their duration and identify resources required to carry out the activities, all in a path to realise strategic objectives only on current issues. The unit has elaborated how each of the elements of the tactical plan is developed, the strengths and weaknesses involved and the various alternatives open to a tactician in anticipation of tactical execution.

7.0 SUMMARY

In this unit, you have learnt about the following.

- Developing policies for implementation
- Developing procedures for implementation
- Developing rules for implementation
- Developing programmes and projects for implementation
- Resource planning for implementation.

8.0 TUTOR-MARKED ASSIGNMENT

1. Differentiate between strategy and policy.
2. Explain the activities involved in policy formulation, implementation and evaluation. In what ways are these activities different from the activities of strategic management process?
3. Examine the factors that would engender or endanger the development of tactical plans and action plan.

7.0 REFERENCES/FURTHER READING

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UNIT 4 STRUCTURAL IMPLEMENTATION

CONTENTS

1.0 Introduction
4.0 Objectives
3.0 Main Content
    3.1 The Concept of Structure
    3.2 The Dimensions of Structure
    3.3 Structural Alternatives for Strategic Choices
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
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1.0 INTRODUCTION

This unit highlights strategy formulation, implementation and evaluation that take place in a structural setting built or modified for the purpose. Without a structure, no task may be performed. However, the structure must fit the strategy for desired results to be obtained.

Attempts to build a befitting or modifying an existing structure formally will also evolve an informal structure of roles, primary groups, power, influence, politics and status, all of which will partly influence the effectiveness or otherwise of strategy implementation and the realisation of objectives and mission.

Both the formal and informal structure of organisation will create a network of processes that are related to one another in a super-structure system. Such processes include authority delegation, coordination, information system planning, control, organisational change, etc.

This unit reviews, not only the super-structure, but also the sub-structural processes involved.

2.0 OBJECTIVES

At the end this unit, you should be able to:

- explain the concept of structure
- describe the dimensions of structure
- discuss the structural alternatives for strategic choices.

3.0 MAIN CONTENT

3.1 The Concept of Structure

An organisational structure defines how tasks are formally divided, grouped and coordinated. Structure shows the conscious, formal and internal arrangement of an organisation for implementing strategies and realising objectives and missions. It is a patterned network or framework of relationships among people and positions in an organisation.

Structure consists of two parts including the superstructure (the chart, organogram or the skeleton) and the infrastructure (the sub-structural processes, the flesh and the blood) that is not as visible as the superstructure.

Managers need to address key structural elements when they are designing a new or modifying an existing structure to follow strategy. The elements include: work division, work grouping, or departmentation, work coordination, chain of command, span of management, organisation systems (e.g. information, appraisal, development, planning, reward and control subsystems), dimensions of structure and not the least important, structural design alternatives.

Strategic gurus must also understand that their attempts to formally structure a business organisation will always lead to the emergence of an informal structure, which they must also accommodate rather than ignore. The informal structure will include the structure of roles, primary groups (group dynamics and processes) and the structure of power, status and politics (See figure 4.1 below). Addressing all these key elements of structure shows that structure is a multidimensional concept, which sometimes is taken to mean the degree of complexity, formalisation and centralisation in an organisation.

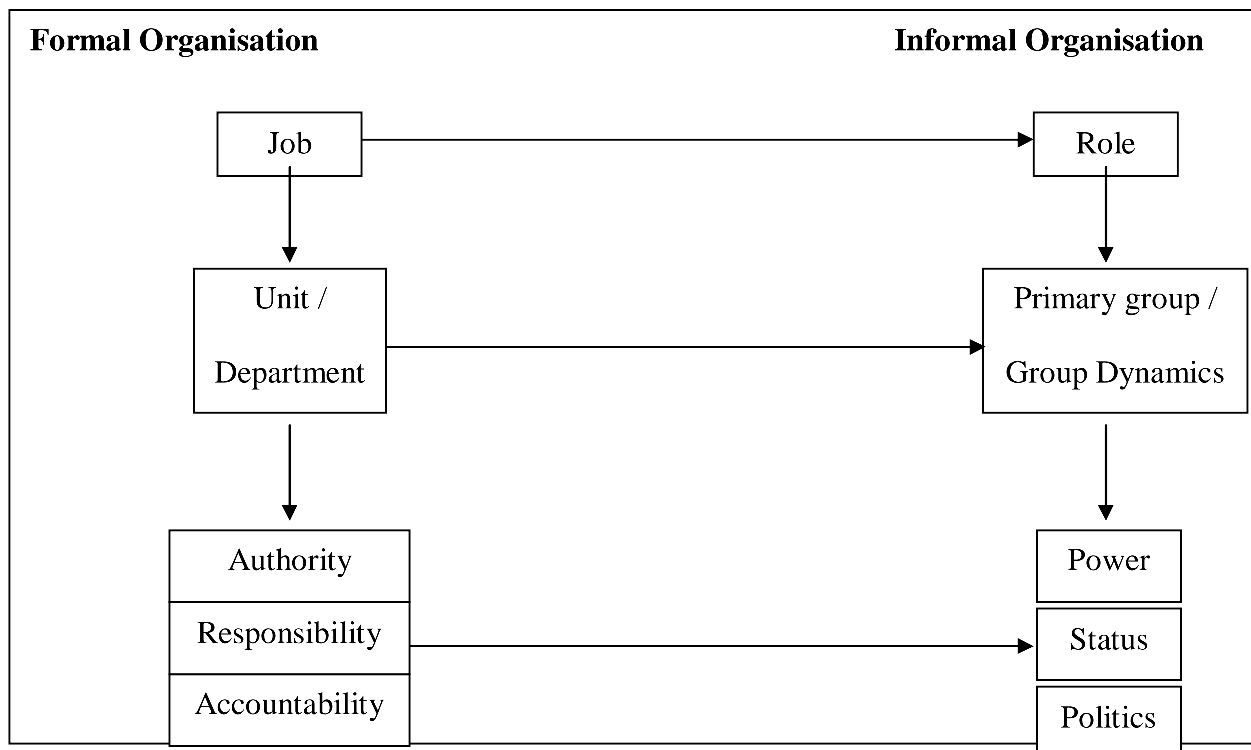

Fig. 4.1 *Formal versus Information Organisation*

The informal organisation may also consist of drinking and sleeping on the job, groups sabotage, backstabbing, deviant behavior, etc. This is not to suggest that there is far more to organisations than that prescribed.

