STRATEGIC MANAGEMENT - MGT603

Table of Contents:

Lesson	Topics	Page
1	Nature of Strategic Management	1
2	Key Terms of Strategic Management	6
3	Internal Factors and Long Term Goals	9
4	Benefits of Strategic Management	13
5	Comprehensive Strategic Model	16
6	Characteristics of a Mission Statement	23
7	External Assessment	28
8	Key External Factors	31
9	External Assessment (Key external factors)	35
10	Technological Forces	38
11	Industry Analysis	43
12	IFE Matrix	47
13	Functions of Management	54
14	Functions of Management	61
15	Internal Assessment (Finance/Accounting)	64
16	Analytical Tools	71
17	The Internal Factor Evaluation (IFE) Matrix	75
18	Types of Strategies	78
19	Types of Strategies	84
20	Types of Strategies	89
21	Types of Strategies	91
22	Types of Strategies	94
23	Strategy-Formulation Framework	97
24	Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix	98
25	The Strategic Position and Action Evaluation (SPACE) Matrix	100
26	The Strategic Position and Action Evaluation (SPACE) Matrix (Contd)	101
27	Boston Consulting Group (BCG) & IE Matrix	103
28	Boston Consulting Group (BCG) & IE Matrix (Contd)	105
29	Grand Strategy Matrix & QSPM	107
30	Grand Strategy Matrix & QSPM	110
31	The Nature of Strategy Implementation	112
32	Resource Allocation	116
33	Organizational Structure	118
34	Restructuring & Reengineering	121
35	Production/Operations Concerns When Implementing Strategies	126
36	Marketing Issues (Market Segmentation)	129
37	Marketing Issues (Marketing Mix) (Cont)	132
38	Finance/Accounting Issues	135
39	Research and Development Issues	140
40	Strategy Review, Evaluation and Control	142
41	Porter's Supply Chain Model	147
42	Strategy Evaluation	149
43	Reviewing Bases of Strategy	150
44	Measuring Organizational Performance	153
45	Characteristics of an Effective Evaluation System	154

NATURE OF STRATEGIC MANAGEMENT

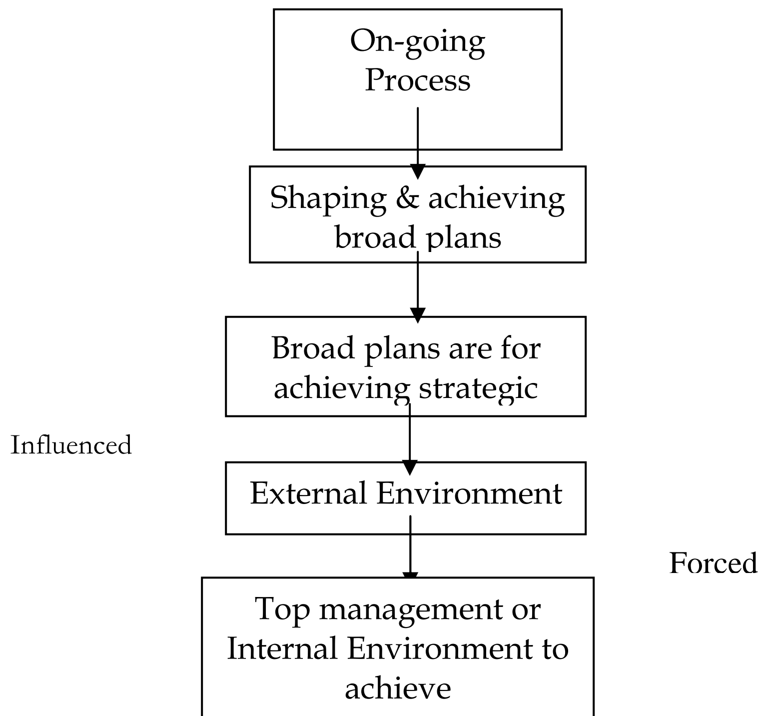
Objectives:
This Lecture provides an overview of strategic management. It introduces a practical, integrative model of the strategic-management process and defines basic activities and terms in strategic management and discusses the importance of business ethics. After reading this lecture you will be able to know that:
What Is Strategic Management?
Discuss the nature of strategy formulation, implementation, and evaluation activities.

What is strategic management?
Strategic Management can be defined as "the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objective."

Definition:
"The on-going process of formulating, implementing and controlling broad plans guide the organizational in achieving the strategic goods given its internal and external environment".

Interpretation:

1. On-going process:
Strategic management is a on-going process which is in existence through out the life of organization.
2. Shaping broad plans:
First, it is an on-going process in which broad plans are firstly formulated than implementing and finally controlled.
3. Strategic goals:
Strategic goals are those which are set by top management. The broad plans are made in achieving the goals.
4. Internal and external environment:
Internal and external environment generally set the goals. Simply external environment forced internal environment to set the goals and guide them that how to achieve the goals?
How the strategic management show:



Environment Scanning → Strategy Fermentation → Strategy Implication → Evaluation → Control

Importance of strategic Management

Why do we need to lay so much stress on strategic management?
Strategic management becomes important due to the following reasons:

- **Globalization: The survival for business**

First, global considerations impact virtually all strategic decisions! The boundaries of countries no longer can define the limits of our imaginations. To see and appreciate the world from the perspective of others has become a matter of survival for businesses. The underpinnings of strategic management hinge upon managers' gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide. The price and quality of a firm's products and services must be competitive on a worldwide basis, not just a local basis.
The distance between the business sectors are becoming less due to the provisions of certain facilities. Although political boundaries are there but in order to become successful in business it is essential to laid stress on globalization.

- **E-Commerce: A business tool**

A second theme is that *electric commerce (e-commerce) has become a vital strategic-management tool.* An increasing number of companies are gaining competitive advantage by using the Internet for direct selling and for communication with suppliers, customers, creditors, partners, shareholders, clients, and competitors who may be dispersed globally. E-commerce allows firms to sell products, advertise, purchase supplies, bypass intermediaries, track inventory, eliminate paperwork, and share information. In total, electronic commerce is minimizing the expense and cumbersomeness of time, distance and space in doing business, which yields better customer service, greater efficiency, improved products and higher profitability.
The Internet and personal computers are changing the way we organize our lives; inhabit our homes; and relate to and interact with family, friends, neighbors, and even ourselves. The Internet promotes endless comparison shopping which enables consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals so swiftly that in another decade there may be "regulations" imposed on groups of consumers. Politicians may one day debate the need for "regulation on consumers" rather than "regulation on big business" because of the Internet's empowerment of individuals. Buyers used to face big obstacles to getting the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendors' offerings. Or they can go to Web sites such as CompareNet.com that offers detailed information on more than 100,000 consumer products.
The Internet has changed the very nature and core of buying and selling in nearly all industries. It has fundamentally changed the economics of business in every single industry worldwide

- **Earth environment has become a major strategic issue**

A third theme is that *the natural environment has become an important strategic issue*. With the demise of communism and the end of the Cold War, perhaps there is now no greater threat to business and society than the continuous exploitation and decimation of our natural environment.
The resources are scarce but the wants are unlimited. In order to meet the wants of the world, the resources should be efficiently utilized. For example, the use of oil resources or energy resources will make the people to use these resources for a long time.

Strategic management – A route to success:

The study of strategic management integrates different topics. Different courses are integrated due to the study of this course so that businesses become successful in every sector. It integrates the following:

- Marketing
- Management
- Finance
- Research and development

The management and marketing are essential part of a business sectors. They should be integrated. Just like other sections of the business are integrated under this study. This term is mostly used by academia but this is also used in media.

© Copyright Virtual University of Pakistan

History of strategic management:

This course develops in 1950's. Due to the detailed planning of the business circumstances, the importance of this increased rapidly.

In 1960; s and 70 it was consider to be panacea for problems. But in 1980; s two important revolutions occur in business world.

1) Computers
2) Mobiles

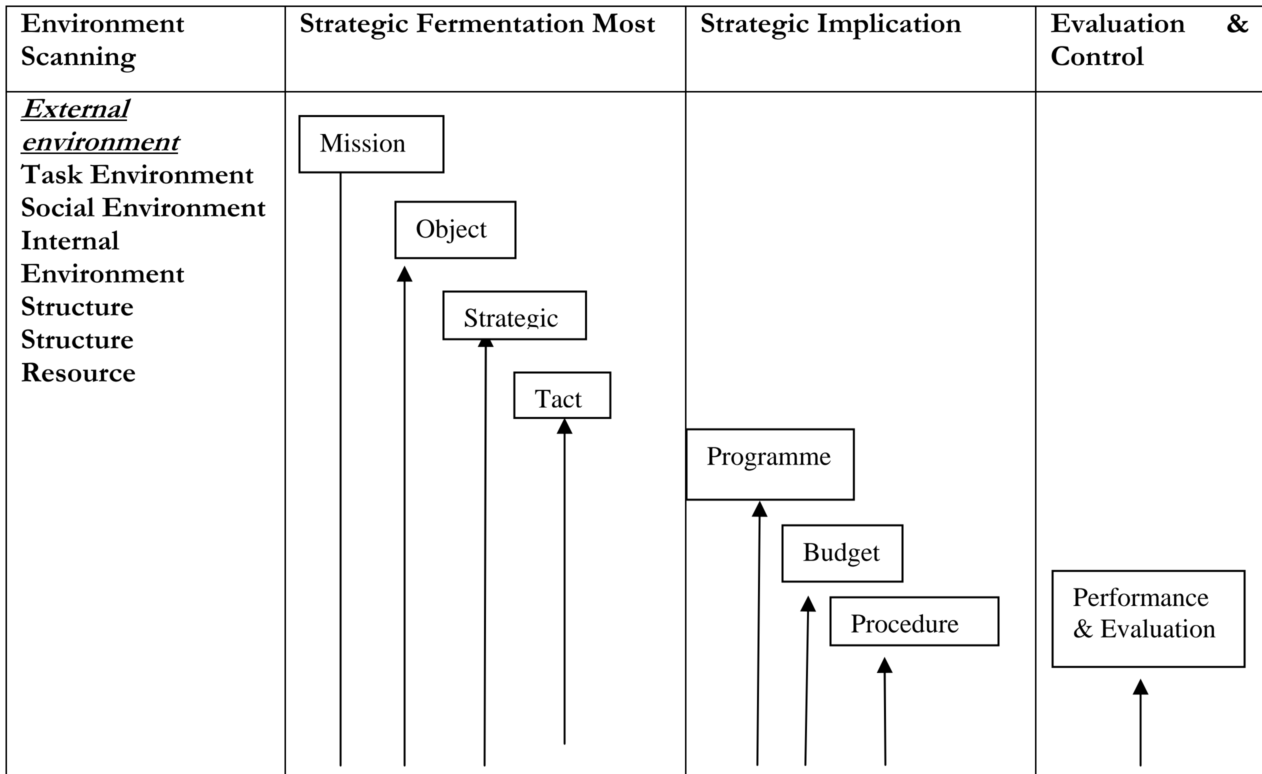
The invention of these things has decreased the importance of strategic management. But at the end of 1980, the business involves in computers and mobiles business realized that they still need to adopt the policies for strategic management.

1. In early time the management takes institution decisions. But now the management has to take decision by a specific process.
2. Organizational layers become more complex now a days and management divided into layers.
3. Environment change also evaluates the strategic management.
4.

Stages of Strategic management:

The strategic management process consists of three stages:

- Strategy Formulation (strategy planning)
- Strategy Implementations
- Strategy Evaluation



Environment Scanning	**Strategic Fermentation Most**	**Strategic Implication**	**Evaluation & Control**
External environment **Task Environment** **Social Environment** **Internal Environment** **Structure** **Structure** **Resource**	Mission Object Strategic Tact	Programme Budget Procedure	Performance & Evaluation

Strategic Formulation:

Strategic formulation means a strategy formulate to execute the business activities. Strategy formulation includes developing:-

- **Vision and Mission (**The target of the business)

- **Strength and weakness (**Strong points of business and also weaknesses**)**
- **Opportunities and threats (**These are related with external environment for the business)

Strategy formulation is also concerned with setting **long term goals and objectives**, generating alternative strategies to achieve that long term goals and choosing particular strategy to pursue.
The considerations for the best strategy formulation should be as follows:

- Allocation of resources
- Business to enter or retain
- Business to divest or liquidate
- Joint ventures or mergers
- Whether to expand or not
- Moving into foreign markets
- Trying to avoid take over

Strategy Implementation

Strategy implementation requires a firm to establish annual objectives, devise policies, motivating employees and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing strategy supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information system and linking employee compensation to organizational performance.
Strategy implementation is often called the action stage of strategic management. Implementing means mobilizing employees and managers in order to put formulated strategies into action. It is often considered to be most difficult stage of strategic management. It requires personal discipline, commitment and sacrifice. Strategy formulated but not implemented serve no useful purpose.

Strategy evaluation:

Strategy evaluation is the final stage in the strategic management process. Management desperately needs to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal forces are constantly changing.

Nature of Strategic Management

The strategic-management process does not end when the firm decides what strategy or strategies to pursue. There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the firm understand the business, feel a part of the company, and through involvement in strategy-formulation activities have become committed to helping the organization succeed. Without understanding and commitment, strategy-implementation efforts face major problems.
Implementing strategy affects an organization from top to bottom; it impacts all the functional and divisional areas of a business. It is beyond the purpose and scope of this text to examine all the business administration concepts and tools important in strategy implementation.
Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts! Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Prime task:

Peter Drucker says:

"The prime task is to think through the overall mission of a business".

Intuition and analysis

© Copyright Virtual University of Pakistan

Strategic management tries to bring together qualitative and qualitative information.

Intuition rests on:

- Past experiences
- Judgment
- Feelings

Intuitions help in decision making where:

- Uncertainty prevails
- Little or no precedence exists
- Highly interrelated variables exist
- A choice from various possible alternatives is needed
- Intuition and analytical judgment requires inputs from all managerial levels
- Analytical thinking and intuitive thinking complement one another

"Imagination is more important than knowledge, because knowledge is limited, whereas imagination embraces the entire world."

. . . . Albert Einstein.

KEY TERMS IN STRATEGIC MANAGEMENT

Objectives

This Lecture provides an overview of strategic management. It introduces a practical, integrative model of the strategic-management process and defines basic activities and terms in strategic management and discusses the importance of business ethics. After reading this lecture you will be able to know that:

Key Terms in Strategic Management

What is meant by adopting to change?

Adapting to change

Organizational survival depends on:

- Continuous monitoring of internal and external factors
- Well-timed changes
- Effective adaptation calls for a long-run focus
- Incremental rise in degree of change
    1. Technology
    2. E-commerce
    3. Merger-mania
    4. Demographics

The strategic management process is based on the belief that organization should continuously monitor internal and external events and trends so that timely change can be made as needed. The rate and magnitude of changes that affect the organization are increasing dramatically. Consider for example, E-commerce, laser surgery, the war on terrorism, economic recession and the aging population etc.

To survive all organizations must be capable of astutely identifying and adapting to change. The need to adapt to change leads organizations to key strategic management questions, such as "What kind of business should we become?" "Are we in right field?" "Should we reshape our business?" "Are new technologies being developed that could put us out of business?"

Key Terms in Strategic Management

Before we further discuss strategic management, we should define eight key terms: strategists, mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

- **Strategists**

Strategists are individuals who are most responsible for the success or failure of an organization. *Strategists* are individuals who form strategies. Strategists have various job titles, such as chief executive officer, president, and owner, chair of the board, executive director, chancellor, dean, or entrepreneur.

Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist).

Strategists differ as much as organizations themselves and these differences must be considered in the formulation, implementation, and evaluation of strategies. Some strategists will not consider some types of strategies because of their personal philosophies. Strategists differ in their attitudes, values, ethics, willingness to take risks, concern for social responsibility, concern for profitability, concern for short-run versus long-run aims and management style.

- **Vision Statements**

Many organizations today develop a "vision statement" which answers the question, what do we want to become? Developing a vision statement is often considered the first step in strategic planning, preceding

even development of a mission statement. Many vision statements are a single sentence. For example the vision statement of Stokes Eye Clinic in Florence, South Carolina, is "Our vision is to take care of your vision." The vision of the Institute of Management Accountants is "Global leadership in education, certification, and practice of management accounting and financial management."

- **Mission Statements**

Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms. It addresses the basic question that faces all strategists: What is our business? A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization. An example mission statement is provided below for Microsoft.
Microsoft's mission is to create software for the personal computer that empowers and enriches people in the workplace, at school and at home. Microsoft's early vision of a computer on every desk and in every home is coupled today with a strong commitment to Internet-related technologies that expand the power and reach of the PC and its users. As the world's leading software provider, Microsoft strives to produce innovative products that meet our customers' evolving needs.

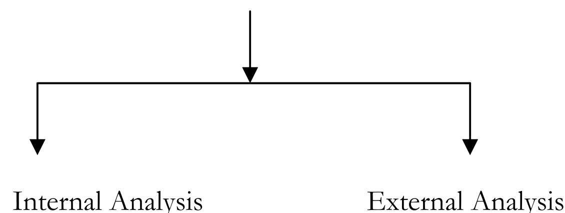
- **External Opportunities and Threats**

External opportunities and *external threats* refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future. Opportunities and threats are largely beyond the control of a single organization, thus the term *external.* The computer revolution, biotechnology, population shifts, changing work values and attitudes, space exploration, recyclable packages, and increased competition from foreign companies are examples of opportunities or threats for companies. These types of changes are creating a different type of consumer and consequently a need for different types of products, services, and strategies.
Other opportunities and threats may include the passage of a law, the introduction of a new product by a competitor, a national catastrophe, or the declining value of the dollar. A competitor's strength could be a threat. Unrest in the Balkans, rising interest rates, or the war against drugs could represent an opportunity or a threat.
A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and to avoid or reduce the impact of external threats. For this reason, identifying, monitoring, and evaluating external opportunities and threats are essential for success.

- **Environmental Scanning:**

The process of conducting research and gathering and assimilating external information is sometimes called environmental scanning or industry analysis. Lobbying is one activity that some organizations utilize to influence external opportunities and threats.
Environment scanning has the management scan eternal environment for opportunities and threats and internal environment for strengths and weaknesses. The factor which are most important for corporation factor are referred as a strategic factor and summarized as SWOT standing for strength, weaknesses, opportunities and threats.

Environmental Scanning



Internal Analysis External Analysis

The external environment consist of opportunities and threats variables that outside the organization. External environment has two parts:

© Copyright Virtual University of Pakistan

- Task Environment
- Social Environment

Task Environment:

Task environment includes all those factors which affect the organization and itself affected by the organization. These factor effects the specific related organizations. These factors are shareholders community, labor unions, creditor, customers, competitors, trade associations.

Social Environment:

Social environment is an environment which includes those forces effect does not the short run activities of the organization but it influenced the long run activities or decisions. PEST analysis are taken for social environment PEST analysis stands for political and legal economic socio cultural logical and technological.

- **Internal Strengths and Weaknesses/Internal assessments**

Internal strengths and *internal weaknesses* are an organization's controllable activities that are performed especially well or poorly. They arise in the management, marketing, finance/accounting, production/operations, research and development, and computer information systems activities of a business. Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic-management activity. Organizations strive to pursue strategies that capitalize on internal strengths and improve on internal weaknesses.

Strengths and weaknesses are determined relative to competitors. *Relative* deficiency or superiority is important information. Also, strengths and weaknesses can be determined by elements of being rather than performance. For example, strength may involve ownership of natural resources or an historic reputation for quality. Strengths and weaknesses may be determined relative to a firm's own objectives. For example, high levels of inventory turnover may not be strength to a firm that seeks never to stock-out.

Internal factors can be determined in a number of ways that include computing ratios, measuring performance, and comparing to past periods and industry averages. Various types of surveys also can be developed and administered to examine internal factors such as employee morale, production efficiency, advertising effectiveness, and customer loyalty.

© Copyright Virtual University of Pakistan

INTERNAL FACTORS & LONG TERM GOALS

Objectives:

After reading this lecture you will be able to know that:

- What are Internal Factors?
    1. Financial ratios
    2. Performance levels
    3. Industry averages
    4. Survey results
- What is the importance of strategies in achieving Long term objectives?
- What are the Financial and Non financial benefits of Strategic Management?

Long-Term Objectives

Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission.

Long-term objectives represent the results expected from pursuing certain strategies. Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years.

Objectives are essential for organizational success because they state direction; aid in evaluation; create synergy; reveal priorities; focus coordination; and provide a basis for effective planning, organizing, motivating and controlling activities. Objectives should be challenging, measurable, consistent, reasonable, and clear. In a multidimensional firm, objectives should be established for the overall company and for each division.

The Nature of Long-Term Objectives

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Each objective should also be associated with a time line. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility. Clearly established objectives offer many benefits. They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs.

Long-term objectives are needed at the corporate, divisional, and functional levels in an organization. They are an important measure of managerial performance.

Clearly stated and communicated objectives are vital to success for many reasons. First, objectives help stakeholders understand their role in an organization's future. They also provide a basis for consistent decision making by managers whose values and attitudes differ. By reaching a consensus on objectives during strategy-formulation activities, an organization can minimize potential conflicts later during implementation. Objectives set forth organizational priorities and stimulate exertion and accomplishment. They serve as standards by which individuals, groups, departments, divisions, and entire organizations can be evaluated. Objectives provide the basis for designing jobs and organizing activities to be performed in an organization. They also provide direction and allow for organizational synergy.

Without long-term objectives, an organization would drift aimlessly toward some unknown end! It is hard to imagine an organization or individual being successful without clear objectives. Success only rarely occurs by accident; rather, it is the result of hard work directed toward achieving certain objectives.

Strategies

Strategies are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint venture.

Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both external and internal factors facing the firm.

© Copyright Virtual University of Pakistan

Annual Objectives

Annual objectives are short-term milestones that organizations must achieve to reach long-term objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. They should be established at the corporate, divisional, and functional levels in a large organization.

Annual objectives should be stated in terms of management, marketing, finance/accounting, production/operations, research and development, and information systems accomplishments. A set of annual objectives is needed for each long-term objective.

Annual objectives are especially important in strategy implementation, whereas long-term objectives are particularly important in strategy formulation. Annual objectives represent the basis for allocating resources.

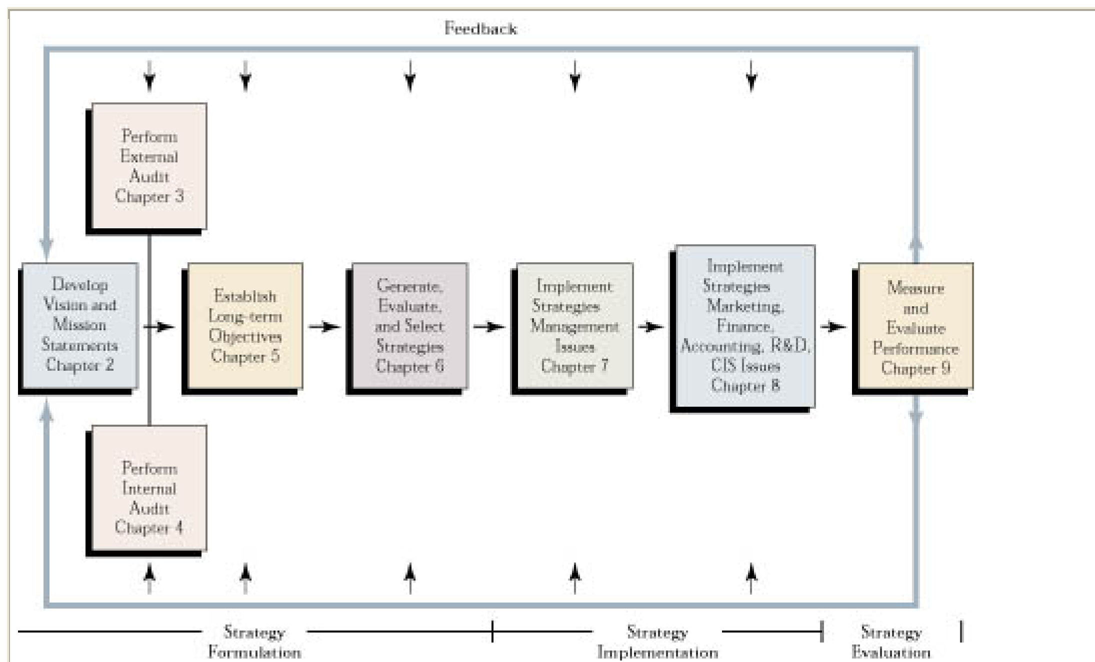
Policies

Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations.

Policies are most often stated in terms of management, marketing, finance/ accounting, production/operations, research and development, and computer information systems activities. Policies can be established at the corporate level and apply to an entire organization, at the divisional level and apply to a single division or at the functional level and apply to particular operational activities or departments. Policies, like annual objectives, are especially important in strategy implementation because they outline an organization's expectations of its employees and managers. Policies allow consistency and coordination within and between organizational departments.

The Strategic-Management Model

The strategic-management process best can be studied and applied using a model. Every model represents some kind of process. The framework illustrated in Figure 1-1 is a widely accepted, comprehensive model of the strategic-management process. This model does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic-management process are shown in the model.



A Comprehensive Strategic-Management Model

Source: Fred R. David, "How Companies Define Their Mission," Long Range Planning 22, no. 3 (June 1988): 40.

Identifying an organization's existing vision, mission, objectives, and strategies is the logical starting point for strategic management because a firm's present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organization has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been.

The strategic-management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission. Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semiannually. The strategic-management process never really ends.

Application of the strategic-management process is typically more formal in larger and well-established organizations. Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Smaller businesses tend to be less formal. Firms that compete in complex, rapidly changing environments such as technology companies tend to be more formal in strategic planning. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic-management concepts. Greater formality in applying the strategic-management process is usually positively associated with the cost, comprehensiveness, accuracy, and success of planning across all types and sizes of organizations.

Benefits of Strategic management

Following are the major benefits of Strategic management:

- Proactive in shaping firm's future
- Initiate and influence actions
- Formulate better strategies (Systematic, logical, rational approach)

Financial benefits:

- Improved productivity
- Improved sales
- Improved profitability

Non-Financial benefits:

- Increased employee productivity
- Improved understanding of competitors' strategies
- Greater awareness of external threats
- Understanding of performance reward relationships
- Better problem-avoidance
- Lesser resistance to change

Financial Benefits

Research indicates that organizations using strategic-management concepts are more profitable and successful than those that do not. Businesses using strategic-management concepts show significant improvement in sales, profitability, and productivity compared to firms without systematic planning activities. High-performing firms tend to do systematic planning to prepare for future fluctuations in their external and internal environments. Firms with planning systems more closely resembling strategic-management theory generally exhibit superior long-term financial performance relative to their industry.

High-performing firms seem to make more informed decisions with good anticipation of both short- and long-term consequences. On the other hand, firms that perform poorly often engage in activities that are shortsighted and do not reflect good forecasting of future conditions. Strategists of low-performing organizations are often preoccupied with solving internal problems and meeting paperwork deadlines. They

© Copyright Virtual University of Pakistan

typically underestimate their competitors' strengths and overestimate their own firm's strengths. They often attribute weak performance to uncontrollable factors such as poor economy, technological change, or foreign competition.

© Copyright Virtual University of Pakistan

BENEFITS OF STRATEGIC MANAGEMENT

Objectives:

After reading this lecture you will be able to know that:

- What are Non financial benefits of Strategic Management?
- Why firms do no strategic planning?
- Pitfalls to avoid in strategic planning
- Business Ethics
- Global challenges

Non- financial Benefits

- Increased employee productivity
- Improved understanding of competitors' strategies
- Greater awareness of external threats
- Understanding of performance reward relationships
- Better problem-avoidance
- Lesser resistance to change

Besides helping firms avoid financial demise, strategic management offers other tangible benefits, such as an enhanced awareness of external threats, an improved understanding of competitors' strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships. Strategic management enhances the problem-prevention capabilities of organizations because it promotes interaction among manager's at all divisional and functional levels. Interaction can enable firms to turn on their managers and employees by nurturing them, sharing organizational objectives with them, empowering them to help improve the product or service, and recognizing their contributions.

In addition to empowering managers and employees, strategic management often brings order and discipline to an otherwise floundering firm. It can be the beginning of an efficient and effective managerial system. Strategic management may renew confidence in the current business strategy or point to the need for corrective actions. The strategic-management process provides a basis for identifying and rationalizing the need for change to all managers and employees of a firm; it helps them view change as an opportunity rather than a threat.

Greenly stated that strategic management offers the following benefits:

1. It allows for identification, prioritization, and exploitation of opportunities.
2. It provides an objective view of management problems.
3. It represents a framework for improved coordination and control of activities.
4. It minimizes the effects of adverse conditions and changes.
5. It allows major decisions to better support established objectives.
6. It allows more effective allocation of time and resources to identified opportunities.
7. It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
8. It creates a framework for internal communication among personnel.
9. It helps integrate the behavior of individuals into a total effort.
10. It provides a basis for clarifying individual responsibilities.
11. It encourages forward thinking.
12. It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
13. It encourages a favorable attitude toward change.
14. It gives a degree of discipline and formality to the management of a business.

Why Some Firms Do No Strategic Planning?

Some firms do not engage in strategic planning and some firms do strategic planning but receive no support from managers and employees. Some reasons for poor or no strategic planning are as follows:

1. ***Poor Reward Structures***—when an organization assumes success, it often fails to reward success. Where failure occurs, then the firm may punish. In this situation, it is better for an individual to do nothing (and not draw attention) than risk trying to achieve something, fail, and be punished.

2. ***Fire-fighting***—an organization can be so deeply embroiled in crisis management and fire-fighting that it does not have time to plan.
3. ***Waste of Time***—some firms see planning as a waste of time since no marketable product is produced. Time spent on planning is an investment.
4. ***Too Expensive***—some organizations are culturally opposed to spending resources.
5. ***Laziness***—People may not want to put forth the effort needed to formulate a plan.
6. ***Content with Success***—particularly if a firm is successful, individuals may feel there is no need to plan because things are fine as they stand. But success today does not guarantee success tomorrow.
7. ***Fear of Failure***—by not taking action, there is little risk of failure unless a problem is urgent and pressing. Whenever something worthwhile is attempted, there is some risk of failure.
8. ***Overconfidence***—as individuals amass experience, they may rely less on formalized planning. Rarely, however, is this appropriate. Being overconfident or overestimating experience can bring demise. Forethought is rarely wasted and is often the mark of professionalism.
9. ***Prior Bad Experience***—People may have had a previous bad experience with planning, where plans have been long, cumbersome, impractical, or inflexible. Planning, like anything, can be done badly.
10. ***Self-Interest***—when someone has achieved status, privilege, or self-esteem through effectively using an old system, they often see a new plan as a threat.
11. ***Fear of the Unknown***—People may be uncertain of their abilities to learn new skills, their aptitude with new systems, or their ability to take on new roles.
12. ***Honest Difference of Opinion***—People may sincerely believe the plan is wrong. They may view the situation from a different viewpoint, or may have aspirations for themselves or the organization that are different from the plan. Different people in different jobs have different perceptions of a situation.
13. ***Suspicion***—Employees may not trust management.

Pitfalls to avoid in Strategic Planning

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

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

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

Business Ethics and Strategic Management

Definition:

Business ethics can be defined as principles of conduct within organizations that guide decision making and behavior.

Good business ethics is a prerequisite for good strategic management; good ethics is just good business.

Implementation:

A rising tide of consciousness about the importance of business ethics is sweeping America and the world. Strategists are the individuals primarily responsible for ensuring that high ethical principles are espoused and

practiced in an organization. All strategy formulation, implementation, and evaluation decisions have ethical ramifications.

A new wave of ethics issues related to product safety, employee health, sexual harassment, AIDS in the workplace, smoking, acid rain, affirmative action, waste disposal, foreign business practices, cover-ups, takeover tactics, conflicts of interest, employee privacy, inappropriate gifts, security of company records, and layoffs has accented the need for strategists to develop a clear code of business ethics. **A *code of business ethics*** can provide a basis on which policies can be devised to guide daily behavior and decisions at the work site.

The explosion of the Internet into the workplace has raised many new ethical questions in organizations today. For example, United Parcel Service (UPS) recently caught an employee actually running a personal business from his computer.

Merely having a code of ethics, however, is not sufficient to ensure ethical business behavior. A code of ethics can be viewed as a public relations gimmick, a set of platitudes, or window dressing. To ensure that the code is read, understood, believed, and remembered, organizations need to conduct periodic ethics workshops to sensitize people to workplace circumstances in which ethics issues may arise. If employees see examples of punishment for violating the code and rewards for upholding the code, this helps reinforce the importance of a firm's code of ethics.

Internet privacy is an emerging ethical issue of immense proportions.

- 38% of companies store and review employees' email messages
- Up from 15% in recent years
- 54% companies monitor employees' internet connections
- Situation in Pakistan is not much different

Advertisers, marketers, companies, and people with various reasons to snoop on other people now can discover easily on the Internet others' buying preferences, hobbies, incomes, medical data, social security numbers, addresses, previous addresses, sexual preferences, credit card purchases, traffic tickets, divorce settlements, and much more.

Some business actions *always* considered to be unethical include misleading advertising or labeling, causing environmental harm, poor product or service safety, padding expense accounts, insider trading, dumping banned or flawed products. In foreign markets, lack of equal opportunities for women and minorities, overpricing, hostile takeovers, moving jobs overseas, and using nonunion labor in a union shop.

Nature of global competition:

Foreign competitors are battering U.S. firms in many industries. In its simplest sense, the international challenge faced by U.S. business is twofold:

(1) How to gain and maintain exports to other nations and

(2) How to defend domestic markets against imported goods.

Few companies can afford to ignore the presence of international competition. Firms that seem insulated and comfortable today may be vulnerable tomorrow; for example, foreign banks do not yet compete or operate in most of the United States.

More and more countries around the world are welcoming foreign investment and capital. As a result, labor markets have steadily become more international. East Asian countries have become market leaders in labor-intensive industries, Brazil offers abundant natural resources and rapidly developing markets, and Germany offers skilled labor and technology. The drive to improve the efficiency of global business operations is leading to greater functional specialization. This is not limited to a search for the familiar low-cost labor in Latin America or Asia. Other considerations include the cost of energy, availability of resources, inflation rates, existing tax rates, and the nature of trade regulations. Yang Shangkun insists that China's door is still open to foreign capital and technology, despite the continued strength of the Communist Party.

The ability to identify and evaluate strategic opportunities and threats in an international environment is a prerequisite competency for strategists. The nuances of competing in international markets are seemingly infinite. Language, culture, politics, attitudes, and economies differ significantly across countries. The availability, depth, and reliability of economic and marketing information in different countries vary extensively, as do industrial structures, business practices, and the number and nature of regional organizations.

© Copyright Virtual University of Pakistan

COMPREHENSIVE STRATEGIC MODEL

Objective:

The extent of manager and employee involvement in developing vision and mission statements can make a difference in business success. This lecture provides guidelines for developing these important documents.

Mission statement:

- An enduring statement of purpose
- Distinguishes one firm from another in the same business
- A declaration of a firm's reason for existence

Mission is the purpose of or a reason for organization existence. Mission is a well convincible statement included fundamental and unique purpose which makes it different from other organization. It identifies scope of it operation in terms of product offered and market served. Mission also means what we are and what we do. A survey in a North America and in Europeans corporation reveal that 60% to 75% have written or formal and remaining has no written or formal mission.

Illustration:

Nest vision computer college mission statement reveals:-

"We are dealing in all activities which includes in IT, definition".

Qarshi Laborites Mission Statement,

"Production of herbal product is our mission".

Mission Statements are also known as:

- Creed statement
- Statement of purpose
- Statement of philosophy
- Statement of business principles

Mission Statements reveal what an organization wants to be and whom it wants to serve and how? Mission Statements are essential for effectively establishing objectives and formulating strategies.

Mission is divided into two categories:

- Narrow Mission
- Broad Mission

Narrow Mission:

Narrow mission also identifies our mission but it restrict in terms of:

1. Product and services offered
2. Technology used
3. Market served
4. Opportunity of growth

Broad Mission:

Broad mission wider our mission values in terms of product and services, offered, market served, technology used and opportunity of growth. But main flaw of this mission is that it creates confusion among employees due to its wider sense.

Illustration:

For example two different firms A & B. A deals in Rail Roads and B deals in Transportation i.e. we can say A co. has narrow mission and B co. has a wider mission.

© Copyright Virtual University of Pakistan

Most companies are now getting used to the idea of using mission statements.
Small, medium and large firms in Pakistan are also realizing the need and adopting mission statements.

Some example of Mission statement:

1. **"The Bellevue Hospital**, with *respect*, *compassion*, *integrity,* and *courage*, honors the individuality and confidentiality of our patients, employees, and community, and is progressive in anticipating and providing future health care services."

2. The Mission of **USGS** is to serve the Nation by providing reliable scientific information to

    - Describe and understand the Earth;
    - Minimize loss of life and property from natural disasters;
    - Manage water, biological, energy, and mineral resources; and enhance and protect our quality of life

3. "It is the **California Energy Commission's** mission to assess, advocate, and act through improve energy systems that promote a strong economy and a healthy environment."

Characteristics of good Mission Statements:

Mission statements can and do vary in length, contend, format, and specificity. Most practitioners and academicians of strategic management consider an effective statement to exhibit nine characteristics or components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all of these essential components.
Effective mission statements should be:

- Broad in scope
- Generate range of feasible strategic alternatives
- Not excessively specific
- Reconcile interests among diverse stakeholders
- Finely balanced between specificity & generality
- Arouse positive feelings and emotions
- Motivate readers to action
- Generate the impression that firm is successful, has direction, and is worthy of time, support, and investment
- Reflect judgments re: future growth
- Provide criteria for selecting strategies
- Basis for generating & screening strategic options
- Are dynamic in orientation

Components and corresponding questions that a mission statement should answer are given here.

- ***Customer:*** Who are the firm's customers?
- ***Products or services****:* What are the firm's major products or services?
- ***Markets:*** Geographically, where does the firm compete?
- ***Technology****:* Is the firm technologically current?
- ***Concern for survival, growth, and profitability****:* Is the firm committed to growth and financial soundness?
- ***Philosophy:*** What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
- ***Self-concept****:* What is the firm's distinctive competence or major competitive advantage?
- ***Concern for public image****:* Is the firm responsive to social, community, and environmental concerns?
- ***Concern for employees***: Are employees a valuable asset of the firm?

Vision Statement:

"Vision is the art of seeing things invisible"

.. . . . Jonathan Swift

"The very essence of leadership is that you have vision. You can't blow an uncertain trumpet"

Theodore Hesburgh

A vision statement is sometimes called a picture of your company in the future but it's so much more than that. Your vision statement is your inspiration, the framework for all your strategic planning. It is critically essential that management and executive agree on the basic vision, which the organization endeavors to accomplish over a period of time

A lucid and clear vision lays down a foundation on which a sound mission statement can be built.

A vision statement may apply to an entire company or to a single division of that company. Whether for all or part of an organization, the vision statement answers the question, "Where do we want to go?" Vision statement also answers the question "What do we want to become?" What you are doing when creating a vision statement is articulating your dreams and hopes for your business. It reminds you of what you are trying to build.

While a vision statement doesn't tell you how you're going to get there, it does set the direction for your business planning. That's why it's important when crafting a vision statement to let your imagination go and dare to dream – and why it's important that a vision statement captures your passion.

Unlike the mission statement, a vision statement is for you and the other members of your company, not for your customers or clients.

When writing a vision statement, your mission statement and your core competencies can be a valuable starting point for articulating your values. Be sure when you're creating one not to fall into the trap of only thinking ahead a year or two. Once you have one, your vision statement will have a huge influence on decision making and the way you allocate resources.

- A vision usually precedes the mission statement
- It is usually short, concise and preferably limited to one sentence
- Organization-wide management involvement is advisable

Some examples of Vision statements:

1. "The Bellevue Hospital is the LEADER in providing resources necessary to realize the community's highest level of health throughout life".

   . . . . The Bellevue Hospital
2. "To be the first choice in the printed communications business, the first choice is the best choice, and being the best is what Atlanta Web pledges to work hard at being- every day!"

   . . . . Atlanta Web Printers, Inc.
3. "It is the vision of the California Energy Commission for Californians to have energy choices that are affordable, reliable, diverse, safe, and environmentally acceptable".

   . . . . California Energy Commission
4. Our vision is helping individuals and organizations discover and develop their God given potentials to achieve the ultimate Success".

. . . . University of Management & Technology, Lahore

MISSION V/S VISION

- Many organizations develop both vision and mission statements
- Profit and vision are necessary to effectively motivate a workforce
- Shared vision creates a commonality of interest

Some organization developed both mission statement and vision statement. Mission statement explains the current and present position and activities of a firm whereas mission statement explains the future objective and goals of the company. Mission statement answers the questions what is our business? The vision statement answer the question what do we want to become?

AMOCO Corporation

Mission Statement:	Amoco is a worldwide integrated petroleum and chemical company. We find and develop petroleum resources and provide qualify products and services for our customers. We conduct our business responsibly to achieve a superior financial return balanced with our long-term growth, benefiting shareholders and fulfilling our commitment to the community and the environment.
Vision Statement:	Amoco will be as global business enterprise, recognized throughout the world as preeminent by employees, customer, competitors, investors and the public. We will be the standard by which other businesses measure their performance. Our hallmarks will be the innovation, initiative and teamwork of our people and our ability to anticipate and effectively respond to change and to create opportunity.

ADAMJEE Insurance Company Limited

Mission Statement:	Being the leading insurance company Pakistan and second best in Asia, our aim is to be a significant participant in developing Pakistan's image by providing maximum insurance protection at the most competitive price in a highly efficient manner for industrial and economic growth.
Vision Statement:	To remain in the leading insurance company of Pakistan and excelling it's every aspect of business and in delivering its obligations as a good corporate citizen to its clients, employees and shareholders, public and to the country.

Many organizations develop both a mission statement and a vision statement. Whereas the mission statement answers the question, what is our business? the *vision statement* answers the question, What do we want to become? Many organizations have both a mission and vision statement.
It can be argued that profit, not mission or vision is the primary corporate motivator. But profit alone is not enough to motivate people. Profit is perceived negatively by some employees in companies. Employees may see profit as something that they earn and management then uses and even gives away—to shareholders. Although this perception is undesired and disturbing to management, it clearly indicates that both profit and vision are needed to effectively motivate a workforce.
When employees and managers together shape or fashion the vision and mission for a firm, the resultant documents can reflect the personal visions that managers and employees have in their hearts and minds about their own futures. Shared vision creates a commonality of interests that can lift workers out of the monotony of daily work and put them into a new world of opportunity and challenge.

© Copyright Virtual University of Pakistan

The Process of Developing a Mission Statement

- A clear mission is needed before alternative strategies can be formulated and implemented.
- Mission is important to have as broad a range of participation as possible among managers in developing the mission.

As indicated in the strategic-management model, a clear mission statement is needed before alternative strategies can be formulated and implemented. It is important to involve as many managers as possible in the process of developing a mission statement, because through involvement, people become committed to an organization.

A widely used approach to developing a mission statement is first to select several articles about mission statements and ask all managers to read these as background information. Then ask managers themselves to prepare a mission statement for the organization. A facilitator, or committee of top managers, then should merge these statements into a single document and distribute this draft mission statement to all managers. A request for modifications, additions, and deletions is needed next, along with a meeting to revise the document. To the extent that all managers have input into and support the final mission statement document, organizations can more easily obtain managers' support for other strategy formulation, implementation, and evaluation activities. Thus the process of developing a mission statement represents a great opportunity for strategists to obtain needed support from all managers in the firm.

During the process of developing a mission statement, some organizations use discussion groups of managers to develop and modify the mission statement. Some organizations hire an outside consultant or facilitator to manage the process and help draft the language. Sometimes an outside person with expertise in developing mission statements and unbiased views can manage the process more effectively than an internal group or committee of managers. Decisions on how best to communicate the mission to all managers, employees, and external constituencies of an organization are needed when the document is in final form. Some organizations even develop a videotape to explain the mission statement and how it was developed.

Importance of Vision and Mission Statements

- Unanimity of purpose within the organization
- Basis for allocating resources
- Establish organizational climate
- Focal point for direction
- Translate objectives into work structure
- Cost, time and performance parameters assessed and controlled
- Most companies are now getting used to the idea of using mission statements.
- Small, medium and large firms in Pakistan are also realizing the need and adopting mission statements.

The importance of vision and mission statements to effective strategic management is well documented in the literature, although research results are mixed.

A Resolution of Divergent Views

Developing a comprehensive mission statement is important because divergent views among managers can be revealed and resolved through the process. The question, What is our business?, can create controversy. Raising the question often reveals differences among strategists in the organization. Individuals who have worked together for a long time and who think they know each other suddenly may realize that they are in fundamental disagreement. For example, in a college or university, divergent views regarding the relative importance of teaching, research, and service often are expressed during the mission statement development process. Negotiation, compromise, and eventual agreement on important issues are needed before focusing on more specific strategy formulation activities.

"What is our mission?" is a genuine decision; and a genuine decision must be based on divergent views to have a chance to be a right and effective decision. Developing a business mission is always a choice between alternatives, each of which rests on different assumptions regarding the reality of the business and its environment. It is always a high-risk decision. A change in mission always leads to changes in objectives, strategies, organization, and behavior. The mission decision is far too important to be made by acclamation. Developing a business mission is a big step toward management effectiveness. Hidden or half-understood disagreements on the definition of a business mission underlie many of the personality problems, communication problems, and irritations that tend to divide a top-management group. Establishing a

mission should never be made on plausibility alone, should never be made fast, and should never be made painlessly.

In multidivisional organizations, strategists should ensure that divisional units perform strategic-management tasks, including the development of a statement of vision and mission. Each division should involve its own managers and employees in developing a vision and mission statement consistent with and supportive of the corporative mission.

An organization that fails to develop a vision statement as well as a comprehensive and inspiring mission statement loses the opportunity to present itself favorably to existing and potential stakeholders. All organizations need customers, employees, and managers, and most firms need creditors, suppliers, and distributors. The vision and mission statements are effective vehicles for communicating with important internal and external stakeholders. The principal value of these statements as tools of strategic management is derived from their specification of the ultimate aims of a firm:

They provide managers with a unity of direction that transcends individual, parochial, and transitory needs. They promote a sense of shared expectations among all levels and generations of employees. They consolidate values over time and across individuals and interest groups. They project a sense of worth and intent that can be identified and assimilated by company outsiders. Finally, they affirm the company's commitment to responsible action, which is symbiotic with its need to preserve and protect the essential claims of insiders for sustained survival, growth, and profitability of the firm.

Examples of Mission Statements of some Organizations:

1. Pfizer, Inc. (www.pfizer.com/main.html)

Pfzer, Inc. is a research based global health care company. Our principal mission is to apply scientific knowledge to help people around the world enjoy longer, healthier and more productive lives. The company has four business segments: health care, consumer health care, food science and animal health. We manufacture in 39 countries and our products are available worldwide.

2. Chase Manhattan Corporation (www.chase.com)

We provide financial services that enhance the well being and success of individuals, industries, communities and countries around the world.

Through our shared commitment to those we serve, we will be the best financial services company in the world. Customers will choose us first because we deliver the highest quality service and performance. People will be proud and eager to work here. Investors will bury our stock as a superior long-term investment. To be the best for our customers, we are team players who show respect of our colleagues and commit to the highest standards of quality and professionalism, Customer focus, Respect for each other, Teamwork, Quality and professionalism.

3. Food Lion, Inc. (www.foodlion.com)

The Food Lion team will work hard to use our talents and resourcefulness to satisfy every customer by providing Extra Low Prices on a wide variety of quality products in a clean, convenient and friendly environment.

4. Apple Computer (www.apple.com)

It is Apple's mission to help transform the way customers work, learn and communicate by providing exceptional personal computing products and innovative customer services.

We will pioneer new directions and approaches, finding innovative ways to use computing technology to extend the bounds of human potential.

Apple will make a difference: our products, services and insights will help people around the world shape the ways business and education will be done in the 21st century.

© Copyright Virtual University of Pakistan

5. AT & T (www.att.com)

We are dedicated to being the world's best at bringing people together giving them easy access to each other and to the infomrait5on and services they want anytime, anywhere.

6. Corning, Inc. (www.corning.com)

Our purpose is to deliver superior, long range economic benefits to our customers, our employees and our shareholder and to the communities in which we operate. We accomplish this by living our corporate values.

7. Nicholls State University (College of Business)

The principal mission of the College of Business is to prepare students to participate in society and the work force as educated individuals able to compete in a dynamic global economy. In order to enrich the learning process, the College also contributes to scholarship through applied research and instructional development. In addition to providing support to the employer community through the development of marketable skills in potential employees, the College also enhances the competitive capabilities of regional businesses by providing continuing education courses and consulting services through the Small Business Development Center (SBDC) and the individual efforts of faculty. The faculty advances the welfare of the University, the community and academic and professional organizations through professional interactions.

© Copyright Virtual University of Pakistan

CHARACTERISTICS OF A MISSION STATEMENT

Objectives:

Every organization has a unique purpose and reason for being. This uniqueness should be reflected in vision and mission statements. The nature of a business vision and mission can represent either a competitive advantage or disadvantage for the firm. An organization achieves a heightened sense of purpose when strategists, managers, and employees develop and communicate a clear business vision and mission. After reading this lecture, you will be able to know that for what purposes mission statements have such an importance in a business firm.

Characteristics of good Mission Statements:

Mission statements can and do vary in length, contend, format, and specificity. Most practitioners and academicians of strategic management consider an effective statement to exhibit nine characteristics or components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all of these essential components.
Effective mission statements should be:

- Broad in scope
- Generate range of feasible strategic alternatives
- Not excessively specific
- Reconcile interests among diverse stakeholders
- Finely balanced between specificity & generality
- Arouse positive feelings and emotions
- Motivate readers to action
- Generate the impression that firm is successful, has direction, and is worthy of time, support, and investment
- Reflect judgments re: future growth
- Provide criteria for selecting strategies
- Basis for generating & screening strategic options
- Are dynamic in orientation

A Declaration of Attitude

A mission statement is a declaration of attitude and outlook more than a statement of specific details. It usually is broad in scope for at least two major reasons. First, a good mission statement allows for the generation and consideration of a range of feasible alternative objectives and strategies without unduly stifling management creativity. Excess specificity would limit the potential of creative growth for the organization. On the other hand, an overly general statement that does not exclude any strategy alternatives could be dysfunctional. Apple Computer's mission statement, for example, should not open the possibility for diversification into pesticides, or Ford Motor Company's into food processing.

Second, a mission statement needs to be broad to effectively reconcile differences among and appeal to an organization's diverse *stakeholders,* the individuals and groups of persons who have a special stake or claim on the company. Stakeholders include employees; managers; stockholders; boards of directors; customers; suppliers; distributors; creditors; governments (local, state, federal, and foreign); unions; competitors; environmental groups; and the general public. Stakeholders affect and are affected by an organization's strategies, yet the claims and concerns of diverse constituencies vary and often conflict. For example, the general public is especially interested in social responsibility, whereas stockholders are more interested in profitability. Claims on any business literally may number in the thousands, and often include clean air, jobs, taxes, investment opportunities, career opportunities, equal employment opportunities, employee benefits, salaries, wages, clean water, and community services. All stakeholders' claims on an organization cannot be pursued with equal emphasis. A good mission statement indicates the relative attention that an organization will devote to meeting the claims of various stakeholders. More firms are becoming environmentally proactive in response to the concerns of stakeholders.

© Copyright Virtual University of Pakistan

Reaching the fine balance between specificity and generality is difficult to achieve, but is well worth the effort.

An effective mission statement arouses positive feelings and emotions about an organization; it is inspiring in the sense that it motivates readers to action. An effective mission statement generates the impression that a firm is successful, has direction, and is worthy of time, support, and investment.

It reflects judgments about future growth directions and strategies based upon forward-looking external and internal analyses. A business mission should provide useful criteria for selecting among alternative strategies. A clear mission statement provides a basis for generating and screening strategic options. The statement of mission should be dynamic in orientation, allowing judgments about the most promising growth directions and those considered less promising.

A Customer Orientation

A good mission statement describes an organization's purpose, customers, products or services, markets, philosophy, and basic technology. According to Vern McGinnis, a mission statement should

- Define what the organization is and what the organization aspires to be,
- De limited enough to exclude some ventures and broad enough to allow for creative growth,
- Distinguish a given organization from all others,
- Serve as a framework for evaluating both current and prospective activities, and
- Be stated in terms sufficiently clear to be widely understood throughout the organization.

A good mission statement reflects the anticipations of customers. Rather than developing a product and then trying to find a market, the operating philosophy of organizations should be to identify customers' needs and then provide a product or service to fulfill those needs. Good mission statements identify the utility of a firm's products to its customers. This is why AT&T's mission statement focuses on communication rather than telephones, Exxon's mission statement focuses on energy rather than oil and gas, Union Pacific's mission statement focuses on transportation rather than railroads, and Universal Studios' mission statement focuses on entertainment instead of movies. The following utility statements are relevant in developing a mission statement:

- Do not offer me things.
- Do not offer me clothes. Offer me attractive looks.
- Do not offer me shoes. Offer me comfort for my feet and the pleasure of walking.
- Do not offer me a house. Offer me security, comfort, and a place that is clean and happy.
- Do not offer me books. Offer me hours of pleasure and the benefit of knowledge.
- Do not offer me records. Offer me leisure and the sound of music.
- Do not offer me tools. Offer me the benefit and the pleasure of making beautiful things.
- Do not offer me furniture. Offer me comfort and the quietness of a cozy place.
- Do not offer me things. Offer me ideas, emotions, ambience, feelings, and benefits.
- Please, do not offer me things.

A major reason for developing a business mission is to attract customers who give meaning to an organization. A classic description of the purpose of a business reveals the relative importance of customers in a statement of mission:

It is the customer who determines what a business is. It is the customer alone whose willingness to pay for a good or service converts economic resources into wealth and things into goods. What a business thinks it produces is not of first importance, especially not to the future of the business and to its success. What the customer thinks he/she is buying, what he/she considers value, is decisive—it determines what a business is, what it produces, and whether it will prosper. And what the customer buys and considers value is never a product. It is always utility, meaning what a product or service does for him or her. The customer is the foundation of a business and keeps it in existence.

A Declaration of Social Policy

The words *social policy* embrace managerial philosophy and thinking at the highest levels of an organization. For this reason, social policy affects the development of a business mission statement. Social issues mandate that strategists consider not only what the organization owes its various stakeholders but also what responsibilities the firm has to consumers, environmentalists, minorities, communities, and other groups. After decades of debate on the topic of social responsibility, many firms still struggle to determine appropriate social policies.

© Copyright Virtual University of Pakistan

The issue of social responsibility arises when a company establishes its business mission. The impact of society on business and vice versa is becoming more pronounced each year. Social policies directly affect a firm's customers, products and services, markets, technology, profitability, self-concept, and public image. An organization's social policy should be integrated into all strategic-management activities, including the development of a mission statement. Corporate social policy should be designed and articulated during strategy formulation, set and administered during strategy implementation, and reaffirmed or changed during strategy evaluation. The emerging view of social responsibility holds that social issues should be attended to both directly and indirectly in determining strategies.

Components of a Mission Statement

Mission statements can and do vary in length, content, format, and specificity. Most practitioners and academicians of strategic management consider an effective statement to exhibit nine characteristics or components. Because a mission statement is often the most visible and public part of the strategic-management process, it is important that it includes all of these essential components. Components and corresponding questions that a mission statement should answer are given here.

1. *Customers:* Who are the firm's customers?
2. *Products or services:* What are the firm's major products or services?
3. *Markets:* Geographically, where does the firm compete?
4. *Technology:* Is the firm technologically current?
5. *Concern for survival, growth, and profitability:* Is the firm committed to growth and financial soundness?
6. *Philosophy:* What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
7. *Self-concept:* What is the firm's distinctive competence or major competitive advantage?
8. *Concern for public image:* Is the firm responsive to social, community, and environmental concerns?
9. *Concern for employees:* Are employees a valuable asset of the firm?

Importance of Vision and Mission Statements

The importance of vision and mission statements to effective strategic management is well documented in the literature, although research results are mixed. Rarick and Vitton found that firms with a formalized mission statement have twice the average return on shareholders' equity than those firms without a formalized mission statement; Bart and Baetz found a positive relationship between mission statements and organizational performance; *Business Week* reports that firms using mission statements have a 30 percent higher return on certain financial measures than those without such statements; O'Gorman and Doran, however, found that having a mission statement does not directly contribute positively to financial performance. The extent of manager and employee involvement in developing vision and mission statements can make a difference in business success

Examples:

Pepsi cola mission statement:

“ . . . . is to increase the value of our shareholders’ investment. We do this through sales growth, cost controls, and wise investment resources. We believe our commercial success depends upon offering quality and value to our consumers and customers; providing products that are safe, wholesome, economically efficient and environmentally sound; and providing a fair return to our investors while adhering to the highest standards of integrity.”

Ben & Jerry’s Mission Statement

“. . . . . is to make, distribute and sell the finest quality all-natural ice cream and related products in a wide variety of innovative flavors made from Vermont dairy products. To operate the Company on a sound financial basis of profitable growth, increasing value for our shareholders, and creating career opportunities and financial rewards for our employees. To operate the Company in a way that actively recognizes the central role that business plays in the structure of society by initiating innovative ways to improve the quality of life of a broad community—local, national and international.”

© Copyright Virtual University of Pakistan

An Evaluation Matrix of Mission Statements

Perhaps the best way to develop a skill for writing and evaluating mission statements is to study actual company missions. These statements are evaluated in Table based on the nine criteria presented above.

An Evaluation Matrix of Mission Statements

Components					
Organization	***Customers***	***Products/ Services***	***Markets***	***Concern for Survival, Growth, Profitability***	***Technology***
PepsiCo	Yes	No	No	Yes	No
Ben & Jerry's	No	Yes	Yes	Yes	No
National Pawnbrokers Association	Yes	No	No	No	No
Institute of Management Accountant	Yes	Yes	Yes	No	No
Pressure Systems International	Yes	Yes	No	Yes	No
Genentech, Inc.	Yes	Yes	No	Yes	No
California Department of Fish and Game	Yes	Yes	Yes	No	No
Barrett Memorial Hospital	Yes	Yes	Yes	No	No
		Philosophy	**Self-Concept**	***Concern for Public Image***	***Concern for Employees***
PepsiCo		Yes	No	No	No
Ben & Jerry's		No	Yes	Yes	Yes
National Pawnbrokers Association		Yes	Yes	Yes	No
Institute of Management Accountants		Yes	Yes	Yes	No
Pressure Systems International		No	No	No	No

California Department of Fish and Game		No	Yes	No	No
Barrett Memorial		No	Yes	Yes	Yes

There is no one best mission statement for a particular organization, so good judgment is required in evaluating mission statements. In Table 2-4, a *Yes* indicates that the given mission statement answers satisfactorily the question for the respective evaluative criteria. Some persons are more demanding than others in rating mission statements in this manner. For example, if a statement includes the word *employees* or *customer,* is that alone sufficient for the respective component? Some companies answer this question in the affirmative and some in the negative. You may ask yourself this question: "If I worked for this company, would I have done better in regards to including a particular component in their mission statement." Perhaps the important issue here is that mission statements include each of the nine components in some manner.

As indicated in Table, the Genentech mission statement was rated to be best among the eight statements evaluated. Note, however, that the Genentech statement lacks inclusion of the "Market" and the "Technology" components. The PepsiCo and Pressure Systems International mission statements are evaluated worst with inclusion of only three of the nine components. Note that none of these eight statements included the "Technology" component in their document.

© Copyright Virtual University of Pakistan

EXTERNAL ASSESSMENT

Objectives:

This lecture examines the tools and concepts needed to conduct an external strategic-management audit.

- The Nature of an External Audit
- Economic Forces

External Assessment:

Prediction is very difficult, especially about the future.

Neils Bohr

External Strategic Management Audit Is also called:

1. Environmental scanning
2. Industry analysis

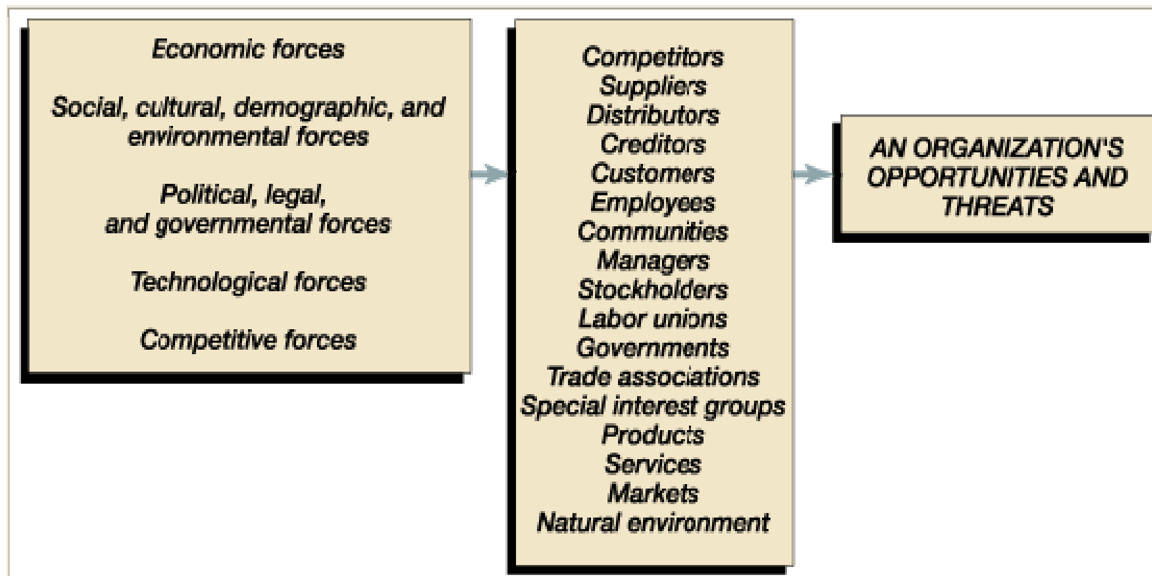
In this lecture we will examine the tools and concepts needed to conduct an external strategic-management audit (sometimes called *environmental scanning* or *industry analysis*). An *external audit* focuses on identifying and evaluating trends and events beyond the control of a single firm, such as increased foreign competition, population shifts to the Sunbelt, an aging society, information technology, and the computer revolution. An external audit reveals key opportunities and threats confronting an organization so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats. This chapter presents a practical framework for gathering, assimilating, and analyzing external information.

Key External Forces

External forces can be divided into five broad categories:

- Economic forces;
- Social, cultural, demographic, and environmental forces;
- Political, governmental, and legal forces;
- Technological forces; and
- Competitive forces.

Relationships among these forces and an organization are depicted in Figure External trends and events significantly affect all products, services, markets, and organizations in the world.



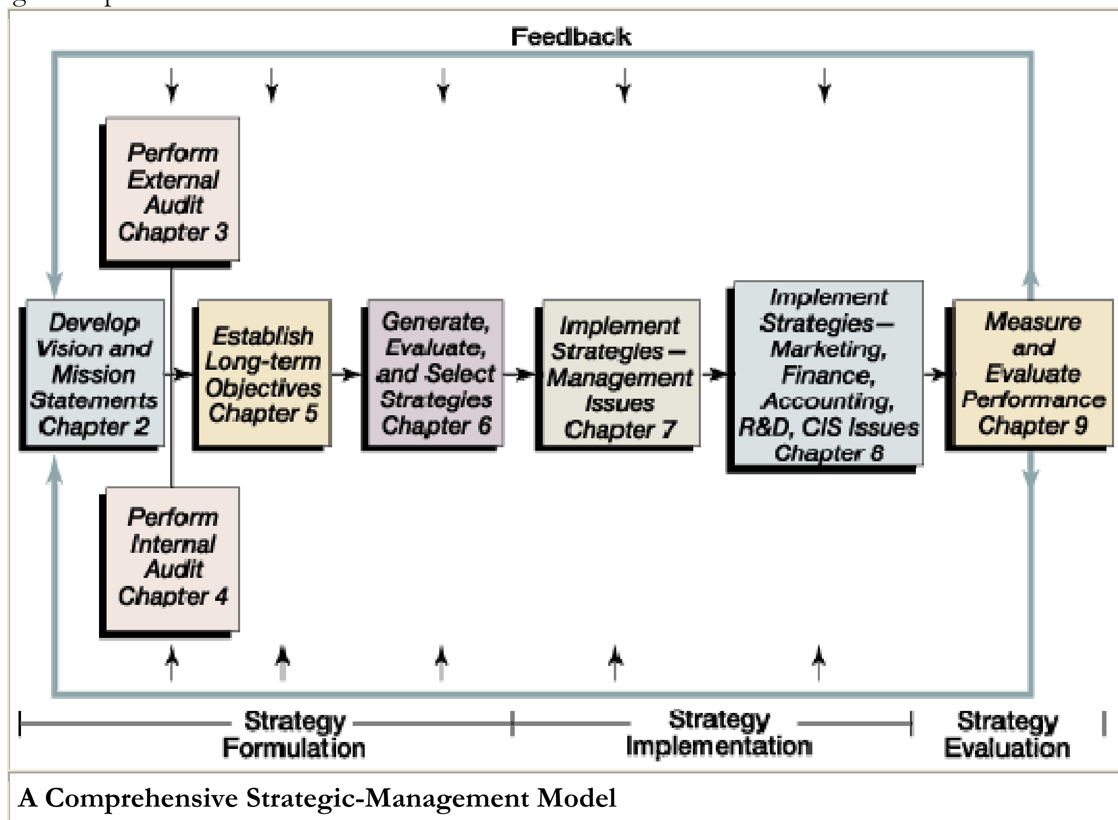
Relationships between Key External Forces and an Organization are shown in the above figure.

Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The increasing complexity of business today is evidenced by more countries' developing the capacity and will to compete aggressively in world markets. Foreign businesses and countries are willing to learn, adapt, innovate, and invent to compete successfully in the marketplace. There are more competitive new technologies in Europe and the Far East today than ever before. American businesses can no longer beat foreign competitors with ease.

The Nature of an External Audit

The purpose of an external audit is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term *finite* suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. Figure below illustrates how the external audit fits into the strategic-management process.



A Comprehensive Strategic-Management Model

The Process of Performing an External Audit

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

To perform an external audit, a company first must gather competitive intelligence and information about social, cultural, demographic, environmental, economic, political, legal, governmental, and technological trends. Individuals can be asked to monitor various sources of information such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit. This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information.

Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm. These key external factors should be listed on flip charts or a blackboard. A prioritized list of these factors could be obtained by requesting all managers to rank the factors identified, from 1 for the most important opportunity/threat to 20 for the least important opportunity/threat. These key external factors can vary over time and by industry. Relationships with suppliers or distributors are often a critical success factor. Other variables commonly used include market share, breadth of competing products, world economies, foreign affiliates, proprietary and key account advantages, price competitiveness, technological advancements, population shifts, interest rates, and pollution abatement.

Freund emphasized that these key external factors should be:

- Important to achieving long-term and annual objectives,
- Measurable,
- Applicable to all competing firms, and
- Hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas.

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

Economic Forces

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

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

© Copyright Virtual University of Pakistan

KEY EXTERNAL FACTORS

Objectives:

Increasing turbulence in markets and industries around the world means the external audit has become an explicit and vital part of the strategic-management process. This lecture provides a framework for collecting and evaluating economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Firms that do not mobilize and empower their managers and employees to identify, monitor, forecast, and evaluate key external forces may fail to anticipate emerging opportunities and threats and, consequently, may pursue ineffective strategies, miss opportunities, and invite organizational demise. Firms not taking advantage of the Internet are falling behind technologically.

Economic Forces:

It is important to monitor key economic factors such as:

- Foreign countries' economic conditions
- Import/export factors
- Demand shifts for goods/services
- Income differences by region/customer
- Price fluctuations
- Exportation of labor & capital
- Monetary policies
- Fiscal policies
- Tax rates
- ECC policies (European policies)
- OPEC policies (Organization of Petroleum exporting countries)
- LDC policies (Less developed countries)

Price fluctuation refers to general price fluctuation. They affect the economic factors and affect the customers buying behaviors. The customers are more conscious about the economic changes and responds according to the changes in key variable factors. So, any change in the price affects the customer buying trend directly.

As far as the exportation of capital and labour is concerned, over the last 300 years Pakistan has seen a tremendous exportation of labour. Capital is not only left a vacuum on organization.

Monetary policies and Fiscal policies are changed every year. The person or businesses engaged in business for profit making or non profit organizations always have to keep an eye on the economic structure of the countries.

As far as the tax rates are concerned, government also changes the tax rate with the passage of time. So it affects the economic forces.

ECC and OPEC policies and LDC policies have also a major effect on the economic factors.

Social, Cultural, Demographic, and Environmental Forces

Social, cultural, demographic, and environmental changes have a major impact upon virtually all **products (Preferences change), services, markets, and customers.** Small, large, for-profit, and nonprofit organizations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and environmental variables. In every way, the United States is much different today than it was yesterday, and tomorrow promises even greater changes. We may use the following analysis in understanding the Social, Cultural, Demographic, and Environmental Forces:

Consider Pakistan—

- Population growing older
- Increase in younger population
- Ethnic balance changing
- Gap between rich and poor widening

Ethnic balance changes due to the migration of the people from different areas to different areas. This affects the ethical behavior very much. As the traditions and norms are very much different in different areas of Pakistan, therefore the behavior of the migrated people also have a major affect on the behavior of the resident people. Due to the increased gap between rich and the poor, there is a tremendous change in the social behavior of the people.

© Copyright Virtual University of Pakistan

Now consider America—

- Population growing older
- Increase in younger population
- Less Caucasian
- Gap between rich and poor widening
- 65 and older will rise to 18.5% of population by 2025
- By 2075, no racial or ethnic majority

The United States is getting older and less Caucasian, feeding generational and racial competition for jobs and government money. The gap between rich and poor is growing in the United States. America's 76 million baby boomers plan to retire in 2011, and this has lawmakers and younger taxpayers deeply worried and concerned about who will pay their social security, Medicare, and Medicaid. Persons aged 65 and older in the United States will rise from 12.7 percent of the population to 18.5 percent between 1997 and 2025.

By the year 2075, the United States will have no racial or ethnic majority. This forecast is aggravating tensions over issues such as immigration and affirmative action. Hawaii and New Mexico already have no majority race or ethnic group and as of the year 2000, neither has California.

An increase in tourism worldwide is an opportunity for many firms. France is the destination for more tourists annually than any other country.

The factors are same as in Pakistan but with a littlie difference, due to the strategies that are different in order to run the social factors.

Also consider the factors:

- World population > 6 billion
- U.S. population < 300 million and Pakistan population is 150-160 million (domestic strategy is risky in case of Pakistan)
- Great potential for domestic production expansion to other markets
- Domestic only is a risky strategy
- Same goes for Pakistan

Population of the world passed 6 billion on October 12, 1999; the United States has less than 300 million persons. That leaves billions of persons outside the United States who may be interested in the products and services produced through domestic firms. Remaining solely domestic is increasingly a risky strategy. Given table provides the percentage increase in population projected for major areas of the world between 1998 and 2050. The world population will reach 7 billion in 2013; 8 billion in 2028; and 9 billion in 2054.

World Population Statistics

	1998	**2050**	**% Increase**
Asia	3.6 billion	5.3 billion	47.22
Africa	749 million	1.8 billion	140.32
Latin America/Caribbean	504 million	809 million	60.52
Europe	628 million	729 million	16.08
North America	305 million	392 million	28.52
Oceania	30 million	46 million	53.33

Adapted from United Nations Population Division, World Population Prospects, 1999.

NAFTA (regional group)

- U.S. exports to Mexico increased 170%
- 2000, U.S. trade deficits:
  - Mexico -- $25 billion
  - China -- $84 billion
  - Japan -- $81 billion
- 2001 Recession (U.S. and World)
- 60,000 lay off along Mexico Border with U.S.
- Consider SAARC & other Regional Assoc.

© Copyright Virtual University of Pakistan

Trends for the 2000's

USA:

- More educated consumers
- Population aging
- Minorities more influential
- Local rather than federal solutions
- Fixation with youth decreasing
- Hispanics increase to 15% by 2021
- African Americans increase to 14% by 2021

Pakistan:

- Provincial rather than federal solutions
- Youth getting more independent
- Steady change in ethnic balance
- More educated consumers
- Higher average lifespan
- Increase in number of youth
- Minorities have more say (including women)

Social, cultural, demographic, and environmental trends are shaping the way Americans live, work, produce, and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies. There are now more American households with people living alone or with unrelated people than there are households consisting of married couples with children. Census data suggest that Americans are not returning to traditional lifestyles.

Significant trends for the 2000s include consumers becoming more educated, the population aging, minorities becoming more influential, people looking for local rather than federal solutions to problems, and fixation on youth decreasing. The United States Census Bureau projects that the number of Hispanics will increase to 15 percent of the population by 2021, when they will become a larger minority group than African Americans in America. The percentage of African Americans in the U.S. population is expected to increase from 12 percent to 14 percent between 1999 and 2021. Many states currently have more than 500,000 Hispanics as registered voters, including California, New Mexico, Arizona, Texas, Florida, New York, Illinois, and New Jersey. The fastest-growing businesses in the United States are owned by women of color. The Hispanic population in the United States increased by 40 percent from 1990 to 1998. States with the largest percentage increase of Hispanics during that period were Arkansas (149%), Nevada (124%), North Carolina (110%), Georgia (103%), and Nebraska (96%).

During the 1990s, the number of individuals aged fifty and over increased 18.5 percent, to 76 million. In contrast, the number of Americans under age fifty grew by just 3.5 percent. The trend toward an older America is good news for restaurants, hotels, airlines, cruise lines, tours, resorts, theme parks, luxury products and services, recreational vehicles, home builders, furniture producers, computer manufacturers, travel services, pharmaceutical firms, automakers, and funeral homes. Older Americans are especially interested in health care, financial services, travel, crime prevention, and leisure. The world's longest-living people are the Japanese, with Japanese women living to 86.3 years and men living to 80.1 years on average. By 2050, the Census Bureau projects the number of Americans age one hundred and older to increase to over 834,000 from just under 100,000 centenarians in the United States in 2000. Senior citizens are also senior executives at hundreds of American companies. Examples include eighty-four-year-old William Dillard at Dillard's Department Stores, seventy-six-year-old Sumner Redstone, CEO of Viacom, sixty-eight-year-old Ellen Gordon, President of Tootsie Roll Industries, seventy-four-year-old Richard Jacobs, CEO of the Cleveland Indians, seventy-three-year-old Leslie Quick, CEO of Quick & Reilly, eighty-year-old Ralph Roberts, Chairman of Comcast, and seventy-three-year-old Alan Greenspan, Chairman of the Federal Reserve. Americans age sixty-five and over will increase from 12.6 percent of the U.S. population in 2000 to 20.0 percent by the year 2050.

The aging American population affects the strategic orientation of nearly all organizations. Apartment complexes for the elderly, with one meal a day, transportation, and utilities included in the rent, have increased nationwide. Called *life care facilities,* these complexes now exceed 2 million. Some well-known companies building these facilities include Avon, Marriott, and Hyatt. By the year 2005, individuals aged 65

© Copyright Virtual University of Pakistan

and older in the United States will rise to 13 percent of the total population; Japan's elderly population ratio will rise to 17 percent, and Germany's to 19 percent.
Americans are on the move in a population shift to the South and West (Sun Belt) and away from the Northeast and Midwest (Frost Belt). The Internal Revenue Service provides the Census Bureau with massive computer files of demographic data. By comparing individual address changes from year to year, the Census Bureau publishes extensive information about population shifts across the country. For example, Arizona is the fastest-growing state. Nevada, New Mexico, and Florida are close behind. Wyoming is the nation's least-populated state and California the most-populated state. States incurring the greatest loss of people are North Dakota, Wyoming, Pennsylvania, Iowa, and West Virginia. This type of information can be essential for successful strategy formulation, including where to locate new plants and distribution centers and where to focus marketing efforts.
Americans are becoming less interested in fitness and exercise. Fitness participants declined in the United States by 3.5 percent annually in the 1990s. Makers of fitness products, such as Nike, Reebok International, and CML Group&151;which makes NordicTrack&151;are experiencing declines in sales growth. American Sports Data in Hartsdale, New York, reports that "the one American in five who exercises regularly is now outnumbered by three couch potatoes."
A summary of important social, cultural, demographic, and environmental variables that represent opportunities or threats for virtually all organizations is given in Table below.

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

EXTERNAL ASSESSMENT (KEY EXTERNAL FACTORS)

Objectives:

A major responsibility of strategists is to ensure development of an effective external-audit system. This includes using information technology to devise a competitive intelligence system that works. The external-audit approach described in this Lecture can be used effectively by any size or type of organization. Typically, the external-audit process is more informal in small firms, but the need to understand key trends and events is no less important for these firms.

Key external Factors:

- Racial equality
- Average level of education
- Government regulation
- Attitudes toward customer service
- Attitudes toward product quality
- Energy conservation
- Social responsibility
- Value placed on leisure time
- Recycling
- Waste management
- Air & water pollution
- Ozone depletion
- Endangered species

The leisure time has increased the leisure activities due to which recreational activities have been increased and also it has given the growth to leisure industries also.

The next topic relates to environment. Just like recycling, for example the need of stationery is increasing and these things are gong under the process of recycling. Recycling has become an important part of our economic activity and society.

Waste management includes solid waste management and other waste. See the amount of waste in our cities. The waste of vegetables and stationery and fuel has populated the city to great extent. Just like air and water has been polluted due to these wastes. The populated water and air has effects the health of the people and animals to great extent. This should be constantly monitored. Same is the case with ozone depletion, due to which the harmful effects of sunlight are touching the surface of the earth and are affecting the people life badly. Mainly the skin and eyes are effecting due to this.

There are a lot of species which have been endangered. All such factors should be monitored as key economic variables.

Political, Governmental, and Legal Forces

Government Regulation

- Key opportunities & key threats
    - Antitrust legislation (Microsoft)
    - Tax rates
    - Lobbying efforts
    - Patent laws

There is always change in government regulations which create opportunities and threats also. For example, anti trust legislation where there is an effort to ban the monopolies. Some organizations think that monopolies should be banned. Similarly, tax rates and lobbying efforts for special, lobbying entries are those efforts which are made in order to pass special resolution laws of their own choice. Patents law and intellectual are also relates to the same stories.

Increasing Global Interdependence:

- Impact of political variables
    - Formulation of Strategies
    - Implementation of Strategies
- Strategists in a global economy
    - Forecast political climates

- Legalistic skills
- Diverse world cultures

Federal, state, local, and foreign governments are major regulators, deregulators, subsidizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations. For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit. Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly.

In the world of impolitic, Americans are still deeply divided over issues such as assisted suicide, genetic testing, genetic engineering, cloning, and abortion. Such political issues have great ramifications for companies in many industries ranging from pharmaceuticals to computers.

The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

- Globalization of Industry:
  - Worldwide trend toward similar consumption patterns
  - Global buyers & sellers
  - E-commerce
  - Instant transmission of money & information across continents

Political forecasting can be especially critical and complex for multinational firms that depend on foreign countries for natural resources, facilities, distribution of products, special assistance, or customers. Strategists today must possess skills to deal more legalistically and politically than previous strategists, whose attention was directed more too economic and technical affairs of the firm. Strategists today are spending more time anticipating and influencing public policy actions. They spend more time meeting with government officials, attending hearings and government-sponsored conferences, giving public speeches, and meeting with trade groups, industry associations, and government agency directors. Before entering or expanding international operations, strategists need a good understanding of the political and decision-making processes in countries where their firm may conduct business. For example, republics that made up the former Soviet Union differ greatly in wealth, resources, language, and lifestyle.

Nearly fifty European and Latin American heads of state recently signed the sixty-nine-point Declaration of Rio, a sweeping agreement liberalizing trade between countries on both continents. Tariffs and no tariff trade barriers between the two continents are being reduced in the new era of political cooperation. The Declaration of Rio of 1999 enhanced economic development and trade between those continents as well as the United States.

Increasing **global competition** accents the need for accurate political, governmental, and legal forecasts. Many strategists will have to become familiar with political systems in Europe and Asia and with trading currency futures. East Asian countries already have become world leaders in labor-intensive industries. A world market has emerged from what previously was a multitude of distinct national markets, and the climate for international business today would be much more favorable than yesterday. Mass communication and high technology are creating similar patterns of consumption in diverse cultures worldwide! This means that many companies may find it difficult to survive by relying solely on domestic markets.

It is no exaggeration that in an industry that is, or is rapidly becoming, global, the riskiest possible posture is to remain a domestic competitor. The domestic competitor will watch as more aggressive companies use this growth to capture economies of scale and learning. The domestic competitor will then be faced with an attack on domestic markets using different (and possibly superior) technology, product design, manufacturing, marketing approaches, and economies of scale. A few examples suggest how extensive the phenomenon of world markets has already become. Hewlett-Packard's manufacturing chain reaches halfway around the globe, from well-paid, skilled engineers in California to low-wage assembly workers in Malaysia. General Electric has survived as a manufacturer of inexpensive audio products by centralizing its world production in Singapore.

- Impact of political variables on government regulations:
  - Government regulation/deregulation
  - Tax law changes

- Special tariffs
- Political Action Committees (PACs)
- Voter participation rates
- Number of patents
- Changes in patent laws

Local, state, and federal laws, regulatory agencies, and special interest groups can have a major impact on the strategies of small, large, for-profit, and nonprofit organizations. Many companies have altered or abandoned strategies in the past because of political or governmental actions. For example, many nuclear power projects have been halted and many steel plants shut down because of pressure from the Environmental Protection Agency (EPA). Other federal regulatory agencies include the Food and Drug Administration (FDA), the National Highway Traffic and Safety Administration (NHTSA), the Occupational Safety and Health Administration (OSHA), the Consumer Product Safety Commission (CPSC), the Federal Trade Commission (FTC), the Securities Exchange Commission (SEC), the Equal Employment Opportunity Commission (EEOC), the Federal Communications Commission (FCC), the Federal Maritime Commission (FMC), the Interstate Commerce Commission (ICC), the Federal Energy Regulatory Commission (FERC), the National Labor Relations Board (NLRB), and the Civil Aeronautics Board (CAB). A summary of political, governmental, and legal variables that can represent key opportunities or threats to organizations is provided in Table below.

Some Political, Governmental, and Legal Variables

- Government regulations or deregulations
- Changes in tax laws
- Special tariffs
- Political action committees
- Voter participation rates
- Number, severity, and location of government protests
- Number of patents
- Changes in patent laws
- Environmental protection laws
- Level of defense expenditures
- Legislation on equal employment
- Level of government subsidies
- Antitrust legislation
- Sino-American relationships
- Russian-American relationships
- European-American relationships
- African-American relationships
- Import-export regulations
- Government fiscal and monetary policy changes
- Political conditions in foreign countries
- Special local, state, and federal laws
- Lobbying activities
- Size of government budgets
- World oil, currency, and labor markets
- Location and severity of terrorist activities
- Local, state, and national elections

World oil situation makes a difference to us. So, either the issues is related to currency, oil or labor they should be monitored as key external variables.

TECHNOLOGICAL FORCES

Revolutionary technological forces:

- Profound impact on organizations
    - Internet
    - Semiconductors
    - XML (extensible markup lang.) technologies
    - UWB (ultra wideband wireless) communications

Revolutionary technological changes and discoveries such as superconductivity, computer engineering, thinking computers, robotics, unemployed factories, miracle drugs, space communications, space manufacturing, lasers, cloning, satellite networks, fiber optics, biometrics, and electronic funds transfer are having a dramatic impact on organizations. Superconductivity advancements alone, which increase the power of electrical products by lowering resistance to current, are revolutionizing business operations, especially in the transportation, utility, health care, electrical, and computer industries.

The Internet is acting as a national and even global economic engine that is spurring productivity, a critical factor in a country's ability to improve living standards. The Internet is saving companies billions of dollars in distribution and transaction costs from direct sales to self-service systems. For example, the familiar Hypertext Markup Language (HTML) is being replaced by Extensible Markup Language (XML). XML is a programming language based on "tags" whereby a number represents a price, an invoice, a date, a zip code, or whatever. XML is forcing companies to make a major strategic decision in terms of whether to open their information to the world in the form of catalogs, inventories, prices and specifications, or attempt to hold their data closely to preserve some perceived advantage. XML is reshaping industries, reducing prices, accelerating global trade, and revolutionizing all commerce. Microsoft has reoriented most of its software development around XML, replacing HTML.

Ultra-wideband (UWB) wireless communications that sends information on tiny wave pulses may soon replace continuous radio waves, allowing ever-smaller devices to do vastly more powerful wireless communications. The Federal Communications Commission (FCC) is slow to approve UWB in fear of its disrupting existing wireless communication, but UWB technology pioneered by Time Domain of Huntsville, Alabama, has the potential to permanently change the way all individuals and businesses communicate worldwide.

- **Internet changes the nature of opportunities and threats**
    - Alters life cycle of products
    - Increases speed of distribution
    - Creates new products and services
    - Eases limitations of geographic markets
    - Alters economies of scale
    - Changes entry barriers

The Internet is changing the very nature of opportunities and threats by altering the life cycles of products, increasing the speed of distribution, creating new products and services, erasing limitations of traditional geographic markets, and changing the historical trade-off between production standardization and flexibility. The Internet is altering economies of scale, changing entry barriers, and redefining the relationship between industries and various suppliers, creditors, customers, and competitors.

- **Capitalizing on Information Technology (IT)**
    - Chief Information Officer (CIO)
    - Chief Technology Officer (CTO)

To effectively capitalize on information technology, a number of organizations are establishing two new positions in their firms: *chief information officer (CIO)* and *chief technology officer (CTO).* This trend reflects the growing importance of *information technology* in strategic management. A CIO and CTO work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed. These persons are responsible for developing, maintaining, and updating a company's information database. The CIO is more a manager, managing the overall external-audit process; the CTO is more a technician, focusing on technical issues such as data acquisition, data processing, decision support systems, and software and hardware acquisition.