Essentially, structure must be deliberately set up to fit strategic choices so as to achieve corporate objectives. Where activities, responsibilities and interrelationships are not structured in ways that are consistent with the selected strategies, then the structure is left to evolve per chance; the objectives and mission will also be achieved per chance. This is mismanagement per excellence, and those in charge are charlatans and damagers rather than managers. This is because management is a process of not leaving anything to chance until results or objectives are realised – a technological definition.

Therefore, where strategy and structure are not coupled, compatible and coordinated, the result will probably be inefficiencies, loss of direction and fragmented efforts. Chandler (1962) submits that structure follows strategy. Child (1977) extends this nexus by submitting that the environment determines the choice of strategy; and both in turn determine structural choice.

Chandler (1962) observes, for instance, that as firms attempted to grow through product and geographical diversification, they changed from centralised structures to multidivisional structures that are largely autonomous in terms of decision-making and operations, though major strategic and policy decisions are still undertaken by corporate headquarters. The basis of structure has also been explained, in terms of stage development of an organisation, at a given point in time (Thain, 1969, Salter, 1970 and Scott, 1973). Experts are of the opinion that, as an organisation grow in size and diversity, the organisation changes from simple to a complex organisational form.

An organisation, like a product, follows a life cycle consisting of introduction, growth, maturity and decline stages. These four stages are not distinct from one another and may even overlap. Organisations in the first stage of this cycle have simplicity of objectives, operations and management. The design of the organisation is also simple and can be referred to as entrepreneurial. Strategies adopted here demands expansion strategy.

Organisations in the second stage are relatively bigger than organisation in the first stage, in terms of size and scope of operations. The relevant structural form is functional specialisation or process design. The organisation is departmentalised on the basis of function into production / operations, marketing, finance and personnel departments. Alternatively, the organisation may be departmentalised on the basis of process technology arranged in a particular workflow sequence. Strategy adoptable with this form may range from stability to unification (integration) strategies.

Organisations in the third stage are larger and broadly scattered organisations. They maintain units, plants or divisions in different places. Each division is semi-autonomous and linked to the headquarters, but are functionally independent. The divisions have simple functional forms depending on their situational needs. Strategies favoured here may range from stability to unification (integration) to fragmentation (diversification).

Organisations in the fourth stage are the most complex and fragmented. They are usually multi-plant, multi-product and multi-regional firms as a result of the adoption of fragmented strategies (related and unrelated diversification). The structural design is divisional. The corporate headquarters provide strategic direction and policy guidelines through the formulation of corporate-level strategies. The divisions, which may be companies, profit centres, *SBUs*, subsidiaries or units, formulate their business level strategies and may adopt structural choices in either the first, second or third stages of organisational life cycle.

Fayer Weather (1978) postulates a unification versus fragmentation paradigm, which attempts to explain multinationals' action in terms of strategic choice. Unification strategy corresponds to the firm's desire to integrate its global units into one entity while fragmentation strategy indicates the necessity to adjust policies and practices according to the environmental demands of the various nation stages. These conflicting demands differentiate the international business operations of *MNC* from large local company, while the latter is operating in a single homogenous environment of a given nation, armed with the strategy (and structure) of unification /integration, the former is armed with a strategy (and structure) of fragmentation/diversification, and seeks to operate not only in a heterogeneous but also in complex socio-politico-economic environments of many nations.

From the foregoing theoretical foundation, it can be deduced that the determinants of choice of a particular structure will include the followings.

- The purpose or the mission of an organisation
- The long-term objectives of an organisation
- The strategies selected and adopted by an organisation
- The stage of development of an organisation
- The demographic variables of an organisation e.g. size, business type, nature and structure of workflow technology
- The environment interfacing of an organisation e.g. the social, political, legal, economic and technological environmental attributes (contextual factors)
- The desired behaviour expected of employees and managers (backward linkage)
- The desired functions expected of managers and employees (backward linkage)
- The preferences and values of investors and top-managers of an organisation
- The resources, strengths and the distinctive competence of an organisation.

All these factors and others more will engender or endanger the selection of any particular form of structure.

3.2 The Dimensions of Structure

Structure, as stable, consistent, reliable and predictable patterns of relationships between position incumbents, can be evolved from the selection of portfolio of dimensions. The attributes, measures or dimensions of structure are as follows.

1. Vertical span

Number of levels in the hierarchy of authority from the bottom to top levels (Reimann, 1973).

2. Span of control

Measure of the limits of hierarchical authority exercised by a single manager or how many subordinates an individual manager can or should supervise (Ouchi and Dowling, 1974).

3. Formalisation

Extent to which the employee's role is defined by formal documentation (Reimann, 1973). Proportion of codified jobs in the organisational unit (Hage, 1965).

4. Integration

The quality of the state of collaboration that exists among departments that are required to achieve unity of effort (Lawrence and Lorsch, 1967).

The basis of coordination between organisational units, either plans or feedback (Perrow, 1970).

5. Vertical differentiation

Degree of cumulative authority and responsibility resting in various levels of hierarchy (Reimann, 1973). The number of hierarchical levels in a firm.

6. Horizontal differentiation

The number of speciality functions represented in a firm (Weber, 1947). The differences in departmental manager's orientations towards particular goals, time requirements and interpersonal relationships (Lawrence and Lorsch, 1967). The number of functional specialisation or units in the organisation.

7. Standardisation

Measured by the range of variation that is tolerated within the rules defining the jobs (Hage, 1965).

8. Centralisation

a. The proportion of occupants or jobs whose occupants participate in decision-making and the number of areas in which they participate (Hage, 1965).
b. The concentration of power arrangement (Thompson, 1967).

ci. The locus of decision-making with respect to policies.
ii. The degree of information sharing between levels, and
iii. The degree of participation in long-range planning (Reimann, 1973).

9. Administrative ratio

Ratio of number of line supervisors, managers and staff personnel to the total of employees (Reimann, 1973).

10. Professionalisation

This involves both structural and attitudinal dimensions (Hall, 1973). The structural dimensions include the following.

i. Creation of full time occupation
ii. Establishment of a training school
iii. Formation of professional associates
iv. Formation of code of ethics

The attitudinal dimensions are listed below.

i. Use of the professional organisation as a major reference
ii. Belief in service to the public
iii. Belief in self-regulation
iv. Sense of calling to the field
v. Autonomy

11. Structuring of activities

The degree to which the intended behaviour of employee is overtly defined by task specialisation, standard routines and formal paperwork (Pugh et al. 1969).