- **Technology-based issues:**
  - Underlie nearly every strategic decision

Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements dramatically can affect organizations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position. Technological advancements can create new markets, result in a proliferation of new and improved products, change the relative competitive cost positions in an industry, and render existing products and services obsolete. Technological changes can reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills, and result in changing values and expectations of employees, managers, and customers. Technological advancements can create new *competitive advantages* that are more powerful than existing advantages. No company or industry today is insulated against emerging technological developments. In high-tech industries identification and evaluation of key technological opportunities and threats can be the most important part of the external strategic-management audit.

Organizations that traditionally have limited technology expenditures to what they can fund after meeting marketing and financial requirements urgently need a reversal in thinking. The pace of technological change is increasing and literally wiping out businesses every day. An emerging consensus holds that technology management is one of the key responsibilities of strategists. Firms should pursue strategies that take advantage of technological opportunities to achieve sustainable, competitive advantages in the marketplace.

Technology-based issues will underlie nearly every important decision that strategists make. Crucial to those decisions will be the ability to approach technology planning analytically and strategically. . . . Technology can be planned and managed using formal techniques similar to those used in business and capital investment planning. An effective technology strategy is built on a penetrating analysis of technology opportunities and threats, and an assessment of the relative importance of these factors to overall corporate strategy.

In practice, critical decisions about technology too often are delegated to lower organizational levels or are made without an understanding of their strategic implications. Many strategists spend countless hours determining market share, positioning products in terms of features and price, forecasting sales and market size, and monitoring distributors; yet too often technology does not receive the same respect:

The impact of this oversight is devastating. Firms not managing technology to ensure their futures may eventually find their futures managed by technology. Technology's impact reaches far beyond the "high-tech" companies. Although some industries may appear to be relatively technology-insensitive in terms of products and market requirements, they are not immune from the impact of technology; companies in smokestack as well as service industries must carefully monitor emerging technological opportunities and threats.

Not all sectors of the economy are affected equally by technological developments. The communications, electronics, aeronautics, and pharmaceutical industries are much more volatile than the textile, forestry, and metals industries. For strategists in industries affected by rapid technological change, identifying and evaluating technological opportunities and threats can represent the most important part of an external audit.

Some technological advancements expected soon in the computer and medical Industry are computers that recognize handwriting; voice-controlled computers; gesture-controlled computers; picture phones; and defeat of heart disease, AIDS, rheumatoid arthritis, multiple sclerosis, leukemia, and lung cancer. New technological advancements in the computer industry alone are revolutionizing the way businesses operate today. Cell phone and wireless Internet access are becoming common, with Finland leading all countries in this new technology.

<u>Competitive Forces</u>

"Collection and evaluation of information on competitors is essential for successful strategy formulation"

Competition in virtually all industries can be described as intense.

- Identifying rival firms:
  - Strengths
  - Weaknesses
  - Capabilities
  - Opportunities

- Threats
- Objectives
- Strategies

- Key Questions about Competitors:
  - Their strengths
  - Their weaknesses
  - Their objectives and strategies
  - Their responses to all external variables (e.g. social, political, demographic, etc.)
  - Their vulnerability to our alternative strategies
  - Our vulnerability to successful strategic counterattack Our product and service positioning relative to competitors
  - Entry and exit of firms in the industry
  -
  - Key factors for our current position in industry
  - Sales and profit rankings of competitors over time
  - Nature of supplier and distributor relationships
  - The threat of substitute products or services

The top five U.S. competitors in four different industries are identified in Table. An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies.

The Top Five U.S. Competitors in Four Different Industries in 1999

	1999 SALES IN $ MILLIONS	PERCENTAGE CHANGE FROM 1998	1999 PROFITS IN $ MILLIONS	PERCENTAGE CHANGE FROM 1998
AEROSPACE				
Boeing	57,993	+3	2,309	+106
Lockheed Martin	25,530	-3	737	-26
United Technologies	24,127	+6	841	-27
Northrop Grumman	8,995	+1	483	+149
General Dynamics	8,959	+21	880	+49
FOREST PRODUCTS				
International Paper	24,600	+3	199	-19
Georgia-Pacific	17,790	+35	716	+545
Kimberly-Clark	13,006	+6	1,668	+50
Boise Cascade	6,952	+13	200	NM
Fort James	6,827	+0	350	-29

IBM	87,548	+7	7,712	+22
Hewlett-Packard	43,808	+10	3,016	+8
Compaq Computer	38,525	+24	569	NM
Dell Computer	25,265	+38	1,666	+14
Xerox	19,228	-1	1,424	+143
PUBLISHING				
Time Warner	27,333	+87	1,960	+1067
CBS	7,373	+8	157	NM
Gannett	5,260	+8	919	-5
McGraw-Hill	3,992	+7	426	+25
Knight-	3,228	+4	40	+11

Source: Adapted from Corporate Scoreboard, *Business Week* (March 27, 2000): 167-192.

NM: Not Measurable

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

Despite the problems mentioned above, information on leading competitors in particular industries can be found in publications such as *Moody's Manuals, Standard Corporation Descriptions, Value Line Investment Surveys, Ward's Business Directory, Dun's Business Rankings, Standard & Poor's Industry Surveys, Industry Week, Forbes, Fortune, Business Week,* and *Inc.*

However, many businesses use the Internet to obtain most of their information on competitors. The Internet is fast, thorough, accurate, and increasingly indispensable in this regard. Questions about competitors such as those presented in Table are important to address in performing an external audit.

Key Questions About Competitors

1. What are the major competitors' strengths?
2. What are the major competitors' weaknesses?
3. What are the major competitors' objectives and strategies?
4. How will the major competitors most likely respond to current economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful counterattack by our major competitors?
7. How are our products or services positioned relative to major competitors?
8. To what extent are new firms entering and old firms leaving this industry?
9. What key factors have resulted in our present competitive position in this Industry?
10. How have the sales and profit rankings of major competitors in the industry changed

over recent years? Why have these rankings changed that way?

11. What is the nature of supplier and distributor relationships in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

Competition in virtually all industries can be described as intense and sometimes cutthroat. For example, when United Parcel Service (UPS) employees were on strike in 1997, competitors such as Federal Express, Greyhound, Roadway, and United Airlines lowered prices, doubled advertising efforts, and locked new customers into annual contracts in efforts to leave UPS customer-less when the strike ended. If a firm detects weakness in a competitor, no mercy at all is shown in capitalizing on its problems.

Seven characteristics describe the most competitive companies in America:

1) Market share matters; the 90th share point isn't as important as the 91st, and nothing is more dangerous than falling to 89;
2) Understand and remember precisely what business you are in;
3) Whether it's broke or not, fix it—make it better; not just products, but the whole company if necessary;
4) Innovate or evaporate; particularly in technology-driven businesses, nothing quite recedes like success;
5) Acquisition is essential to growth; the most successful purchases are in niches that add a technology or a related market;
6) People make a difference; tired of hearing it? Too bad;
7) There is no substitute for quality and no greater threat than failing to be cost-competitive on a global basis; these are complementary concepts, not mutually exclusive ones.
8)

Competitive Intelligence Programs

Systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business' own goals.

Every organization must have an intelligence programmed. It should be ethical and systematic for gathering and analyzing the information about competitor activities and activities involve in general business.

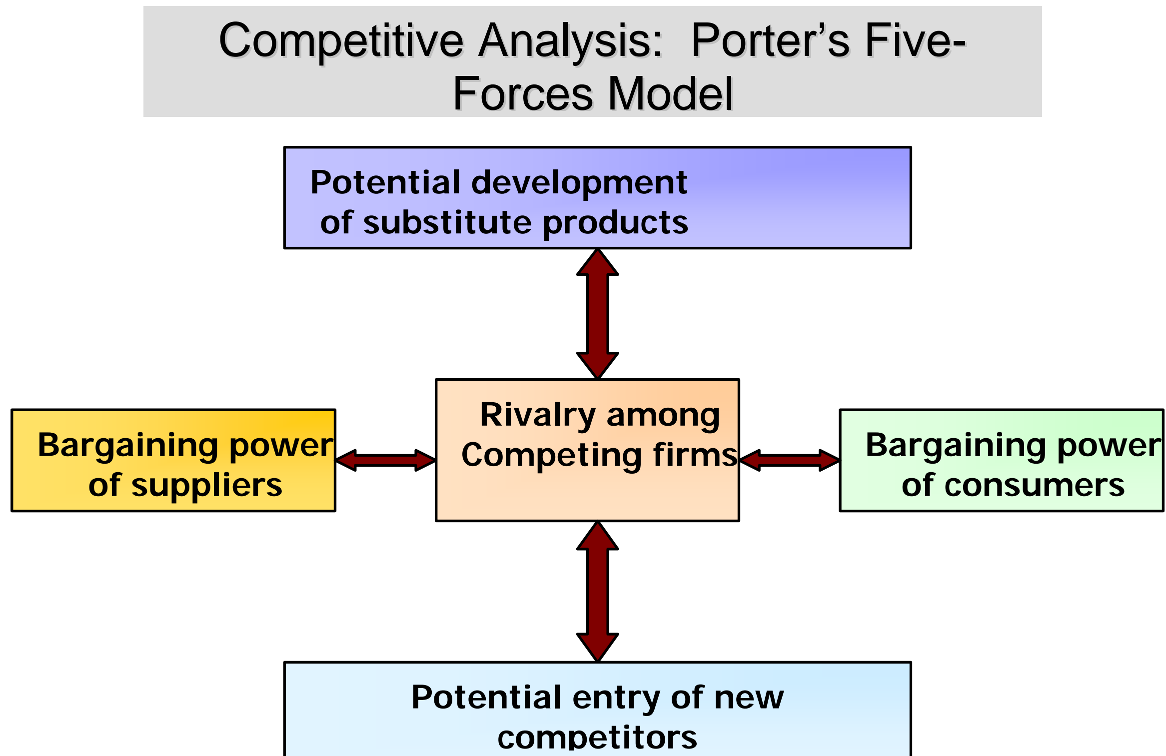
INDUSTRY ANALYSIS

Objectives:

The EFE Matrix and five-force model can help strategists evaluate the market and industry, but these tools must be accompanied by good intuitive judgment. Multinational firms especially need a systematic and effective external-audit system because external forces among foreign countries vary so greatly. This lecture provides you complete details of EFE matrix as a component of SWOT analysis.

Competitive Intelligence Programs and competitive analysis:

Systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business' own goals.



The central point lays the stress on rivalry of the competing firm. This relates to the intensity of the rivalry. How the firms compete with each other and to what extent? That should be taken into account very carefully.

Potential entry for new competitors shows a balance between different firms competing in a market. It also refers whenever a new partner enter into a market he may become threat for one and opportunity for other competing partners. As all the new entries and existing firms are competing with each other so the new entry will definitely make an effect on every one transacting in the market.

A potential development of substitute products also develops an environment of competition in the market among the competing partners. As all firms want to compete in term of quality and substitute will lasts for longer in the market if the quality of the substitute will be greater than the existing alternate. Other factors also have a major impact on the substitutes.

Collective bargaining power of suppliers and consumers: if vendors are less in the market and the organizations that have to purchase from those vendors are more then the demand for those suppliers will be more as the firms have to purchase from that less suppliers. The reverse is the case if suppliers are more and buyers are less. Then the demand for those suppliers will be less. Such circumstances create difficulties in bargaining.

These above five components constitute the basics elements for the competitive analysis.

Global challenge:

International Challenge faced by Pakistani firms:

- o How to gain and maintain exports to other nations
- o How to defend domestic markets against imported goods

The first challenge is the much bigger in the sense that we have to search for new market and retain in that market as the competition goes on increasing with every passing second. For this, we have to make a research in the market that how to retain in that market.

Second challenge is also depends upon the research that how we can retain in that market through competition and how to defend our market with violation of exports laws.

Industry Analysis: The External Factor Evaluation (EFE) Matrix

We can prepare EFE matrix after evaluating the key external factors discuss in the later lectures. There are all key factors which are needed to be summarized in order to make EFE matrix.

An *External Factor Evaluation (EFE) Matrix* allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. The EFE matrix consists of five steps process.

Five-Step process:

- **List key external factors** (10-20)
  - ➢ Opportunities & threats

You have to prepare a list of all external factors which will affect the EFE matrix. These factors should be two points to be kept in mind these are opportunities and threats.

- **Assign weight to each** (0 to 1.0)
  - ➢ Sum of all weights = 1.0

Now you have to arrange them according to their weight age that which factor is most important. It should be weight age in % ages. The sum of the total of all the factors should always be one.

- **Assign 1-4 rating to each factor**
  - Firm’s current strategies response to the factor: how well firms response to these factors.
- **Multiply each factor’s weight by its rating**
  - Produces a weighted score

How the firm will respond to these factors external factors. Such criteria are known as rating.

- **Sum the weighted scores for each**
  - ➢ Determines the total weighted score for the organization.
- Highest possible weighted score for the organization is 4.0; the lowest, 1.0. Average = 2.5

Illustrated in Table 3-11, the EFE Matrix can be developed in five steps:

1. List key external factors as identified in the external-audit process. Include a total of from ten to twenty factors, including both opportunities and threats affecting the firm and its industry. List the opportunities first and then the threats. Be as specific as possible, using percentages, ratios, and comparative numbers whenever possible.
2. Assign to each factor a weight that ranges from 0.0 (not important) to 1.0 (very important). The weight indicates the relative importance of that factor to being successful in the firm's industry. Opportunities often receive higher weights than threats, but threats too can receive high weights if they are especially severe or threatening. Appropriate weights can be determined by comparing successful with unsuccessful competitors or by discussing the factor and reaching a group consensus. The sum of all weights assigned to the factors must equal 1.0.
3. Assign a 1-to-4 rating to each key external factor to indicate how effectively the firm's current strategies respond to the factor, where = 5 *the response is superior,* 3 = *the response is above average,* 2 = *the response is average,* and 1 = *the response is poor*. Ratings are based on effectiveness of the firm's strategies. Ratings are, thus, company based, whereas the weights in Step 2 are industry based. It is important to note that both threats and opportunities can receive a 1, 2, 3, or 4.
4. Multiply each factor's weight by its rating to determine a weighted score.
5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

© Copyright Virtual University of Pakistan

An Example External Factor Evaluation Matrix for UST, Inc.			
KEY EXTERNAL FACTORS	**WEIGHT**	**RATING**	**WEIGHTED SCORE**
Opportunities			
1. Global markets are practically untapped by smokeless tobacco market	.15	1	.15
2. Increased demand caused by public banning of smoking	.05	3	.15
3. Astronomical Internet advertising growth	.05	1	.05
4. Pinkerton is leader in discount tobacco market	.15	4	.60
5. More social pressure to quit smoking, thus leading users to switch to alternatives	.10	3	.30
Threats			
1. Legislation against the tobacco industry	.10	2	.20
2. Production limits on tobacco increases competition for production	.05	3	.15
3. Smokeless tobacco market is concentrated in southeast region of United States	.05	2	.10
4. Bad media exposure from the FDA	.10	2	.20
5. Clinton administration	.20	1	.20
TOTAL	**1.00**		**2.10**

Regardless of the number of key opportunities and threats included in an EFE Matrix, the highest possible total weighted score for an organization is 4.0 and the lowest possible total weighted score is 1.0. The average total weighted score is 2.5. A total weighted score of 4.0 indicates that an organization is responding in an outstanding way to existing opportunities and threats in its industry. In other words, the firm's strategies effectively take advantage of existing opportunities and minimize the potential adverse effect of external threats. A total score of 1.0 indicates that the firm's strategies are not capitalizing on opportunities or avoiding external threats.

An example of an EFE Matrix is provided in Table for UST, Inc., the manufacturer of Skoal and Copenhagen smokeless tobacco. Note that the Clinton administration was considered to be the most important factor affecting this industry, as indicated by the weight of 0.20. UST was not pursuing strategies that effectively capitalize on this opportunity, as indicated by the rating of 1.01. The total weighted score of 2.10 indicates that UST is below average in its effort to pursue strategies that capitalize on external opportunities and avoid threats. It is important to note here that a thorough understanding of the factors being used in the EFE Matrix is more important than the actual weights and ratings assigned.

Total weighted score of 4.0 =

Organization response is outstanding to threats & weaknesses

Total weighted score of 1.0 =

Firm’s strategies not capitalizing on opportunities or avoiding threats

UST (in the previous example), has a total weighted score of 2.10 indicating that the firm is below average in its effort to pursue strategies that capitalize on external opportunities and avoid threats.

Note: Understanding of the factors used in the EFE Matrix is more important than the actual weights and ratings assigned.

This is important to understand the factors for which you are preparing the EFE matrix than the weight age given to the each factors.

The Competitive Profile Matrix (CPM)

The Competitive Profile Matrix (CPM) identifies a firm's major competitors and their particular strengths and weaknesses in relation to a sample firm's strategic position.

The weights and total weighted scores in both a CPM and EFE have the same meaning. However, the factors in a CPM include both internal and external issues; therefore, the ratings refer to strengths and weaknesses, where 4 5 major strength, 3 5 minor strength, 2 5 minor weakness, and 1 5 major weakness. There are some important differences between the EFE and CPM. First of all, the critical success factors in a CPM are broader; they do not include specific or factual data and even may focus on internal issues. The critical success factors in a CPM also are not grouped into opportunities and threats as they are in an EFE. In a CPM the ratings and total weighted scores for rival firms can be compared to the sample firm. This comparative analysis provides important internal strategic information.

A sample Competitive Profile Matrix is provided in Table. In this example, advertising and global expansion are the most important critical success factors, as indicated by a weight of 0.20. Avon's and L'Oreal's product quality is superior, as evidenced by a rating of 4; L'Oreal's "financial position" is good, as indicated by a rating of 3; Procter & Gamble is the weakest firm overall, as indicated by a total weighted score of 2.80.

A Competitive Profile Matrix

		AVON		**L'OREAL**		**PROCTER&GAMBLE**	
CRITICAL SUCCESS FACTORS	**WEIGHT**	**RATING**	**SCORE**	**RATING**	**SCORE**	**RATING**	**SCORE**
Advertising	0.20	1	0.20	4	0.80	3	0.60
Product Quality	0.10	4	0.40	4	0.40	3	0.30
Price Competitiveness	0.10	3	0.30	3	0.30	4	0.40
Management	0.10	4	0.40	3	0.30	3	0.30
Financial Position	0.15	4	0.60	3	0.45	3	0.45
Customer Loyalty	0.10	4	0.40	4	0.40	2	0.20
Global Expansion	0.20	4	0.80	2	0.40	2	0.40
Market Share	0.05	1	0.05	4	0.20	3	0.15
TOTAL	1.00		3.15		3.25		2.80

Note: (1) The ratings values are as follows: 1 = major weakness, 2 = minor weakness, 3 = minor strength, 4 = major strength. (2) As indicated by the total weighted score of 2.8, Competitor 3 is weakest. (3) Only eight critical success factors are included for simplicity; this is too few in actuality.

Other than the critical success factors listed in the example CPM, other factors often included in this analysis include breadth of product line, effectiveness of sales distribution, proprietary or patent advantages, location of facilities, production capacity and efficiency, experience, union relations, technological advantages, and e-commerce expertise.

A word on interpretation: Just because one firm receives a 3.2 rating and another receives a 2.8 rating in a Competitive Profile Matrix, it does not follow that the first firm is 20 percent better than the second. Numbers reveal the relative strength of firms, but their implied precision is an illusion. Numbers are not magic. The aim is not to arrive at a single number but rather to assimilate and evaluate information in a meaningful way that aids in decision making.

© Copyright Virtual University of Pakistan

IFE MATRIX

Objectives:

This Lecture focuses on identifying and evaluating a firm's strengths and weaknesses in the functional areas of business, including management, marketing, finance/accounting, production/operations, research and development, and computer information systems. Relationships among these areas of business are examined. Strategic implications of important functional area concepts are examined. The process of performing an internal audit is described in these lectures.

- The Nature of an Internal Audit
- Integrating Strategy and Culture
- Management
- Marketing
- Finance/Accounting
- Production/Operations
- Research and Development
- Management Information Systems
- The Internal Factor Evaluation Matrix (IFE)

The Internal Factor Evaluation (IFE) Matrix

Great spirits have always encountered violent opposition from mediocre minds.
-- Albert Einstein

A summary step in conducting an internal strategic-management audit is to construct an *Internal Factor Evaluation (IFE) Matrix*. This strategy-formulation tool summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas. Intuitive judgments are required in developing an IFE Matrix, so the appearance of a scientific approach should not be interpreted to mean this is an all-powerful technique. A thorough understanding of the factors included is more important than the actual numbers. Similar to the EFE Matrix and Competitive Profile Matrix, an IFE Matrix can be developed in five steps:

1. List key internal factors as identified in the internal-audit process. Use total of from ten to twenty internal factors, including both strengths and weaknesses. List strengths first and then weaknesses. Be as specific as possible, using percentages, ratios, and comparative numbers.
2. Assign a weight that ranges from 0.0 (not important) to 1.0 (all-important) to each factor. The weight assigned to a given factor indicates the relative importance of the factor to being successful in the firm's industry. Regardless of whether a key factor is an internal strength or weakness, factors considered to have the greatest effect on organizational performance should be assigned the highest weights. The sum of all weights must equal 1.0.
3. Assign a 1-to-4 rating to each factor to indicate whether that factor represents a major weakness (rating = 1), a minor weakness (rating = 2), a minor strength (rating = 3), or a major strength (rating = 4). Note that strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating. Ratings are, thus, company based, whereas the weights in Step 2 are industry based.
4. Multiply each factor's weight by its rating to determine a weighted score for each variable.
5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

Regardless of how many factors are included in an IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0, with the average score being 2.5. Total weighted scores well below 2.5 characterize organizations that are weak internally, whereas scores significantly above 2.5 indicate a strong internal position. Like the EFE Matrix, an IFE Matrix should include from 10 to 20 key factors. The number of factors has no effect upon the range of total weighted scores because the weights always sum to 1.0.

When a key internal factor is both strength and weakness, the factor should be included twice in the IFE Matrix, and a weight and rating should be assigned to each statement. For example, the Playboy logo both helps and hurts Playboy Enterprises; the logo attracts customers to the *Playboy* magazine, but it keeps the Playboy cable channel out of many markets.

An example of an IFE Matrix for Circus Enterprises is provided in Table. Note that the firm's major strengths are its size, occupancy rates, property, and long-range planning as indicated by the rating of 4. The

major weaknesses are locations and recent joint venture. The total weighted score of 2.75 indicates that the firm is above average in its overall internal strength.

A Sample Internal Factor Evaluation Matrix for Circus Circus Enterprises			
Key Internal Factors	**Weight**	**Rating**	**Weighted Score**
Internal Strengths			
1. Largest casino company in the United States	.05	4	.20
2. Room occupancy rates over 95% in Las Vegas	.10	4	.40
3. Increasing free cash flows	.05	3	.15
4. Owns one mile on Las Vegas Strip	.15	4	.60
5. Strong management team	.05	3	.15
6. Buffets at most facilities	.05	3	.15
7. Minimal comps provided	.05	3	.15
8. Long-range planning	.05	4	.20
9. Reputation as family-friendly	.05	3	.15
10. Financial ratios	.05	3	.15
Internal Weaknesses			
1. Most properties are located in Las Vegas	.05	1	.05
2. Little diversification	.05	2	.10
3. Family reputation, not high rollers	.05	2	.10
4. Laughlin properties	.10	1	.10
5. Recent loss of joint ventures	.10	1	.10
TOTAL	1.00		2.75

In multidivisional firms, each autonomous division or strategic business unit should construct an IFE Matrix. Divisional matrices then can be integrated to develop an overall corporate IFE Matrix.

The Nature of an Internal Audit

Basis for objectives & strategies:

- Internal strengths/weaknesses
- External opportunities/threats
- Clear statement of mission

Functional business areas:

- Vary by organization
- Divisions have differing strengths and weaknesses

Distinctive Competencies:

- A firm’s strengths that cannot be easily matched or imitated by competitors
- Building competitive advantage involves taking advantage of distinctive competencies
- Strategies designed in part to improve on a firm’s weaknesses and turn to strengths

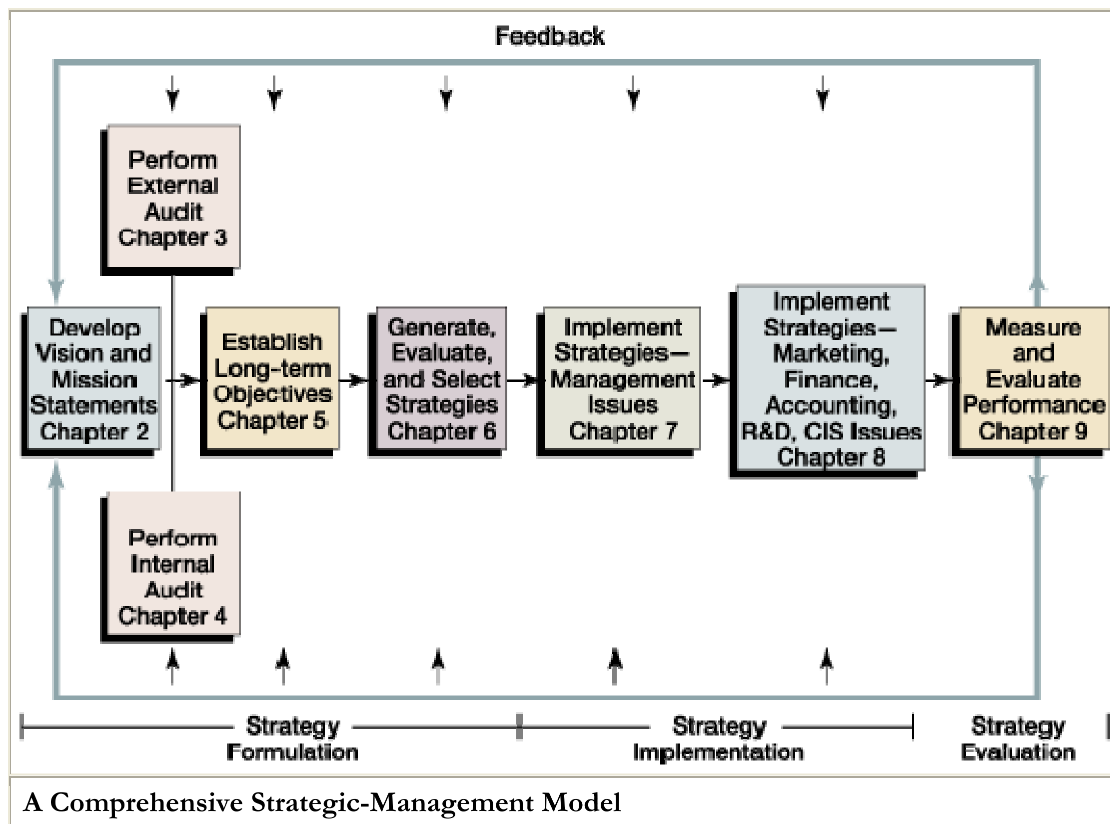
© Copyright Virtual University of Pakistan

Internal Audit is Parallels process of external audit. It gathers & assimilates information from:

- Management
- Marketing
- Finance/accounting
- Production/operations
- Research & development
- Management information systems

Involvement in performing an internal strategic-management audit provides vehicle for understanding nature and effect of decisions in other functional business areas of the firm.

All organizations have strengths and weaknesses in the functional areas of business. No enterprise is equally strong or weak in all areas. Maytag, for example, is known for excellent production and product design, whereas Procter & Gamble is known for superb marketing. Internal strengths/weaknesses, coupled with external opportunities/threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalizing upon internal strengths and overcoming weaknesses. The internal-audit part of the strategic-management process is illustrated in Figure below.



A Comprehensive Strategic-Management Model

Key to organizational success: Internal audit creates an environment of Coordination and understanding among managers from all functional areas.

Key Internal Forces

It is not possible in a business policy text to review in depth all the material presented in courses such as marketing, finance, accounting, management, computer information systems, and production/operations; there are many sub areas within these functions, such as customer service, warranties, advertising, packaging, and pricing under marketing.

For different types of organizations, such as hospitals, universities, and government agencies, the functional business areas, of course, differ. In a hospital, for example, functional areas may include cardiology, hematology, nursing, maintenance, physician support, and receivables. Functional areas of a university can include athletic programs, placement services, housing, fund raising, academic research, counseling, and

intramural programs. Within large organizations, each division has certain strengths and weaknesses. For example, AT&T is strong in communications and weak in computers.
A firm's strengths that cannot be easily matched or imitated by competitors are called *distinctive competencies*. Building competitive advantages involves taking advantage of distinctive competencies. For example, 3M exploits its distinctive competence in research and development by producing a wide range of innovative products. Strategies are designed in part to improve on a firm's weaknesses, turning them into strengths, and maybe even into distinctive competencies.
Some researchers emphasize the importance of the internal audit part of the strategic-management process by comparing it to the external audit.

The Process of Performing an Internal Audit

Functional relationships refer to the Number and complexity increases relative to organization size.
The process of performing an *internal audit* closely parallels the process of performing an external audit. Representative Managers and employees from throughout the firm need to be involved in determining a firm's strengths and weaknesses. The internal audit requires gathering and assimilating information about the firm's management, marketing, finance/accounting, production/operations, research and development (R&D), and computer information systems operations.
Compared to the external audit, the process of performing an internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization. This is a great benefit because managers and employees perform better when they understand how their work affects other areas and activities of the firm. For example, when marketing and manufacturing managers jointly discuss issues related to internal strengths and weaknesses, they gain a better appreciation of issues, problems, concerns, and needs in all the functional areas. In organizations that do not use strategic management, marketing, finance, and manufacturing managers often do not interact with each other in significant ways. Performing an internal audit, thus, is an excellent vehicle or forum for improving the process of communication in the organization. *Communication* may be the most important word in management.
Performing an internal audit requires gathering, assimilating, and evaluating information about the firm's operations. Critical success factors, consisting of both strengths and weaknesses, can be identified and prioritized in the manner discussed later chapters.
The development of conclusions on the 10 to 20 most important organizational strengths and weaknesses can be, as any experienced manager knows, a difficult task, when it involves managers representing various organizational interests and points of view. Developing a 20-page list of strengths and weaknesses could be accomplished relatively easily, but a list of the 10 to 15 most important ones involves significant analysis and negotiation. This is true because of the judgments that are required and the impact which such a list will inevitably have as it is used in the formulation, implementation, and evaluation of strategies.
Strategic management is a highly interactive process that requires effective coordination among management, marketing, finance/accounting, production/operations, R&D, and computer information systems managers. Although the strategic-management process is overseen by strategists, success requires that managers and employees from all functional areas work together to provide ideas and information. Financial managers, for example, may need to restrict the number of feasible options available to operations managers, or R&D managers may develop such good products that marketing managers need to set higher objectives. A key to organizational success is effective coordination and understanding among managers from all functional business areas. Through involvement in performing an internal strategic-management audit, managers from different departments and divisions of the firm come to understand the nature and effect of decisions in other functional business areas in their firm. Knowledge of these relationships is critical for effectively establishing objectives and strategies.
A failure to recognize and understand relationships among the functional areas of business can be detrimental to strategic management, and the number of those relationships that must be managed increases dramatically with a firm's size, diversity, geographic dispersion, and the number of products or services offered. Governmental and nonprofit enterprises traditionally have not placed sufficient emphasis on relationships among the business functions. For example, some state governments, utilities, universities, and hospitals only recently have begun to establish marketing objectives and policies that are consistent with their financial capabilities and limitations. Some firms place too great an emphasis on one function at the expense of others.

© Copyright Virtual University of Pakistan

Financial Ratio Analysis:

Financial ratio analysis exemplifies the complexity of relationships among the functional areas of business. A declining return on investment or profit margin ratio could be the result of ineffective marketing, poor management policies, research and development errors, or a weak computer information system. The effectiveness of strategy formulation, implementation, and evaluation activities hinges upon a clear understanding of how major business functions affect one another. For strategies to succeed, a coordinated effort among all the functional areas of business is needed.

Integrating Strategy and Culture

Organizational Culture

Pattern of behavior developed by an organization as it learns to cope with its problem of external adaptation and internal integration…is considered valid and taught to new members

- Resistant to change
- May represent a strength or weakness of the firm

Relationships among a firm's functional business activities perhaps can be exemplified best by focusing on organizational culture, an internal phenomenon that permeates all departments and divisions of an organization. ***Organizational culture can be defined as "a pattern of behavior developed by an organization as it learns to cope with its problem of external adaptation and internal integration that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think, and feel."*** This definition emphasizes the importance of matching external with internal factors in making strategic decisions.

Organizational culture captures the subtle, elusive, and largely unconscious forces that shape a workplace. Remarkably resistant to change, culture can represent a major strength or weakness for the firm. It can be an underlying reason for strengths or weaknesses in any of the major business functions.

Defined in Table below *cultural products* include values, beliefs, rites, rituals, ceremonies, myths, stories, legends, sagas, language, metaphors, symbols, heroes, and heroines. These products or dimensions are levers that strategists can use to influence and direct strategy formulation, implementation, and evaluation activities. An organization's culture compares to an individual's personality in the sense that no organization has the same culture and no individual has the same personality. Both culture and personality are fairly enduring and can be warm, aggressive, friendly, open, innovative, conservative, liberal, harsh, or likable.

Cultural Products and Associated Definitions	
Rites	Relatively elaborate, dramatic, planned sets of activities that consolidate various forms of cultural expressions into one event, carried out through social interactions, usually for the benefit of an audience
Ceremonial	A system of several rites connected with a single occasion or event
Ritual	A standardized, detailed set of techniques and behaviors that manage anxieties, but seldom produce intended, technical consequences of practical importance
Myth	A dramatic narrative of imagined events usually used to explain origins or transformations of something. Also, an unquestioned belief about the practical benefits of certain techniques and behaviors that is not supported by facts
Saga	An historical narrative describing the unique accomplishments of a group and its leaders, usually in heroic terms
Legend	A handed-down narrative of some wonderful event that is based on history but has been embellished with fictional details
Story	A narrative based on true events, sometimes a combination of truth and fiction

Folktale	A completely fictional narrative
Symbol	Any object, act, event, quality, or relation that serves as a vehicle for conveying meaning, usually by representing another thing
Language	A particular form or manner in which members of a group use sounds and written signs to convey meanings to each other
Metaphors	Shorthand words used to capture a vision or to reinforce old or new values
Values	Life-directing attitudes that serve as behavioral guidelines
Belief	An understanding of a particular phenomenon
Heroes/Heroines	Individuals whom the organization has legitimized to model behavior for others

Source: Adapted from H.M. Trice and J.M. Beyer, "Studying Organizational Cultures through Rites and Ceremonials," *Academy of Management Review* 9, no. 4 (October 1984): 655.

Dimensions of organizational culture permeate all the functional areas of business. It is something of an art to uncover the basic values and beliefs that are buried deeply in an organization's rich collection of stories, language, heroes, and rituals, but cultural products can represent important strengths and weaknesses. Culture is an aspect of organizations that no longer can be taken for granted in performing an internal strategic-management audit because culture and strategy must work together.
Culture can inhibit strategic management:

- Miss changes in external environment because they are blinded by strongly held beliefs
- When a culture has been effective in the past, natural tendency to stick with it in future, even during times of major strategic change

The strategic-management process takes place largely within a particular organization's culture. An organization's culture must support the collective commitment of its people to a common purpose. It must foster competence and enthusiasm among managers and employees.
Organizational culture significantly affects business decisions and, thus, must be evaluated during an internal strategic-management audit. If strategies can capitalize on cultural strengths, such as a strong work ethic or highly ethical beliefs, then management often can implement changes swiftly and easily. However, if the firm's culture is not supportive, strategic changes may be ineffective or even counterproductive. A firm's culture can become antagonistic to new strategies, with the result being confusion and disorientation. An organization's culture should infuse individuals with enthusiasm for implementing strategies.
Internal strengths and weaknesses associated with a firm's culture sometimes are overlooked because of the inter functional nature of this phenomenon. It is important, therefore, for strategists to understand their firm as a socio cultural system. Success is often determined by linkages between a firm's culture and strategies. The challenge of strategic management today is to bring about the changes in organizational culture and individual mind-sets necessary to support the formulation, implementation, and evaluation of strategies.

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

The Basic Functions of Management

Function	**Description**	**Stage of Strategic-Management Process When Most Important**

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

© Copyright Virtual University of Pakistan

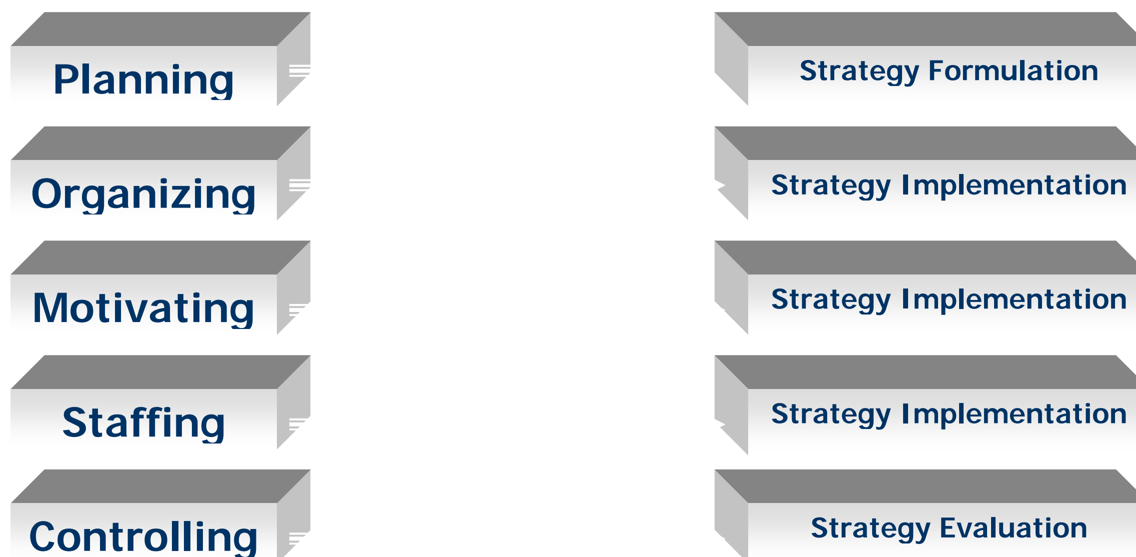
FUNCTIONS OF MANAGEMENT:

Objectives:

This lecture provides all the information regarding what are the core functions of management in a business firm.

Functions of management

Functions of Management

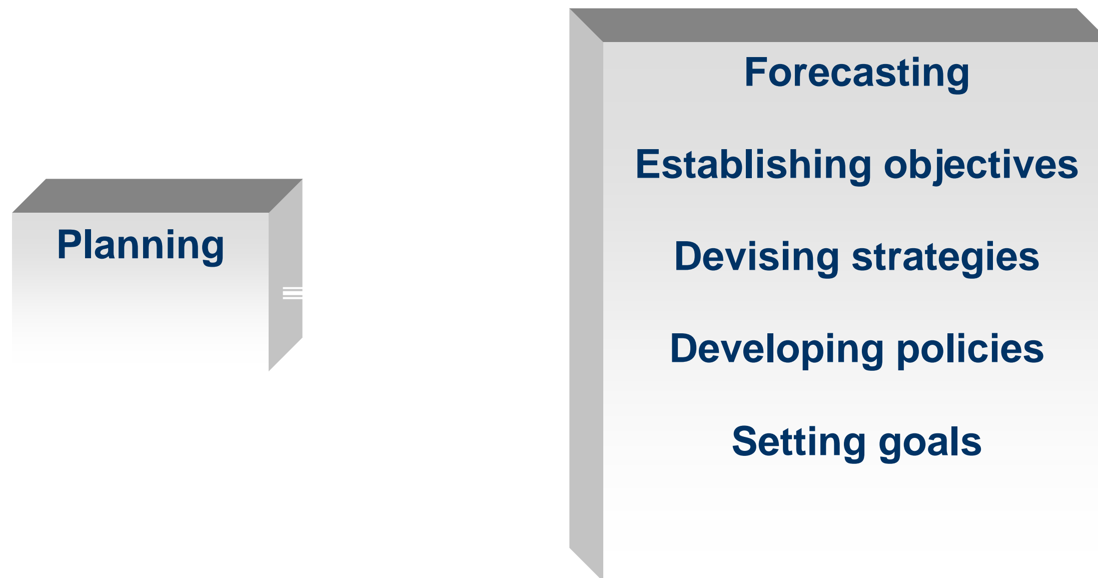


Planning:

Planning is the:

- Start of the process
- Bridge between present and future
- Increases likelihood of achieving desired results

Planning



The only thing certain about the future of any organization is change, and *planning* is the essential bridge between the present and the future that increases the likelihood of achieving desired results. Planning is the process by which one determines whether to attempt a task, works out the most effective way of reaching desired objectives, and prepares to overcome unexpected difficulties with adequate resources. Planning is the start of the process by which an individual or business may turn empty dreams into achievements. Planning enables one to avoid the trap of working extremely hard but achieving little.

Planning is an up-front investment in success. Planning helps a firm achieve maximum effect from a given effort. Planning enables a firm to take into account relevant factors and focus on the critical ones. Planning helps ensure that the firm can be prepared for all reasonable eventualities and for all changes that will be needed. Planning enables a firm to gather the resources needed and carry out tasks in the most efficient way possible. Planning enables a firm to conserve its own resources, avoid wasting ecological resources, make a fair profit, and be seen as an effective, useful firm. Planning enables a firm to identify precisely what is to be achieved and to detail precisely the who, what, when, where, and why needed to achieve desired objectives. Planning enables a firm to assess whether the effort, costs and implications associated with achieving desired objectives are warranted. Planning is the cornerstone of effective strategy formulation. But even though it is considered the foundation of management, it is commonly the task that managers neglect most. Planning is essential for successful strategy implementation and strategy evaluation, largely because organizing, motivating, staffing, and controlling activities depend upon good planning.

The process of planning must involve managers and employees throughout an organization. The time horizon for planning decreases from two to five years for top-level to less than six months for lower-level managers. The important point is that all managers do planning and should involve subordinates in the process to facilitate employee understanding and commitment.

Planning can have a positive impact on organizational and individual performance. Planning allows an organization to identify and take advantage of external opportunities and minimize the impact of external threats. Planning is more than extrapolating from the past and present into the future. It also includes developing a mission, forecasting future events and trends, establishing objectives, and choosing strategies to pursue.

An organization can develop synergy through planning. *Synergy* exists when everyone pulls together as a team that knows what it wants to achieve; synergy is the 2 1 2 5 5 effect. By establishing and communicating clear objectives, employees and managers can work together toward desired results. Synergy can result in powerful competitive advantages. The strategic-management process itself is aimed at creating synergy in an organization.

© Copyright Virtual University of Pakistan

Planning allows a firm to adapt to changing markets and thus shape its own destiny. Strategic management can be viewed as a formal planning process that allows an organization to pursue proactive rather than reactive strategies. Successful organizations strive to control their own futures rather than merely react to external forces and events as they occur. Historically, organisms and organizations that have not adapted to changing conditions have become extinct. Swift adaptation is needed today more than ever before because changes in markets, economies, and competitors worldwide are accelerating.

Organizing:

- Achieve coordinated effort
- Defining task and authority relationships
- Departmentalization
- Delegation of authority

Organizing

Organizational design
Job specialization
Job descriptions
Job specifications
Span of control
Unity of command
Coordination
Job design
Job analysis

The purpose of *organizing* is to achieve coordinated effort by defining task and authority relationships. Organizing means determining who does what and who reports to whom. There are countless examples in history of well-organized enterprises successfully competing against, and in some cases defeating, much stronger but less-organized firms. A well-organized firm generally has motivated managers and employees who are committed to seeing the organization succeed. Resources are allocated more effectively and used more efficiently in a well-organized firm than in a disorganized firm.

The organizing function of management can be viewed as consisting of three sequential activities: breaking tasks down into jobs (work specialization), combining jobs to form departments (departmentalization), and delegating authority. Breaking tasks down into jobs requires development of job descriptions and job specifications. These tools clarify for both managers and employees what particular jobs entail.

Combining jobs to form departments' results in an organizational structure, span of control, and a chain of command. Changes in strategy often require changes in structure because new positions may be created, deleted, or merged. Organizational structure dictates how resources are allocated and how objectives are established in a firm. Allocating resources and establishing objectives geographically, for example, is much different from doing so by product or customer.

The most common forms of departmentalization are functional, divisional, strategic business unit, and matrix.

Delegating authority is an important organizing activity, as evidenced in the old saying "You can tell how good a manager is by observing how his or her department functions when he or she isn't there." Employees today are more educated and more capable of participating in organizational decision making than ever before. In most cases, they expect to be delegated authority and responsibility, and to be held accountable for results. Delegation of authority is embedded in the strategic-management process.

Motivating

- Influencing people to accomplish specific objectives
- Communication is a major component

Motivating can be defined as the process of influencing people to accomplish specific objectives. Motivation explains why some people work hard and others do not. Objectives, strategies, and policies have little chance of succeeding if employees and managers are not motivated to implement strategies once they are formulated. The motivating function of management includes at least four major components: leadership, group dynamics, communication, and organizational change.

When managers and employees of a firm strive to achieve high levels of productivity, this indicates that the firm's strategists are good leaders. Good leaders establish rapport with subordinates, empathize with their needs and concerns, set a good example, and are trustworthy and fair. Leadership includes developing a vision of the firm's future and inspiring people to work hard to achieve that vision. Kirkpatrick and Locke reported that certain traits also characterize effective leaders: knowledge of the business, cognitive ability, self-confidence, honesty, integrity, and drive.

Research suggests that democratic behavior on the part of leader's results in more positive attitudes toward change and higher productivity than does autocratic behavior.
Group dynamics play a major role in employee morale and satisfaction. Informal groups or coalitions form in every organization. The norms of coalitions can range from being very positive to very negative toward management. It is important, therefore, that strategists identify the composition and nature of informal groups in an organization to facilitate strategy formulation, implementation, and evaluation. Leaders of informal groups are especially important in formulating and implementing strategy changes.

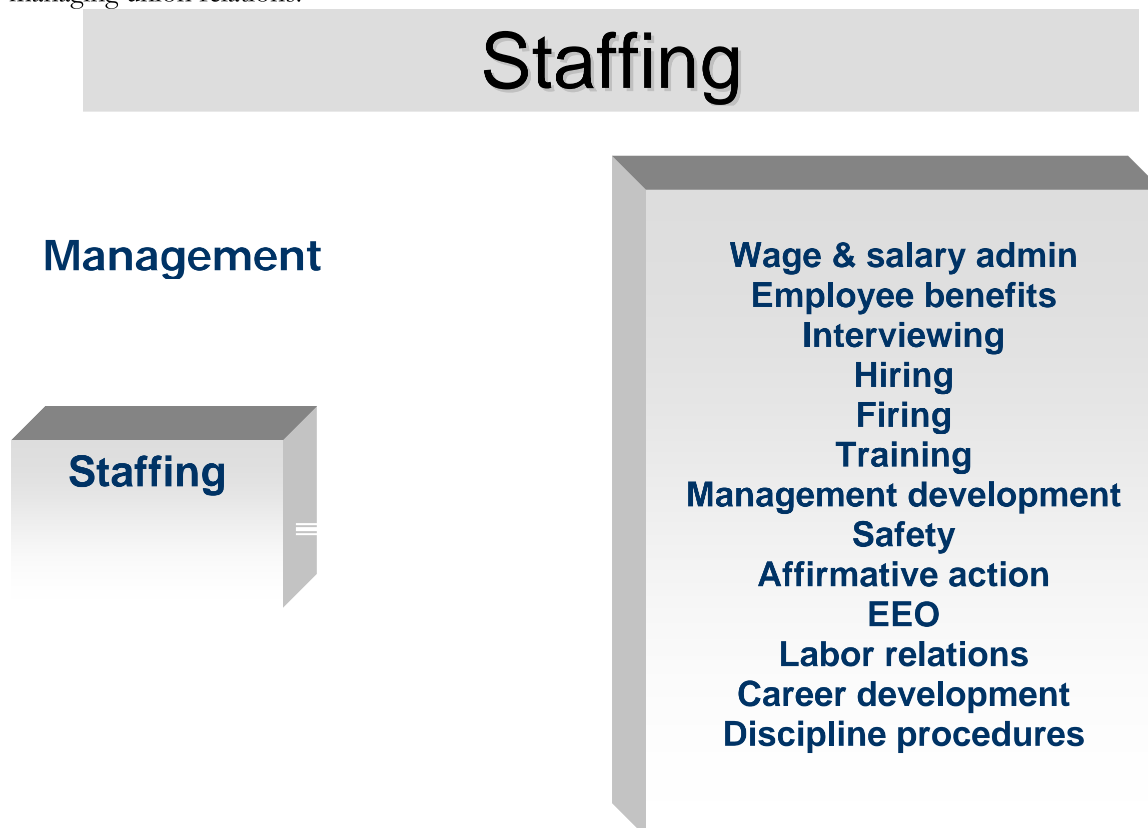
© Copyright Virtual University of Pakistan

Communication, perhaps the most important word in management, is a major component in motivation. An organization's system of communication determines whether strategies can be implemented successfully. Good two-way communication is vital for gaining support for departmental and divisional objectives and policies. Top-down communication can encourage bottom-up communication. The strategic-management process becomes a lot easier when subordinates are encouraged to discuss their concerns, reveal their problems, provide recommendations, and give suggestions. A primary reason for instituting strategic management is to build and support effective communication networks throughout the firm.

Staffing

- Personnel management
- Human resources management

The management function of *staffing,* also called *personnel management* or *human resource management,* includes activities such as recruiting, interviewing, testing, selecting, orienting, training, developing, caring for, evaluating, rewarding, disciplining, promoting, transferring, demoting, and dismissing employees, and managing union relations.



Staffing activities play a major role in strategy-implementation efforts, and for this reason human resource managers are becoming more actively involved in the strategic-management process. Strengths and weaknesses in the staffing area are important to identify.

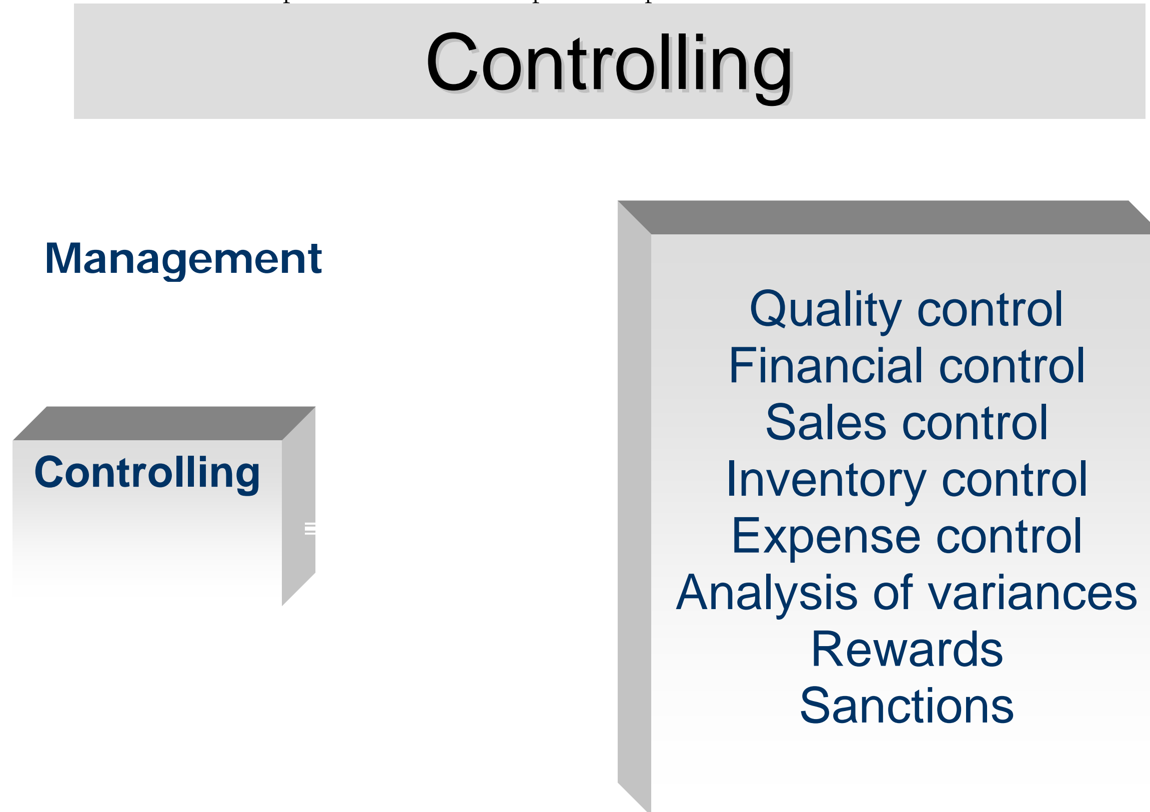
The complexity and importance of human resource activities have increased to such a degree that all but the smallest organizations now need a full-time human resource manager. Numerous court cases that directly affect staffing activities are decided each day. Organizations and individuals can be penalized severely for not following federal, state, and local laws and guidelines related to staffing. Line managers simply cannot stay abreast of all the legal developments and requirements regarding staffing. The human resources department coordinates staffing decisions in the firm so that an organization as a whole meets legal requirements. This department also provides needed consistency in administering company rules, wages, and policies.

Human resources management is particularly challenging for international companies. For example, the inability of spouses and children to adapt to new surroundings has become a major staffing problem in overseas transfers. The problems include premature returns, job performance slumps, resignations, discharges, low morale, marital discord, and general discontent.

Strategists are becoming increasingly aware of how important human resources are to effective strategic management. Human resource managers are becoming more involved and more proactive in formulating and implementing strategies. They provide leadership for organizations that are restructuring or allowing employees to work at home.

Controlling

- Ensure actual operations conform to planned operations



The *controlling* function of management includes all those activities undertaken to ensure that actual operations conform to planned operations. All managers in an organization have controlling responsibilities, such as conducting performance evaluations and taking necessary action to minimize inefficiencies. The controlling function of management is particularly important for effective strategy evaluation. Controlling consists of four basic steps:

1. Establishing performance standards
2. Measuring individual and organizational performance
3. Comparing actual performance to planned performance standards
4. Taking corrective actions

Measuring individual performance is often conducted ineffectively or not at all in organizations. Some reasons for this shortcoming are that evaluation can create confrontations that most managers prefer to avoid, can take more time than most managers are willing to give, and can require skills that many managers lack. No single approach to measuring individual performance is without limitations. For this reason, an organization should examine various methods, such as the graphic rating scale, the behaviorally anchored rating scale, and the critical incident method, and then develop or select a performance appraisal approach that best suits the firm's needs.

Management Audit Checklist of Questions

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

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

© Copyright Virtual University of Pakistan

FUNCTIONS OF MANAGEMENT

Objectives:

After reading this lecture, you will be able to know about the functions of management and how firm formulate strategies in order to perform these functions.

Marketing:

Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services.

There are seven basic *functions of marketing:*

(1) Customer analysis,
(2) Selling products/services,
(3) Product and service planning,
(4) Pricing,
(5) Distribution,
(6) Marketing research, and
(7) Opportunity analysis.

Understanding these functions helps strategists identify and evaluate marketing strengths and weaknesses.

Customer Analysis

Customer analysis—the examination and evaluation of consumer needs, desires, and wants—involves administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies. The information generated by customer analysis can be essential in developing an effective mission statement. Customer profiles can reveal the demographic characteristics of an organization's customers. Buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors can all participate in gathering information to identify customers' needs and wants successfully. Successful organizations continually monitor present and potential customers' buying patterns.

Selling Products/Services

Successful strategy implementation generally rests upon the ability of an organization to sell some product or service. *Selling* includes many marketing activities such as advertising, sales promotion, publicity, personal selling, sales force management, customer relations, and dealer relations. These activities are especially critical when a firm pursues a market penetration strategy. The effectiveness of various selling tools for consumer and industrial products varies. Personal selling is most important for industrial goods companies, and advertising is most important for consumer goods companies. Determining organizational strengths and weaknesses in the selling function of marketing is an important part of performing an internal strategic-management audit.

With regard to advertising products and services on the Internet, a new trend is to base advertising rates exclusively on sale rates. This new accountability contrasts sharply with traditional broadcast and print advertising that bases rates on the number of persons expected to see a given advertisement. The new cost-per-sale online advertising rates are possible because any Web site can monitor which user clicks on which advertisement and then can record whether that consumer actually buys the product. If there are no sales, then the advertisement is free.

The most popular type of Internet advertisement is the banner. However, many people just ignore online banner advertisements.

Product and Service Planning

Product and service planning includes activities such as test marketing; product and brand positioning; devising warranties; packaging; determining product options, product features, product style, and product quality; deleting old products; and providing for customer service. Product and service planning is particularly important when a company is pursuing product development or diversification.

One of the most effective product and service planning techniques is *test marketing.* Test markets allow an organization to test alternative marketing plans and to forecast future sales of new products. In conducting a test market project, an organization must decide how many cities to include, which cities to include, how

long to run the test, what information to collect during the test, and what action to take after the test has been completed. Test marketing is used more frequently by consumer goods companies than by industrial goods companies. Test marketing can allow an organization to avoid substantial losses by revealing weak products and ineffective marketing approaches before large-scale production begins.

Pricing

Five major stakeholders affect *pricing* decisions:

- Consumers,
- Governments,
- Suppliers,
- Distributors,
- Competitors.

Sometimes an organization will pursue a forward integration strategy primarily to gain better control over prices charged to consumers. Governments can impose constraints on price fixing, price discrimination, minimum prices, unit pricing, price advertising, and price controls.

Competing organizations must be careful not to coordinate discounts, credit terms, or condition of sale; not to discuss prices, markups, and costs at trade association meetings; and not to arrange to issue new price lists on the same date, to rotate low bids on contracts, or to uniformly restrict production to maintain high prices. Strategists should view price from both a short-run and a long-run perspective, because competitors can copy price changes with relative ease. Often a dominant firm will aggressively match all price cuts by competitors.

With regard to pricing, as the value of the dollar increases, which it has been doing steadily, U.S. multinational companies have a choice. They can raise prices in the local currency of a foreign country or risk losing sales and market share. Alternatively, multinational firms can keep prices steady and face reduced profit when their export revenue is reported in the United States in dollars.

Distribution

Distribution includes warehousing, distribution channels, distribution coverage, retail site locations, sales territories, inventory levels and location, transportation carriers, wholesaling, and retailing. Most producers today do not sell their goods directly to consumers. Various marketing entities act as intermediaries; they bear a variety of names such as wholesalers, retailers, brokers, facilitators, agents, middlemen, vendors, or simply distributors.

Distribution becomes especially important when a firm is striving to implement a market development or forward integration strategy. Some of the most complex and challenging decisions facing a firm concern product distribution. Intermediaries flourish in our economy because many producers lack the financial resources and expertise to carry out direct marketing. Manufacturers who could afford to sell directly to the public often can gain greater returns by expanding and improving their manufacturing operations. Even General Motors would find it very difficult to buy out its more than eighteen thousand independent dealers.

Successful organizations identify and evaluate alternative ways to reach their ultimate market. Possible approaches vary from direct selling to using just one or many wholesalers and retailers. Strengths and weaknesses of each channel alternative should be determined according to economic, control, and adaptive criteria. Organizations should consider the costs and benefits of various wholesaling and retailing options. They must consider the need to motivate and control channel members and the need to adapt to changes in the future. Once a marketing channel is chosen, an organization usually must adhere to it for an extended period of time.

Marketing Research

Marketing research is the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services. Marketing research can uncover critical strengths and weaknesses, and marketing researchers employ numerous scales, instruments, procedures, concepts, and techniques to gather information. Marketing research activities support all of the major business functions of an organization. Organizations that possess excellent marketing research skills have a definite strength in pursuing generic strategies.

© Copyright Virtual University of Pakistan

Opportunity Analysis

The eighth function of marketing is *opportunity analysis,* which involves assessing the costs, benefits, and risks associated with marketing decisions. Three steps are required to perform a *cost/benefit analysis:*

- Compute the total costs associated with a decision,
- Estimate the total benefits from the decision, and
- Compare the total costs with the total benefits.

As expected benefits exceed total costs, an opportunity becomes more attractive. Sometimes the variables included in a cost/benefit analysis cannot be quantified or even measured, but usually reasonable estimates can be made to allow the analysis to be performed. One key factor to be considered is risk. Cost/benefit analyses should also be performed when a company is evaluating alternative ways to be socially responsible.

Marketing Audit Checklist of Questions

Similarly as provided earlier for management, the following questions about marketing are pertinent:

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

© Copyright Virtual University of Pakistan

INTERNAL ASSESSMENT (FINANCE/ACCOUNTING)

Objectives:

Financial condition is often considered the single best measure of a firm's competitive position and overall attractiveness to investors. Determining an organization's financial strengths and weaknesses is essential to formulating strategies effectively. A firm's liquidity, leverage, working capital, profitability, asset utilization, cash flow, and equity can eliminate some strategies as being feasible alternatives. Financial factors often alter existing strategies and change implementation plans. After reading this lecture, you will be able to know that what are the basics types of ratios and who business measure its financial strength using these ratios analysis.

Finance/Accounting Functions

- Determining financial strengths and weaknesses key to strategy formulation
- Investment decision (Capital budgeting)
- Financing decision
- Dividend decision

According to James Van Horne, the *functions of finance/accounting* comprise three decisions: the investment decision, the financing decision, and the dividend decision.

Financial ratio analysis is the most widely used method for determining an organization's strengths and weaknesses in the investment, financing, and dividend areas. Because, the functional areas of business are so closely related, financial ratios can signal strengths or weaknesses in management, marketing, production, research and development, and computer information systems activities.

The ***investment decision**,* also called ***capital budgeting**,* is the allocation and reallocation of capital and resources to projects, products, assets, and divisions of an organization. Once strategies are formulated, capital budgeting decisions are required to implement strategies successfully. The *financing decision* concerns determining the best capital structure for the firm and includes examining various methods by which the firm can raise capital (for example, by issuing stock, increasing debt, selling assets, or using a combination of these approaches). The financing decision must consider both short-term and long-term needs for working capital. Two key financial ratios that indicate whether a firm's financing decisions have been effective are the debt-to-equity ratio and the debt-to-total-assets ratio.

Dividend decisions concern issues such as the percentage of earnings paid to stockholders, the stability of dividends paid over time, and the repurchase or issuance of stock. Dividend decisions determine the amount of funds that are retained in a firm compared to the amount paid out to stockholders.

Three financial ratios that are helpful in evaluating a firm's dividend decisions are the earnings-per-share ratio, the dividends-per-share ratio, and the price-earnings ratio. The benefits of paying dividends to investors must be balanced against the benefits of retaining funds internally, and there is no set formula on how to balance this trade-off. For the reasons listed here, dividends are sometimes paid out even when funds could be better reinvested in the business or when the firm has to obtain outside sources of capital:

1. Paying cash dividends is customary. Failure to do so could be thought of as a stigma. A dividend change is considered a signal about the future.
2. Dividends represent a sales point for investment bankers. Some institutional investors can buy only dividend-paying stocks.
3. Shareholders often demand dividends, even in companies with great opportunities for reinvesting all available funds.
4. A myth exists that paying dividends will result in a higher stock price.

Basic Types of Financial Ratios

Financial ratios are computed from an organization's income statement and balance sheet. Computing financial ratios is like taking a picture because the results reflect a situation at just one point in time. Comparing ratios over time and to industry averages is more likely to result in meaningful statistics that can be used to identify and evaluate strengths and weaknesses. Trend analysis, illustrated in Figure, is a useful technique that incorporates both the time and industry average dimensions of financial ratios.

© Copyright Virtual University of Pakistan

Table provides a summary of key financial ratios showing how each ratio is calculated and what each ratio measures. However, all the ratios are not significant for all industries and companies. For example, accounts receivable turnover and average collection period are not very meaningful to a company that does primarily cash receipts business. Key financial ratios can be classified into the following five types:

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

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

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

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

Growth ratios measure the firm's ability to maintain its economic position in the growth of the economy and industry.
- Sales
- Net income
- Earnings per share
- Dividends per share

A Summary of Key Financial Ratios

Ratio	How Calculated	What It Measures
Liquidity Ratios		
Current Ratio	Current assets / Current liabilities	The extent to which a firm can meet its short-term obligations
Quick Ratio	Current assets minus inventory / Current liabilities	The extent to which a firm can meet its short-term obligations without relying upon the sale of its inventories
Leverage Ratios		

Debt-to-Total-Assets Ratio	Total debt / Total assets	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	Total debt / Total stockholders' equity	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	Long-term debt / Total stockholders' equity	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	Profits before interest and taxes / Total interest charges	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs
Activity Ratios		
Inventory Turnover	Sales / Inventory of finished goods	Whether a firm holds excessive stocks of inventories and whether a firm is selling its inventories slowly compared to the industry average
Fixed Assets Turnover	Sales / Fixed assets	Sales productivity and plant and equipment utilization
Total Assets Turnover	Sales / Total assets	Whether a firm is generating a sufficient volume of business for the size of its asset investment
Accounts Receivable Turnover	Annual credit sales / Accounts receivable	The average length of time it takes a firm to collect credit sales (in percentage terms)
Average Collection Period	Accounts receivable / Total credit sales/365 days	The average length of time it takes a firm to collect on credit sales (in days)
Profitability Ratios		
Gross Profit Margin	Sales minus cost of goods sold / Sales	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	Earnings before interest and taxes (EBIT) / Sales	Profitability without concern for taxes and interest
Net Profit Margin	Net income / Sales	After-tax profits per dollar of sales
Return on Total Assets (ROA)	Net income / Total assets	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)

© Copyright Virtual University of Pakistan

Return on Stockholders' Equity (ROE)	Net income / Total stockholders' equity	After-tax profits per dollar of stockholders' investment in the firm
Earning Per Share (EPS)	Net income / Number of shares of common stock outstanding	Earnings available to the owners of common stock
Price-Earnings Ratio	Market price per share / Earnings per share	Attractiveness of firm on equity markets.
Growth Ratios		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales
Income	Annual percentage growth in profits	Firm's growth rate in profits
Earnings Per Share	Annual percentage growth in EPS	Firm's growth rate in EPS
Dividends Per Share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share

Limitations of Financial ratios:

Financial ratio analysis is not without some limitations. First of all, financial ratios are based on accounting data, and firms differ in their treatment of such items as depreciation, inventory valuation, research and development expenditures, pension plan costs, mergers, and taxes. Also, seasonal factors can influence comparative ratios. Therefore, conformity to industry composite ratios does not establish with certainty that a firm is performing normally or that it is well managed. Likewise, departures from industry averages do not always indicate that a firm is doing especially well or badly. For example, a high inventory turnover ratio could indicate efficient inventory management and a strong working capital position, but it also could indicate a serious inventory shortage and a weak working capital position.

It is important to recognize that a firm's financial condition depends not only on the functions of finance, but also on many other factors that include:

- Management, marketing, production/operations, research and development, and computer information systems decisions;
- Actions by competitors, suppliers, distributors, creditors, customers, and shareholders; and
- Economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends.

So financial ratio analysis, like all other analytical tools, should be used wisely.

Finance/Accounting Audit Checklist of Questions

Similarly as provided earlier, the following finance/accounting questions should be examined:

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

© Copyright Virtual University of Pakistan

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

Production/Operations

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

The Basic Functions of Production Management

Function	Description
1. Process	Process decisions concern the design of the physical production system. Specific decisions include choice of technology, facility layout, process flow analysis, facility location, line balancing, process control, and transportation analysis.
2. Capacity	Capacity decisions concern determination of optimal output levels for the organization—not too much and not too little. Specific decisions include forecasting, facilities planning, aggregate planning, scheduling, capacity planning, and queuing analysis.
3. Inventory	Inventory decisions involve managing the level of raw materials, work in process, and finished goods. Specific decisions include what to order, when to order, how much to order, and materials handling.
4. Workforce	Workforce decisions are concerned with managing the skilled, unskilled, clerical, and managerial employees. Specific decisions include job design, work measurement, job enrichment, work standards, and motivation techniques.
5. Quality	Quality decisions are aimed at ensuring that high-quality goods and services are produced. Specific decisions include quality control, sampling, testing, quality assurance, and cost control.

Source: Adapted from R. Schroeder, *Operations Management* (New York: McGraw-Hill Book Co., 1981): 12.

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

Many production/operations managers are finding that cross-training of employees can help their firms respond to changing markets faster. Cross-training of workers can increase efficiency, quality, productivity, and job satisfaction.

There is much reason for concern that many organizations have not taken sufficient account of the capabilities and limitations of the production/operations function in formulating strategies. Scholars contend that this neglect has had unfavorable consequences on corporate performance in America. As shown in Table, James Dilworth outlined several types of strategic decisions that a company might make with production/operations implications of those decisions. Production capabilities and policies can also greatly affect strategies:

Given today's decision-making environment with shortages, inflation, technological booms, and government intervention, a company's production/operations capabilities and policies may not be able to fulfill the demands dictated by strategies. In fact, they may dictate corporate strategies. It is hard to imagine that an organization can formulate strategies today without first considering the constraints and limitations imposed by its existing production/operations structure.

Impact of Strategy Elements on Production Management

Possible Elements of Strategy	Concomitant Conditions That May Affect the Operations Function and Advantages and Disadvantages
1. Compete as low-cost provider of goods or services	Discourages competition Broadens market Requires longer production runs and fewer product changes Requires special-purpose equipment and facilities
2. Compete as high-quality provider	Often possible to obtain more profit per unit, and perhaps more total profit from a smaller volume of sales Requires more quality-assurance effort and higher operating cost Requires more precise equipment, which is more expensive Requires highly skilled workers, necessitating higher wages and greater training efforts
3. Stress customer service	Requires broader development of service people and service parts and equipment Requires rapid response to customer needs or changes in customer tastes, rapid and accurate information system, careful coordination Requires a higher inventory investment
4. Provide rapid and frequent introduction of new products	Requires versatile equipment and people Has higher research and development costs Has high retraining costs and high tooling and changeover in manufacturing Provides lower volumes for each product and fewer opportunities for improvements due to the learning curve
5. Strive for absolute growth	Requires accepting some projects or products with lower marginal value, which reduces ROI Diverts talents to areas of weakness instead of concentrating on strengths
6. Seek vertical integration	Enables company to control more of the process May not have economies of scale at some stages of process May require high capital investment as well as technology and skills beyond those currently available within the organization
7. Maintain reserve	Provides ability to meet peak demands and quickly

capacity for flexibility	implement some contingency plans if forecasts are too low Requires capital investment in idle capacity Provides capability to grow during the lead time normally required for expansion
8. Consolidate processing (Centralize)	Can result in economies of scale Can locate near one major customer or supplier Vulnerability: one strike, fire, or flood can halt the entire operation
9. Disperse processing of service (Decentralize)	Can be near several market territories Requires more complex coordination network: perhaps expensive data transmission and duplication of some personnel and equipment at each location If each location produces one product in the line, then other products still must be transported to be available at all locations If each location specializes in a type of component for all products, the company is vulnerable to strike, fire, flood, etc. If each location provides total product line, then economies of scale may not be realized
10. Stress the use of mechanization, automation, robots	Requires high capital investment Reduces flexibility May affect labor relations Makes maintenance more crucial
11. Stress stability of employment	Serves the security needs of employees and may develop employee loyalty Helps to attract and retain highly skilled employees May require revisions of make-or-buy decisions, use of idle time, inventory, and subcontractors as demand fluctuates

Source: Production and Operations Management: Manufacturing and Nonmanufacturing, Second Edition, by J. Dilworth. Copyright © 1983 by Random House, Inc. Reprinted by permission of Random House, Inc.

Production/Operations Audit Checklist of Questions

Questions such as the following should be examined:

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

ANALYTICAL TOOLS

After reading this lecture you will be able to know that how analytical tools affects the firms internal decisions.

Research and Development

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

The purpose of research and development are as follows:

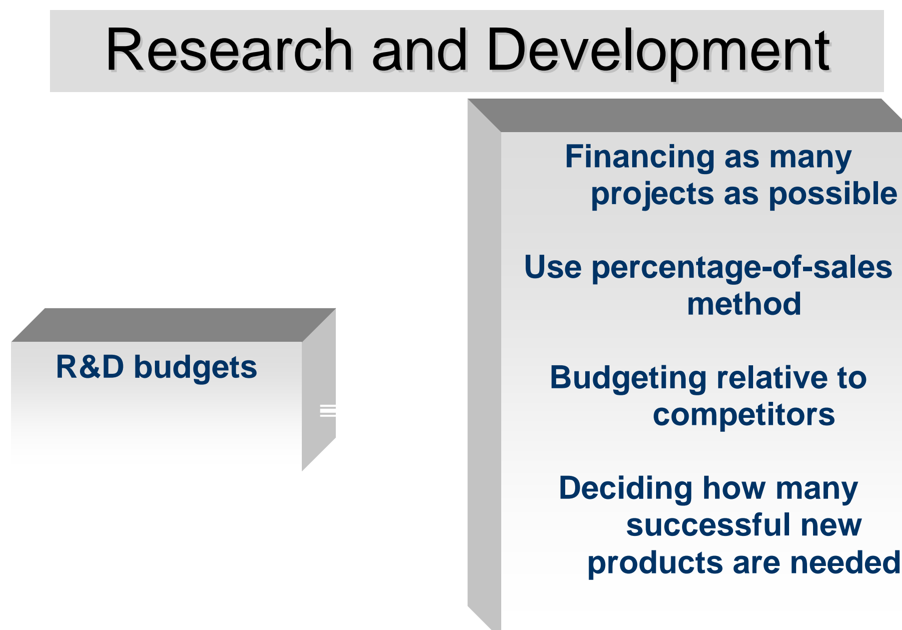
- Development of new products before competition
- Improving product quality
- Improving manufacturing processes to reduce costs

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

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

Every organization tries to finance as much project as they can. Therefore, R & D budget is important. What are the bases for the budget?

- You can try as many products as you can
- You can use percentage of sales method
- Budgeting relative to competitors
- Deciding how many successful new products are needed



The best-managed firms today seek to organize R&D activities in a way that breaks the isolation of R&D from the rest of the company and promotes a spirit of partnership between R&D managers and other managers in the firm. R&D decisions and plans must be integrated and coordinated across

departments and divisions by sharing experiences and information. The strategic-management process facilitates this new cross-functional approach to managing the R&D function.

Internal and External R&D

Cost distributions among R&D activities vary by company and industry, but total R&D costs generally do not exceed manufacturing and marketing start-up costs.

Four approaches to determining R&D budget allocations commonly are used:

(1) Financing as many project proposals as possible,
(2) Using a percentage-of-sales method,
(3) Budgeting about the same amount that competitors spend for R&D, or
(4) Deciding how many successful new products are needed and working backward to estimate the required R&D investment.

R&D in organizations can take two basic forms:

(1) Internal R&D, in which an organization operates its own R&D department, and/or
(2) Contract R&D, in which a firm hires independent researchers or independent agencies to develop specific products.

Many companies use both approaches to develop new products. A widely used approach for obtaining outside R&D assistance is to pursue a joint venture with another firm. R&D strengths (capabilities) and weaknesses (limitations) play a major role in strategy formulation and strategy implementation.

The focus of R&D efforts can vary greatly depending on a firm's competitive strategy. Some corporations attempt to be market leaders and innovators of new products, while others are satisfied to be market followers and developers of currently available products. The basic skills required to support these strategies will vary, depending on whether R&D becomes the driving force behind competitive strategy. In cases where new product introduction is the driving force for strategy, R&D activities must be extensive. The R&D unit must then be able to advance scientific and technological knowledge, exploit that knowledge, and manage the risks associated with ideas, products, services, and production requirements.

Research and Development Audit Checklist of Questions

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

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

Management information systems:

MIS is a general name for the academic discipline covering the application of information technology to business problems.

As an area of study it is also referred to as information technology management. The study of information systems is usually a commerce and business administration discipline, and frequently involves software engineering, but also distinguishes itself by concentrating on the integration of computer systems with the aims of the organization. The area of study should not be confused with computer science which is more theoretical in nature and deals mainly with software creation, or computer engineering, which focuses more on the design of computer hardware. IT service management is a practitioner-focused discipline centering on the same general domain.

In business, information systems support business processes and operations, decision-making, and competitive strategies.

The functional support role

Information systems support business processes and operations by:

- Recording and storing accounting records including sales data, purchase data, investment data, and payroll data.

- Process such records into financial statements such as income statements, balance sheets, ledgers, and management reports, etc.
- Recording and storing inventory data, work in process data, equipment repair and maintenance data, supply chain data, and other production/operations records
- Processing these operations records into production schedules, production controllers, inventory systems, and production monitoring systems
- Recording and storing such human resource records as personnel data, salary data, and employment histories,
- Recording and storing market data, customer profiles, and customer purchase histories, marketing research data, advertising data, and other marketing records
- Processing these marketing records into advertising elasticity reports, marketing plans, and sales activity reports
- Recording and storing business intelligence data, competitor analysis data, industry data, corporate objectives, and other strategic management records

Processing these strategic management records into industry trends reports, market share reports, mission statements, and portfolio models

The bottom line is that the information systems use all of the above to implement, control, and monitor plans, strategies, tactics, new products, new business models or new business ventures.

The decision support role

The business decision-making support function goes one step further. It becomes an integral part -- even a vital part -- of decision -making. It allows users to ask very powerful "What if…?" questions: What if we increase the price by 5%? What if we increase price by 10%? What if we decrease price by 5%? What if we increase price by 10% now, then decrease it by 5% in three months? It also allows users to deal with contingencies: If inflation increases by 5% (instead of 2% as we are assuming), then what do we do? What do we do if we are faced with a strike or a new competitive threat? An organization succeeds or fails based on the quality of its decisions. The enhanced ability to explore "what if" a question is central to analyzing the likely results of possible decisions and choosing those most likely to shape the future as desired. "Business decision-making support function" is a phrase likely to quicken the pulse of no one but an accountant, but, in fact, it is all about turning wonderful dreams into solid realities.

Management Information Systems Audit

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

Computer Information Systems

Information ties all business functions together and provides the basis for all managerial decisions. It is the cornerstone of all organizations. Information represents a major source of competitive advantage or disadvantage. Assessing a firm's internal strengths and weaknesses in information systems is a critical dimension of performing an internal audit. The company motto of Mitsui, a large Japanese trading company, is "Information is the lifeblood of the company."

A computer information system's purpose is to improve the performance of an enterprise by improving the quality of managerial decisions. An effective information system thus collects, codes, stores, synthesizes, and presents information in such a manner that it answers important operating and

strategic questions. The heart of an information system is a database containing the kinds of records and data important to managers.

A *computer information system* receives raw material from both the external and internal evaluation of an organization. It gathers data about marketing, finance, production, and personnel matters internally, and social, cultural, demographic, environmental, economic, political, government, legal, technological, and competitive factors externally. Data is integrated in ways needed to support managerial decision making. There is a logical flow of material in a computer information system, whereby data is input to the system and transformed into output. Outputs include computer printouts, written reports, tables, charts, graphs, checks, purchase orders, invoices, inventory records, payroll accounts, and a variety of other documents. Payoffs from alternative strategies can be calculated and estimated. *Data* becomes *information* only when it is evaluated, filtered, condensed, analyzed, and organized for a specific purpose, problem, individual, or time.

An effective computer information system utilizes computer hardware, software, models for analysis, and a database. Some people equate information systems with the advent of the computer, but historians have traced recordkeeping and no computer data processing to Babylonian merchants living in 3500 B.C. Benefits of an effective information system include an improved understanding of business functions, improved communications, more informed decision making, analysis of problems, and improved control.

Because organizations are becoming more complex, decentralized, and globally dispersed, the function of information systems is growing in importance. Spurring this advance is the falling cost and increasing power of computers. There are costs and benefits associated with obtaining and evaluating information, just as with equipment and land. Like equipment, information can become obsolete and may need to be purged from the system. An effective information system is like a library, collecting, categorizing, and filing data for use by managers throughout the organization. Information systems are a major strategic resource, monitoring environment changes, identifying competitive threats, and assisting in the implementation, evaluation, and control of strategy.

We are truly in an information age. Firms whose information-system skills are weak are at a competitive disadvantage. On the other hand, strengths in information systems allow firms to establish distinctive competencies in other areas. Low-cost manufacturing and good customer service, for example, can depend on a good information system.

A good executive information system provides graphic, tabular, and textual information. Graphic capabilities are needed so current conditions and trends can be examined quickly; tables provide greater detail and enable variance analyses; textual information adds insight and interpretation to data.

Lesson 17

THE INTERNAL FACTOR EVALUATION (IFE) MATRIX

Objectives:

In multidivisional firms, each autonomous division or strategic business unit should construct an IFE Matrix. Divisional matrices then can be integrated to develop an overall corporate IFE Matrix.
Both external and internal evaluation together called SWOT analysis for any business firm.
After reading this lecture you will be able to prepare IFE and EFE matrixes for any business planning.

The Internal Factor Evaluation (IFE) Matrix

A summary step in conducting an internal strategic-management audit is to construct an *Internal Factor Evaluation (IFE) Matrix*. This strategy-formulation tool summarizes and evaluates the major **strengths and weaknesses** in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas. Intuitive judgments are required in developing an IFE Matrix, so the appearance of a scientific approach should not be interpreted to mean this is an all-powerful technique. A thorough understanding of the factors included is more important than the actual numbers. Similar to the EFE Matrix and Competitive Profile Matrix, an IFE Matrix can be developed in five steps:

- List key internal factors (10-20)
  - Strengths & weaknesses
- Assign weight to each (0 to 1.0)
  - Sum of all weights = 1.0
- Assign 1-4 rating to each factor
  - Firm's current strategies response to the factor
- Multiply each factor's weight by its rating
  - Produces a weighted score
- Sum the weighted scores for each
  - Determines the total weighted score for the organization

Highest possible weighted score for the organization is 4.0; the lowest, 1.0. Average = 2.5

Explanation:

1. List key internal factors as identified in the internal-audit process. Use a total of from ten to twenty internal factors, including both strengths and weaknesses. Always list strengths first and then weaknesses. Be as specific as possible, using percentages, ratios, and comparative numbers. The list of all strength and weaknesses should consist of 10-20 factors.
2. Assign a weight (either in %age or in numerical value) that ranges from 0.0 (not important) to 1.0 (all-important) to each factor. The weight assigned to a given factor indicates the relative importance of the factor to being successful in the firm's industry. Regardless of whether a key factor is an internal strength or weakness, factors considered to have the greatest effect on organizational performance should be assigned the highest weights. The sum of all weights must equal 1.0.
3. Assign a 1-to-4 rating (rating means what is the capability of the firm to meet its strength and weaknesses) to each factor to indicate whether that factor represents a major weakness (rating 5 1), a minor weakness (rating 5 2), a minor strength (rating 5 3), or a major strength (rating 5 4). Note that strengths must receive a 4 (for average strength) or 3 (for normal strength) rating and weaknesses must receive a 1 (for normal weakness) or 2 rating. Ratings are, thus, company based, whereas the weights in Step 2 are industry based.
4. Multiply each factor's weight by its rating to determine a weighted score for each variable.
6. Sum the weighted scores for each variable to determine the total weighted score for the organization.

Highest possible weighted score for the organization is 4.0; the lowest, 1.0. Average = 2.5

Regardless of how many factors are included in an IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0, with the average score being 2.5. Total weighted scores well below 2.5 characterize organizations that are weak internally, whereas scores significantly above 2.5 indicate a strong internal position. Like the EFE Matrix, an IFE Matrix should include from 10 to 20 key factors.

The number of factors has no effect upon the range of total weighted scores because the weights always sum to 1.0.

When a key internal factor is both strength and a weakness, the factor should be included twice in the IFE Matrix, and a weight and rating should be assigned to each statement. For example, the Playboy logo both helps and hurts Playboy Enterprises; the logo attracts customers to the *Playboy* magazine, but it keeps the Playboy cable channel out of many markets.

An example of an IFE Matrix for XYZ Casino Enterprises is provided in Table. Note that the firm's major strengths are its size, occupancy rates, property, and long-range planning as indicated by the rating of 4. The major weaknesses are locations and recent joint venture. The total weighted score of 2.75 indicates that the firm is above average in its overall internal strength.

A Sample Internal Factor Evaluation Matrix for XYZ Casino

Key Internal Factors	**Weight**	**Rating**	**Weighted Score**
Internal Strengths			
1. Largest casino company in the United States	.05	4	.20
2. Room occupancy rates over 95% in Las Vegas	.10	4	.40
3. Increasing free cash flows	.05	3	.15
4. Owns one mile on Las Vegas Strip	.15	4	.60
5. Strong management team	.05	3	.15
6. Buffets at most facilities	.05	3	.15
7. Minimal comps provided	.05	3	.15
8. Long-range planning	.05	4	.20
9. Reputation as family-friendly	.05	3	.15
10. Financial ratios	.05	3	.15
Internal Weaknesses			
1. Most properties are located in Las Vegas	.05	1	.05
2. Little diversification	.05	2	.10
3. Family reputation, not high rollers	.05	2	.10
4. Laughlin properties	.10	1	.10
5. Recent loss of joint ventures	.10	1	.10
TOTAL	1.00		2.75

XYZ Casino (in the previous example), has a total weighted score of 2.75 indicating that the firm is above average in its overall internal strength

The next stages for the strategic business planning are goals setting and strategy formulation. Then strategy implementation and feed back control will be the next steps in considering the strategy planning stages.

© Copyright Virtual University of Pakistan

TYPES OF STRATEGIES

Objectives:

This lecture brings strategic management to life with many contemporary examples. Sixteen types of strategies are defined and exemplified, including Michael Porter's generic strategies: cost leadership, differentiation, and focus. Guidelines are presented for determining when different types of strategies are most appropriate to pursue. An overview of strategic management in nonprofit organizations, governmental agencies, and small firms is provided. After reading this lecture you will be able to know about:

- Long term objectives:
- Types of Strategies
- Integration strategies

Strategies in Action:

Even if you're on the right track, you'll get run over if you just sit there.
-- Will Rogers

Hundreds of companies today embrace strategic planning because:

- Quest for higher revenues
- Quest for higher profits

Many firms have to use strategic planning in order to earn revenues and more profits.

Long term objectives

Long-term objectives represent the results expected from pursuing certain strategies. Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years.

The Nature of Long-Term Objectives

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Each objective should also be associated with a time line. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility. Clearly established objectives offer many benefits. They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs.