12. Autonomy

The extent to which management has to refer certain typical decisions to a higher level of authority.

13. Specialisation

i. This is the number of occupational specialties (Hage and Aiken, 1967), (Hage, 1965) and (Reimann, 1973b). Horizontal differentiation.
ii. The degree to which highly specialised requirements are spelt out in formal job descriptions for various functions (Reimann, 1973).

14. Complexity

The degree of vertical, horizontal and spatial differentiation in an organisation. The more differentiated they are, the more complex the organisation.

15. Delegation of authority

Ratio of number of specific management decisions that the executive delegates to the number he had to make (Reimann, 1973).

16. Spatial differentiation

The degree to which the location of organisation's offices, plants or personnel are geographically dispersed.

An organisation that is more of these dimensions is highly structured while an organisation that is less of the above dimensions is less structured.

A high structured organisation may be necessitated by the strategy of stability. Such a structure will be typified by a vertically elongated chart, pyramidal in shape and in most cases, often characterised by serious problems of communication, control, bureaupathology, conspiracy, employee alienation, apathy, red-tapism, rigidity, lack of coordination, work to rules, resistance to change, inefficiency and sometimes, low performance. Such a high structure warranted by stability, high in specialisation, standardisation, formalisation and configuration is often referred to as bureaucratic (Weber, 1947) or mechanistic (Burns and Stalker, 1963).

Conversely, a less structured organisation is often necessitated by expansionary strategy. Such a structure may be typified by a

horizontally flat chart, exhibiting a collaborative pattern of relationships among the organisational participants. Such an adhocratic structure, make-shift rather than permanent, is referred to as organismic or simply organic (Burns and Stalker, 1965).

Reimann (1974) reported that decentralisation, specialisation and formalisation are fairly independent of one another. That a high performing or an effective organisation could be relatively decentralised, specialised and formalised.

The dimensionality of structure rather than being universal, may be contingent on the types of organisation, the environmental situation of the organisation, organisation performance desired and a host of other factors earlier discussed as determinants of structure.

3.3 Structural Alternatives for Strategic Choices

Structural alternatives to match different types of strategies are discussed below. In practice, structural choices to fit a particular strategy may be a combination of the pure structures as discussed below.

1. Entrepreneurial structure

This is the most elementary and the simplest form of structure. It is very much appropriate for an organisation that is independently owned and managed by one person. All strategic, tactical and operating decisions are centralised in the owner-manager. The owner-manager is on his own, he needs no permission or control of a anybody. He provides the capital, takes decisions and assumes all risks. He may hire the labour of a few people. He is solely responsible for the success or failure of the business and has the sole rights to such profits as may be made or alternatively and bears the sole responsibility for such losses as may be made. (See figure 4.2 below).

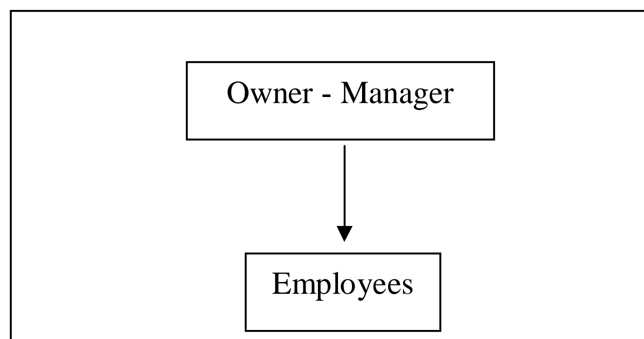

Fig. 4.2: *A Simpler or Entrepreneurial Structure*

Strategic advantages include the following.

a. Decision-making is fast and rapid, because power is centralised;
b. Easy control of all business activities;
c. Timely adjustments to boundary or environmental changes and market signals;
d. Simple and informal organisational system is affordable, e.g. reward and information systems.

Strategic disadvantages are as follows.

a. May immerse the owner-manager in day-to-day routine activities at the expense of strategic decisions.
b. May be grossly inadequate for the strategic or future expansion of the business.
c. It limits the development of future strategic managers.
d. The owner-manager is over-tasked and over-relied upon for all issues; it therefore limits delegation of authority necessary for future succession planning.

2. Functional Structure

A functional structure is effective in single-business units where major activities revolve around well-defined skills and areas of specialisation. A functional structure is based on the technology of the organisation involving human skills, processes and equipment.

In such cases, profound specialisation and focused concentration in performing tasks, projects and activities would enhance both operating efficiency and the development of distinctive competence.

The use of specialised manpower, facilities, equipment and techniques are important considerations for organisations adopting any of the strategies of concentration, vertical integration and product development. These strategies require some kind of specialisation which will also warrant a kind of centralised, but functionally specialised structure.

Specialisation may be structured along the technique (process), equipment or occupational skills (line or staff skills). Process specialisation will engender the grouping of activities around work processes. For instance, in the canning of beef, work may be grouped around butchering, precooling, cleaning, canning and cooking. Also, in the bottling of minerals, work may be grouped around mixing of materials, testing for quality, washing and drying of bottles, filling and corking of bottles, arrangements in crates. Equipment specialisation will also facilitate work grouping along the special-purpose machine. For instance, in the production of plastic bags, employees may be structured

around the ingredients' mixing machine, injection moulding machine, cutting machine, sealing equipment, styling equipment, counting machine and packing machine.

Skills specialisation may warrant structuring of employees around the major functions of an organisation such as marketing, personnel, production, finance and any other staff function such as legal, auditing etc.

A functional structure seeks to distribute decision-making and operational authority along functional lines. It also encourages delegation along such lines.

An organisation structured along line-functions shows an authority relationship where a manager has responsibilities for the activities of his subordinates in primary or major departments of an enterprise where the objectives and mission are primarily realised.

An enterprise structured along staff-functions also shows a relationship where an incumbent task is to give advice or counsel to line managers e.g. legal advisers. Functional departments are usually centralised (see Figure 4.3, 4.4 and 4.5 below).

A functional structure is sometimes referred to as a unitary structure (U-form). Specialisation of skills, processes and machines may also be along manufacturing or service activities. This also suggests that the functional structure may be purely a service-oriented structure, a manufacturing or processing structure; it could also be both, that is, combined.