Long-term objectives are needed at the corporate, divisional, and functional levels in an organization. They are an important measure of managerial performance.

Clearly stated and communicated objectives are vital to success for many reasons. First, objectives help stakeholders understand their role in an organization's future. They also provide a basis for consistent decision making by managers whose values and attitudes differ. By reaching a consensus on objectives during strategy-formulation activities, an organization can minimize potential conflicts later during implementation. Objectives set forth organizational priorities and stimulate exertion and accomplishment. They serve as standards by which individuals, groups, departments, divisions, and entire organizations can be evaluated. Objectives provide the basis for designing jobs and organizing activities to be performed in an organization. They also provide direction and allow for organizational synergy.

Without long-term objectives, an organization would drift aimlessly toward some unknown end! It is hard to imagine an organization or individual being successful without clear objectives. Success only rarely occurs by accident; rather, it is the result of hard work directed toward achieving certain objectives.

Not Managing by Objectives

Strategists should avoid:

- Managing by Extrapolation
- Managing by Crisis

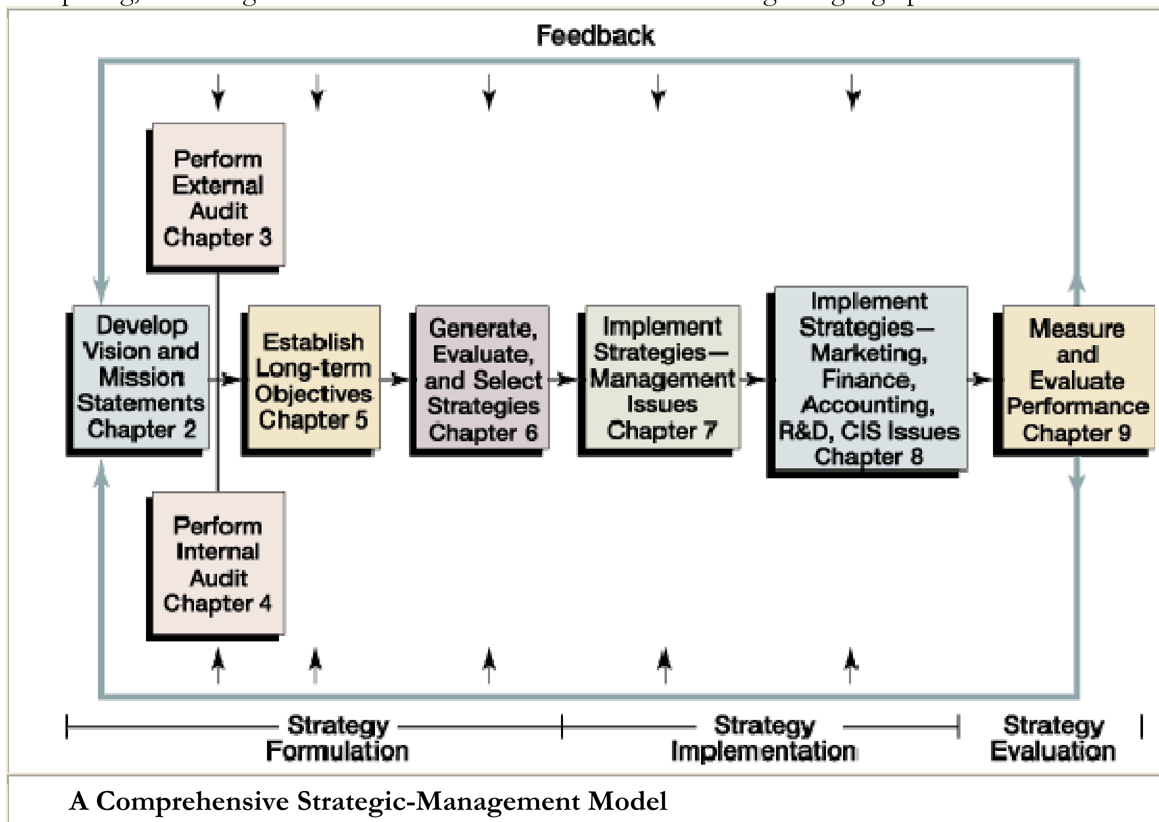
- ➢ Managing by Subjective
- ➢ Managing by Hope

Strategists should avoid the following alternative ways to "not managing by objectives."

- Managing by Extrapolation—adheres to the principle "If it ain't broke, don't fix it." The idea is to keep on doing about the same things in the same ways because things are going well.
- Managing by Crisis—based on the belief that the true measure of a really good strategist is the ability to solve problems. Because there are plenty of crises and problems to go around for every person and every organization, strategists ought to bring their time and creative energy to bear on solving the most pressing problems of the day. Managing by crisis is actually a form of reacting rather than acting and of letting events dictate what's and when's of management decisions.
- Managing by Subjective—built on the idea that there is no general plan for which way to go and what to do; just do the best you can to accomplish what you think should be done. In short, "Do your own thing, the best way you know how" (sometimes referred to as *the mystery approach to decision making* because subordinates are left to figure out what is happening and why).
- Managing by Hope—based on the fact that the future is laden with great uncertainty, and that if we try and do not succeed, then we hope our second (or third) attempt will succeed. Decisions are predicted on the hope that they will work and the good times are just around the corner, especially if luck and good fortune are on our side!

<u>Types of Strategies</u>

Defined and exemplified in Table, alternative strategies that an enterprise could pursue can be categorized into thirteen actions—forward integration, backward integration, horizontal integration, market penetration, market development, product development, concentric diversification, conglomerate diversification, horizontal diversification, joint venture, retrenchment, divestiture, and liquidation—and a combination strategy. Each alternative strategy has countless variations. For example, market penetration can include adding salespersons, increasing advertising expenditures, coopering, and using similar actions to increase market share in a given geographic area.



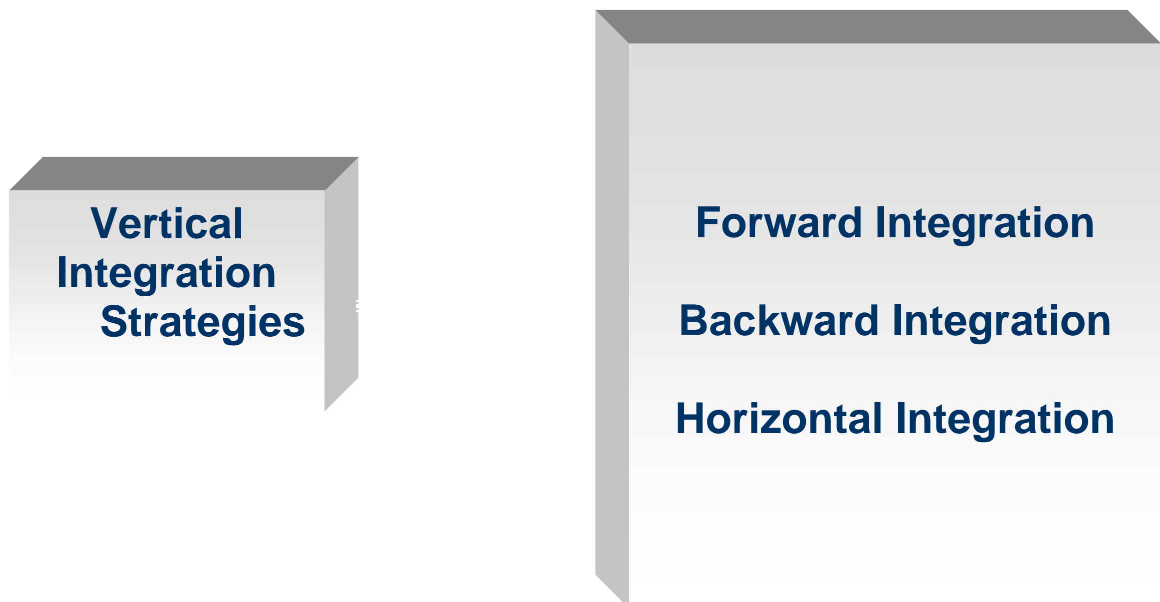
A Comprehensive Strategic-Management Model

Alternative Strategies Defined and Exemplified

Strategy	Definition	Example
Forward Integration	Gaining ownership or increased control over distributors or retailers	General Motors is acquiring 10 percent of its dealers.
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Motel-8 acquired a furniture manufacturer.
Horizontal Integration	Seeking ownership or increased control over competitors	Hilton recently acquired Promos.
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Ameritrade, the online broker, tripled its annual advertising expenditures to $200 million to convince people they can make their own investment decisions.
Market Development	Introducing present products or services into new geographic area	Britain's leading supplier of buses, Henlys PLC, acquires Blue Bird Corp., North America's leading school bus maker.
Product Development	Seeking increased sales by improving present products or services or developing new ones	Apple developed the G4 chip that runs at 500 megahertz.
Concentric Diversification	Adding new, but related, products or services	National Westminister Bank PLC in Britain buys the leading British insurance company, Legal & General Group PLC.
Conglomerate Diversification	Adding new, unrelated products or services	H&R Block, the top tax preparation agency, said it will buy discount stock brokerage Olde Financial for $850 million in cash.
Horizontal Diversification	Adding new, unrelated products or services for present customers	The New York Yankees baseball team is merging with the New Jersey Nets basketball team.
Joint Venture	Two or more sponsoring firms forming a separate organization for cooperative purposes	Lucent Technologies and Philips Electronics NV formed Philips Consumer Communications to make and sell telephones.
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	Singer, the sewing machine maker, declared bankruptcy.

Divestiture	Selling a division or part of an organization	Harcourt General, the large U.S. publisher, selling its Neiman Marcus division.
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	Ribol sold all its assets and ceases business.

Integration Strategies:



Forward integration, backward integration, and horizontal integration are sometimes collectively referred to as *vertical integration* strategies. Vertical integration strategies allow a firm to gain control over distributors, suppliers, and/or competitors. Forward integration strategy refers to the transactions between the customers and firm. Similarly, the function for the particular supply which the firm is being intended to involve itself will be called backward integration. When the firm looks that other firm which may be taken over within the area of its own activity is called horizontal integration.

Benefits of vertical integration strategy:

Allow a firm to gain control over:

- Distributors (forward integration)
- Suppliers (backward integration)
- Competitors (horizontal integration)

Forward integration: Gaining ownership or increased control over distributors or retailers
Forward integration involves gaining ownership or increased control over distributors or retailers.
You can gain ownership or control over the distributors, suppliers and
Competitors using forward integration.

Guidelines for the use of integration strategies:
Six guidelines when forward integration may be an especially effective strategy are:

- Present distributors are expensive, unreliable, or incapable of meeting firm's needs
- Availability of quality distributors is limited
- When firm competes in an industry that is expected to grow markedly
- Organization has both capital and human resources needed to manage new business of distribution
- Advantages of stable production are high
- Present distributors have high profit margins

When your present distributors are expensive and you think that without affecting the quality of the goods you have to carry own the operations, forward integration is advisable.
Similarly, if distributors are unreliable, they can not deliver with a sustained degree of timeliness or they are not in a proper way to meet the needs of the firm, forward integration is advisable.
Availability of quality distributors is limited or it is difficult to get the quality of goods, then this need for a quality distributor, forward integration is best alternative.
Suppose you have two industries, computers and mobile telephone which are progressing tremendously, it is advisable to think of forward integration due to the changing environment of the business.
Organization has both capital and human resources needed to manage new business of distribution. A firm has all the basic elements to run the business safely in that case forward integration is best alternate.
For stable production, stable supply is necessary. If you think that present distributors are charging high mark up, you may do that operation your self in order to avoid the mark up charges. It is advisable that firm itself involve in the operations. By gaining control, stability will be more and profitability will be enhanced.

- When an organization's present distributors are especially expensive, or unreliable, or incapable of meeting the firm's distribution needs
- When the availability of quality distributors is so limited as to offer a competitive advantage to those firms that integrate forward
- When an organization competes in an industry that is growing and is expected to continue to grow markedly; this is a factor because forward integration reduces an organization's ability to diversify if its basic industry falters
- When an organization has both the capital and human resources needed to manage the new business of distributing its own products
- When the advantages of stable production are particularly high; this is a consideration because an organization can increase the predictability of the demand for its output through forward integration
- When present distributors or retailers have high profit margins; this situation suggests that a company profitably could distribute its own products and price them more competitively by integrating forward

Backward Integration –

Seeking ownership or increased control of a firm's suppliers
Both manufacturers and retailers purchase needed materials from suppliers. *Backward integration* is a strategy of seeking ownership or increased control of a firm's suppliers. This strategy can be especially appropriate when a firm's current suppliers are unreliable, too costly, or cannot meet the firm's needs.

Guidelines for Backward Integration:
Six guidelines when backward integration may be an especially effective strategy are:

- When present suppliers are expensive, unreliable, or incapable of meeting needs
- Number of suppliers is small and number of competitors large
- High growth in industry sector
- Firm has both capital and human resources to manage new business
- Advantages of stable prices are important
- Present supplies have high profit margins
- When an organization's present suppliers are especially expensive, or unreliable, or incapable of meeting the firm's needs for parts, components, assemblies, or raw materials

- When the number of suppliers is small and the number of competitors is large
- When an organization competes in an industry that is growing rapidly; this is a factor because integrative-type strategies (forward, backward, and horizontal) reduce an organization's ability to diversify in a declining industry
- When an organization has both capital and human resources to manage the new business of supplying its own raw materials
- When the advantages of stable prices are particularly important; this is a factor because an organization can stabilize the cost of its raw materials and the associated price of its product through backward integration
- When present supplies have high profit margins, which suggests that the business of supplying products or services in the given industry is a worthwhile venture
- When an organization needs to acquire a needed resource quickly

© Copyright Virtual University of Pakistan

TYPES OF STRATEGIES

Objectives:

This lecture brings strategic management to life with many contemporary examples. Sixteen types of strategies are defined and exemplified, including Michael Porter's generic strategies: cost leadership, differentiation, and focus. Guidelines are presented for determining when different types of strategies are most appropriate to pursue. An overview of strategic management in nonprofit organizations, governmental agencies, and small firms is provided. After reading this lecture you will be able to know about:

- Types of Strategies
- Integration strategies

Horizontal Integration:

Seeking ownership or increased control over competitors

Horizontal integration refers to a strategy of seeking ownership of or increased control over a firm's competitors. One of the most significant trends in strategic management today is the increased use of horizontal integration as a growth strategy. Mergers, acquisitions, and takeovers among competitors allow for increased economies of scale and enhanced transfer of resources and competencies.

Increased control over competitors means that you have to look for new opportunities either by the purchase of the new firm or hostile take over the other firm. One organization gains control of other which functioning within the same industry.

It should be done that every firm wants to increase its area of influence, market share and business.

Guidelines for Horizontal Integration:

Four guidelines when horizontal integration may be an especially effective strategy are:

- Firm can gain monopolistic characteristics without being challenged by federal government
- Competes in growing industry
- Increased economies of scale provide major competitive advantages
- Faltering due to lack of managerial expertise or need for particular resources

When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government for "tending substantially" to reduce competition

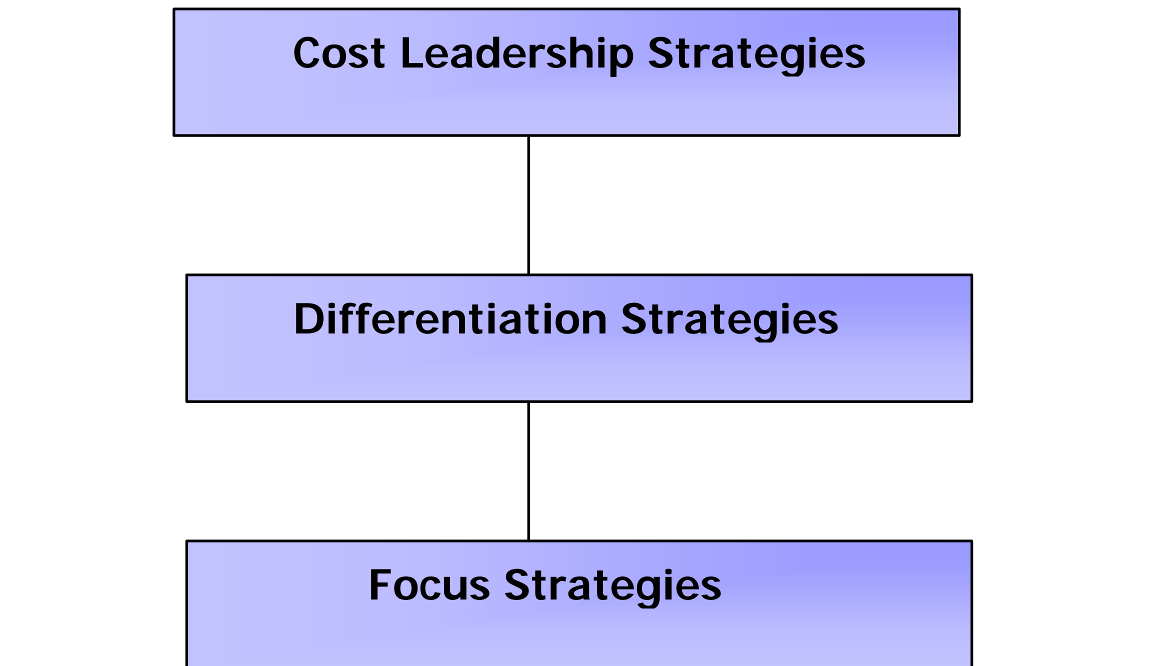
When an organization competes in a growing industry

When increased economies of scale provide major competitive advantages

When an organization has both the capital and human talent needed to successfully manage an expanded organization

When competitors are faltering due to a lack of managerial expertise or a need for particular resources that an organization possesses; note that horizontal integration would not be appropriate if competitors are doing poorly because overall industry sales are declining

Michael Porter's Generic Strategies



Probably the three most widely read books on competitive analysis in the 1980s were Michael Porter's *Competitive Strategy*, *Competitive Advantage* and *Competitive Advantage of Nations*. According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter calls these bases *generic strategies*. *Cost leadership* emphasizes producing standardized products at very low per-unit cost for consumers who are price-sensitive. *Differentiation* is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. *Focus* means producing products and services that fulfill the needs of small groups of consumers.

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

Porter stresses the need for strategists to perform cost-benefit analyses to evaluate "sharing opportunities" among a firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation. In addition to prompting sharing, Porter stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm, and nature of competition, various strategies could yield advantages in cost leadership, differentiation, and focus.

Cost Leadership Strategies

This strategy emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects

of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.
To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. Successful implementation also benefits from:

- Process engineering skills
- Products designed for ease of manufacture
- Sustained access to inexpensive capital
- Close supervision of labour
- Tight cost control
- Incentives based on quantitative targets
- Market of many price-sensitive buyers
- Few ways of achieving product differentiation
- Buyers not sensitive to brand differences
- Large number of buyers with bargaining power
- Pursued in conjunction with differentiation
- Economies or diseconomies of scale
- Capacity utilization achieved
- Linkages with suppliers and distributors

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. Other cost elements to consider in choosing among alternative strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labor costs, tax rates, energy costs, and shipping costs.

Striving to be the low-cost producer in an industry can be especially effective when the market is composed of many price-sensitive buyers, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to under price competitors and thereby gains market share and sales, driving some competitors out of the market entirely.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts. Some risks of pursuing cost leadership are that competitors may imitate the strategy, thus driving overall industry profits down; technological breakthroughs in the industry may make the strategy ineffective; or buyer interest may swing to other differentiating features besides price. Several example firms that are well known for their low-cost leadership strategies are Wal-Mart, BIC, McDonald's, Black and Decker, Lincoln Electric, and Briggs and Stratton.

Low Cost Producer Advantages

The first point depends upon the condition of the price fluctuation in the market; this can also be understood with the help of elasticity of demand. In any market, the demand is sensitive to price this is called price sensitivity of demand.
For example, if price of any commodity increases, the customer carry on to buy the things. It means these customers neither are price sensitive. Other is the case where customers move towards the alternates with an increase in demand.
The second is the case where there are few ways of achieving product differentiation either by changing features, price, cost or quality of the product.

Where there are high end products, there are the customers who are brand sensitive, because, people want to express their choices or personality through that brand.
In Bargaining power, low price products have more customers, more suppliers and more bargaining but high priced products there are low bargaining power due to the fewer customers.

Differentiation Strategies:

Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be more brands loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy.
To maintain this strategy the firm should have:

- Strong research and development skills
- Strong product engineering skills
- Strong creativity skills
- Good cooperation with distribution channels
- Strong marketing skills
- Incentives based largely on subjective measures
- Be able to communicate the importance of the differentiating product characteristics
- Stress continuous improvement and innovation
- Attract highly skilled, creative people
- Greater product flexibility
- Greater compatibility
- Lower costs
- Improved service
- Greater convenience
- More features

Differentiation strategies Allow firm to charge higher price gain customer loyalty

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment means that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a **valid basis for differentiation** - and that existing competitor products are not meeting those needs and wants.

Focus Strategy - Cost Focus

In this strategy the firm concentrates on a select few target markets. It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms but can be used by any company. As a focus strategy it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investments.

- Industry segment of sufficient size
- Good growth potential
- Not crucial to success of major competitors
- Consumers have distinctive preferences
- Rival firms not attempting to specialize in the same target segment

Here a business seeks a lower-cost advantage in just on or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's".

Niche strategies

Here the organization focuses its effort on one particular segment and becomes well known for providing products/services within the segment. They form a competitive advantage for this niche market and either succeeds by being a low cost producer or differentiator within that particular segment.

Recent developments

Michael Treacy and Fred Wiersema (1993) have modified Porter's three strategies to describe three basic "value disciplines" that can create customer value and provide a competitive advantage. They are operational excellence, product innovation, and customer intimacy.

Criticisms of generic strategies

Several commentators have questioned the use of generic strategies claiming they lack specificity, lack flexibility, and are limiting. In many cases trying to apply generic strategies is like trying to fit a round peg into one of three square holes: You might get the peg into one of the holes, but it will not be a good fit.

In particular, Millar (1992) questions the notion of being "caught in the middle". He claims that there is a viable middle ground between strategies. Many companies, for example, have entered a market as a niche player and gradually expanded. According to Baden-Fuller and Stop ford (1992) the most successful companies are the ones that can resolve what they call "the dilemma of opposites".

© Copyright Virtual University of Pakistan

TYPES OF STRATEGIES

Objectives:

This lecture brings strategic management to life with many contemporary examples. Sixteen types of strategies are defined and exemplified, including Michael Porter's generic strategies: cost leadership, differentiation, and focus. Guidelines are presented for determining when different types of strategies are most appropriate to pursue. An overview of strategic management in nonprofit organizations, governmental agencies, and small firms is provided. After reading this lecture you will be able to know about:

- Types of Strategies
- Intensive strategies

Intensive Strategies

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

Market Penetration

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

Guidelines for Market Penetration

Four guidelines when market penetration may be an especially effective strategy are:

- Current markets not saturated
- Usage rate of present customers can be increased significantly
- Market shares of competitors declining while total industry sales increasing
- Increased economies of scale provide major competitive advantages

There are two aspects of market penetration:

© Copyright Virtual University of Pakistan

Rapid market penetration: based on two assumptions, to lower the price and promotional activities can be increased.

Slow market penetration: also based on two assumptions, to lower the price but promotional activities are not changed.

Market Development

Introducing present products or services into new geographic area

Market development involves introducing present products or services into new geographic areas. The climate for international market development is becoming more favorable. In many industries, such as airlines, it is going to be hard to maintain a competitive edge by staying close to home.

Guidelines for Market Development

Six guidelines when market development may be an especially effective strategy are:

- New channels of distribution that are reliable, inexpensive, and good quality
- Firm is very successful at what it does
- Untapped or unsaturated markets
- Capital and human resources necessary to manage expanded operations
- Excess production capacity
- Basic industry rapidly becoming global

Product Development

Product development is a strategy that seeks increased sales by improving or modifying present products or services. Product development usually entails large research and development expenditures. The U.S. Postal Service now offers stamps and postage via the Internet, which represents a product development strategy. Called PC Postage, stamps can now be obtained online from various Web sites such as stamps.com and then printed on an ordinary laser or inkjet printer. E-Stamp Corporation, Neopost, and Pitney Bowes, too, are actively pursuing product development by creating their own versions of digital stamps.

Guidelines for Product Development

Five guidelines when product development may be an especially effective strategy to pursue are:

- Products in maturity stage of life cycle
- Competes in industry characterized by rapid technological developments
- Major competitors offer better-quality products at comparable prices
- Compete in high-growth industry
- Strong research and development capabilities

© Copyright Virtual University of Pakistan

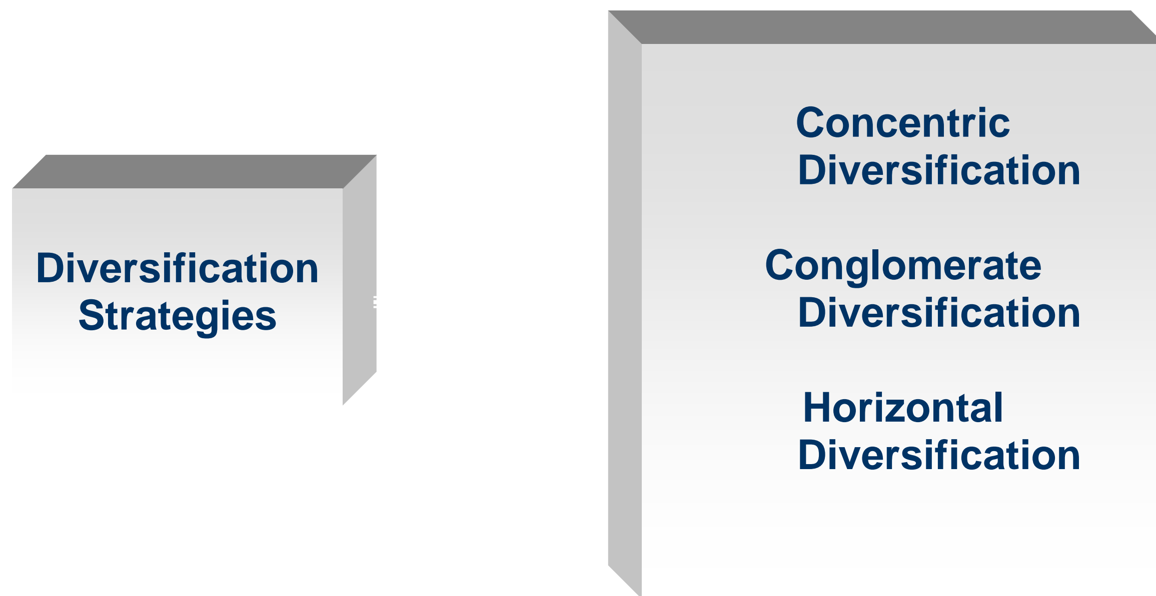
TYPES OF STRATEGIES

Objectives:

This lecture brings strategic management to life with many contemporary examples. Sixteen types of strategies are defined and exemplified, including Michael Porter's generic strategies: cost leadership, differentiation, and focus. Guidelines are presented for determining when different types of strategies are most appropriate to pursue. An overview of strategic management in nonprofit organizations, governmental agencies, and small firms is provided. After reading this lecture you will be able to know about:

- Types of Strategies
- Diversification strategies

Diversification Strategies



There are three general types of *diversification strategies:* concentric, horizontal, and conglomerate. Over all, diversification strategies are becoming less popular as organizations are finding it more difficult to manage diverse business activities. In the 1960s and 1970s, the trend was to diversify so as not to be dependent on any single industry, but the 1980s saw a general reversal of that thinking. Diversification is now on the retreat.

Concentric Diversification

Adding new, but related, products or services

Adding new, but related, products or services is widely called *concentric diversification*. An example of this strategy is AT&T recently spending $120 billion acquiring cable television companies in order to wire America with fast Internet service over cable rather than telephone lines. AT&T's concentric diversification strategy has led the firm into talks with America Online (AOL) about a possible joint venture or merger to provide AOL customers cable access to the Internet.

Guidelines for Concentric Diversification

Five guidelines when concentric diversification may be an effective strategy are provided below:

- Competes in no- or slow-growth industry
- Adding new & related products increases sales of current products

- New & related products offered at competitive prices
- Current products are in decline stage of the product life cycle
- Strong management team

Conglomerate Diversification

Adding new, unrelated products or services

Adding new, unrelated products or services is called *conglomerate diversification*. Some firms pursue conglomerate diversification based in part on an expectation of profits from breaking up acquired firms and selling divisions piecemeal.

Guidelines for Conglomerate Diversification

Four guidelines when conglomerate diversification may be an effective strategy are provided below:

- Declining annual sales and profits
- Capital and managerial talent to compete successfully in a new industry
- Financial synergy between the acquired and acquiring firms
- Exiting markets for present products are saturated

Horizontal Diversification

Adding new, unrelated products or services for present customers is called *horizontal diversification*. This strategy is not as risky as conglomerate diversification because a firm already should be familiar with its present customers.

Guidelines for Horizontal Diversification

Four guidelines when horizontal diversification may be an especially effective strategy are:

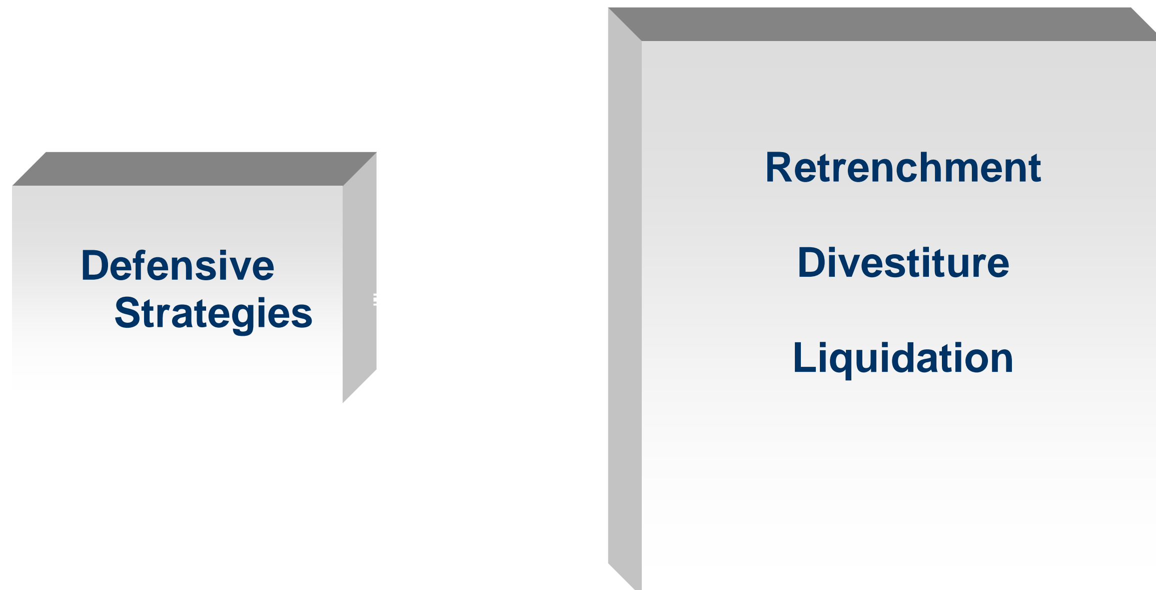
- Revenues from current products/services would increase significantly by adding the new unrelated products
- Highly competitive and/or no-growth industry w/low margins and returns
- Present distribution channels can be used to market new products to current customers
- New products have counter cyclical sales patterns compared to existing products

Defensive Strategies

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

© Copyright Virtual University of Pakistan

Defensive Strategies



Retrenchment

Retrenchment occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. Sometimes called a turnaround or reorganization strategy, retrenchment is designed to fortify an organization's basic distinctive competence. During retrenchment, strategists work with limited resources and face pressure from shareholders, employees, and the media. Retrenchment can entail selling off land and buildings to raise needed cash, pruning product lines, closing marginal businesses, closing obsolete factories, automating processes, reducing the number of employees, and instituting expense control systems.

Guidelines for Retrenchment

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

- Firm has failed to meet its objectives and goals consistently over time but has distinctive competencies
- Firm is one of the weaker competitors
- Inefficiency, low profitability, poor employee morale and pressure from stockholders to improve performance.
- When an organization's strategic managers have failed
- Very quick growth to large organization where a major internal reorganization is needed

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

© Copyright Virtual University of Pakistan

TYPES OF STRATEGIES

Objectives:

This lecture brings strategic management to life with many contemporary examples. Sixteen types of strategies are defined and exemplified, including Michael Porter's generic strategies: cost leadership, differentiation, and focus. Guidelines are presented for determining when different types of strategies are most appropriate to pursue. An overview of strategic management in nonprofit organizations, governmental agencies, and small firms is provided. After reading this lecture you will be able to know about:

- Types of Strategies
- Defensive strategies

Defensive Strategies

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

Divestiture

Selling a division or part of an organization is called *divestiture.* Divestiture often is used to raise capital for further strategic acquisitions or investments. Divestiture can be part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable, that require too much capital, or that do not fit well with the firm's other activities.

Guidelines for Divestiture

Five guidelines when divestiture may be an especially effective strategy to pursue are listed below:

- When firm has pursued retrenchment but failed to attain needed improvements
- When a division needs more resources than the firm can provide
- When a division is responsible for the firm’s overall poor performance
- When a division is a misfit with the organization
- When a large amount of cash is needed and cannot be obtained from other sources.

Divestiture has become a very popular strategy as firms try to focus on their core strengths, lessening their level of diversification.

For example, retailer Venator Group, formerly Woolworth, in 1999 divested eight divisions in order to become solely an athletic footwear and apparel company. The eight divisions were Music Box, Randy River, Foot Locker Outlets, Colorado U.S., Team Edition, Going to the Game, Weekend Edition, and Burger King. Venator several years ago was a $4.6 billion conglomerate before CEO Farah divested thirty-five of Venator's forty-two divisions, including all Woolworth and Kinney Shoe stores. A few divestitures consummated in 2000 are given in Table.

Recent Divestitures

Parent Company	Divested Company
Microsoft	Sidewalk Entertainment
AlliedSignal	Laminate-Systems
Monsanto	NutraSweet
Compaq Computer Corp.	AltaVista
Dupont	Conoco
Mead Corp.	Northwood, Inc.
IBM	Networking Technology
Kohlberg Kravis Roberts	Gillette

Borg-Warner Automotive	Kuhlman Electric
De La Rue PLC	Smart Cards
Walt Disney	Anaheim Angels
Walt Disney	Anaheim Might Ducks
Walt Disney	Fairchild Publications
Harcourt General	Neiman Marcus
3Com	Palm Computing
North American Van Lines	Allied Van Lines
Harvard Industries, Inc.	Kingston-Warren
Cendant Corp.	Entertainment Publications
Marks & Spencer PLC	Kings Supermarket
U.S. Industries, Inc.	USI Diversified
Silicon Graphics, Inc.	Cray Supercomputer
Eastman Kodak Co.	Image Bank
Microsoft	Expedia
Kellogg Company	Lender's Bagels
Sabre Holdings	Travelocity.com

Liquidation

Selling all of a company's assets, in parts, for their tangible worth

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

Guidelines for Liquidation

Three guidelines when liquidation may be an especially effective strategy to pursue are:

- When both retrenchment and divestiture have been pursued unsuccessfully
- If the only alternative is bankruptcy, liquidation is an orderly alternative
- When stockholders can minimize their losses by selling the firm's assets

Means of achieving strategies: Joint Venture and Combination Strategies

Joint Venture

Two or more companies form a temporary partnership or consortium for purpose of capitalizing on some opportunity.

Joint venture is a popular strategy that occurs when two or more companies form a temporary partnership or consortium for the purpose of capitalizing on some opportunity. Often, the two or more sponsoring firms form a separate organization and have shared equity ownership in the new entity. Other types of *cooperative arrangements* include research and development partnerships, cross-distribution agreements, cross-licensing agreements, cross-manufacturing agreements, and joint-bidding consortia.

© Copyright Virtual University of Pakistan

Cooperative Arrangements

- Research and development partnerships
- Cross-distribution agreements
- Cross-licensing agreements
- Cross-manufacturing agreements
- Joint-bidding consortia

Joint ventures and cooperative arrangements are being used increasingly because they allow companies to improve communications and networking, to globalize operations, and to minimize risk.
Nestlé and Pillsbury recently formed a joint venture named Ice Cream Partners USA based in northern California. The new company primarily sells super premium ice cream that is high in fat—and price. Super premium ice cream sales were up nearly 13 percent in 1998.
When a privately owned organization is forming a joint venture with a publicly owned organization; there are some advantages of being privately held, such as close ownership; there are some advantages of being publicly held, such as access to stock issuances as a source of capital. Sometimes, the unique advantages of being privately and publicly held can be synergistically combined in a joint venture

Guidelines for Joint Ventures

Six guidelines when joint venture may be an especially effective strategy to purse are:

- Combination of privately held and publicly held can be synergistically combined
- Domestic forms joint venture with foreign firm, can obtain local management to reduce certain risks
- Distinctive competencies of two or more firms are complementary
- Overwhelming resources and risks where project is potentially very profitable (e.g., Alaska pipeline)
- Two or more smaller firms have trouble competing with larger firm
- A need exists to introduce a new technology quickly

Some Recent Example Joint Ventures

Parent Company #1	**Parent Company #2**	**Newly Created Company**
AOL	Bertelsmann AG	AOL Europe
Walt Disney	Infoseek	Go Network
Nestlé	Pillsbury	Ice Cream Partners USA
Dow Jones	Pearson	Vedomosti
Volkswagen AG	Porsche	Sport Utility Vehicle
Pacific Century Group	DaimlerChrysler Aerospace AG	Pacific Century Matrix
Microsoft	Ford Motor Company	CarPoint
EBay	Microsoft	Fair Market
Excite At Home	Tele Columbus Gmblt	At Home Deutschland

STRATEGY-FORMULATION FRAMEWORK

Learning Objectives

After understanding this topic you able to understand the basic phenomena of strategy formulation frame work and also under stand the stages of strategy formulation frame work

Objectives:

Objective placing an important role in strategic management Strategic analysis and choice largely involves making subjective decisions based on objective information. This topic includes important concepts that can help strategists generate feasible alternatives, evaluate those alternatives, and choose a specific course of action. Behavioral aspects of strategy formulation are described, including politics, culture, ethics, and social responsibility considerations. Modern tools for formulating strategies are described, and the appropriate role of a board of directors is discussed

A Comprehensive Strategy-Formulation Framework

Important strategy-formulation techniques can be integrated into a three-stage decision-making framework, as shown below. The tools presented in this framework are applicable to all sizes and types of organizations and can help strategists identify, evaluate, and select strategies.

Stage-1 (Formulation Framework)

1. **External factor evaluation**
2. **Competitive matrix profile**
3. **Internal factor evaluation**

Stage-2 (Matching stage)

1. **TWOS Matrix** (Threats-Opportunities-Weaknesses-Strengths)
2. **SPACE Matrix** (Strategic Position and Action Evaluation)
3. **BCG Matrix** (Boston Consulting Group)
4. **IE Matrix** (Internal and external)
5. **GS Matrix** (Grand Strategy)

Stage-3 (Decision stage)

1. **QSPM** (Quantitative Strategic Planning Matrix)

Stage 1 of the formulation framework consists of the EFE Matrix, the IFE Matrix, and the Competitive Profile Matrix. Called the *Input Stage,* Stage 1 summarizes the basic input information needed to formulate strategies. **Stage 2,** called the *Matching Stage,* focuses upon generating feasible alternative strategies by aligning key external and internal factors. Stage 2 techniques include the Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix, the Strategic Position and Action Evaluation (SPACE) Matrix, the Boston Consulting Group (BCG) Matrix, the Internal-External (IE) Matrix, and the Grand Strategy Matrix. **Stage 3,** called the *Decision Stage,* and involves a single technique, the Quantitative Strategic Planning Matrix (QSPM). A QSPM uses input information from Stage 1 to objectively evaluate feasible alternative strategies identified in Stage 2. A QSPM reveals the relative attractiveness of alternative strategies and, thus, provides an objective basis for selecting specific strategies.

All nine techniques included in the *strategy-formulation framework* require integration of intuition and analysis. Autonomous divisions in an organization commonly use strategy-formulation techniques to develop strategies and objectives. Divisional analyses provide a basis for identifying, evaluating, and selecting among alternative corporate-level strategies.

Strategists themselves, not analytic tools, are always responsible and accountable for strategic decisions. Lenz emphasized that the shift from a words-oriented to a numbers-oriented planning process can give rise to a false sense of certainty; it can reduce dialogue, discussion, and argument as a means to explore understandings, test assumptions and foster organizational learning. Strategists, therefore, must be wary of this possibility and use analytical tools to facilitate, rather than diminish, communication. Without objective information and analysis, personal biases, politics, emotions, personalities, and *halo error* (the tendency to put too much weight on a single factor) unfortunately may play a dominant role in the strategy-formulation process.

© Copyright Virtual University of Pakistan

THREATS-OPPORTUNITIES-WEAKNESSES-STRENGTHS (TOWS) MATRIX

Learning object

After understanding this chapter you are able to understand TOWS matrix and also understand how to scan internal and external environment of the organization

The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix

The *Threats-Opportunities-Weaknesses-Strengths (TOWS)* is also named as SWOT analysis. A TWOS Analysis is a strategic planning tool used to evaluate the Threats, Opportunities and Strengths, Weaknesses, involved in a project or in a business venture or in any other situation requiring a decision.

This is an important tool in order to formulate strategy. This Matrix is an important matching tool that helps managers develops four types of strategies: SO Strategies (strength-opportunities), WO Strategies (weakness- opportunities), ST Strategies (strength-threats), and WT Strategies (weakness-threats).The most difficult part of TOWS matrix is to match internal and external factor.

Once the objective has been identified, TOWS are discovered and listed. TOWS are defined precisely as follows:

Strengths are attributes of the organization that are helpful to the achievement of the objective.

Weaknesses are attributes of the organization that are harmful to the achievement of the objective.

Opportunities are external conditions that are helpful to the achievement of the objective.

Threats are external conditions that are harmful to the achievement of the objective.

Strengths and weaknesses are internal factors. For example, strength could be your specialist marketing expertise. A weakness could be the lack of a new product.

Opportunities and threats are external factors. For example, an opportunity could be a developing distribution channel such as the Internet, or changing consumer lifestyles that potentially increase demand for a company's products. A threat could be a new competitor in an important existing market or a technological change that makes existing products potentially obsolete.

it is worth pointing out that SWOT analysis can be very subjective - two people rarely come-up with the same version of a SWOT analysis even when given the same information about the same business and its environment. Accordingly, SWOT analysis is best used as a guide and not a prescription. Adding and weighting criteria to each factor increases the validity of the analysis.

SO Strategies: Every firm desires to obtain benefit form its resources such benefit can only be obtained if utilize its strength to take external opportunity. Resources (Assets) an important firm's strength to get opportunity for external resources. For example the firm enjoying a good financial position which is strength for a firm and externally opportunity to expand business. The strong financial position provides an opportunity to expand the business. The matched strategy is known as SO strategy.

WO Strategies:

WO Strategies developed to match weakness with opportunities of the firm. WO strategy is very useful if the firm take advantage to external resources in order to overcome the weakness. For example the firm is in the critical financial problems that is weakness and firm is availing merger with Multinational Corporation.

ST Strategies

ST Strategies is an important strategy to overcome external threats. This does not mean that a strong organization should always meet threats in the external environment head-on. This strategy is adopted by various colleges by opening new branches in order to overcome competitive thereat. These threats also explain by the Porter in its competitive model.

© Copyright Virtual University of Pakistan

WT Strategies

Every firm has a desire to overcome its weakness and reducing threats. This type of strategy helpful when weaknesses are removed to overcome external threats. It is difficult to target WT strategy. For example weak distribution network creating many problems for the firm if it strong many external threats can be removed.

Steps for developing strategies:

There are eight steps involved in constructing a TOWS Matrix:

1. Rank external opportunities
2. Rank external threats
3. Rank internal strength
4. Rank internal weaknesses.
5. Match internal strengths with external opportunities and mention the result in the SO Strategies cell.
6. Match internal weaknesses with external opportunities and mention the result in the WO Strategies cell..
7. Match internal strengths with external threats and mention the result in the ST Strategies cell.
8. Match internal weaknesses with external threats and mention the result in the WT strategies cell.

Blank	**Strengths–S** List Strengths	**Weaknesses – W** List Weaknesses
Opportunities – O List Opportunities	**SO-Strategies** Use strength to obtain opportunities	**WO-Strategies** Overcome weaknesses by taking advantage of opportunities
Threats – T List Threats	**ST-Strategies** Use strengths to avoid threats	**WT-Strategies** Minimize weaknesses and avoid threats

© Copyright Virtual University of Pakistan

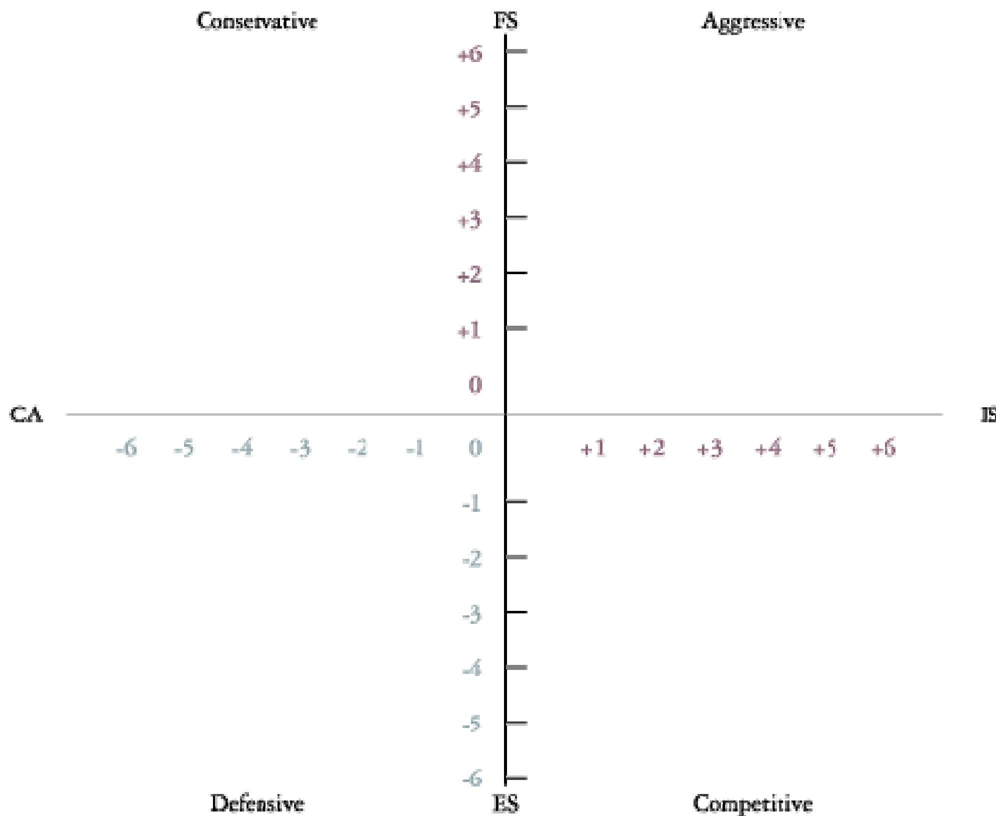
THE STRATEGIC POSITION AND ACTION EVALUATION (SPACE) MATRIX

Learning objective

After understanding this chapter you are able to understand SPACE matrix and also understand how to prepare the space matrix of any organization and how it is helpful for strategic formulation framework

The Strategic Position and Action Evaluation (SPACE) Matrix

The Strategic Position and Action Evaluation (SPACE) Matrix is another important Stage 2 matching tool of formulation framework. It explains that what is our strategic position and what possible action can be taken. It is not closed matrix. It is prepared on graph. This follow counter clock wise direction. It contains four-quadrant named aggressive, conservative, defensive, or competitive strategies. The axes of the SPACE Matrix represent two internal dimensions financial strength [FS] and competitive advantage [CA]) and two external dimensions (environmental stability [ES] and industry strength [IS]). These four factors are the most important determinants of an organization's overall strategic position.



It is divided into two internal and external dimensions which are as follow (Internal dimensions) financial strength, competitive advantage, (External dimensions) environment stability and industry strength. This sequence is convention to be followed as graphed above. This frame work determines appropriate set of strategies for each quadrant. First quadrant is aggressive the firm fall in this quadrant that fellow the aggressive strategy. Second quadrant is conservative all those firms that fall n this quadrant that must fallow conservative strategy and in next the firm fellow the defensive strategy. All the firms fall on competitive follow that strategy. After a rating is assigned ranging from +1 (worst) to +6 (best) to each of the variables that make up the financial strength and industry strength dimensions. Assign a numerical value ranging from -1 (best) to -6 (worst) to each of the variables that make up the environment stability and Competitive advantage dimensions.

© Copyright Virtual University of Pakistan

THE STRATEGIC POSITION AND ACTION EVALUATION (SPACE) MATRIX

These dimensions are explained below:

Internal Strategic Position	**External Strategic Position**
Financial Strength (FS)	**Environmental Stability (ES)**
Risk involved in business	Impact of technology Price elasticity of demand
Debt to equity ratio Working capital condition Leverage	Political situation
Liquidity	Demand variability
Ease of exit from market	Price range of competing products
Cash flow statement	Rate of inflation
Return on investment	Competitive pressure
Competitive Advantage (CA)	**Industry Strength (IS)**
Access to the market Market share	Demand and supply factors Resource utilization Growth potential
Quality of product and services	Profit potential
Product life cycle	Financial stability
Customer loyalty	Technological know-how
Capacity, location and layout	Productivity, capacity utilization
Technological know-how	Capital intensity
Backward and forward integration	Ease of entry into market

After the selection of variables the rating is assigned to each. After the addition of these variables taking the average. For example financial strength is explain below

Financial Strength (FS)	**Rating**
High Return on investment	3
Large amount of capital	2
Consistently increasing revenue	4
Working capital condition	1

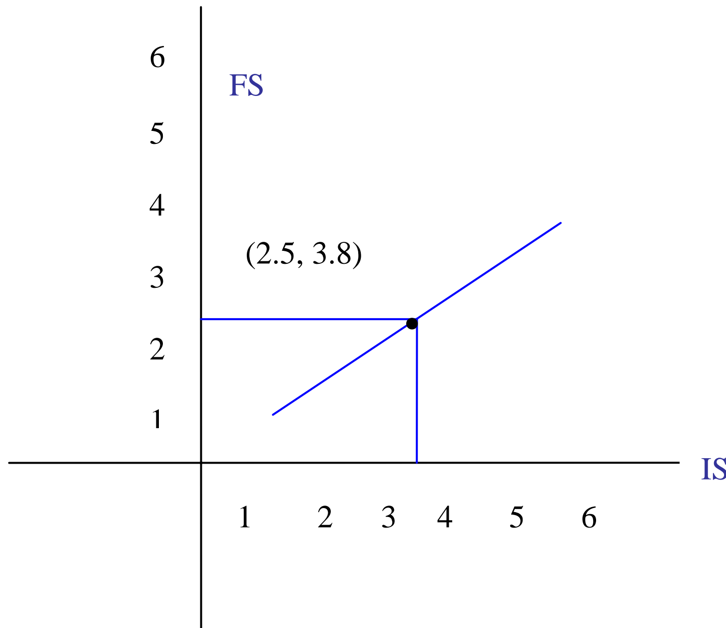
Financial strength average is (3+2+4+1)/4 = 2.5
The industry strength is explained as follows

Industry Strength (IS)	**Rating**
Demand and supply factors Resource utilization	5 3
Profit potential	3
Technological know-how	6

© Copyright Virtual University of Pakistan

Ease of entry into market	2

Industry strength average is (5+3+3+6+2)/5 = 3.8. It is plotted on graph:



The graph indicates that firm adopts aggressive strategy

Steps for the preparation of SPACE Matrix

The steps required to develop a SPACE Matrix are as follows:

1. Select a set of variables to relating to financial strength, competitive advantage, environmental stability, and industry strength.
2. Assign a numerical value ranging from +1 (worst) to +6 (best) to each of the variables that make up the financial strength and industry strength dimensions. Assign a numerical value ranging from -1 (best) to -6 (worst) to each of the variables that make up the environmental stability and competitive advantage dimensions.
3. Compute an average score and dividing by the number of variables
4. Plot the average scores in the SPACE Matrix.
5. Add the two scores on the x-axis and plot the resultant point on X. Add the two scores on the y-axis and plot the resultant point on Y. Plot the intersection of the new xy point.
6. Draw a directional vector from the origin of the SPACE Matrix through the new intersection point. This vector reveals the type of strategies recommended for the organization: aggressive, competitive, defensive, or conservative.

BOSTON CONSULTING GROUP (BCG) MATRIX

Learning objective

After understanding this chapter you are able to understand BCG and IE matrices and also understand how to prepare these matrices for any organization and what its practical implementation in various organizations.

Boston Consulting Group (BCG) Matrix

The Boston Consulting Group (BCG) is a management consulting firm founded by Harvard Business School alum Bruce Henderson in 1963. The **growth-share matrix** is a chart created by group in 1970 to help corporation analyze their business units or product lines, and decide where to allocate cash. It was popular for two decades, and is still used as an analytical tool.

To use the chart, corporate analysts would plot a scatter graph of their business units, ranking their relative market shares and the growth rates of their respective industries. This led to a categorization of four different types of businesses:

Market Growth Rate \ Relative Market Share	High	Low
High	Stars	Question Marks
Low	Cash Cows	Dogs

- **Cash cows** Units with high market share in a slow-growing industry. These units typically generate cash in excess of the amount of cash needed to maintain the business. They are regarded as staid and boring, in a "mature" market, and every corporation would be thrilled to own as many as possible. They are to be "milked" continuously with as little investment as possible, since such investment would be wasted in an industry with low growth.

- **Dogs** More charitably called pets, units with low market share in a mature, slow-growing industry. These units typically "break even", generating barely enough cash to maintain the business's market share. Though owning a break-even unit provides the social benefit of providing jobs and possible synergies that assist other business units, from an accounting point of view such a unit is worthless, not generating cash for the company. They depress a profitable company's return on assets ratio, used by many investors to judge how well a company is being managed. Dogs, it is thought, should be sold off.

- **Question marks** Units with low market share in a fast-growing industry. Such business units require large amounts of cash to grow their market share. The corporate goal must be to grow the business to become a star. Otherwise, when the industry matures and growth slows, the unit will fall down into the dog's category.

- **Stars** Units with a high market share in a fast-growing industry. The hope is that stars become the next cash cows. Sustaining the business unit's market leadership may require extra cash, but this is worthwhile if that's what it takes for the unit to remain a leader. When growth slows, stars become cash cows if they have been able to maintain their category leadership.

© Copyright Virtual University of Pakistan

As a particular industry matures and its growth slows, all business units become either cash cows or dogs.

The overall goal of this ranking was to help corporate analysts decide which of their business units to fund, and how much; and which units to sell. Managers were supposed to gain perspective from this analysis that allowed them to plan with confidence to use money generated by the cash cows to fund the stars and, possibly, the question marks. As the BCG stated in 1970:

Only a diversified company with a balanced portfolio can use its strengths to truly capitalize on its growth opportunities. The balanced portfolio has:

- Stars whose high share and high growth assure the future;
- Cash cows that supply funds for that future growth; and
- Question marks to be converted into stars with the added funds.

Practical Use of the Boston Matrix

For each product or service the 'area' of the circle represents the value of its sales. The Boston Matrix thus offers a very useful 'map' of the organization's product (or service) strengths and weaknesses (at least in terms of current profitability) as well as the likely cash flows.

The need which prompted this idea was, indeed, that of managing cash-flow. It was reasoned that one of the main indicators of cash generation was relative market share, and one which pointed to cash usage was that of market growth rate.

Relative market share

This indicates likely cash generation, because the higher the share the more cash will be generated. As a result of 'economies of scale' (a basic assumption of the Boston Matrix), it is assumed that these earnings will grow faster the higher the share. The exact measure is the brand's share relative to its largest competitor. Thus, if the brand had a share of 20 per cent, and the largest competitor had the same, the ratio would be 1:1. If the largest competitor had a share of 60 per cent, however, the ratio would be 1:3, implying that the organization's brand was in a relatively weak position. If the largest competitor only had a share of 5 per cent, the ratio would be 4:1, implying that the brand owned was in a relatively strong position, which might be reflected in profits and cash flow. If this technique is used in practice, it should be noted that this scale is logarithmic, not linear.

On the other hand, exactly what is a high relative share is a matter of some debate. The best evidence is that the most stable position (at least in FMCG markets) is for the brand leader to have a share double that of the second brand, and treble that of the third. Brand leaders in this position tend to be very stable - and profitable

The reason for choosing relative market share, rather than just profits, is that it carries more information than just cash flow. It shows where the brand is positioned against its main competitors, and indicates where it might be likely to go in the future. It can also show what type of marketing activities might be expected to be effective.

Limitations

1. Viewing every business as a star, cash cow, dog, or question mark is overly simplistic.
2. Many businesses fall right in the middle of the BCG matrix and thus are not easily classified.
3. The BCG matrix does not reflect whether or not various divisions or their industries are growing over time.
4. Other variables besides relative market share position and industry growth rate in sales are important in making strategic decisions about various divisions.

<u>Conclusion</u>

After discussion, the BCG matrix is an important matrix regarding strategy adopted by firm. Still this matrix concern four strategy first growth or build strategy enhance market share), second is hold strategy (hold existing position), third Harvesting strategy (no further growth or select other opportunity), fourth is diversity (sell out the part of business)

© Copyright Virtual University of Pakistan

Lesson 28

BOSTON CONSULTING GROUP (BCG) MATRIX

Learning objective

After understanding this chapter you are able to understand BCG and IE matrices and also understand how to prepare these matrices for any organization and what its practical implementation in various organizations.

The Internal-External (IE) Matrix

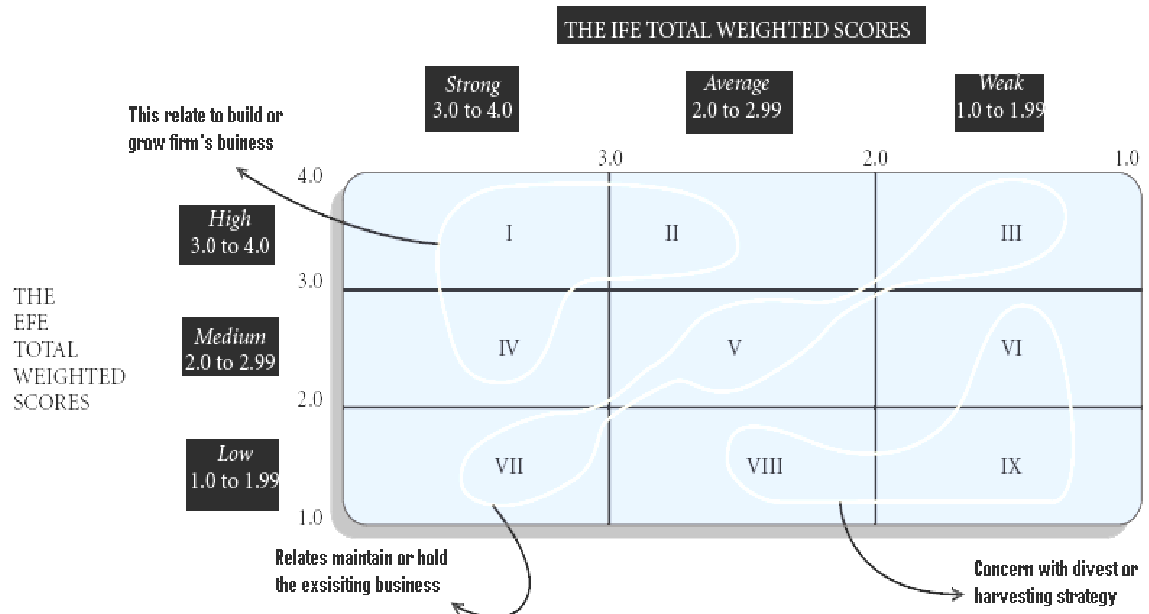
This is also an important matrix of matching stage of strategy formulation. This matrix already explains earlier. It relate to internal (IFE) and external factor evaluation (EFE). The findings form internal and external position and weighted score plot on it. It contains nine cells. Its characteristics is a s follow

- Positions an organization's various divisions in a nine-cell display.

- Similar to BCG Matrix except the IE Matrix:
  - Requires more information about the divisions
  - Strategic implications of each matrix are different

- Based on two key dimensions
  - The IFE total weighted scores on the x-axis
  - The EFE total weighted scores on the y-axis

- Divided into three major regions
  - Grow and build – Cells I, II, or IV
  - Hold and maintain – Cells III, V, or VII
  - Harvest or divest – Cells VI, VIII, or IX



Steps for the development of IE matrix

1. Based on two key dimensions IFE and EFE.
2. Plot IFE total weighted scores on the *x*-axis and the EFE total weighted scores on the *y* axis
3. On the *x*-axis of the IE Matrix, an IFE total weighted score of 1.0 to 1.99 represents a weak internal position; a score of 2.0 to 2.99 is considered average; and a score of 3.0 to 4.0 is strong.
4. On the *y*-axis, an EFE total weighted score of 1.0 to 1.99 is considered low; a score of 2.0 to 2.99 is medium; and a score of 3.0 to 4.0 is high.
5. IE Matrix divided into three major regions.

Grow and build – Cells I, II, or IV
Hold and maintain – Cells III, V, or VII
Harvest or divest – Cells VI, VIII, or IX

© Copyright Virtual University of Pakistan

GRAND STRATEGY MATRIX

Learning objective

Grand strategy matrix is a last matrix of matching strategy formulation framework. It same as important as BCG, IE and other matrices. This chapter enables you to understand the preparation of GS matrix.

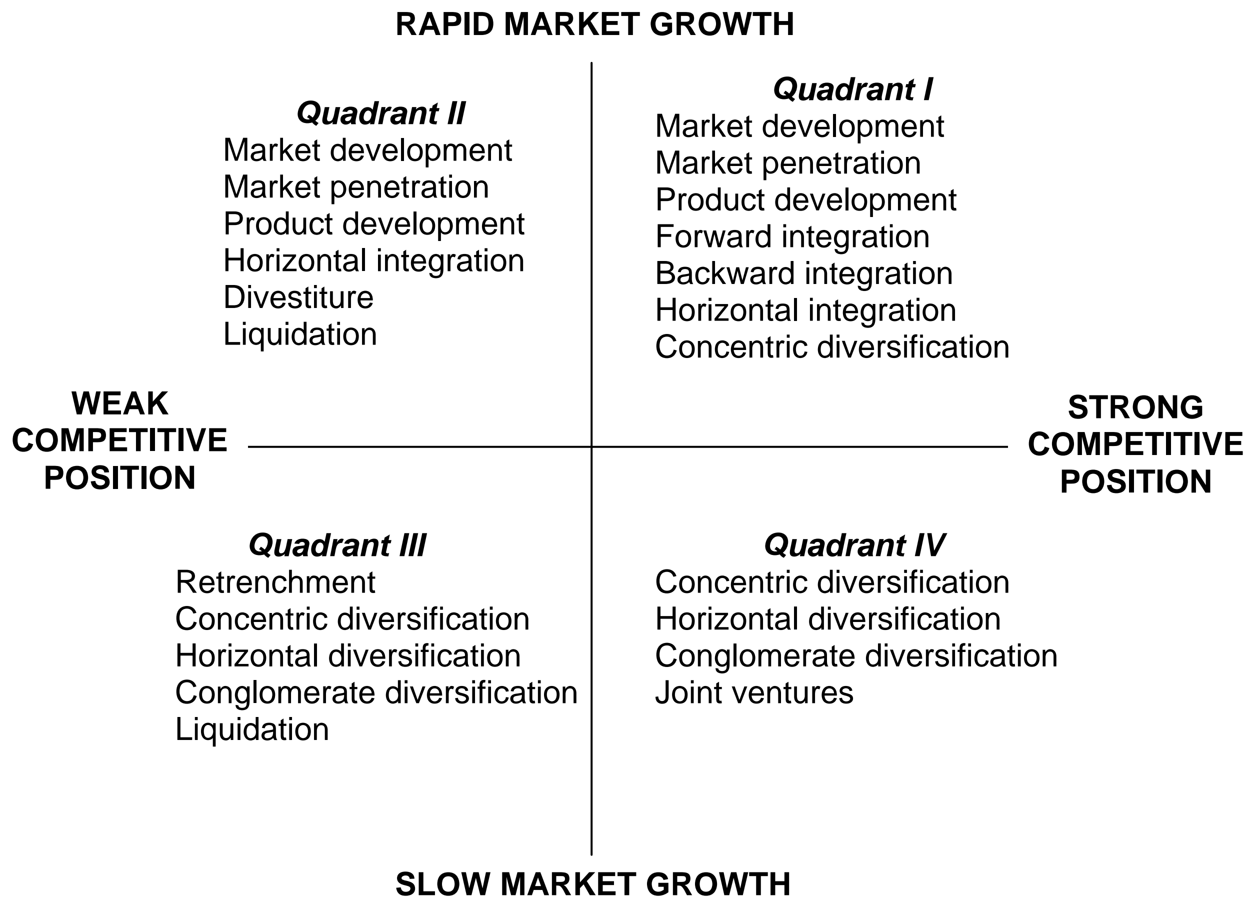
This chapter also enables you to understand the last stage (decision stage) of strategy formulation frame work and also explain that how it is prepared

Grand Strategy Matrix

This is also an important matrix of strategy formulation frame work. Grand strategy matrix it is popular tool for formulating alternative strategies. In this matrix all organization divides into four quadrants. Any organization should be placed in any one of four quadrants. Appropriate strategies for an organization to consider are listed in sequential order of attractiveness in each quadrant of the matrix.
It is based two major dimensions

1. Market growth
2. Competitive position

All quadrant contain all possible strategies



Qurdant-1 contains that company's strong having competitive situation and rapid market growth. Firms located in Quadrant I of the Grand Strategy Matrix are in an excellent strategic position. These firms must focus on current market and appropriate to follow market penetration, market development and products development are appropriate strategies.

Qurdant-2 contains that company's having weak competitive situation and rapid market growth. Firms positioned in Quadrant II need to evaluate their present approach to the marketplace seriously. Although their industry is growing, they are unable to compete effectively, and they need to determine why the firm's current approach is ineffectual and how the company can best change to improve its competitiveness. Because Quadrant II firms are in a rapid-market-growth industry, an intensive strategy (as opposed to integrative or diversification) is usually the first option that should be considered.

Qurdant-3 contains that company's weak competitive situation and slow market growth. The firms fall in this quadrant compete in slow-growth industries and have weak competitive positions. These firms must make some drastic changes quickly to avoid further demise and possible liquidation. Extensive cost and asset reduction (retrenchment) should be pursued first. An alternative strategy is to shift resources away from the current business into different areas. If all else fails, the final options for Quadrant III businesses are divestiture or liquidation.

Qurdant-4 contains that company's strong competitive situation and slow market growth. Finally, Quadrant IV businesses have a strong competitive position but are in a slow-growth industry. These firms have the strength to launch diversified programs into more promising growth areas. Quadrant IV firms have characteristically high cash flow levels and limited internal growth needs and often can pursue concentric, horizontal, or conglomerate diversification successfully. Quadrant IV firms also may pursue joint ventures

As above figure there are four quadrants in grand matrix that further contain various set strategies.

Quardrant-1

Market development
Market penetration
Product development
Forward integration
Backward integration
Horizontal integration
Concentric diversification

Quardrant-2

Market development
Market penetration
Product development
Horizontal integration
Divestiture
Liquidation

Quardrant-3

Retrenchment
Concentric diversification
Horizontal diversification
Conglomerate diversification
Liquidation

Quardrant-4

Concentric diversification
Horizontal diversification
Conglomerate diversification
Joint ventures

Conclusion

Every firm fall any one four quadrants and if the firm fall in quadrant-1 it must follow the list of strategies given in it. As further if the firm falls in quarrant-2 must adopt the strategies given in quadrant-2 and so on

© Copyright Virtual University of Pakistan

GRAND STRATEGY MATRIX

Learning objective

Grand strategy matrix is a last matrix of matching strategy formulation framework. It same as important as BCG, IE and other matrices. This chapter enables you to understand the preparation of GS matrix.

The Quantitative Strategic Planning Matrix (QSPM)

The last stage of strategy formulation is decision stage. In this stage it is decided that which way is most appropriate or which alternative strategy should be select. This stage contains QSPM that is only tool for objective evaluation of alternative strategies. A quantitative method used to collect data and prepare a matrix for strategic planning. It is based on identified internal and external crucial success factors. That is only technique designed to determine the relative attractiveness of feasible alternative action.

This technique objectively indicates which alternative strategies are best. The QSPM uses input from Stage 1 analyses and matching results from Stage 2 analyses to decide objectively among alternative strategies. That is, the EFE Matrix, IFE Matrix, and Competitive Profile Matrix that make up Stage 1, coupled with the TOWS Matrix, SPACE Analysis, BCG Matrix, IE Matrix, and Grand Strategy Matrix that make up Stage 2, provide the needed information for setting up the QSPM (Stage 3).

Preparation of matrix

Now the question is that how to prepare QSPM matrix. First it contains key internal and external factors. An internal factor contains (strength and weakness) and external factor include (opportunities and threats). It relates to previously IFE and EFE in which weight to all factors. Weight means importance to internal and external factor. The sum of weight must be equal to one. After assigning the weights examine stage-2 matrices and identify alternatives strategies that the organization should consider implementing. The top row of a QSPM consists of alternative strategies derived from the TOWS Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and Grand Strategy Matrix. These matching tools usually generate similar feasible alternatives. However, not every strategy suggested by the matching techniques has to be evaluated in a QSPM. Strategists should use good intuitive judgment in selecting strategies to include in a QSPM. After assigning the weight to strategy, determine the attractiveness score of each and afterwards total attractiveness score. The highest total attractiveness score strategy is most feasible.

Steps in preparation of QSPM

1. List of the firm's key external opportunities/threats and internal strengths/weaknesses in the left column of the QSPM.

2. Assign weights to each key external and internal factor

3. Examine the Stage 2 (matching) matrices and identify alternative strategies that the organization should consider implementing

4. Determine the Attractiveness Scores (AS)

5. Compute the Total Attractiveness Scores

6. Compute the Sum Total Attractiveness Score

© Copyright Virtual University of Pakistan

	Weight	Strategy 1		Strategy 2		Strategy 3	
		AS	TAS	AS	TAS	AS	TAS
Key External Factors							
Economy conditions							
Social/Cultural/Demographic /Environmental							
Political/Legal/Governmental							
Competitive							
Technological							
Consumer attitude							
Key Internal Factors							
Research and Development							
Computer Information							
Finance/Accounting							
Production/Operations							
Management							
Marketing							
Systems							

Limitations

1. Requires intuitive judgments and educated assumptions
2. Only as good as the prerequisite inputs
3. Only strategies within a given set are evaluated relative to each other

Advantages

1. Sets of strategies considered simultaneously or sequentially
2. Integration of pertinent external and internal factors in the decision making process

THE NATURE OF STRATEGY IMPLEMENTATION

Learning objective

Strategy in action means strategy implementation. This chapter guides you to understand how to implement the strategy and what problems an organization faced in order to implement strategy. This chapter also explains objective and policies.

The Nature of Strategy Implementation

It is possible to turn strategies and plans into individual actions, necessary to produce a great business performance. But it's not easy. Many companies repeatedly fail to truly motivate their people to work with enthusiasm, all together, towards the corporate aims. Most companies and organizations know their businesses, and the strategies required for success. However many corporations - especially large ones - struggle to translate the theory into action plans that will enable the strategy to be successfully implemented and sustained. Here are some leading edge methods for effective strategic corporate implementation. These advanced principles of strategy realization are provided by the very impressive Foresight Leadership organization, and this contribution is gratefully acknowledged.

Most companies have strategies, but according to recent studies, between 70% and 90% of organizations that have formulated strategies fail to execute them.

A Fortune Magazine study has shown that 7 out of 10 CEOs, who fail, do so not because of bad strategy, but because of bad execution.

In another study of Times 1000 companies, 80% of directors said they had the right strategies but only 14% thought they were implementing them well.

Only 1 in 3 companies, in their own assessment, were achieving significant strategic success.

The message clear - effective strategy realization is key for achieving strategic success. Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

- Strategy formulation is positioning forces before the action.
- Strategy implementation is managing forces during the action.
- Strategy formulation focuses on effectiveness.
- Strategy implementation focuses on efficiency.
- Strategy formulation is primarily an intellectual process.
- Strategy implementation is primarily an operational process.
- Strategy formulation requires good intuitive and analytical skills.
- Strategy implementation requires special motivation and leadership skills.
- Strategy formulation requires coordination among a few individuals.
- Strategy implementation requires coordination among many persons.

Strategy-formulation concepts and tools do not differ greatly for small, large, for profit, or nonprofit organizations. However, strategy implementation varies substantially among different types and sizes of organizations. Implementing strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization's pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better computer information system. These types of activities obviously differ greatly between manufacturing, service, and governmental organizations.

Management Perspectives

In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle- and lower-level managers. Managers and employees are motivated more by

perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities. Of equal importance, strategists should be involved as much as possible in strategy-implementation activities.

Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, matching managers with strategy, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resource function and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in a major new direction.

Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success. The rationale for objectives and strategies should be understood and clearly communicated throughout an organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers' and employees' questions should be answered. Top-down flow of communication is essential for developing bottom-up support.

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

Annual Objectives

Introduction

Objectives set out what the business is trying to achieve.

Objectives can be set at two levels:

(1) Corporate level

These are objectives that concern the business or organization as a whole

Examples of "corporate objectives might include:

- We aim for a return on investment of at least 15%
- We aim to achieve an operating profit of over £10 million on sales of at least £100 million
- We aim to increase earnings per share by at least 10% every year for the foreseeable future

(2) Functional level

E.g. specific objectives for marketing activities

Examples of functional marketing objectives" might include:

- We aim to build customer database of at least 250,000 households within the next 12 months
- We aim to achieve a market share of 10%
- We aim to achieve 75% customer awareness of our brand in our target markets

Both corporate and functional objectives need to conform to the commonly used **SMART** criteria.

The SMART criteria

Specific - the objective should state exactly what is to be achieved.

Measurable - an objective should be capable of measurement – so that it is possible to determine whether (or how far) it has been achieved

Achievable - the objective should be realistic given the circumstances in which it is set and the resources available to the business.

Relevant - objectives should be relevant to the people responsible for achieving them

Time Bound - objectives should be set with a time-frame in mind. These deadlines also need to be realistic.

Establishing annual objectives is a decentralized activity that directly involves all managers in an organization. Active participation in establishing annual objectives can lead to acceptance and commitment. *Annual objectives* are essential for strategy implementation because they

(1) Represent the basis for allocating resources
(2) Are a primary mechanism for evaluating managers?
(3) Are the major instrument for monitoring progress toward achieving long-term objectives?
(4) Establish organizational, divisional, and departmental priorities.

Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented. Approving, revising, or rejecting annual objectives is much more than a rubber-stamp activity. The purpose of annual objectives can be summarized as follows:

Annual objectives serve as guidelines for action, directing and channeling efforts and activities of organization members. They provide a source of legitimacy in an enterprise by justifying activities to stakeholders. They serve as standards of performance. They serve as an important source of employee motivation and identification. They give incentives for managers and employees to perform. They provide a basis for organizational design.

Clearly stated and communicated objectives are critical to success in all types and sizes of firms. Annual objectives, stated in terms of profitability, growth, and market share by business segment, geographic area, customer groups, and product are common in organizations.

Annual objectives should be measurable, consistent, reasonable, challenging, clear, communicated throughout the organization, characterized by an appropriate time dimension, and accompanied by commensurate rewards and sanctions. Too often, objectives are stated in generalities, with little operational usefulness. Annual objectives such as "to improve communication" or "to improve performance" are not clear, specific, or measurable. Objectives should state quantity, quality, cost, and time and also be verifiable. Terms such as "maximize," "minimize," "as soon as possible," and "adequate" should be avoided.

Annual objectives should be compatible with employees' and managers' values and should be supported by clearly stated policies. More of something is not always better! Improved quality or reduced cost may, for example, be more important than quantity. It is important to tie rewards and sanctions to annual objectives so that employees and managers understand that achieving objectives is critical to successful strategy implementation. Clear annual objectives do not guarantee successful strategy implementation but they do increase the likelihood that personal and organizational aims can be accomplished. Overemphasis on achieving objectives can result in undesirable conduct, such as faking the numbers, distorting the records, and letting objectives become ends in themselves. Managers must be alert to these potential problems

Policies

Changes in a firm's strategic direction do not occur automatically. On a day-to-day basis, policies are needed to make a strategy work. Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, *policy* refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives. For example, Carnival's new *Paradise* ship has a no-smoking policy anywhere, anytime aboard ship. It is the first cruise ship to comprehensively ban smoking. Another example of corporate policy relates to surfing the Web while at work. About 40 percent of companies today do not have a formal policy preventing employees from surfing the Internet, but software is being marketed now that allows firms to monitor how, when, where, and how long various employees use the Internet at work.

Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be imxcplemented successfully. They provide a basis for management control, allow coordination across organizational units, and reduce the amount of time managers spend making decisions. Policies also clarify what work is to be done by whom. They promote delegation of decision making to appropriate managerial levels where various problems usually arise. Many organizations have a policy manual that serves to guide and direct behavior.

© Copyright Virtual University of Pakistan

Policies can apply to all divisions and departments (for example, "We are an equal opportunity employer"). Some policies apply to a single department ("Employees in this department must take at least one training and development course each year"). Whatever their scope and form, policies serve as a mechanism for implementing strategies and obtaining objectives. Policies should be stated in writing whenever possible. They represent the means for carrying out strategic decisions.

© Copyright Virtual University of Pakistan

RESOURCE ALLOCATION

Learning objective

This chapter consists of resource allocation and how it is important for the success of the organization. It also include the "Conflict" its types and how to reduce it.

Resource Allocation

In strategic planning, a resource-allocation decision is a plan for using available resources, especially human resources especially in the near term, to achieve goals for the future. It is the process of allocating resources among the various projects or business units.

The plan has two parts: Firstly, there is the basic allocation decision and secondly there are contingency mechanisms. The basic allocation decision is the choice of which items to fund in the plan, and what level of funding it should receive, and which to leave unfunded: the resources are allocated to some items, not to others.

There are two contingency mechanisms. There is a priority ranking of items excluded from the plan, showing which items to fund if more resources should become available; and there is a priority ranking of some items included in the plan, showing which items should be sacrificed if total funding must be reduced.

Resource allocation is a major management activity that allows for strategy execution. In organizations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated according to priorities established by annual objectives. Nothing could be more detrimental to strategic management and to organizational success than for resources to be allocated in ways not consistent with priorities indicated by approved annual objectives.

All organizations have at least four types of resources that can be used to achieve desired objectives: financial resources, physical resources, human resources, and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented. A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge.

Managers normally have many more tasks than they can do. Managers must allocate time and resources among these tasks. Pressure builds up. Expenses are too high. The CEO wants a good financial report for the third quarter. Strategy formulation and implementation activities often get deferred. Today's problems soak up available energies and resources. Scrambled accounts and budgets fail to reveal the shift in allocation away from strategic needs to currently squeaking wheels.

The real value of any resource allocation program lies in the resulting accomplishment of an organization's objectives. Effective resource allocation does not guarantee successful strategy implementation because programs, personnel, controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a "resource allocation process."

Conflict

Conflict is a state of opposition, disagreement or incompatibility between two or more people or groups of people, which is sometimes characterized by physical violence. Military conflict between states may constitute war.

In political terms, "conflict" refers to an ongoing state of hostility between two groups of people.

Conflict as taught for graduate and professional work in conflict resolution commonly has the definition: "when two or more parties, with perceived incompatible goals, seek to undermine each other's goal-seeking capability".

One should not confuse the distinction between the presence and absence of conflict with the difference between competition and co-operation. In competitive situations, the two or more parties each have mutually inconsistent goals, so that when either party tries to reach their goal it will undermine the attempts of the other to reach theirs. Therefore, competitive situations will by their nature cause conflict. However, conflict can also occur in cooperative situations, in which two or more parties have consistent goals, because the manner in which one party tries to reach their goal can still undermine the other.

Types and Modes of Conflict

A conceptual conflict can escalate into a verbal exchange and/or result in fighting.

Conflict can exist at a variety of levels of analysis:

- intrapersonal conflict (though this usually just gets delegated out to psychology)
- interpersonal conflict
- group conflict
- organizational conflict
- community conflict
- intra-state conflict (for example: civil wars, election campaigns)
- international conflict

Conflicts in these levels may appear "nested" in conflicts residing at larger levels of analysis. For example, conflict within a work team may play out the dynamics of a broader conflict in the organization as a whole
Theorists have claimed that parties can conceptualize responses to conflict according to a two-dimensional scheme; concern for one's own outcomes and concern for the outcomes of the other party. This scheme leads to the following hypotheses:

- High concern for both one's own and the other party's outcomes leads to attempts to find mutually beneficial solutions.
- High concern for one's own outcomes only leads to attempts to "win" the conflict.
- High concern for the other party's outcomes only leads to allowing the other to "win" the conflict.
- No concern for either side's outcomes leads to attempts to avoid the conflict.

In Western society, practitioners usually suggest that attempts to find mutually beneficial solutions lead to the most satisfactory outcomes, but this may not hold true for many Asian societies.
Several theorists detect successive phases in the development of conflicts.
Often a group finds itself in conflict over facts, goals, methods or values. It is critical that it properly identify the type of conflict it is experiencing if it hopes to manage the conflict through to resolution. For example, a group will often treat an assumption as a fact.
The more difficult type of conflict is when values are the root cause. It is more likely that a conflict over facts, or assumptions, will be resolved than one over values. It is extremely difficult to "prove" that a value is "right" or "correct".
In some instances, a group will benefit from the use of a facilitator or process consultant to help identify the specific type of conflict.
Practitioners of nonviolence have developed many practices to solve social and political conflicts without resorting to violence or coercion.
There is no one optimal organizational design or structure for a given strategy or type of organization. What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way. For example, consumer goods companies tend to emulate the divisional structure-by-product form of organization. Small firms tend to be functionally structured (centralized). Medium-size firms tend to be divisionally structured (decentralized). Large firms tend to use an SBU (strategic business unit) or matrix structure. As organizations grow, their structures generally change from simple to complex as a result of concatenation, or the linking together of several basic strategies.
Numerous external and internal forces affect an organization; no firm could change its structure in response to every one of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organizational structure may become ineffective. Symptoms of an ineffective organizational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and too many unachieved objectives. Changes in structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.
Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished. We examine this issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional by process, strategic business unit (SBU), and matrix

© Copyright Virtual University of Pakistan

ORGANIZATIONAL STRUCTURE

Learning Objective

After the completion of this topic you understand the organizational structure its types. This chapter also include strategic business unit. This also includes Restructuring, Reengineering, and E-Engineering.

Organizational Structure

Functional Structure

The organization is structured according to functional areas instead of product lines. The functional structure groups specialize in similar skills in separate units. This structure is best used when creating specific, uniform products. A functional structure is well suited to organizations which have a single or dominant core product because each subunit becomes extremely adept at performing its particular portion of the process. They are economically efficient, but lack flexibility. Communication between functional areas can be difficult.

The most widely used structure is the functional or centralized type because this structure is the simplest and least expensive of the seven alternatives. A functional structure group's tasks and activities by business function such as production/operations, marketing, finance/accounting, research and development, and computer information systems. A university may structure its activities by major functions that include academic affairs, student services, alumni relations, athletics, maintenance, and accounting. Besides being simple and inexpensive, a functional structure also promotes specialization of labor, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making. Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes characterized by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets.

Divisional Structure

Divisional structure is formed when an organization is split up into a number of self-contained business units, each of which operates as a profit centre. such a division may occur on the basis of product or market or a combination of the two with each unit tending to operate along functional or product lines, but with certain key function (e.g. finance, personnel, corporate planning) provided centrally, usually at company headquarters.

The divisional or decentralized structure is the second most common type used by American businesses. As a small organization grows, it has more difficulty managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations. The divisional structure can be organized in one of four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each separate division.

A divisional structure has some clear advantages. First and perhaps foremost, accountability is clear. That is, divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances. As a result, employee morale is generally higher in a divisional structure than it is in a centralized structure. Other advantages of the divisional design are that it creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

The divisional design is not without some limitations, however. Perhaps the most important limitation is that a divisional structure is costly, for a number of reasons. First, each division requires functional specialists who must be paid. Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities. Third, managers must be well qualified because the divisional design forces delegation of authority; better-qualified individuals require higher salaries. A divisional structure can also be costly because it requires an elaborate, headquarters-driven control system. Finally, certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, companywide practices. Nonetheless, for most large organizations and many small firms, the advantages of a divisional structure more than offset the potential limitations.

A **divisional structure by geographic area** is appropriate for organizations whose strategies need to be tailored to fit the particular needs and characteristics of customers in different geographic areas. This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas. A divisional structure by geographic area allows local participation in decision making and improved coordination within a region.

The **divisional structure by product** is most effective for implementing strategies when specific products or services need special emphasis. Also, this type of structure is widely used when an organization offers only a few products or services, or when an organization's products or services differ substantially. The divisional structure allows strict control and attention to product lines, but it may also require a more skilled management force and reduced top management control.

When a few major customers are of paramount importance and many different services are provided to these customers, then a **divisional structure by customer** can be the most effective way to implement strategies. This structure allows an organization to cater effectively to the requirements of clearly defined customer groups. For example, book publishing companies often organize their activities around customer groups such as colleges, secondary schools, and private commercial schools. Some airline companies have two major customer divisions: passengers and freight or cargo services. Merrill Lynch is organized into separate divisions that cater to different groups of customers, including wealthy individuals, institutional investors, and small corporations.

A **divisional structure by process** is similar to a functional structure, because activities are organized according to the way work is actually performed. However, a key difference between these two designs is that functional departments are not accountable for profits or revenues, whereas divisional process departments are evaluated on these criteria. An example of a divisional structure by process is a manufacturing business organized into six divisions: electrical work, glass cutting, welding, grinding, painting, and foundry work. In this case, all operations related to these specific processes would be grouped under the separate divisions. Each process (division) would be responsible for generating revenues and profits. The divisional structure by process can be particularly effective in achieving objectives when distinct production processes represent the thrust of competitiveness in an industry.