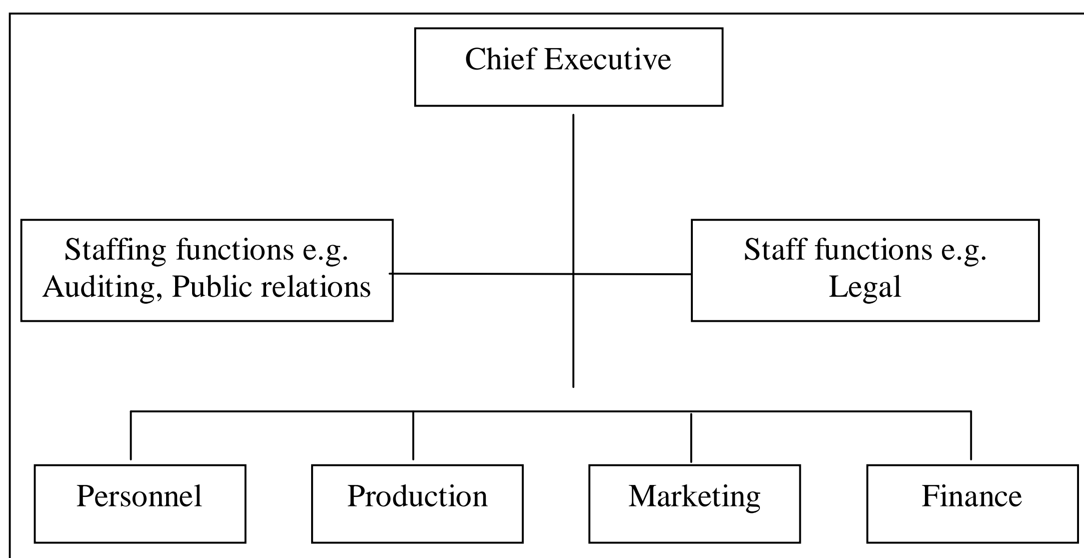

Fig 4.3: Occupational-Oriented Functional Structure

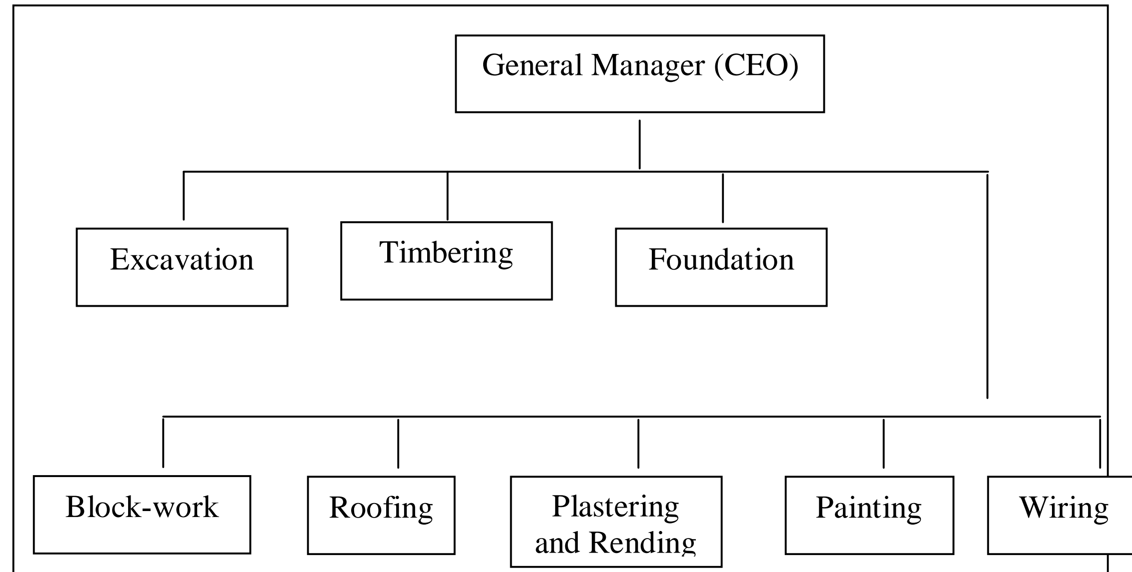

Fig. 4.4: Process-Oriented Functional Structure (Building)

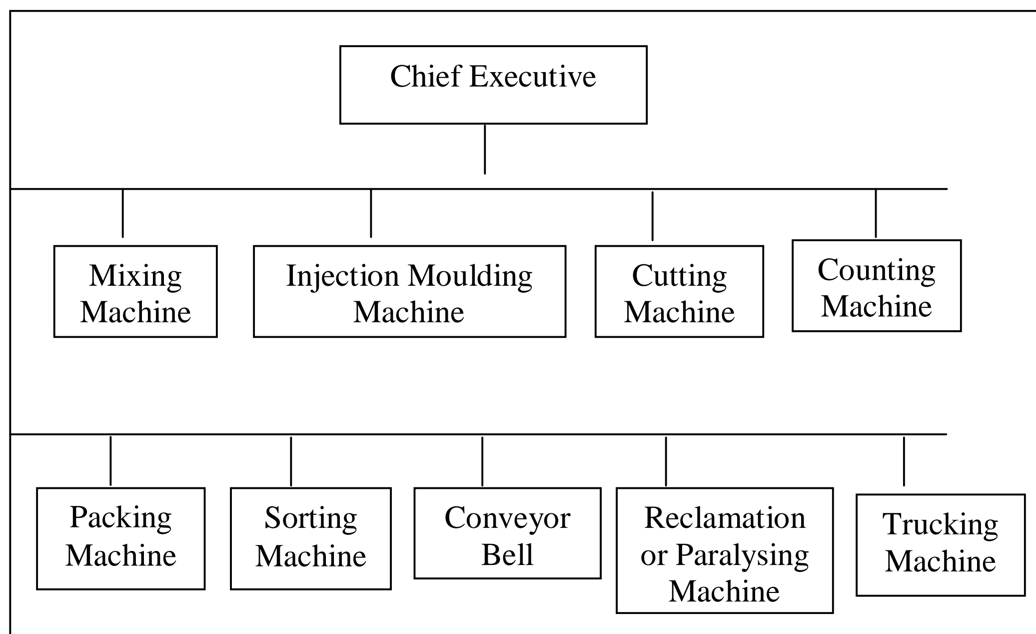

Fig. 4.5: Equipment-oriented Functional Structure (Production of Plastic Bag*)*

Strategic advantages of functional structure include the following.

a. Effective delegation of day-to-day operational functions
b. Enables top management to focus on strategic decisions
c. Efficient allocation of work through specialisation or organisational technology
d. Improved development of future managers' functional expertise, and distinctive competence

e. Permits centralised control of strategic decisions and results
f. Maintains power and prestige of major functions, processes and equipment
g. Furnishes a logical reflection of organisational functions for implementing strategy
h. Very well suited for structuring a single business
i. Conducive for exploiting learning/experience curve effects associated with functional specialisation;

Good for social, political and economic projects. For instance, in social ceremonies, people are grouped around the processes of food making, canopy arrangement, supply of music, videoing, servers, bottle collection, supply of light / electricity, etc.

Strategic disadvantages of functional structure include the following.

a. Functional walls create difficulty in coordination of different functions to achieve overall results
b. Specialists with very narrow skills are created, often at the expense of the overall benefit of the organisation. This is over-specialisation.
c. It often generates inter-functional conflicts, rivalry and empire-building, e.g. functional line versus staff conflicts
d. It limits internal development of general managers
e. It makes economic growth of company as a system difficult
f. It creates problems of communication and control within and across functions, inter-functional decision-making is difficult
g. It forces responsibility for profit to the top only
h. It may create uneconomical small units or underutilisation of specialised facilities, manpower and capacities
i. Functional experience often creates resistance to change (Paradigm paralysis)
j. Functional myopia and engrossment are always anti-entrepreneurship, anti-creativity, anti-innovation and anti-restructuring of activity-cost chain

May lead to group sabotage, functional make-belief, eye-service, dereliction of duty, functional promotion on the basis of seniority to a level of incompetence, functional pomposity, functional deception and shameless decadence.

Barring the disadvantages, the functional design is common and may exist in its original or modified form as the organisation graduates from the introduction, through growth to maturity stages of development. The functional structure only satisfies expansion and growth strategies to a very limited extent.

3. Divisional structure

A divisional structure caters for organisational complexity, growth needs, geographical expansions, unrelated market channels, market segmentation and environmental diversity. Therefore, it is most suitable for expansionary strategies such as growth and diversification. A divisional structure helps to meet the coordination and decision-making requirements that may result from increasing diversity and size.

In a regime of divisional structure, work may be grouped along product lines, geographic areas covered and types of customers served. Sometimes, separate divisions may be established and placed under the divisional level management. This is why a divisional structure is sometimes referred to as multi-divisional structure (M-form). It is possible to operate functional structure within various divisions. This structural form may be a way of graduating from a functional or unitary form to a higher level, that is product customer or regionally (territorially) based.

Divisions created on the basis of customer enables the organisation to provide exclusive attention to separate and distinct customer groups. For instance, activities may be grouped around wholesale, retail, vending via trucks and direct sale to customers. Also, users of electricity or water may be grouped around industrial, residential, governmental and miscellaneous users (e.g. church, mosques, clubs etc.).

Customer-based structuring offers the advantages of timely response to changing customer/user needs, use of specialised marketing skill and using the marketing concept to serve the customer better. However, customer-based structure is only good when the sales volume of customers warrants the creation of a separate division.

Also, product-based divisions are warranted when there is the need to pay exclusive attention to a product or group of products. Expansion or diversification strategies often require product-based divisions to facilitate the addition or deletion of product divisions. The associated advantages of product divisions include better coordination, better fixing of responsibility for profit-making and utilisation of resources, and better use of specialised skills and equipment. However, a product-based division can only be justified where the volume of sales of the product or product-line is large enough to create an optimum use of resources and skills. An example of this type of structure may be grouped around soap and detergents, creams and lotion, food components, and beverages.

Apart from customer or product-based divisions, divisions may also be created on geographic or territorial basis. Territorial divisions usually follow market or political boundaries. Key functions are centralised at the headquarters while territorial divisions are decentralised. This type of structure usually respond to expansion and diversification strategies. Such divisions offer the advantages of use of locally available resources (manpower, raw-materials, nearness to markets, benefits of decentralisation etc). Territorial divisions, however, require a high level of coordination, communication and control between the territorial groups and with the headquarters (See figure 4.6 and 4.7 below).

On the whole, a divisional structure offers the following **strategic advantages**.

a. Places responsibilities at the divisional levels especially strategy formulation and implementation
b. Engenders quick response to environmental changes affecting the businesses of different divisions
c. Enables top management to concentrate on strategic issues
d. Focuses accountability for effective performance by delegating profit/loss responsibility to the divisional level
e. Retains functional specialisation within each division
f. Provides a better training ground for strategic managers
g. Forces coordination and delegation of authority down to the divisional level for quick response
h. Takes advantages of economics of local operation especially in the use of resources
i. Allows each division to organise around its own set of activities and functional area requirements

Permits further growth and diversity of products and services.

However, the **strategic disadvantages** of divisional structure include the following.

a. Inconsistency arising from the sharing of authority between the centre (corporate headquarters) and the periphery (divisions)
b. Policy inconsistencies between the different divisions
c. It engenders a very dysfunctional competition for corporate-level resources among the divisions
d. Difficulties in how to distribute corporate overhead cost that is acceptable to different divisions with different profit positions and potentials
e. Can result in duplication of staff services at headquarters and district levels, thereby creating a relative cost disadvantages

f. Corporate management becomes heavily dependent on divisional managers
g. It is just possible for corporate management to loose touch with business situations at the divisional level, and thereby loose control
h. Requires more persons with central or general management competence

Tends to make maintenance of economical central services difficult.