The Strategic Business Unit (SBU) Structure

Strategic Business Unit or SBU is understood as a business unit within the overall corporate identity which is distinguishable from other business because it serves a defined external market where management can conduct strategic planning in relation to products and markets. When companies become really large, they are best thought of as being composed of a number of businesses (or SBUs).

These organizational entities are large enough and homogeneous enough to exercise control over most strategic factors affecting their performance. They are managed as self contained planning units for which discrete business strategies can be developed. A Strategic Business Unit can encompass an entire company, or can simply be a smaller part of a company set up to perform a specific task. The SBU has its own business strategy, objectives and competitors and these will often be different from those of the parent company.

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. For example, in a large conglomerate organization composed of 90 divisions, the chief executive officer could have difficulty even remembering the first names of divisional presidents. In multidivisional organizations an SBU structure can greatly facilitate strategy-implementation efforts.

The *SBU structure* group's similar divisions into strategic business units and delegate's authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units. In the ninety-division conglomerate just mentioned, the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics such as competing in the same industry, being located in the same area, or having the same customers.

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these

limitations often do not outweigh the advantages of improved coordination and accountability. Atlantic Richfield and Fairchild Industries are examples of firms that successfully use an SBU-type structure.

The Matrix Structure

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence, the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication. A matrix structure can result in higher overhead because it creates more management positions. Other characteristics of a matrix structure that contribute to overall complexity include dual lines of budget authority (a violation of the unity-of-command principle), dual sources of reward and punishment, shared authority, dual reporting channels, and a need for an extensive and effective communication system.

Despite its complexity, the matrix structure is widely used in many industries, including construction, healthcare, research, and defense. Some advantages of a matrix structure are that project objectives are clear, there are many channels of communication, workers can see visible results of their work, and shutting down a project can be accomplished relatively easily.

Restructuring, Reengineering, and E-Engineering

Restructuring and reengineering are becoming commonplace on the corporate landscape across the United States and Europe. Restructuring—also called downsizing, rightsizing, or delayering—involves reducing the size of the firm in terms of number of employees, number of divisions or units, and number of hierarchical levels in the firm's organizational structure. This reduction in size is intended to improve both efficiency and effectiveness. Restructuring is concerned primarily with shareholder well-being rather than employee well-being.

In contrast, reengineering is concerned more with employee and customer well-being than shareholder well-being. Reengineering—also called process management, process innovation, or process redesign—involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed. Reengineering does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoffs. Whereas restructuring is concerned with eliminating or establishing, shrinking or enlarging, and moving organizational departments and divisions, the focus of reengineering is changing the way work is actually carried out.

Reengineering is characterized by many tactical (short-term, business function-specific) decisions, whereas restructuring is characterized by strategic (long-term, affecting all business functions) decisions.

© Copyright Virtual University of Pakistan

RESTRUCTURING

Learning Objectives

This chapter enables you the concept of Restructuring, Reengineering and the difference between them. This chapter also includes merits and demerits of these topics. After understanding this chapter you also understand various pay strategies and also how to manage environment.

Restructuring

Restructuring is the corporate management term for the act of partially dismantling and reorganizing a company for the purpose of making it more efficient and therefore more profitable. It generally involves selling off portions of the company and making severe staff reductions.

Restructuring is often done as part of a bankruptcy or of a takeover by another firm, particularly a leveraged buyout by a private equity firm such as KKR. It may also be done by a new CEO hired specifically to make the difficult and controversial decisions required to save or reposition the company.

Characteristics

The selling of portions of the company, such as a division that is no longer profitable or which has distracted management from its core business, can greatly improve the company's balance sheet. Staff reductions are often accomplished partly through the selling or closing of unprofitable portions of the company and partly by consolidating or outsourcing parts of the company that perform redundant functions (such as payroll, human resources, and training) left over from old acquisitions that were never fully integrated into the parent organization.

Other characteristics of restructuring can include:

- Changes in corporate management (usually with golden parachutes)
- Sale of underutilized assets, such as patents or brands
- Outsourcing of operations such as payroll and technical support to a more efficient third party
- Moving of operations such as manufacturing to lower-cost locations
- Reorganization of functions such as sales, marketing, and distribution
- Renegotiation of labor contracts to reduce overhead
- Refinancing of corporate debt to reduce interest payments
- A major public relations campaign to reposition the company with consumers

Results

A company that has been restructured effectively will generally be leaner, more efficient, better organized, and better focused on its core business. If the restructured company was a leverage acquisition, the parent company will likely resell it at a profit when the restructuring has proven successful.

Firms often employ restructuring when various ratios appear out of line with competitors as determined through benchmarking exercises. *Benchmarking* simply involves comparing a firm against the best firms in the industry on a wide variety of performance-related criteria. Some benchmarking ratios commonly used in rationalizing the need for restructuring are headcount-to-sales-volume, or corporate-staff-to-operating-employees, or span-of-control figures.

The primary benefit sought from restructuring is cost reduction. For some highly bureaucratic firms, restructuring can actually rescue the firm from global competition and demise. But the downside of restructuring can be reduced employee commitment, creativity, and innovation that accompany the uncertainty and trauma associated with pending and actual employee layoffs.

Another downside of restructuring is that many people today do not aspire to become managers, and many present-day managers are trying to get off the management track. Sentiment against joining management ranks is higher today than ever. About 80 percent of employees say they want nothing to do with management, a major shift from just a decade ago when 60 to 70 percent hoped to become managers. Managing others historically led to enhanced career mobility, financial rewards, and executive perks; but in today's global, more competitive, restructured arena, managerial jobs demand more hours and headaches with fewer financial rewards. Managers today manage more people spread over different locations, travel more, manage diverse functions, and are change agents even when they have nothing to do with the creation of the plan or even disagree with its approach. Employers today are looking for people who can do things, not for people who make other people do things. Restructuring in many firms has made a

manager's job an invisible, thankless role. More workers today are self-managed, entrepreneurs, entrepreneurs, or team managed. Managers today need to be counselors, motivators, financial advisors, and psychologists. They also run the risk of becoming technologically behind in their areas of expertise. "Dilbert" cartoons commonly portray managers as enemies or as morons.

Reengineering

Reengineering (or **re-engineering**) is the radical redesign of an organization's processes, especially its business processes. Rather than organizing a firm into functional specialties (like production, accounting, marketing, etc.) and looking at the tasks that each function performs, we should, according to the reengineering theory, be looking at complete processes from materials acquisition, to production, to marketing and distribution. The firm should be re-engineered into a series of processes.

The main proponents of re-engineering were Michael Hammer and James Champy. In a series of books including Reengineering the Corporation, Reengineering Management, and The Agenda, they argue that far too much time is wasted passing-on tasks from one department to another. They claim that it is far more efficient to appoint a team who are responsible for all the tasks in the process. In The Agenda they extend the argument to include suppliers, distributors, and other business partners.

Re-engineering is the basis for many recent developments in management. The cross-functional team, for example, has become popular because of the desire to re-engineer separate functional tasks into complete cross-functional processes. Also, many recent management information systems developments aim to integrate a wide number of business functions. Enterprise resource planning, supply chain management, knowledge management systems, groupware and collaborative systems, Human Resource Management Systems and customer relationship management systems all owe a debt to re-engineering theory.

Criticisms of re-engineering

Reengineering has earned a bad reputation because such projects have often resulted in massive layoffs. This reputation is not all together warranted. Companies have often downsized under the banner of reengineering.

Further, reengineering has not always lived up to its expectations. The main reasons seem to be that:

- Reengineering assumes that the factor that limits organization's performance is the ineffectiveness of its processes (which may or may not be true) and offers no means of validating that assumption
- Reengineering assumes the need to start the process of performance improvement with a "clean slate", i.e. totally disregard the status quo
- According to Eliyahu M. Goldratt (and his theory of constraints) reengineering does not provide an effective way to focus improvement efforts on the organization's constraint.

There was considerable hype surrounding the book's introduction (partially due to the fact that the authors of *Reengineering the Corporation* reportedly bought numbers of copies to promote it to the top of bestseller lists).

Abrahamson (1996) showed that fashionable management terms tend to follow a lifecycle, which for Reengineering peaked between 1993 and 1996 (Ponzi and Koenig 2002). While arguing that Reengineering was in fact nothing new (as e.g. when Henry Ford implemented the assembly line in 1908, he was in fact reengineering, radically changing the way of thinking in an organization), Dubois (2002) highlights the value of signaling terms as Reengineering, giving it a name, and stimulating it. At the same there can be a danger in usage of such fashionable concepts as mere ammunition to implement particular reforms.

The argument for a firm engaging in reengineering usually goes as follows: Many companies historically have been organized vertically by business function. This arrangement has led over time to managers' and employees' mind-sets being defined by their particular functions rather than by overall customer service, product quality, or corporate performance. The logic is that all firms tend to bureaucratize over time. As routines become entrenched, turf becomes delineated and defended, and politics takes precedence over performance. Walls that exist in the physical workplace can be reflections of "mental" walls.

In reengineering, a firm uses information technology to break down functional barriers and create a work system based on business processes, products, or outputs rather than on functions or inputs. Cornerstones of reengineering are decentralization, reciprocal interdependence, and information sharing. A firm that exemplifies complete information sharing is Springfield Remanufacturing Corporation, which provides to all employees a weekly income statement of the firm, as well as extensive information on other companies' performances.

A benefit of reengineering is that it offers employees the opportunity to see more clearly how their particular jobs impact the final product or service being marketed by the firm. However, reengineering also can raise manager and employee anxiety that, unless calmed, can lead to corporate trauma.

Linking Performance and Pay to Strategies

Most companies today are practicing some form of pay-for-performance for employees and managers other than top executives. The average employee performance bonus is 6.8 percent of pay for individual performance, 5.5 percent of pay for group productivity, and 6.4 percent of pay for companywide profitability.

Staff control of pay systems often prevents line managers from using financial compensation as a strategic tool. Flexibility regarding managerial and employee compensation is needed to allow short-term shifts in compensation that can stimulate efforts to achieve long-term objectives. NBC recently unveiled a new method for paying its affiliated stations. The compensation formula is 50 percent based on audience viewing of shows from 4 p.m. to 8 p.m. and 50 percent based on how many adults aged 25 to 54 watch NBC over the course of a day.

How can an organization's reward system be more closely linked to strategic performance? How can decisions on salary increases, promotions, merit pay, and bonuses be more closely aligned to support the long-term strategic objectives of the organization? There are no widely accepted answers to these questions, but a dual bonus system based on both annual objectives and long-term objectives is becoming common. The percentage of a manager's annual bonus attributable to short-term versus long-term results should vary by hierarchical level in the organization. A chief executive officer's annual bonus could, for example, be determined on a 75 percent short-term and 25 percent long-term basis. It is important that bonuses not be based solely on short-term results because such a system ignores long-term company strategies and objectives.

DuPont Canada has a 16 percent return-on-equity objective. If this objective is met, the company's four thousand employees receive a "performance sharing cash award" equal to 4 percent of pay. If return-on-equity falls below 11 percent, employees get nothing. If return-on-equity exceeds 28 percent, workers receive a 10 percent bonus.

In an effort to cut costs and increase productivity, more and more Japanese companies are switching from seniority-based pay to performance-based approaches. Toyota Motor switched in mid-1999 to a full merit system for twenty thousand of its seventy thousand white-collar workers. Fujitsu, Sony, Matsushita Electric Industrial, and Kao also have switched to merit pay systems. Nearly 30 percent of all Japanese companies have switched to merit pay from seniority pay. This switching is hurting morale at some Japanese companies that have trained workers for decades to cooperate rather than to compete and to work in groups rather than individually.

Profit sharing is another widely used form of incentive compensation. More than 30 percent of American companies have profit-sharing plans, but critics emphasize that too many factors affect profits for this to be a good criterion. Taxes, pricing, or an acquisition would wipe out profits, for example. Also, firms try to minimize profits in a sense to reduce taxes.

Still another criterion widely used to link performance and pay to strategies is gain sharing. **Gain sharing** requires employees or departments to establish performance targets; if actual results exceed objectives, all members get bonuses. More than 26 percent of American companies use some form of gain sharing; about 75 percent of gain-sharing plans have been adopted since 1980. Carrier, a subsidiary of United Technologies, has had excellent success with gain sharing in its six plants in Syracuse, New York; Firestone's tire plant in Wilson, North Carolina, has experienced similar success with gain sharing.

Criteria such as sales, profit, production efficiency, quality, and safety could also serve as bases for an effective *bonus system.* If an organization meets certain understood, agreed-upon profit objectives, every member of the enterprise should share in the harvest. A bonus system can be an effective tool for motivating individuals to support strategy-implementation efforts. BankAmerica, for example, recently overhauled its incentive system to link pay to sales of the bank's most profitable products and services. Branch managers receive a base salary plus a bonus based on the number of new customers and on sales of bank products. Every employee in each branch is also eligible for a bonus if the branch exceeds its goals. Thomas Peterson, a top BankAmerica executive, says, "We want to make people responsible for meeting their goals, so we pay incentives on sales, not on controlling costs or on being sure the parking lot is swept."

Managing Resistance to Change

No organization or individual can escape change. But the thought of change raises anxieties because people fear economic loss, inconvenience, uncertainty, and a break in normal social patterns. Almost any change in structure, technology, people, or strategies has the potential to disrupt comfortable interaction patterns. For this reason, people resist change. The strategic-management process itself can impose major changes on individuals and processes. Reorienting an organization to get people to think and act strategically is not an easy task.

Resistance to change can be considered the single greatest threat to successful strategy implementation. Resistance in the form of sabotaging production machines, absenteeism, filing unfounded grievances, and an unwillingness to cooperate regularly occurs in organizations. People often resist strategy implementation because they do not understand what is happening or why changes are taking place. In that case, employees may simply need accurate information. Successful strategy implementation hinges upon managers' ability to develop an organizational climate conducive to change. Change must be viewed as an opportunity rather than as a threat by managers and employees.

Resistance to change can emerge at any stage or level of the strategy-implementation process. Although there are various approaches for implementing changes, three commonly used strategies are a force change strategy, an educative change strategy, and a rational or self-interest change strategy. A *force change strategy* involves giving orders and enforcing those orders; this strategy has the advantage of being fast, but it is plagued by low commitment and high resistance. The *educative change strategy* is one that presents information to convince people of the need for change; the disadvantage of an educative change strategy is that implementation becomes slow and difficult. However, this type of strategy evokes greater commitment and less resistance than does the force strategy. Finally, a *rational* or *self-interest change strategy* is one that attempts to convince individuals that the change is to their personal advantage. When this appeal is successful, strategy implementation can be relatively easy. However, implementation changes are seldom to everyone's advantage.

Managing the Natural Environment

The natural environment comprises all living and non-living things that occur naturally on Earth. In its purest sense, it is thus an environment that is not the result of human activity or intervention. The natural environment may be contrasted to "the built environment."

All business functions are affected by natural environment considerations or striving to make a profit. However, both employees and consumers are especially resentful of firms that take from more than they give to the natural environment; likewise, people today are especially appreciative of firms that conduct operations in a way that mends rather than harms the environment.

The ecological challenge facing all organizations requires managers to formulate strategies that preserve and conserve natural resources and control pollution. Special natural environmental issues include ozone depletion, global warming, depletion of rain forests, destruction of animal habitats, protecting endangered species, developing biodegradable products and packages, waste management, clean air, clean water, erosion, destruction of natural resources, and pollution control. Firms increasingly are developing green product lines that are biodegradable and/or are made from recycled products. Green products sell well.

Managing as if the earth matters require an understanding of how international trade, competitiveness, and global resources are connected. Managing environmental affairs can no longer be simply a technical function performed by specialists in a firm; more emphasis must be placed on developing an environmental perspective among all employees and managers of the firm. Many companies are moving environmental affairs from the staff side of the organization to the line side, to make the corporate environmental group report directly to the chief operating officer.

Societies have been plagued by environmental disasters to such an extent recently that firms failing to recognize the importance of environmental issues and challenges could suffer severe consequences. Managing environmental affairs can no longer be an incidental or secondary function of company operations. Product design, manufacturing, and ultimate disposal should not merely reflect environmental considerations, but be driven by them. Firms that manage environmental affairs will enhance relations with consumers, regulators, vendors, and other industry players—substantially improving their prospects of success.

Firms should formulate and implement strategies from an environmental perspective. Environmental strategies could include developing or acquiring green businesses, divesting or altering environment-

damaging businesses, striving to become a low-cost producer through waste minimization and energy conservation, and pursuing a differentiation strategy through green product features. In addition to creating strategies, firms could include an environmental representative on the board of directors, conduct regular environmental audits, implement bonuses for favorable environmental results, become involved in environmental issues and programs, incorporate environmental values in mission statements, establish environmentally oriented objectives, acquire environmental skills, and provide environmental training programs for company employees and managers.

Creating a Strategy-Supportive Culture

Strategists should strive to preserve, emphasize, and build upon aspects of an existing *culture* that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed. Substantial research indicates that new strategies are often market-driven and dictated by competitive forces. For this reason, changing a firm's culture to fit a new strategy is usually more effective than changing a strategy to fit an existing culture. Numerous techniques are available to alter an organization's culture, including recruitment, training, transfer and promotion, restructure of an organization's design, role modeling, and positive reinforcement.

© Copyright Virtual University of Pakistan

PRODUCTION/OPERATIONS CONCERNS WHEN IMPLEMENTING STRATEGIES

Learning objectives

The main objective of this chapter to enable to students about production and operation issue relating to strategy implementation.

Production/Operations Concerns When Implementing Strategies

Strategy in action means implementation requires complete transparent process. Production/operations department that mainly concern with the achievement of organization goals and targets. Production processes typically constitute more than 70 percent of a firm's total assets. Production department plays a crucial role for implemeting organization strategy. Production-concerned decisions on plant location, plant size, , product design, choice of equipment, size of inventory, inventory control, quality control, cost control, use of standards, shipping and packaging, and technological innovation, job specialization, employee training, equipment and resource utilization. All these factors place an important impact on success and failure of the strategy.

The following examples of adjustments in production systems that could be required to implement various strategies are provided in Table for both for-profit and nonprofit organizations. For instance, note that when a bank formulates and selects a strategy to add ten new branches, a production-related implementation concern is site location.

Strategy Implementation and Production and Service Management

Type of Organization	Strategy Being Implemented	System Adjustments Production
Hospital	Adding a TB center (Product Development)	Purchase specialized equipment and add specialized people.
Bank	Opening ten new branches (Market Development)	Perform site location analysis.
Computer company	Purchasing a retail distribution chain (Forward Integration)	Alter the shipping, packaging, and transportation systems.
Steel manufacturer	Acquiring a fast-food chain (Conglomerate Diversification)	Improve the quality control system.

Just In Time (**JIT**) is an inventory strategy implemented to improve the return on investment of a business by reducing in-process inventory and its associated costs. The process is driven by a series of signals, or Kanban that tell production processes to make the next part. Kanban are usually simple visual signals, such as the presence or absence of a part on a shelf. JIT can lead to dramatic improvements in a manufacturing organization's return on investment, quality, and efficiency when implemented correctly.

New stock is ordered when stock reaches the re-order level. This saves warehouse space and costs. However, one drawback of the JIT system is that the re-order level is determined by historical demand. If demand rises above the historical average planning duration demand, the firm could deplete inventory and cause customer service issues. To meet a 95% service rate a firm must carry about 2 standard deviations of demand in safety stock. Forecasted shifts in demand should be planned for around the Kanban until trends can be established to reset the appropriate Kanban level. In recent years manufacturers have touted a trailing 13 week average is a better predictor than most forecasters could provide.

Philosophy

Just-in-time (JIT) inventory systems are not just a simple method that a company has to buy in to; it has a whole philosophy that the company must follow. The ideas in this philosophy come from many different disciplines including; statistics, industrial engineering, production management and behavioral science. In the JIT inventory philosophy there are views with respect to how inventory is looked upon, what it says about the management within the company, and the main principle behind JIT.

First off inventory is seen as incurring costs instead of adding value, contrary to traditional thinking. Therefore, under the philosophy businesses are encouraged to eliminate inventory that doesn't add value to the product. Secondly, it sees inventory as a sign of sub par management as it is simply there to hide problems within the production system. These problem are many, they include: backups at work centers, lack of flexibility for employees and equipment, and inadequate capacity among other things.

In short, the just-in-time inventory system is all about having "the right material, at the right time, at the right place, and in the exact amount."

Just in time (JIT) production approaches have withstood the test of time. JIT significantly reduces the costs of implementing strategies. With JIT, parts and materials are delivered to a production site just as they are needed, rather than being stockpiled as a hedge against later deliveries

The factors that must be study while pacing a pant are: transportation costs related to shipping and receiving, the location of major markets, availability of major resources, availability of skilled labor , wage rates, political risks in the area or country.

For high-technology companies, production costs may not be as important as production flexibility because changes in a product are needed often. Industries such as biogenetics and plastics rely on production systems that must be flexible enough to allow frequent changes and rapid introduction of new products.

They too slowly realize that a change in product strategy alters the tasks of a production system. These tasks, which can be stated in terms of requirements for cost, product flexibility, volume flexibility, product performance, and product consistency, determine which manufacturing policies are appropriate. As strategies shift over time, so must production policies covering the location and scale of manufacturing facilities, the choice of manufacturing process, the degree of vertical integration of each manufacturing facility, the use of R&D units, the control of the production system, and the licensing of technology.

Cross-training of employees, can facilitate strategy implementation and can yield many benefits. Employees gain a better understanding of the whole business and can contribute better ideas in planning sessions. It some time create problems both for manager and employee

1. It can necessitate substantial investments in training and incentives.
2. It can be very time-consuming.
3. Skilled workers may resent unskilled workers who learn their jobs.
4. It can thrust managers into roles that emphasize counseling and coaching over directing and enforcing.
5. Older employees may not want to learn new skills.

<u>Human Resource Concerns When Implementing Strategies</u>

The other important concern while implementing the strategy is human resource. Human resource is the backbone of any organization with out efficient human resource organization can not perform well and fail to achieve the organizational strategy. Staffing need of the organization and its cost is an important function of the human resource manager. The other main concerns include health, safety and security of the workers. The plan must also include how to motivate employees and managers during a time when layoffs are common and workloads are high.

The human resource department must develop **performance incentives** that clearly link performance and pay to strategies. The process of empowering managers and employees through involvement in strategic-management activities yields the greatest benefits when all organizational members understand clearly how they will benefit personally if the firm does well. Linking company and personal benefits is a major new strategic responsibility of human resource managers. Other new responsibilities for human resource managers may include establishing and administering an *employee stock ownership plan (ESOP),* are corporations owned in whole or in part by their employees. Employees are usually given a share of the

© Copyright Virtual University of Pakistan

corporation after a certain length of employment or they can buy shares at any time. A corporation owned entirely by its employees (a worker cooperative) will not, therefore, have its shares sold on public stock markets. Employee-owned corporations often adopt profit sharing where the profits of the corporation are shared with the employees. These types of corporations also often have boards of directors elected directly by the employees.

A well-designed strategic-management system can fail

If insufficient attention is given to the human resource dimension. Human resource problems that arise when businesses implement strategies can usually be traced to one of three causes:

(1) Disruption of social and political structures,

(2) Failure to match individuals' aptitudes with implementation tasks

(3) Inadequate top management support for implementation activities.

Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements about the importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

Perhaps the best method for preventing and overcoming human resource problems in strategic management is to actively involve as many managers and employees as possible in the process. Although time-consuming, this approach builds understanding, trust, commitment, and ownership and reduces resentment and hostility. The true potential of strategy formulation and implementation resides in people.

© Copyright Virtual University of Pakistan

MARKET SEGMENTATION

Learning objectives

The main objective of this chapter to enable to students about concern marketing issue such marketing segmentation, marketing mix and product positioning relating to strategy implementation.

Market segmentation

Market segmentation is the process in marketing of grouping a market (i.e. customers) into smaller subgroups. This is not something that is arbitrarily imposed on society: it is derived from the recognition that the total market is often made up of submarkets (called 'segments'). These segments are homogeneous within (i.e. people in the segment are similar to each other in their attitudes about certain variables). Because of this intra-group similarity, they are likely to respond somewhat similarly to a given marketing strategy. That is, they are likely to have similar feeling and ideas about a marketing mix comprised of a given product or service, sold at a given price, distributed in a certain way, and promoted in a certain way.

The Need for Market Segmentation

The marketing concept calls for understanding customers and satisfying their needs better than the competition. But different customers have different needs, and it rarely is possible to satisfy all customers by treating them alike.

Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production, mass distribution, and mass communication. The drawback of mass marketing is that customer needs and preferences differ and the same offering is unlikely to be viewed as optimal by all customers. If firms ignored the differing customer needs, another firm likely would enter the market with a product that serves a specific group, and the incumbent firms would lose those customers.

Target marketing on the other hand recognizes the diversity of customers and does not try to please all of them with the same offering. The first step in target marketing is to identify different market segments and their needs.

The requirements for successful segmentation are:

- Homogeneity within the segment
- Heterogeneity between segments
- Segments are measurable and identifiable
- Segments are accessible and actionable
- Segment is large enough to be profitable.....

Currently a college student the marketing mix is now being introduced as the Four Ps of the Marketing Mix; Product, Place, Promotion, Price. Product (service) is whatever it may be that is being sold/marketed. Price refers to not only the actually price but also price elasticity. Place has evidently replaced distribution simply by where or what area the marketing campaign is going to cover. Today the idea of place is not limited to geographic profiling but also demographics and other categorizing variables. This has only occurred over the last ten years with the expansion of internet use and its ability to target specific types of people and not just people in a geographic area. Promotion simply refers to what media/medium vehicle will deliver the message and what the overall marketing strategy(s) is offering as a benefit.

Bases for Segmentation in Consumer Markets

Consumer markets can be segmented on the following customer characteristics.

- Geographic
- Demographic
- Psychographic
- Behavioralistic

Geographic Segmentation

The following are some examples of geographic variables often used in segmentation.

© Copyright Virtual University of Pakistan

- Region: by continent, country, state, or even neighborhood
- Size of metropolitan area: segmented according to size of population
- Population density: often classified as urban, suburban, or rural
- Climate: according to weather patterns common to certain geographic regions

Demographic Segmentation
Some demographic segmentation variables include:

- Age
- Gender
- Family size
- Family lifecycle
- Generation: baby-boomers, Generation X, etc.
- Income
- Occupation
- Education
- Ethnicity
- Nationality
- Religion
- Social class

Many of these variables have standard categories for their values. For example, family lifecycle often is expressed as bachelor, married with no children (DINKS: Double Income, No Kids), full-nest, empty-nest, or solitary survivor. Some of these categories have several stages, for example, full-nest I, II, or III depending on the age of the children.

Psychographic Segmentation
Psychographic segmentation groups customers according to their lifestyle. Activities, interests, and opinions (AIO) surveys are one tool for measuring lifestyle. Some psychographic variables include:

- Activities
- Interests
- Opinions
- Attitudes
- Values

Behavioralistic Segmentation
Behavioral segmentation is based on actual customer behavior toward products. Some behavioralistic variables include:

- Benefits sought
- Usage rate
- Brand loyalty
- User status: potential, first-time, regular, etc.
- Readiness to buy
- Occasions: holidays and events that stimulate purchases

Behavioral segmentation has the advantage of using variables that are closely related to the product itself. It is a fairly direct starting point for market segmentation.
When numerous variables are combined to give an in-depth understanding of a segment, this is referred to as depth segmentation. When enough information is combined to create a clear picture of a typical member of a segment, this is referred to as a buyer profile. When the profile is limited to demographic variables it is called a demographic profile (typically shortened to "a demographic"). A statistical technique commonly used in determining a profile is cluster analysis.

Market segmentation Link with strategy implementation
Market segmentation is widely used in implementing strategies, especially for small and specialized firms. Market segmentation can be defined as the subdividing of a market into distinct subsets of customers according to needs and buying habits.

© Copyright Virtual University of Pakistan

Market segmentation is an important variable in strategy implementation for at least three major reasons. First, strategies such as market development, product development, market penetration, and diversification require increased sales through new markets and products. To implement these strategies successfully, new or improved market-segmentation approaches are required. Second, market segmentation allows a firm to operate with limited resources because mass production, mass distribution, and mass advertising are not required. Market segmentation can enable a small firm to compete successfully with a large firm by maximizing per-unit profits and per-segment sales. Finally, market segmentation decisions directly affect *marketing mix variables:* product, place, promotion, and price

© Copyright Virtual University of Pakistan

MARKET SEGMENTATION

Learning objectives

The main objective of this chapter to enable to students about concern marketing issue such marketing segmentation, marketing mix and product positioning relating to strategy implementation.

Marketing Mix

Marketing decisions generally fall into the following four controllable categories:

- Product
- Price
- Place (distribution)
- Promotion

The term "marketing mix" became popularized after Neil H. Borden published his 1964 article, *The Concept of the Marketing Mix*. Borden began using the term in his teaching in the late 1940's after James Culliton had described the marketing manager as a "mixer of ingredients". The ingredients in Borden's marketing mix included product planning, pricing, branding, distribution channels, personal selling, advertising, promotions, packaging, display, servicing, physical handling, and fact finding and analysis. E. Jerome McCarthy later grouped these ingredients into the four categories that today are known as the 4 P's of marketing, depicted below:

The Marketing Mix

These four P's are the parameters that the marketing manager can control, subject to the internal and external constraints of the marketing environment. The goal is to make decisions that center the four P's on the customers in the target market in order to create perceived value and generate a positive response.

Product Decisions

The term "product" refers to tangible, physical products as well as services. Here are some examples of the product decisions to be made:

- Brand name
- Functionality
- Styling
- Quality
- Safety
- Packaging

- Repairs and Support
- Warranty
- Accessories and services

Price Decisions

Some examples of pricing decisions to be made include:

- Pricing strategy (skim, penetration, etc.)
- Suggested retail price
- Volume discounts and wholesale pricing
- Cash and early payment discounts
- Seasonal pricing
- Bundling
- Price flexibility
- Price discrimination

Distribution (Place) Decisions

Distribution is about getting the products to the customer. Some examples of distribution decisions include:

- Distribution channels
- Market coverage (inclusive, selective, or exclusive distribution)
- Specific channel members
- Inventory management
- Warehousing
- Distribution centers
- Order processing
- Transportation
- Reverse logistics

Promotion Decisions

In the context of the marketing mix, promotion represents the various aspects of marketing communication, that is, the communication of information about the product with the goal of generating a positive customer response. Marketing communication decisions include:

- Promotional strategy (push, pull, etc.)
- Advertising
- Personal selling & sales force
- Sales promotions
- Public relations & publicity
- Marketing communications budget

Product Positioning

"It simply means Positioning is how a product appears in relation to other products in the market"

After segmenting markets so that the firm can target particular customer groups, the next step is to find out what customers want and expect. This takes analysis and research. A severe mistake is to assume the firm knows what customers want and expect. Countless research studies reveal large differences between how customers define service and rank the importance of different service activities and how producers view services. Many firms have become successful by filling the gap between what customers and producers see as good service. What the customer believes is good service is paramount, not what the producer believes service should be.

Product positioning strategy

The ability to spot a positioning opportunity is a sure test of a person's marketing ability. Successful positioning strategies are usually rooted in a product's sustainable competitive advantage. The most common basis for constructing a product positioning strategy are:

- Positioning on specific product features

© Copyright Virtual University of Pakistan

- Positioning on specific benefits, needs, or solutions
- Positioning on specific use categories
- Positioning on specific usage occasions
- Positioning on a reason to choose an offering over the competition
- Positioning against another product
- Positioning through product class dissociation
- Positioning by cultural symbols

The following steps are required in product positioning:

1. Select key criteria that effectively differentiate products or services in the industry.
2. Diagram a two-dimensional product-positioning map with specified criteria on each axis.
3. Plot major competitors' products or services in the resultant four-quadrant matrix.
4. Identify areas in the positioning map where the company's products or services could be most competitive in the given target market. Look for vacant areas (niches).
5. Develop a marketing plan to position the company's products or services appropriately.

© Copyright Virtual University of Pakistan

FINANCE/ACCOUNTING ISSUES

Learning objectives

The main objective of this chapter to enable to students about accounting and finance issue relating to strategy implementation.

Like marketing and human resource concern while implementing strategy the other important issue is accounting and finance. Several issue that concern with accounting and finance to strategy implementation: obtaining desired amount of needed capital, developing pro forma financial statements, preparing financial budgets, and evaluating the worth of a business. Some examples of decisions that may require finance/accounting policies are:

1. To raise the amount of capital by issuing shares or obtaining a debt from external parties.
2. To enhance the inventory turn over level
3. To make or buy fixed assets.
4. To extend the time of accounts receivable.
5. To establish a certain percentage discount on accounts within a specified period of time.
6. To determine the amount of cash that should be kept on hand
7. To determine an appropriate dividend payout ratio.
8. To use LIFO, FIFO

Acquiring Capital to Implement Strategies

Without sufficient amount of capital the strategy can not be proceed. Two basic sources of capital for an organization are debt and equity. Creditors have a debt right and owners have an equity right in the business. An appropriate mix of debt and equity in a firm's capital structure plays an important role for strategy implementation. The most important is debt and equity analysis. The **debt to equity ratio (D/E)** is a financial ratio, which is equal to an entity's total liabilities divided by shareholders' equity. The two components are often taken from the firm's balance sheet (or statement of financial position), but they might also be calculated using their market values if both the company's debt and equity are publicly traded. It is used to calculate a company's "financial leverage" and indicates what proportion of equity and debt the company is using to finance its assets.

D/E = Debt (total liabilities) / Equity
A similar ratio is debt to total assets (D/A)
D/A = debt / assets = debt / (debt + equity)

It also include an Earnings per Share/Earnings before Interest and Taxes (EPS/EBIT) analysis is the most widely used technique for determining whether debt, stock, or a combination of debt and stock is the best alternative for raising capital to implement strategies. This technique involves an examination of the impact that debt versus stock financing has on earnings per share under various assumptions as to EBIT.

DEBIT

A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and no operating profit before the deduction of interest and income taxes.

Earning Per share

A company's profit divided by its number of outstanding shares. If a company earning Rs. 2 million in one year had Rs. 2 million shares of stock outstanding, its EPS would be Rs. 1 per share. In calculating EPS, the company often uses a weighted average of shares outstanding over the reporting term. The one-year (historical) EPS growth rate is calculated as the percentage change in earnings per share. The prospective EPS growth rate is calculated as the percentage change in this year's earnings and the consensus forecast earnings for next year.

Theoretically, an enterprise should have enough debt in its capital structure to boost its return on investment by applying debt to products and projects earning more than the cost of the debt. In low

earning periods, too much debt in the capital structure of an organization can endanger stockholders' return and jeopardize company survival. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. Some special concerns with stock issuances are dilution of ownership, effect on stock price, and the need to share future earnings with all new shareholders.

EPS/EBIT analysis is a valuable tool for making capital financing decisions needed to implement strategies, but several considerations should be made whenever using this technique. First, profit levels may be higher for stock or debt alternatives when EPS levels are lower. For example, looking only at the earnings after taxes (EAT) values in Table 8-3, the common stock option is the best alternative, regardless of economic conditions. If the Brown Company's mission includes strict profit maximization, as opposed to the maximization of stockholders' wealth or some other criterion, then stock rather than debt is the best choice of financing.

Another consideration when using EPS/EBIT analysis is flexibility. As an organization's capital structure changes, so does its flexibility for considering future capital needs. Using all debt or all stock to raise capital in the present may impose fixed obligations, restrictive covenants, or other constraints that could severely reduce a firm's ability to raise additional capital in the future.

Pro Forma Financial Statements

Pro forma (projected) financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various actions and approaches.

"A financial statement showing the forecast or projected operating results and balance sheet, as in pro forma income statements, balance sheets, and statements of cash flows."

USES OF PRO FORMA STATEMENTS

BUSINESS PLANNING A company uses pro forma statements in the process of business planning and control. Because pro forma statements are presented in a standardized, columnar format, management employs them to compare and contrast alternative business plans. By arranging the data for the operating and financial statements side-by-side, management analyzes the projected results of competing plans in order to decide which best serves the interests of the business.

In constructing pro forma statements, a company recognizes the uniqueness and distinct financial characteristics of each proposed plan or project. Pro forma statements allow management to:

- Identify the assumptions about the financial and operating characteristics that generate the scenarios.
- Develop the various sales and budget (revenue and expense) projections.
- Assemble the results in profit and loss projections.
- Translate this data into cash-flow projections.
- Compare the resulting balance sheets.
- Perform ratio analysis to compare projections against each other and against those of similar companies.
- Review proposed decisions in marketing, production, research and development, etc., and assess their impact on profitability and liquidity.

Simulating competing plans can be quite useful in evaluating the financial effects of the different alternatives under consideration. Based on different sets of assumptions, these plans propose various scenarios of sales, production costs, profitability, and viability. Pro forma statements for each plan provide important information about future expectations, including sales and earnings forecasts, cash flows, balance sheets, proposed capitalization, and income statements.

Management also uses this procedure in choosing among budget alternatives. Planners present sales revenues, production expenses, balance sheet and cash flow statements for competing plans with the underlying assumptions explained. Based on an analysis of these figures, management selects an annual budget. After choosing a course of action, it is common for management to examine variations within the plan.

It includes:

1. Pro forma income statement
2. Pro forma balance sheet etc.

© Copyright Virtual University of Pakistan

Pro forma income statement

A pro forma income statement is similar to a historical income statement, except it projects the future rather than tracks the past. Pro forma income statements are an important tool for planning future business operations. If the projections predict a downturn in profitability, you can make operational changes such as increasing prices or decreasing costs before these projections become reality.

Pro forma income statements provide an important benchmark or budget for operating a business throughout the year. They can determine whether expenses can be expected to run higher in the first quarter of the year than in the second. They can determine whether or not sales can be expected to be run above average in June. The can determine whether or not your marketing campaigns need an extra boost during the fall months. All in all, they provide you with invaluable information—the sort of information you need in order to make the right choices for your business.

How do I create a pro forma income statement?

Sit down with an income statement from the current year. Consider how each item on that statement can or will be changed during the coming year. This should, ideally, be done before year's end. You will need to estimate final sales and expenses for the current year to prepare a pro forma income statement for the coming year.

Pro forma balance sheet

A pro forma balance sheet is similar to a historical balance sheet, but it represents a future projection. Pro forma balance sheets are used to project how the business will be managing its assets in the future. For example, a pro forma balance sheet can quickly show the projected relative amount of money tied up in receivables, inventory, and equipment. It can also be used to project the overall financial soundness of the company. For example, a pro forma balance sheet can help quickly pinpoint a high debt-to-equity ratio.

This type of analysis can be used to forecast the impact of various implementation decisions (for example, to increase promotion expenditures by 50 percent to support a market-development strategy, to increase salaries by 25 percent to support a market-penetration strategy, to increase research and development expenditures by 70 percent to support product development, or to sell $1 million of common stock to raise capital for diversification). Nearly all financial institutions require at least three years of projected financial statements whenever a business seeks capital. A pro forma income statement and balance sheet allow an organization to compute projected financial ratios under various strategy-implementation scenarios. When compared to prior years and to industry averages, financial ratios provide valuable insights into the feasibility of various strategy-implementation approaches.

A Pro Forma Income Statement and Balance Sheet

	Prior Year 2005	**Projected Year 2005**	**Remarks**
PRO FORMA INCOME STATEMENT			
Sales	1000	1500	50% increase
Cost of Goods Sold	700	1050	70% of sales
Gross Margin	300	450	
Selling Expense	100	150	10% of sales
Administrative Expense	100	150	10% of sales
Earnings Before Interest and Taxes	100	150	

Interest	50	50	
Earnings Before Taxes	50	100	
Taxes	25	50	50% rate
Net Income	25	50	
Dividends	10	20	
Retained Earnings	15	30	
PRO FORMA BALANCE SHEET			
Assets			
Cash	5	7.75	Plug figure
Accounts Receivable	2	4.00	Incr. 100%
Inventory	20	45.00	
Total Current Assets	27	56.75	
Land	15	15.00	
Plant and Equipment	50	80.00	Add 3 new plants at $10 million each
Less Depreciation	10	20.00	
Net Plant and Equipment	40	60.00	
Total Fixed Assets	55	75.00	
Total Assets	**82**	**131.75**	
Liabilities			
Accounts Payable	10	10.00	
Notes Payable	10	10.00	
Total Current Liabilities	20	20.00	
Long-Term Debt	40	70.00	Borrowed $30 million
Additional Paid-in-Capital	20	35.00	Issued 100,000 shares at $150 each
Retained Earnings	2	6.75	2 + 4.75
Total Liabilities and Net Worth	**82**	**131.75**	

There are six steps in performing pro forma financial analysis:

1. Prepare income statement before balance sheet (forecast sales)
2. Use percentage-of-sales method to project CGS and expenses
3. Calculate projected net income
4. Subtract dividends to be paid from Net Income and add remaining to Retained Earnings
5. Project balance sheet times beginning with retained earnings
6. List comments (remarks) on projected statements

© Copyright Virtual University of Pakistan

Financial Budgets
"Document that details how funds will be obtained and spent for a specified period of time."
Types of Budgets

- Cash budgets
- Operating budgets
- Sales budgets
- Profit budgets
- Factory budgets
- Capital budgets
- Expense budgets
- Divisional budgets
- Variable budgets
- Flexible budgets
- Fixed budgets

Annual budgets are most common, although the period of time for a budget can range from one day to more than ten years. Fundamentally, financial budgeting is a method for specifying what must be done to complete strategy implementation successfully. Financial budgeting should not be thought of as a tool for limiting expenditures but rather as a method for obtaining the most productive and profitable use of an organization's resources. Financial budgets can be viewed as the planned allocation of a firm's resources based on forecasts of the future.
Financial budgets have some limitations. First, budgetary programs can become so detailed that they are cumbersome and overly expensive. Over budgeting or under budgeting can cause problems. Second, financial budgets can become a substitute for objectives. A budget is a tool and not an end in itself. Third, budgets can hide inefficiencies if based solely on precedent rather than periodic evaluation of circumstances and standards. Finally, budgets are sometimes used as instruments of tyranny that result in frustration, resentment, absenteeism, and high turnover. To minimize the effect of this last concern, managers should increase the participation of subordinates in preparing budgets.

Evaluating the Worth of a Business
Evaluating the worth of a business is central to strategy implementation because integrative, intensive, and diversification strategies are often implemented by acquiring other firms. Other strategies, such as retrenchment and divestiture, may result in the sale of a division of an organization or of the firm itself. All the various methods for determining a business's worth can be grouped into three main approaches

1. What a firm owns
2. What a firm earns
3. What a firm will bring in the market.

The **first approach** in evaluating the worth of a business is determining its net worth or stockholders' equity. Net worth represents the sum of common stock, additional paid-in capital, and retained earnings.
The **second approach** to measuring the value of a firm grows out of the belief that the worth of any business should be based largely on the future benefits its owners may derive through net profits.
The **third approach**, letting the market determine a business's worth, involves three methods.