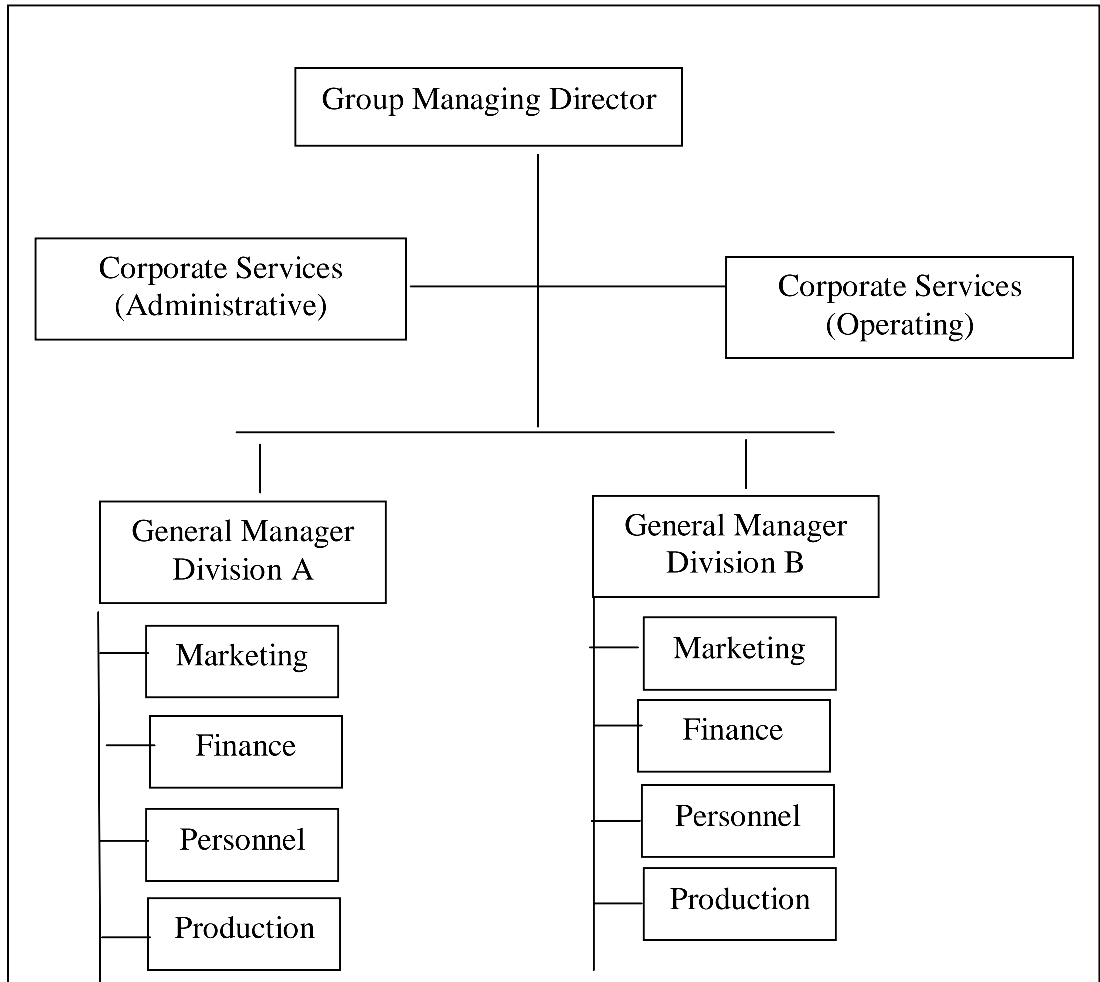

Fig. 4.6: Divisional Structure

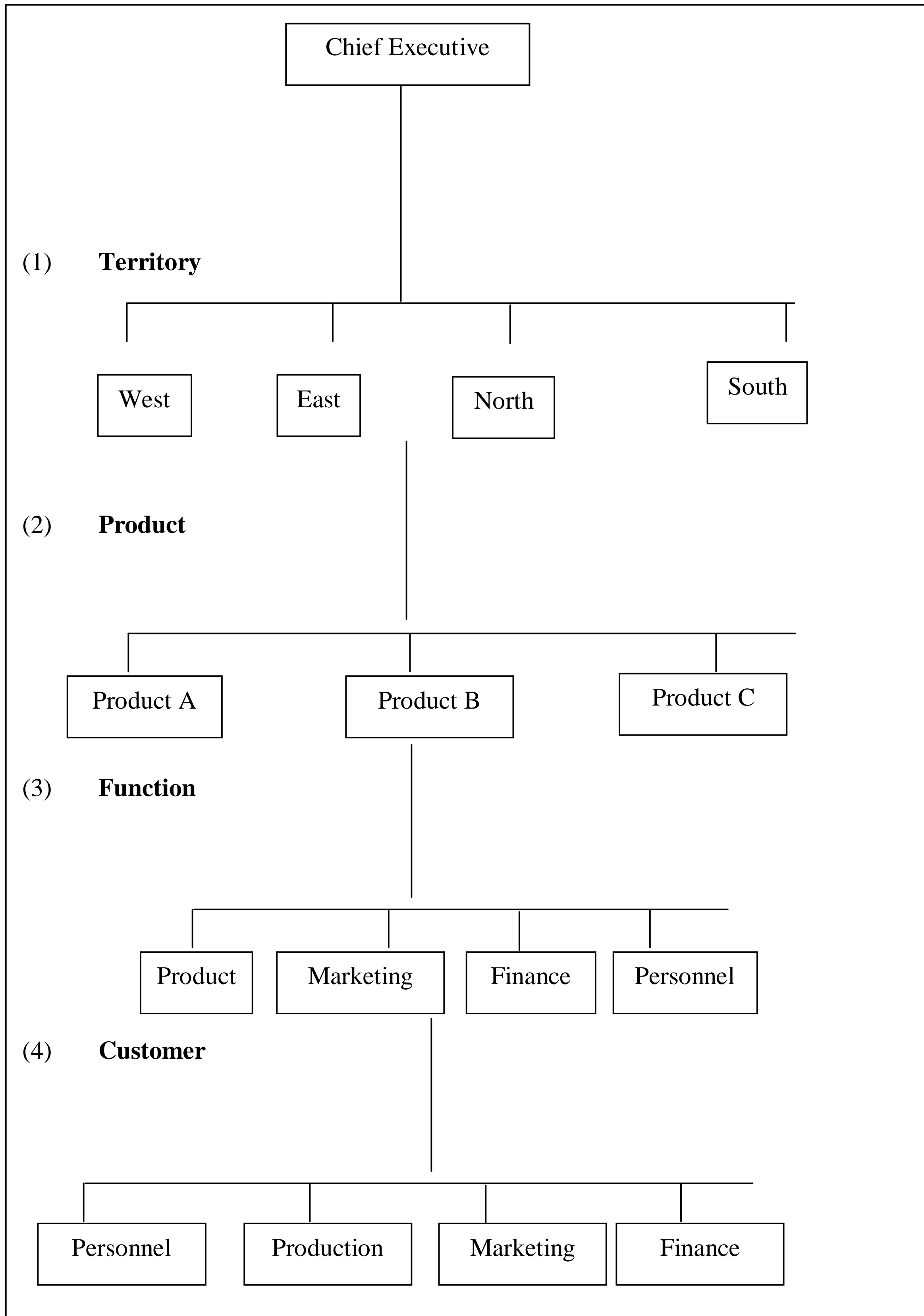

Fig.4.7: Multi-divisional Structure

Strategic Business Unit (SBU)

Strategic business unit (SBU) is defined as any part of business organisation which is treated separately for strategic management purposes (Sharplin, 1985).

General Electric Company was one of the first to use this type of structure. This structural unit helps to ensure that each product or product line of the hundreds offered by the company, is given the same attention which it would receive if it were developed, produced and marketed by an independent company.

SBU organisational structure is, therefore, a response to difficulty faced in managing increasing diversity, size and numerous divisions. An *SBU* serves specific product-market with readily identifiable competitors and for which strategic planning can be conducted.

This additional layer of management helps to improve and strategise implementation, promote synergy, and gains greater control over the diverse business interests. *SBUs* are, usually, created out of the grouping of various divisions in terms of common strategic elements and especially on the basis of independent product/market segments served by the firm. When divisions are too many with too large span of control for a single chief executive, then an *SBU* structure provides an *antidote* to reduce the span to a manageable level. The designation of group vice president has been invented for the head of *SBUs*.

The common strategic bases for grouping *SBUs* include, an overlapping set of competitors, a closely related strategic mission, a common need to compete globally, an ability to accomplish integrated strategic planning, common key success factors, and technologically-related growth opportunities. Every *SBU* has its mission and goals, and is expected to develop and implement strategic and operating plans for the product or product line. Figure 4.8 below, illustrates an *SBU* structure.

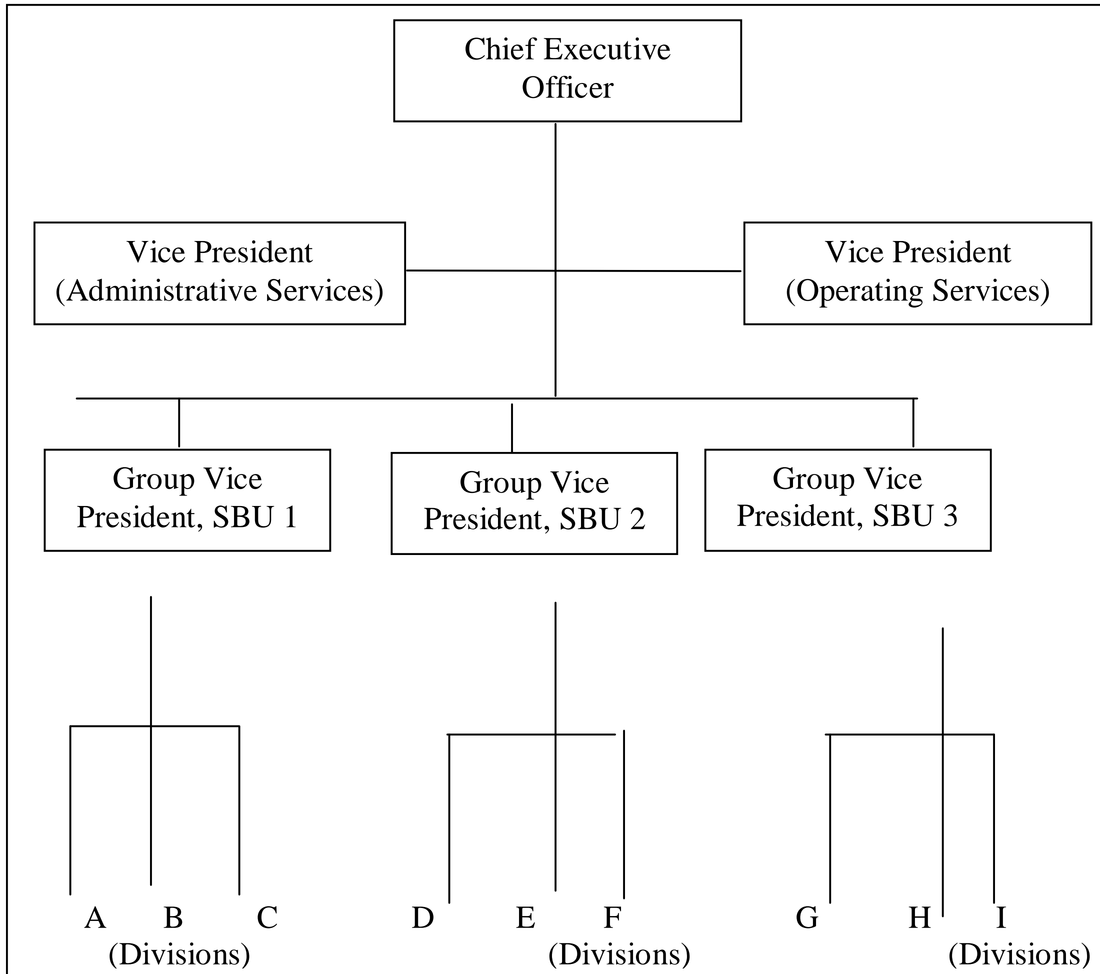

Fig. 4.8: SBU Organisational Structure

Strategic advantages of *SBU* structure are as follows.

a. Furnishes a strategically relevant techniques of organising large number of different business units
b. Permits strategic planning to take place at the most appropriate levels within the total enterprise (corporate and business levels)
c. Allows the task of strategic evaluation by top managers to be more objective and more effective
d. Improves coordination between divisions with similar strategic concerns and product/market environments
e. Permits efficient allocation of corporate resources to areas with greatest growth opportunities
f. Facilitates the coordination of related activities within an *SBU*, thereby helping to acquire the benefits of strategic fits in the *SBU*
g. Promotes strong cohesiveness among the various divisions of the *SBU*
h. Focuses accountability to distinct business units.

The **strategic disadvantages** of an *SBU* structure include the following.

a. Dysfunctional competition for corporate resources may increase
b. Adds another layer of management between the divisions and corporate management
c. The role of the group vice president can sometimes be difficult to define
d. Presents difficulty in defining the degree of autonomy for the group vice presidents and divisional managers
e. *SBUs* may grow to a large numbers that may compromise efficient and effective management
f. *SBUs* can still be myopic in charting their future direction
g. Unless the head of the *SBU* is strong-willed, very insignificant strategy coordination is likely to occur across business units in the SBU
h. Performance recognition is blurred. Credit for *SBU's* performance tends to go to the corporate *CEO*, then to divisional head, and lastly, to group vice president
i. When the basis of grouping an *SBU* is based on factors other than the nitty-gritty of strategy coordination, then the groupings lose real strategic significance.