1. **First, base** the firm's worth on the selling price of a similar company. A potential problem, however, is that sometimes comparable figures are not easy to locate, even though substantial information on firms that buy or sell to other firms is available in major libraries.
2. **The second approach** is called the *price-earnings ratio method.* To use this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years.
3. **The third approach** can be called the *outstanding shares method.* To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per share dollar amount that a person or firm is willing to pay to control (acquire) the other company.

© Copyright Virtual University of Pakistan

RESEARCH AND DEVELOPMENT ISSUES

Learning objectives

The main objective of this chapter to enable to students about research and development issue relating to strategy implementation.

Going public means selling off a specific percentage of the business to others in order to raise capital; consequently, it shifts the owners' control of the firm. Going public is not recommended for companies that initial costs can be too high for the firm to generate sufficient amount of cash inflows to make going public worthwhile. The firm must have sufficient amount of capital to bear out lawyer, underwriter and other documentation cost in order to form the business. In addition to initial costs involved with a stock offering, there are costs and obligations associated with reporting and management in a publicly held firm. For firms with more than $10 million in sales, going public can provide major advantages:

1. It can allow the firm to raise capital to develop new products,
2. To build plants,
3. Expand, grow, and market products and services more effectively.

Before going public, a firm must have quality management with a proven track record for achieving quality earnings and positive cash flow. The company also should enjoy growing demand for its products. Sales growth of about 5 or 6 percent a year is good for a private firm, but shareholders expect public companies to grow around 10 to 15 percent per year.

Research and Development (R&D) Issues

Research and development (R&D) management can plays part in strategy implementation.

"New products and improvement of existing products that allow for effective strategy implementation"

OR

"New products and improvement of existing products that allow for effective strategy implementation"

These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include

1. Transferring complex technology,
2. Adjusting processes to local raw materials,
3. Adapting processes to local markets,
4. Altering products to particular tastes and specifications.

Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability:

Technological improvements that both affect consumer and industrial products and services shorten product life cycles. Companies in virtually every industry are relying on the development of new products and services to fuel profitability and growth.

Surveys suggest that the most successful organizations use an R&D strategy that ties external opportunities to internal strength and is linked with objectives. Well-formulated R&D policies match market opportunities with internal capabilities and provide an initial screen to all ideas generated. R&D policies can enhance strategy-implementation efforts to:

1. Develop robotics or manual-type processes.
2. Spend a high, average, or low amount of money on R&D.
3. Perform R&D within the firm or to contract R&D to outside firms.
4. Use university researchers or private sector researchers.
5. Emphasize product or process improvements.
6. Stress basic or applied research.
7. Be leaders or followers in R&D.

There must be effective interactions between R&D departments and other functional departments in implementing different types of generic business strategies. Conflicts between marketing, finance/accounting, R&D, and information systems departments can be minimized with clear policies and objectives. Table gives some examples of R&D activities that could be required for successful

© Copyright Virtual University of Pakistan

implementation of various strategies. Many American utility, energy, and automotive companies are employing their research and development departments to determine how the firm can effectively reduce its greenhouse gas emissions.

Research and Development Involvement in Selected Strategy-Implementation Situations

TYPE OF ORGANIZATION	STRATEGY BEING IMPLEMENTED	R&D ACTIVITY
Cosmetic Manufacturer	Concentric diversification	Add face wash for the user in addition to other make-up items.
Plastic container manufacturer	Market penetration	Develop a biodegradable container.
Electronics company	Market development	Develop a telecommunications system in a foreign country.
Pharmaceutical company	Product development	Develop a procedure for testing the effects of a new drug on different subgroups.

Many firms wrestle with the decision to acquire R&D expertise from external firms or to develop R&D expertise internally. The following guidelines can be used to help make this decision:

1. If the rate of technical progress is slow, the rate of market growth is moderate, and there are significant barriers to possible new entrants, then in-house R&D is the preferred solution. The reason is that R&D, if successful, will result in a temporary product or process monopoly that the company can exploit.
2. If technology is changing rapidly and the market is growing slowly, then a major effort in R&D may be very risky, because it may lead to development of an ultimately obsolete technology or one for which there is no market.
3. If technology is changing slowly but the market is growing fast, there generally is not enough time for in-house development. The prescribed approach is to obtain R&D expertise on an exclusive or nonexclusive basis from an outside firm.
4. If both technical progress and market growth are fast, R&D expertise should be obtained through acquisition of a well-established firm in the industry.

There are at least three major R&D approaches for implementing strategies.

1. First firm to market new technological products
2. Be an innovative imitator of successful products
3. Low-cost producer of similar but less expensive products

The first strategy is to be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one.

A second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of start-up. This approach entails allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists. Then, laggard firms develop a similar product. This strategy requires excellent R&D personnel and an excellent marketing department.

A third R&D strategy is to be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced.

Perhaps the most current trend in R&D management has been lifting the veil of secrecy whereby firms, even major competitors, are joining forces to develop new products. Collaboration is on the rise due to new competitive pressures, rising research costs, increasing regulatory issues, and accelerated product development schedules.

© Copyright Virtual University of Pakistan

STRATEGY REVIEW, EVALUATION AND CONTROL

Learning objectives

The last step of strategy frame work model is control evaluation. In this chapter the main concern is evaluation process its importance and porter five forces model

Evaluation

Evaluation is the systematic determination of merit, worth, and significance of something or someone. Evaluation often is used to characterize and appraise subjects of interest in a wide range of human enterprises, including the Arts, business, computer science, criminal justice, education, engineering, foundations and non-profit organizations, government, health care, and other human services.

In the field of evaluation, there is some degree of disagreement in the distinctions often made between the terms 'evaluation' and 'assessment.' Some practitioners would consider these terms to be interchangeable, while others contend that evaluation is broader than assessment and involves making judgments about the merit or worth of something (an evaluand) or someone (an evaluee). When such a distinction is made, 'assessment' is said to primarily involve characterizations – objective descriptions, while 'evaluation' is said to involve characterizations *and* appraisals – determinations of merit and/or worth. Merit involves judgments about generalized value. Worth involves judgments about instrumental value. For example, a history and a mathematics teacher may have equal merit in terms of mastery of their respective disciplines, but the math teacher may have greater worth because of the higher demand and lower supply of qualified mathematics teachers. A further degree of complexity is introduced to this argument when working in different languages, where the terms 'evaluation' and 'assessment' may be variously translated, with terms being used that convey differing connotations related to conducting characterizations and appraisals.

There are many methods, techniques and approaches for conducting evaluations. The following list includes some of the most common.

© Copyright Virtual University of Pakistan

- Accelerated aging
- Action research
- Advanced Product Quality Planning
- Alternative assessment
- Appreciative Inquiry
- Assessment
- Axiomatic design
- Benchmarking
- Case study
- Change management
- Clinical trial
- Cohort study
- Competitor analysis
- Consensus decision-making
- Consensus-seeking decision-making
- Content analysis
- Conversation analysis
- Cost-benefit analysis
- Data mining
- Delphi Technique
- Discourse analysis
- Electronic portfolio
- Environmental scanning
- Ethnography
- Experiment
- Experimental techniques
- Factor analysis
- Factorial experiment
- Feasibility study
- Field experiment
- Fixtureless In-Circuit Test
- Focus group
- Force field analysis
- Game theory
- Grading
- Inquiry
- Interview
- Marketing research
- Meta-analysis
- Metrics
- Multivariate statistics
- Naturalistic observation
- Observational techniques
- Opinion polling
- Organizational learning
- Participant observation
- Policy analysis
- Process improvement
- Project management
- Qualitative research
- Quality audit
- Quality circle
- Quality control
- Quality management
- Quality Management System
- Quantitative research
- Questionnaire
- Questionnaire construction
- Root cause analysis
- Rubrics
- Sampling
- School accreditation
- Self-assessment
- Six Sigma
- Standardized testing
- Statistical process control
- Statistical survey
- Statistics
- Strategic planning
- Structured interviewing
- Systems theory
- Student testing
- Total Quality Management
- Triangulation

Strategy Evaluation

Organizations are most vulnerable when they are at the peak of their success.

R.T. Lenz

"Strategy evaluation alerts management to potential or actual problems in a timely fashion."

- It is Complex and sensitive undertaking
- Overemphasis can be costly and counterproductive

Systematic Review, Evaluation & Control

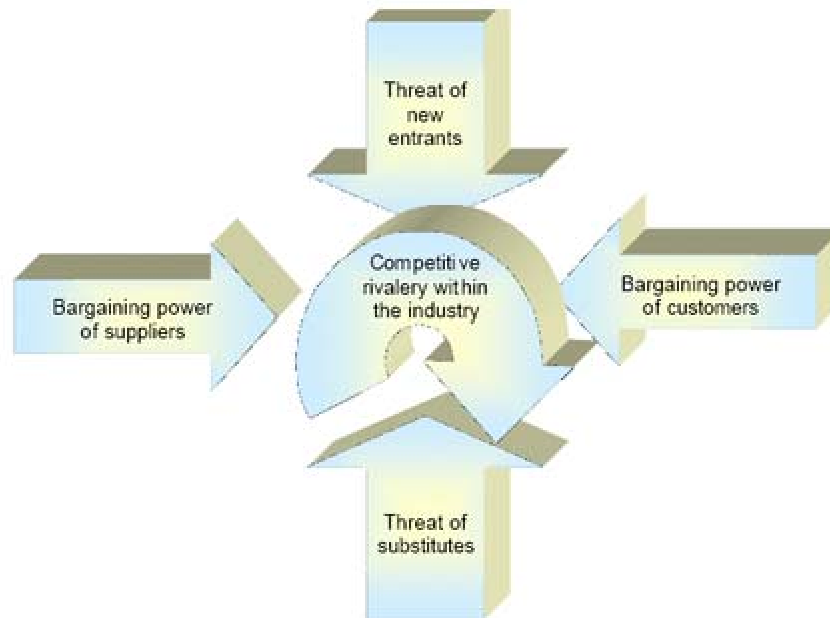
1. Strategies become obsolete
2. Internal environments are dynamic
3. External environments are dynamic

Michael Porter's five forces

Michael Porter's 1979 framework uses concepts developed in Industrial Organization (IO) economics to derive 5 forces that determine the attractiveness of a market. Porter referred to these forces as the microenvironment, to contrast it with the more general term macro environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a company to re-assess the marketplace.

Five Forces

Five forces -- the bargaining power of customers, the bargaining power of suppliers, the threat of new entrants, and the threat of substitute products -- combine with other variables to influence a fifth force, the level of competition in an industry. Each of these forces has several determinants:



A graphical representation of Porters Five Forces

- **The bargaining power of customers**
    - buyer concentration to firm concentration ratio
    - bargaining leverage
    - buyer volume
    - buyer switching costs relative to firm switching costs
    - buyer information availability
    - ability to backward integrate
    - availability of existing substitute products
    - buyer price sensitivity
    - price of total purchase

- **The bargaining power of suppliers**
    - supplier switching costs relative to firm switching costs
    - degree of differentiation of inputs
    - presence of substitute inputs
    - supplier concentration to firm concentration ratio
    - threat of forward integration by suppliers relative to the threat of backward integration by firms
    - cost of inputs relative to selling price of the product
    - importance of volume to supplier

- **The threat of new entrants**
    - the existence of barriers to entry
    - economies of product differences
    - brand equity
    - switching costs
    - capital requirements
    - access to distribution
    - absolute cost advantages
    - learning curve advantages
    - expected retaliation
    - government policies

- **The threat of substitute products**
    - buyer propensity to substitute
    - relative price performance of substitutes
    - buyer switching costs
    - perceived level of product differentiation

- **The intensity of competitive rivalry**
    - power of buyers
    - power of suppliers
    - threat of new entrants
    - threat of substitute products
    - number of competitors
    - rate of industry growth
    - intermittent industry overcapacity
    - exit barriers
    - diversity of competitors
    - informational complexity and asymmetry
    - brand equity
    - fixed cost allocation per value added
    - level of advertising expense

Some argue that a 6th force should be added to Porter's list to include a variety of stakeholder groups from the task environment. This force is referred to as "Relative Power of Other Stakeholders". Some examples of these stakeholders are governments, local communities, creditors, and shareholders.
This 5 forces analysis is just one part of the complete Porter strategic models. The other elements are the value chain and the generic strategies.

<u>Purpose of strategy evaluation</u>

- Strategy evaluation is vital to the organization's well-being
- Alert management to potential or actual problems in a timely fashion
- Erroneous strategic decisions can have severe negative impact on organizations

Basic Activities –

1. Examining the underlying bases of a firms' strategy
2. Comparing expected to actual results
3. Corrective actions to ensure performance conforms to plans

In many organizations, evaluation is an appraisal of performance –

- Have assets increased?
- Increase in profitability?
- Increase in sales?
- Increase in productivity?
- Profit margins, ROI and EPS ratios increased

Four Criteria (Richard Rummelt):

- Consistency
- Consonance
- Feasibility
- Advantage

Consistency

Strategy should not present inconsistent goals and policies.

- Conflict and interdepartmental bickering symptomatic of managerial disorder and strategic inconsistency

Consonance
Need for strategies to examine sets of trends

- Adaptive response to external environment
- Trends are results of interactions among other trends

Feasibility
Neither overtax resources nor creates unsolvable sub problems

- Organizations must demonstrate the abilities, competencies, skills and talents to carry out a given strategy

Advantage
Creation or maintenance of competitive advantage

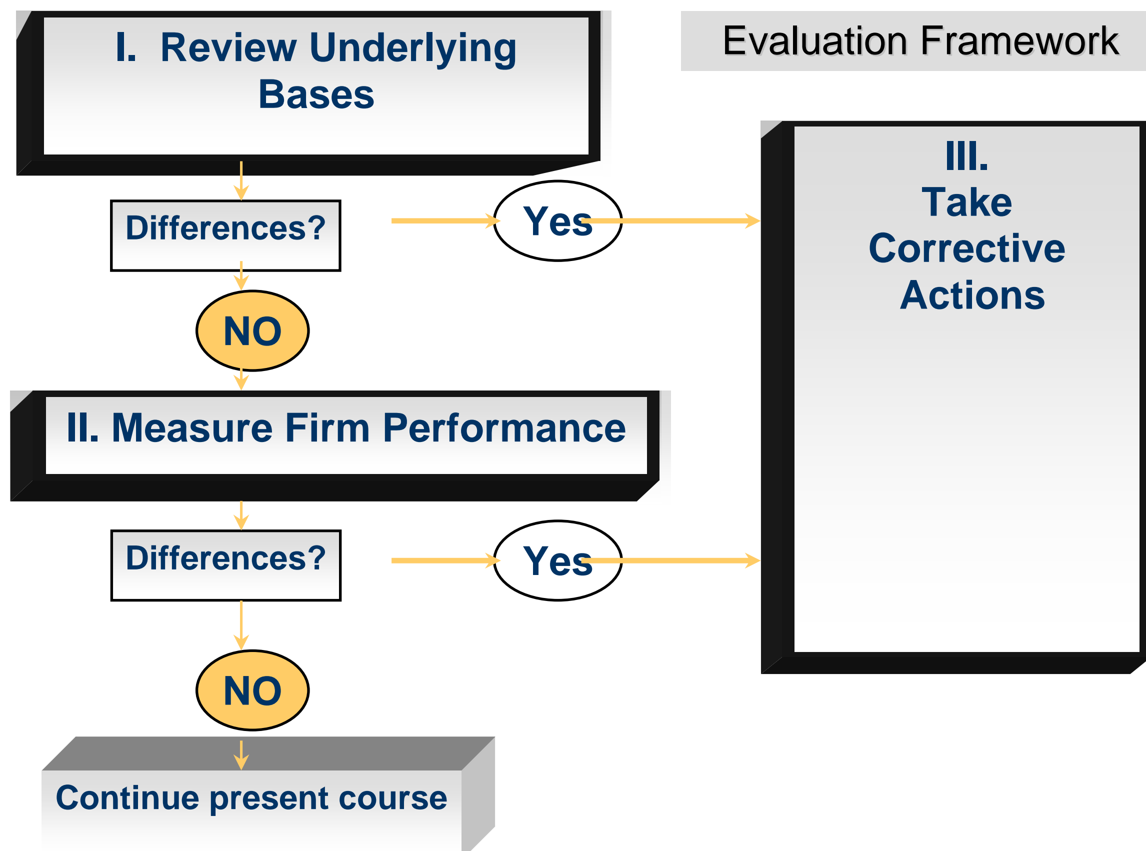
- Superiority in resources, skills, or position

The process of evaluating Strategies

1. Strategy evaluation is necessary for all sizes and kinds of organization. Strategy evaluation should initiate managerial questioning of expectations and assumptions should trigger a review of objectives and values and should stimulate creativity in generating alternative and formulating criteria of evaluation
2. Evaluating strategies on continuous rather than a periodic basis allows benchmark of progress to established and o\more effectively monitored
3. Managers and employees of the firm should be continually aware of progress being made towards achieving the firm's objectives. As a critical success factors change, organization members should be involved in determining appropriate corrective action.

A Strategy-Evaluation Framework

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



PORTER SUPPLY CHAIN MODEL

Learning Objective

This topic concern with the porter supply chain model. After studying this chapter you are able to understand that what are major forces of supply chain model and how it affects the performance of the organization.

Porter supply chain model

The Value Chain framework of Michael Porter is a model that helps to analyze specific activities through which firms can create value and competitive advantage.

The activities of the Value Chain

- **Primary activities** (line functions)
  - **Inbound Logistics**. Includes receiving, storing, inventory control, transportation planning.
  - **Operations**. Includes machining, packaging, assembly, equipment maintenance, testing and all other value-creating activities that transform the inputs into the final product.
  - **Outbound Logistics**. The activities required to get the finished product at the customers: warehousing, order fulfillment, transportation, distribution management.
  - **Marketing and Sales**. The activities associated with getting buyers to purchase the product, including: channel selection, advertising, promotion, selling, pricing, retail management, etc.
  - **Service**. The activities that maintain and enhance the product's value, including: customer support, repair services, installation, training, spare parts management, upgrading, etc.

- **Support activities** (Staff functions, overhead)
  - **Procurement**. Procurement of raw materials, servicing, spare parts, buildings, machines, etc.
  - **Technology Development**. Includes technology development to support the value chain activities. Such as: Research and Development, Process automation, design, redesign.
  - **Human Resource Management**. The activities associated with recruiting, development (education), retention and compensation of employees and managers.
  - **Firm Infrastructure**. Includes general management, planning management, legal, finance, accounting, public affairs, quality management, etc.

Creating a cost advantage based on the value chain

A firm may create a cost advantage:

- By reducing the cost of individual value chain activities, or
- By reconfiguring the value chain.

Note that a cost advantage can be created by reducing the costs of the primary activities, but also by reducing the costs of the support activities. Recently there have been many companies that achieved a cost advantage by the clever use of Information Technology.

Once the value chain has been defined, a cost analysis can be performed by assigning costs to the value chain activities. Porter identified **10 cost drivers** related to value chain activities:

1. Economies of scale.
2. Learning.
3. Capacity utilization.
4. Linkages among activities.
5. Interrelationships among business units.
6. Degree of vertical integration.
7. Timing of market entry.
8. Firm's policy of cost or differentiation.

9. Geographic location.
10. Institutional factors (regulation, union activity, taxes, etc.).

A firm develops a cost advantage by controlling these drivers better than its competitors do. A cost advantage also can be pursued by "Reconfiguring" the value chain. "Reconfiguration" means structural changes such as: a new production process, new distribution channels, or a different sales approach.

Normally, the Value Chain of a company is connected to other Value Chains and is part of a larger Value Chain. Developing a competitive advantage also depends on how efficiently you can analyze and manage the entire Value Chain. This idea is called: **Supply Chain Management**. Some people argue that network is actually a better word to describe the physical form of Value Chains: **Value Networks**.

© Copyright Virtual University of Pakistan

STRATEGY EVALUATION

Learning objectives

This topic covers various aspects concerning with the strategy evaluation and enables you to understand the process of strategy evaluation.

Four Criteria (Richard Rummelt): He explains four criteria for strategy valuation. These four criteria are as follow

- Consistency
- Consonance
- Feasibility
- Advantage

Consistency

Strategy should not present inconsistent goals and policies.

- Conflict and interdepartmental bickering symptomatic of managerial disorder and strategic inconsistency

Consonance

Need for strategies to examine sets of trends

- Adaptive response to external environment
- Trends are results of interactions among other trends

Feasibility

Neither overtaxes resources nor creates unsolvable sub problems

- Organizations must demonstrate the abilities, competencies, skills and talents to carry out a given strategy

Advantage

Creation or maintenance of competitive advantage

- Superiority in resources, skills, or position

Difficulty in strategy evaluation –

1. Increase in environment's complexity
2. Difficulty predicting future with accuracy
3. Increasing number of variables
4. Rate of obsolescence of plans
5. Domestic and global events
6. Decreasing time span for planning certainty

The process of evaluating Strategies

1. Strategy evaluation is necessary for all sizes and kinds of organization. Strategy evaluation should initiate managerial questioning of expectations and assumptions should trigger a review of objectives and values and should stimulate creativity in generating alternative and formulating criteria of evaluation
2. Evaluating strategies on continuous rather than a periodic basis allows benchmark of progress to established and o\more effectively monitored
3. Managers and employees of the firm should be continually aware of progress being made towards achieving the firm's objectives. As a critical success factors change, organization members should be involved in determining appropriate corrective action.

© Copyright Virtual University of Pakistan

Lesson 43

REVIEWING BASES OF STRATEGY

Reviewing the underlying bases of an organization's strategy could be approached by developing a revised EFE Matrix and IFE Matrix. A *revised IFE Matrix* should focus on changes in the organization's management, marketing, finance/accounting, production/operations, R&D, and computer information systems strengths and weaknesses. A *revised EFE Matrix* should indicate how effective a firm's strategies have been in response to key opportunities and threats. This analysis could also address such questions as the following:

1. How have competitors reacted to our strategies?
2. How have competitors' strategies changed?
3. Have major competitors' strengths and weaknesses changed?
4. Why are competitors making certain strategic changes?
5. Why are some competitors' strategies more successful than others?
6. How satisfied are our competitors with their present market positions and profitability?
7. How far can our major competitors be pushed before retaliating?
8. How could we more effectively cooperate with our competitors?

Numerous external and internal factors can prohibit firms from achieving long-term and annual objectives. Externally, actions by competitors, changes in demand, changes in technology, economic changes, demographic shifts, and governmental actions may prohibit objectives from being accomplished. Internally, ineffective strategies may have been chosen or implementation activities may have been poor. Objectives may have been too optimistic. Thus, failure to achieve objectives may not be the result of unsatisfactory work by managers and employees. All organizational members need to know this to encourage their support for strategy-evaluation activities. Organizations desperately need to know as soon as possible when their strategies are not effective. Sometimes managers and employees on the front line discover this well before strategists.

External opportunities and threats and internal strengths and weaknesses that represent the bases of current strategies should continually be monitored for change. It is not really a question of whether these factors will change, but rather when they will change and in what ways. Some key questions to address in evaluating strategies are given here.

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

Measuring Organizational Performance

Another important strategy-evaluation activity is *measuring organizational performance.* This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Both long-term and annual objectives are commonly used in this process. Criteria for evaluating strategies should be measurable and easily verifiable. Criteria that predict results may be more important than those that reveal what already has happened. For example, rather than simply being informed that sales last quarter were 20 percent under what was expected, strategists need to know that sales next quarter may be 20 percent below standard unless some action is taken to counter the trend. Really effective control requires accurate forecasting.

Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective actions. Many factors, such as unreasonable policies, unexpected turns in the economy, unreliable suppliers or distributors, or ineffective strategies, can result in unsatisfactory progress toward meeting objectives. Problems can result from ineffectiveness (not doing the right things) or inefficiency (doing the right things poorly).

Determining which objectives are most important in the evaluation of strategies can be difficult. Strategy evaluation is based on both quantitative and qualitative criteria. Selecting the exact set of criteria for evaluating strategies depends on a particular organization's size, industry, strategies, and management philosophy. An organization pursuing a retrenchment strategy, for example, could have an entirely different set of evaluative criteria from an organization pursuing a market-development strategy. Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons: (1) comparing the firm's performance over different time periods, (2) comparing the firm's performance to competitors', and (3) comparing the firm's performance to industry averages. Some key financial ratios that are particularly useful as criteria for strategy evaluation are as follows:

1. Return on investment
2. Return on equity
3. Profit margin
4. Market share
5. Debt to equity
6. Earnings per share
7. Sales growth
8. Asset growth

But there are some potential problems associated with using quantitative criteria for evaluating strategies. First, most quantitative criteria are geared to annual objectives rather than long-term objectives. Also, different accounting methods can provide different results on many quantitative criteria. Third, intuitive judgments are almost always involved in deriving quantitative criteria. For these and other reasons, qualitative criteria are also important in evaluating strategies. Human factors such as high absenteeism and turnover rates, poor production quality and quantity rates, or low employee satisfaction can be underlying causes of declining performance. Marketing, finance/accounting, R&D, or computer information systems factors can also cause financial problems. Seymour Tilles identified six qualitative questions that are useful in evaluating strategies:

1. Is the strategy internally consistent?
2. Is the strategy consistent with the environment?
3. Is the strategy appropriate in view of available resources?
4. Does the strategy involve an acceptable degree of risk?
5. Does the strategy have an appropriate time framework?
6. Is the strategy workable?[5]

Some additional key questions that reveal the need for qualitative or intuitive judgments in strategy evaluation are as follows:

1. How good is the firm's balance of investments between high-risk and low-risk projects?
2. How good is the firm's balance of investments between long-term and short-term projects?
3. How good is the firm's balance of investments between slow-growing markets and fast-growing markets?
4. How good is the firm's balance of investments among different divisions?
5. To what extent are the firm's alternative strategies socially responsible?
6. What are the relationships among the firm's key internal and external strategic factors?
7. How are major competitors likely to respond to particular strategies?

Taking Corrective Actions

The final strategy-evaluation activity, *taking corrective actions,* requires making changes to reposition a firm competitively for the future. Examples of changes that may be needed are altering an organization's structure, replacing one or more key individuals, selling a division, or revising a business mission. Other changes could include establishing or revising objectives, devising new policies, issuing stock to raise capital, adding additional salespersons, allocating resources differently, or developing new performance incentives. Taking corrective actions does not necessarily mean that existing strategies will be abandoned or even that new strategies must be formulated.

The probabilities and possibilities for incorrect or inappropriate actions increase geometrically with an arithmetic increase in personnel. Any person directing an overall undertaking must check on the actions of

© Copyright Virtual University of Pakistan

the participants as well as the results that they have achieved. If either the actions or results do not comply with preconceived or planned achievements, then corrective actions are needed.

No organization can survive as an island; no organization can escape change. Taking corrective actions is necessary to keep an organization on track toward achieving stated objectives. In his thought-provoking books, *Future Shock* and *The Third Wave,* Alvin Toffler argued that business environments are becoming so dynamic and complex that they threaten people and organizations with *future shock,* which occurs when the nature, types, and speed of changes overpower an individual's or organization's ability and capacity to adapt. Strategy evaluation enhances an organization's ability to adapt successfully to changing circumstances. Brown and Agnew referred to this notion as *corporate agility.*

Taking corrective actions raises employees' and managers' anxieties. Research suggests that participation in strategy-evaluation activities is one of the best ways to overcome individuals' resistance to change. According to Erez and Kanfer, individuals accept change best when they have a cognitive understanding of the changes, a sense of control over the situation, and an awareness that necessary actions are going to be taken to implement the changes.

Strategy evaluation can lead to strategy-formulation changes, strategy-implementation changes, both formulation and implementation changes, and no changes at all. Strategists cannot escape having to revise strategies and implementation approaches sooner or later. Hussey and Langham offered the following insight on taking corrective actions:

Resistance to change is often emotionally based and not easily overcome by rational argument. Resistance may be based on such feelings as loss of status, implied criticism of present competence, fear of failure in the new situation, annoyance at not being consulted, lack of understanding of the need for change, or insecurity in changing from well-known and fixed methods. It is necessary, therefore, to overcome such resistance by creating situations of participation and full explanation when changes are envisaged.

Corrective actions should place an organization in a better position to capitalize upon internal strengths; to take advantage of key external opportunities; to avoid, reduce, or mitigate external threats; and to improve internal weaknesses. Corrective actions should have a proper time horizon and an appropriate amount of risk. They should be internally consistent and socially responsible. Perhaps most importantly, corrective actions strengthen an organization's competitive position in its basic industry. Continuous strategy evaluation keeps strategists close to the pulse of an organization and provides information needed for an effective strategic-management system. Carter Bayles described the benefits of strategy evaluation as follows:

Lesson 44

MEASURING ORGANIZATIONAL PERFORMANCE

Learning Objectives

This topic concern with various is for measuring the performance of an organization.

Measuring organizational performance

To determine that which objectives are most important in the evaluation of strategies can be difficult. Strategy evaluation is based on both quantitative and qualitative criteria. Selecting the exact set of criteria for evaluating strategies depends on a particular organization's size, industry, strategies, and management philosophy. An organization pursuing a retrenchment strategy, for example, could have an entirely different set of evaluative criteria from an organization pursuing a market-development strategy. Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons: (1) comparing the firm's performance over different time periods, (2) comparing the firm's performance to competitors', and (3) comparing the firm's performance to industry averages. Some key financial ratios that are particularly useful as criteria for strategy evaluation are as follows:

1. Return on investment
2. Return on equity
3. Profit margin
4. Market share
5. Debt to equity
6. Earnings per share
7. Sales growth
8. Asset growth

But there are some potential problems associated with using quantitative criteria for evaluating strategies. First, most quantitative criteria are geared to annual objectives rather than long-term objectives. Also, different accounting methods can provide different results on many quantitative criteria. Third, intuitive judgments are almost always involved in deriving quantitative criteria. For these and other reasons, qualitative criteria are also important in evaluating strategies. Human factors such as high absenteeism and turnover rates, poor production quality and quantity rates, or low employee satisfaction can be underlying causes of declining performance. Marketing, finance/accounting, R&D, or computer information systems factors can also cause financial problems. Seymour Tilles identified six qualitative questions that are useful in evaluating strategies:

1. Is the strategy internally consistent?
2. Is the strategy consistent with the environment?
3. Is the strategy appropriate in view of available resources?
4. Does the strategy involve an acceptable degree of risk?
5. Does the strategy have an appropriate time framework?
6. Is the strategy workable?

Some additional key questions that reveal the need for qualitative or intuitive judgments in strategy evaluation are as follows:

1. How good is the firm's balance of investments between high-risk and low-risk projects?
2. How good is the firm's balance of investments between long-term and short-term projects?
3. How good is the firm's balance of investments between slow-growing markets and fast-growing markets?
4. How good is the firm's balance of investments among different divisions?
5. To what extent are the firm's alternative strategies socially responsible?
6. What are the relationships among the firm's key internal and external strategic factors?
7. How are major competitors likely to respond to particular strategies?

© Copyright Virtual University of Pakistan

CHARACTERISTICS OF AN EFFECTIVE EVALUATION SYSTEM

Learning Objectives
After study this lecture you are in position to explain the importance and qualities of good evaluation system.

Qualities of good evaluation system
A Good evaluation system must posses various qualities. It must meet several basic requirements to be effective. First, strategy-evaluation activities must be economical; too much information can be just as bad as too little information; and too many controls can do more harm than good. Strategy-evaluation activities also should be meaningful; they should specifically relate to a firm's objectives. They should provide managers with useful information about tasks over which they have control and influence. Strategy-evaluation activities should provide timely information; on occasion and in some areas, managers may need information daily. For example, when a firm has diversified by acquiring another firm, evaluative information may be needed frequently. However, in an R&D department, daily or even weekly evaluative information could be dysfunctional. Approximate information that is timely is generally more desirable as a basis for strategy evaluation than accurate information that does not depict the present. Frequent measurement and rapid reporting may frustrate control rather than give better control. The time dimension of control must coincide with the time span of the event being measured.
Strategy evaluation should be designed to provide a true picture of what is happening. For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder. Strategy evaluations should portray this type of situation fairly. Information derived from the strategy-evaluation process should facilitate action and should be directed to those individuals in the organization who need to take action based on it. Managers commonly ignore evaluative reports that are provided for informational purposes only; not all managers need to receive all reports. Controls need to be action-oriented rather than information-oriented.
The strategy-evaluation process should not dominate decisions; it should foster mutual understanding, trust, and common sense! No department should fail to cooperate with another in evaluating strategies. Strategy evaluations should be simple, not too cumbersome, and not too restrictive. Complex strategy-evaluation systems often confuse people and accomplish little. The test of an effective evaluation system is its usefulness, not its complexity.
Large organizations require a more elaborate and detailed strategy-evaluation system because it is more difficult to coordinate efforts among different divisions and functional areas. Managers in small companies often communicate with each other and their employees daily and do not need extensive evaluative reporting systems. Familiarity with local environments usually makes gathering and evaluating information much easier for small organizations than for large businesses. But the key to an effective strategy-evaluation system may be the ability to convince participants that failure to accomplish certain objectives within a prescribed time is not necessarily a reflection of their performance.
There is no one ideal strategy-evaluation system. The unique characteristics of an organization, including its size, management style, purpose, problems, and strengths, can determine a strategy-evaluation and control system's final design. Robert Waterman offered the following observation about successful organizations' strategy-evaluation and control systems:
Successful companies treat facts as friends and controls as liberating. Morgan Guaranty and Wells Fargo not only survive but thrive in the troubled waters of bank deregulation, because their strategy evaluation and control systems are sound, their risk is contained, and they know themselves and the competitive situation so well. Successful companies have a voracious hunger for facts. They see information where others see only data. They love comparisons, rankings, anything that removes decision-making from the realm of mere opinion. Successful companies maintain tight, accurate financial controls. Their people don't regard controls as an imposition of autocracy, but as the benign checks and balances that allow them to be creative and free.

Contingency Planning
A basic premise of good strategic management is that firms plan ways to deal with unfavorable and favorable events before they occur. Too many organizations prepare contingency plans just for

unfavorable events; this is a mistake, because both minimizing threats and capitalizing on opportunities can improve a firm's competitive position.

Regardless of how carefully strategies are formulated, implemented, and evaluated, unforeseen events such as strikes, boycotts, natural disasters, arrival of foreign competitors, and government actions can make a strategy obsolete. To minimize the impact of potential threats, organizations should develop contingency plans as part of the strategy-evaluation process. *Contingency plans* can be defined as alternative plans that can be put into effect if certain key events do not occur as expected. Only high-priority areas require the insurance of contingency plans. Strategists cannot and should not try to cover all bases by planning for all possible contingencies. But in any case, contingency plans should be as simple as possible.

Some contingency plans commonly established by firms include the following:

1. If a major competitor withdraws from particular markets as intelligence reports indicate, what actions should our firm take?
2. If our sales objectives are not reached, what actions should our firm take to avoid profit losses?
3. If demand for our new product exceeds plans, what actions should our firm take to meet the higher demand?
4. If certain disasters occur—such as loss of computer capabilities; a hostile takeover attempt; loss of patent protection; or destruction of manufacturing facilities because of earthquakes, tornados, or hurricanes—what actions should our firm take?
5. If a new technological advancement makes our new product obsolete sooner than expected, what actions should our firm take?

Too many organizations discard alternative strategies not selected for implementation although the work devoted to analyzing these options would render valuable information. Alternative strategies not selected for implementation can serve as contingency plans in case the strategy or strategies selected do not work.

When strategy-evaluation activities reveal the need for a major change quickly, an appropriate contingency plan can be executed in a timely way. Contingency plans can promote a strategist's ability to respond quickly to key changes in the internal and external bases of an organization's current strategy. For example, if underlying assumptions about the economy turn out to be wrong and contingency plans are ready, and then managers can make appropriate changes promptly.

In some cases, external or internal conditions present unexpected opportunities. When such opportunities occur, contingency plans could allow an organization to capitalize on them quickly. Linneman and Chandran reported that contingency planning gave users such as DuPont, Dow Chemical, Consolidated Foods, and Emerson Electric three major benefits: It permitted quick response to change, it prevented panic in crisis situations, and it made managers more adaptable by encouraging them to appreciate just how variable the future can be. They suggested that effective contingency planning involves a seven-step process as follows:

1. Identify both beneficial and unfavorable events that could possibly derail the strategy or strategies.
2. Specify trigger points. Calculate about when contingent events are likely to occur.
3. Assess the impact of each contingent event. Estimate the potential benefit or harm of each contingent event.
4. Develop contingency plans. Be sure that contingency plans are compatible with current strategy and are economically feasible.
5. Assess the counter impact of each contingency plan. That is, estimate how much each contingency plan will capitalize on or cancel out its associated contingent event. Doing this will quantify the potential value of each contingency plan.
6. Determine early warning signals for key contingent events. Monitor the early warning signals.
7. For contingent events with reliable early warning signals, develop advance action plans to take advantage of the available lead time.

Auditing

A frequently used tool in strategy evaluation is the audit. *Auditing* is defined by the American Accounting Association (AAA) as "a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to interested users." People who perform audits can be divided into three groups: independent auditors, government auditors, and internal auditors. Independent auditors basically are certified public accountants (CPAs) who provide their services

© Copyright Virtual University of Pakistan

to organizations for a fee; they examine the financial statements of an organization to determine whether they have been prepared according to generally accepted accounting principles (GAAP) and whether they fairly represent the activities of the firm. Independent auditors use a set of standards called generally accepted auditing standards (GAAS). Public accounting firms often have a consulting arm that provides strategy-evaluation services.

Two government agencies—the General Accounting Office (GAO) and the Internal Revenue Service (IRS)—employ government auditors responsible for making sure that organizations comply with federal laws, statutes, and policies. GAO and IRS auditors can audit any public or private organization. The third group of auditors are employees within an organization who are responsible for safeguarding company assets, for assessing the efficiency of company operations, and for ensuring that generally accepted business procedures are practiced. To evaluate the effectiveness of an organization's strategic-management system, internal auditors often seek answers to the questions posed in Table 9-5.

The Environmental Audit

For an increasing number of firms, overseeing environmental affairs is no longer a technical function performed by specialists; it rather has become an important strategic-management concern. Product design, manufacturing, transportation, customer use, packaging, product disposal, and corporate rewards and sanctions should reflect environmental considerations. Firms that effectively manage environmental affairs are benefiting from constructive relations with employees, consumers, suppliers, and distributors.

Instituting an environmental audit can include moving environmental affairs from the staff side of the organization to the line side. Some firms are also introducing environmental criteria and objectives in their performance appraisal instruments and systems. Conoco, for example, ties compensation of all its top managers to environmental action plans. Occidental Chemical includes environmental responsibilities in all its job descriptions for positions.

Using Computers to Evaluate Strategies

When properly designed, installed, and operated, a computer network can efficiently acquire information promptly and accurately. Networks can allow diverse strategy-evaluation reports to be generated for—and responded to by—different levels and types of managers. For example, strategists will want reports concerned with whether the mission, objectives, and strategies of the enterprise are being achieved. Middle managers could require strategy-implementation information such as whether construction of a new facility is on schedule or a product's development is proceeding as expected. Lower-level managers could need evaluation reports that focus on operational concerns such as absenteeism and turnover rates, productivity rates, and the number and nature of grievances. As indicated in the E-Commerce Perspective, Virtual Close is a Cisco Systems software product that promises to revolutionize the strategy-evaluation process. Virtual Close allows strategists to close the financial books for the company on a daily or even hourly basis, rather than on a quarterly or annual basis.

Business today has become so competitive that strategists are being forced to extend planning horizons and to make decisions under greater degrees of uncertainty. As a result, more information has to be obtained and assimilated to formulate, implement, and evaluate strategic decisions. In any competitive situation, the side with the best intelligence (information) usually wins; computers enable managers to evaluate vast amounts of information quickly and accurately. Use of the Internet, World Wide Web, e-mail, and search engines can make the difference today between a firm that is up-to-date or out-of-date in the currentness of information the firm uses to make strategic decisions.

A limitation of computer-based systems to evaluate and monitor strategy execution is that personal values, attitudes, morals, preferences, politics, personalities, and emotions are not programmable. This limitation accents the need to view computers as tools, rather than as actual decision-making devices. Computers can significantly enhance the process of effectively integrating intuition and analysis in strategy evaluation. The General Accounting Office of the U.S. Government offered the following conclusions regarding the appropriate role of computers in strategy evaluation:

The aim is to enhance and extend judgment. Computers should be looked upon not as a provider of solutions, but rather as a framework which permits science and judgment to be brought together and made explicit. It is the explicitness of this structure, the decision-maker's ability to probe, modify, and examine "What if?" alternatives that is of value in extending judgment.

© Copyright Virtual University of Pakistan

The Nature of Strategy Evaluation

The strategic-management process results in decisions that can have significant, long-lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse. Most strategists agree, therefore, that strategy evaluation is vital to an organization's well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. Strategy evaluation includes three basic activities: (1) examining the underlying bases of a firm's strategy, (2) comparing expected results with actual results, and (3) taking corrective actions to ensure that performance conforms to plans.

Adequate and timely feedback is the cornerstone of effective strategy evaluation. Strategy evaluation can be no better than the information on which it operates. Too much pressure from top managers may result in lower managers contriving numbers they think will be satisfactory.

Strategy evaluation can be a complex and sensitive undertaking. Too much emphasis on evaluating strategies may be expensive and counterproductive. No one likes to be evaluated too closely! The more managers attempt to evaluate the behavior of others, the less control they have. Yet, too little or no evaluation can create even worse problems. Strategy evaluation is essential to ensure that stated objectives are being achieved.

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

Conclusion

Strategy-evaluation framework that can facilitate accomplishment of annual and long-term objectives. Effective strategy evaluation allows an organization to capitalize on internal strengths as they develop, to exploit external opportunities as they emerge, to recognize and defend against threats, and to mitigate internal weaknesses before they become detrimental.

Strategists in successful organizations take the time to formulate, implement, and then evaluate strategies deliberately and systematically. Good strategists move their organization forward with purpose and direction, continually evaluating and improving the firm's external and internal strategic position. Strategy evaluation allows an organization to shape its own future rather than allowing it to be constantly shaped by remote forces that have little or no vested interest in the well-being of the enterprise.

Although not a guarantee for success, strategic management allows organizations to make effective long-term decisions, to execute those decisions efficiently, and to take corrective actions as needed to ensure success. Computer networks and the Internet help to coordinate strategic-management activities and to ensure that decisions are based on good information. A key to effective strategy evaluation and to successful strategic management is an integration of intuition and analysis.

A potentially fatal problem is the tendency for analytical and intuitive issues to polarize. This polarization leads to strategy evaluation that is dominated by either analysis or intuition, or to strategy evaluation that is discontinuous, with a lack of coordination among analytical and intuitive issues.[1]

Strategists in successful organizations realize that strategic management is first and foremost a people process. It is an excellent vehicle for fostering organizational communication. People are what make the difference in organizations.

The real key to effective strategic management is to accept the premise that the planning process is more important than the written plan, that the manager is continuously planning and does not stop planning when the written plan is finished. The written plan is only a snapshot as of the moment it is approved. If the manager is not planning on a continuous basis—planning, measuring, and revising—the written plan can become obsolete the day it is finished. This obsolescence becomes more of a certainty as the increasingly rapid rate of change makes the business environment more uncertain.

THE END

© Copyright Virtual University of Pakistan