4. Matrix structure

A matrix organisation is a structure with two (or more) channels of command, two lines of budget authority and two sources of performance and reward. The major feature of this structure is that products or projects and functional lines of authority overlay one another to form a matrix or grid, so that managerial authority over the activities in each cell of the matrix is shared between the products or project manager and functional manager (see Figure 4.9 and 4.10).

In this type of structure, subordinates have a continuing dual assignments- to the product/project and to their functional departments. This produces a compromise between functional specialisation and product/project talents and competence.

There is dual channel of authority and dual information and reporting system. This is highly differentiated by highly integrated design. This structural design is useful for firms that are both diversified and geographically spread. It is useful to balance the powers of product managers and geographical area managers. Sources of diversity which may warrant the use of matrix design include differences in products, customer groups, technology, lines of business, etc.

This diversity also produces the need for different types of managers including product managers, functional managers, territorial area managers, project managers, new venture managers and business level managers, all of whom have significant strategic responsibilities. When at least two of many variables (product, customer, technology, geography, functional area and market segment) have roughly equal strategic priorities, then a matrix organisation can be an effective structural form (Thompson and Strickland, 1987).

This form of structural choice combines the advantages of functional specialisation and product/project specialisation.

In theory, the matrix represents a conflict resolution system through which strategic and operating priorities are negotiated, power is shared, and resources are allocated internally on a strongest case for what is the best overall for the unit basis (Thompson et al. 1983).

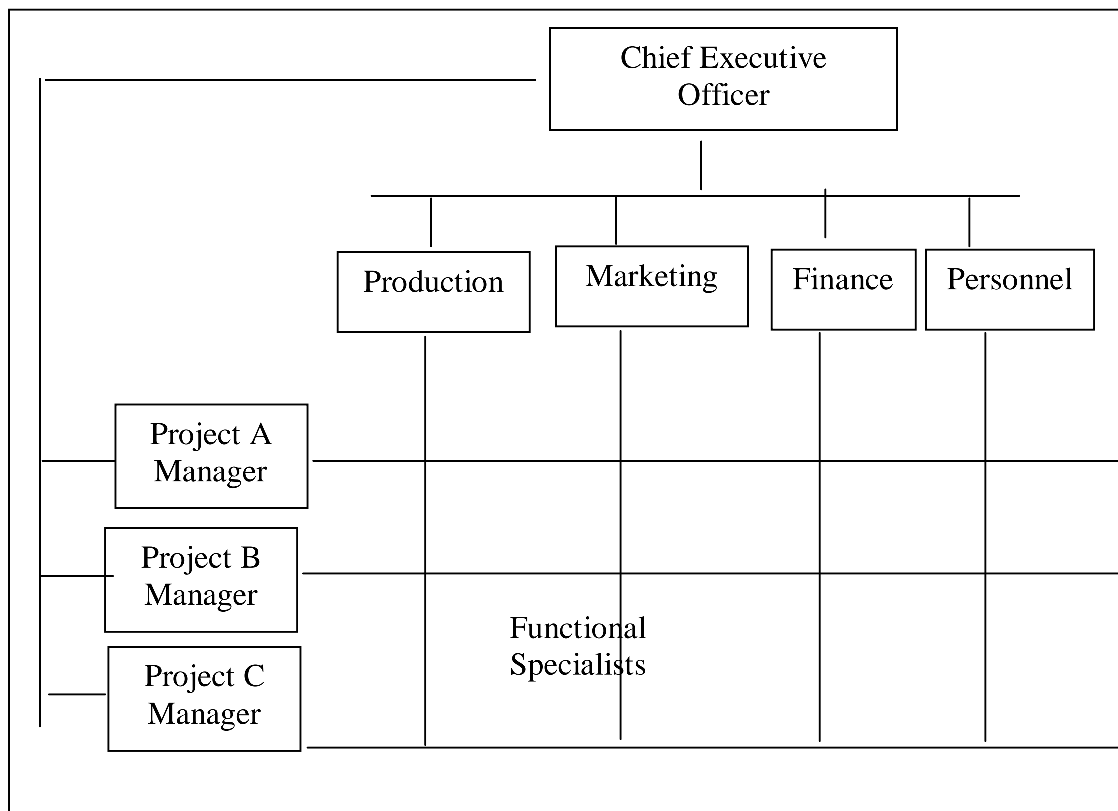

Fig. 4.9: Matrix Structure

Programs / Depts	Under Graduate	Masters	Ph. D	Research	Executive Development	Community Service
Accounting						
Business Admin.						
Finance						
Insurance						
Actuarial Science						
Personnel and Industrial Relations						
Marketing						

Fig. 4.10: Matrix Structure for a College of Business Administration

In the matrix structure for a college of business administration, the academic departments of accounting, business administration, finance etc., are functional units. The specific programmes such as undergraduates, masters etc., represent the products that are overlaid on the functions.

Members in this structure have a dual assignment to their functional department, and to their product groups. For instance, a professor within the structure reports to the director of a relevant programme (e.g. masters) as well as to the chairperson or Head of Department (HOD), where the programme is located in, for instance, accounting department.

The **strategic advantages** of a matrix structure include the following.

a. Fosters creativity because of pooling of diverse talents
b. Coordination of facilities especially when the organisation has multiplicity of complex and interdependence activities
c. Direct and frequent contact between different specialties in the matrix can make for better communication and more flexibility
d. Matrix reduces bureauphatologies - i.e., the dual line of authority reduces tendencies of functional managers to become so busy protecting their little worlds to the extent that the corporate goals become secondary.

4.0 CONCLUSION

In this unit, you have been made aware that both the formal and informal structure of organisation will create a network of processes that are related to one another in a super-structure system. Such processes include authority, delegation, coordination, system planning, control, and organisational change. An organisation that is more of these dimensions is highly structured while an organisation that is less of the above dimensions is less structured.

5.0 SUMMARY

In this unit, you have learnt about the concept of structure, the dimensions of structure and the structural alternatives for strategic choices, You have also been exposed to functional structure, and Strategic Business Unit (SBU).

6.0 TUTOR-MARKED ASSIGNMENT

1. Mention five advantages of functional Structures
2. Mention three disadvantages of functional Structures

7.0 REFERENCE/FURTHER READING

Chandan, J.S. (2004). *Management Theory & Practice.*

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Hofstede, G. (1980). “Motivation, Leadership and Organisation: Do American Theories Apply Abroad: Organisational Dynamics, Vol. 9, Summary, p. 43.

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