MAKERERE UNIVERSITY

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

SCHOOL OF BUSINESS

JINJA CAMPUS

BBA & B.COM

BLENDED STUDY MATERIALS

COURSE: STRATEGIC MANAGEMENT

COE 3203

Prepared by:

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COURSE OBJECTIVES

- To give the students an understanding of the nature of strategic planning and the relationship between strategy formulation, strategy implementation and strategy evaluation
- To develop and sharpen students' abilities in the analysis of complex business problems and the effective use of the various business disciplines in designing effective solutions for business problems.
- To equip candidates with practical skills of drawing a game plan for running business in complex and dynamic environments, building competitive advantages, satisfying customer's etc.

ASSESSMENT:

- Take home assignments (10%)
- Case study/analysis (10%)
- Class exercises/tests (10%)
- Final written examination/Assessment (70%)

INDICATIVE CONTENT

TOPIC 1: Overview of Strategic Management

- Meaning of strategic management
- A historical perspective of strategic management
- Strategic management framework or process
- Key questions in strategic management

TOPIC 2: Key Concepts in Strategic Management

- The concepts of strategy, strategic intent, stretch, strategic thinking, strategic competition
- The principle of competitive exclusion and concept of competitive advantage.

TOPIC 3: Management Levels, Decisions and Skill Requirements

- Managerial levels
- Decisions carried out at each level and the skills required.

TOPIC 4: Environmental Analysis

- Definition and rationale of environmental analysis
- PEST analysis
- Industry and Competitor analysis – Michael Porter's model
- Customer and market analysis
- Analysis of other stakeholders

TOPIC 5: Internal Analysis of the Organisation

- Internal resource
- Capabilities
- Competencies
- Competitive Advantage
- Value chain analysis
- Portfolio Analysis
    - ✓ The BCG growth share matrix
    - ✓ The General Electric (GE) model
    - ✓ The Life-cycle portfolio matrix

TOPIC 6: SWOT Analysis

- Strengths and Weaknesses
- Opportunities and Threats
- SWOT Matrix

TOPIC 7: Business Goals

- Objectives, Business purpose, Business philosophy, Mission, Vision, Core values.
- Management By Objectives (MBO)

TOPIC 8: Strategic Choice/Formulation

- Designing a strategy
- The relationship between strategy and the environment
- Generic corporate strategies – retrenchment, stability, expansion, diversification strategies
- Other strategies of competitiveness i.e. Porter's generic strategies, Ansof's strategies, Kotler's strategies, etc
- Choice of strategy – criteria for strategy selection

TOPIC 9: Strategy implementation

- The implementation process
- Prerequisites for effective implementation of strategy
- McKinsey's 7 - S framework in strategy implementation
- Causes of failure of strategies and their implementation

TOPIC 10: Strategic Control and Evaluation

- Purpose of strategic control
- Measurement of organization performance
- Features of a good control system
- Taking corrective action

TOPIC 11: International Dimension of Strategy

- Global strategies
- Modes of entry into foreign markets

TOPIC 12: Case Analysis

- Identifying a strategic problem
- Case presentation and discussion

TOPIC ONE

OVERVIEW OF STRATEGIC MANAGEMENT

Topic Objectives

By the end of this topic, the learners must be able to Know the;

- ✓ *Meaning of strategic management*
- ✓ *Historical perspective of strategic management*
- ✓ *Strategic management framework or process*
- ✓ *Key questions in strategic management*

Introduction

Today's business news is filled with reports of organizations making changes in their strategies for whatever reasons. An underlying theme of discussing strategic management is that good strategies can lead to high organizational performance.

Definition(s)

Strategic management involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes.

Alternatively: Strategic Management can also be defined as the determination of the basic long term goals and objectives of an organization, and adoption of courses of action and allocation of resources necessary to carry out these goals

Strategy is defined as "the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." Strategies are established to set direction, focus effort, define or clarify the organization, and provide consistency or guidance in response to the environment.

Alternatively: Strategy can also be defined as “A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process”.

Company strategies addresses are meant to address aspects like how;

- To grow the business
- To satisfy customers
- To out compete rivals
- To respond to market conditions
- To manage functions of the business
- To develop organisational capabilities
- To achieve strategic and financial objectives

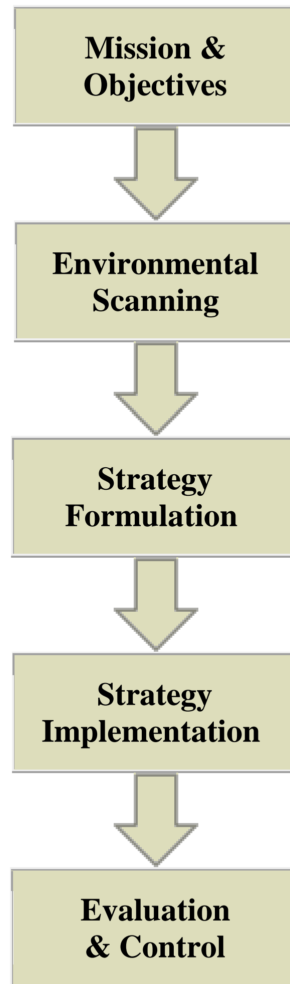
Benefits of Strategic Management

Why study strategic management as a student?

- How can a manager benefit from the strategic management discipline?
- Aren't there managers who have succeeded without the knowledge of strategic management?
- Ability to analyze strategic situations, craft appropriate business strategies and implement them
- Stimulates critical thinking about the future
- Ensures full exploitation of opportunities
- Points the way for employees to follow
- Ability to build competitive superiority
- To develop a competitive advantage
- Objective resource allocation
- To provide a sense of direction
- Enhances strategic analytical skills
- Combines skills, knowledge and experience from other disciplines
- Higher chances of success

The strategic Management Framework/Process

- Defining the business of the firm / enterprise
- Setting objectives & performance targets
- Formulating strategies
- Implementing the selected strategy
- Evaluation and control



Explanation

MISSION AND OBJECTIVES

The mission statement describes the company's business vision, including the unchanging values and purpose of the firm and forward-looking visionary goals that guide the pursuit of future opportunities.

Guided by the business vision, the firm's leaders can define measurable financial and strategic objectives. Financial objectives involve measures such as sales targets and earnings growth. Strategic objectives are related to the firm's business position, and may include measures such as market share and reputation.

ENVIRONMENTAL SCAN

The environmental scan includes the following components:

- Internal analysis of the firm
- Analysis of the firm's industry (task environment)
- External macro-environment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a **SWOT analysis**

An industry analysis can be performed using a framework developed by Michael Porter known as **Porter's five forces**. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

STRATEGY FORMULATION

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats.

To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation. Michael Porter identified three industry-independent generic strategies from which the firm can choose.

STRATEGY IMPLEMENTATION

The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.

The way in which the strategy is implemented can have a significant impact on whether it will be successful. In a large company, those who implement the strategy likely will be different people from those who formulated it. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if lower-level managers resist its implementation because they do not understand why the particular strategy was selected.

EVALUATION & CONTROL

The implementation of the strategy must be monitored and adjustments made as needed. Evaluation and control consists of the following steps:

1. Define parameters to be measured
2. Define target values for those parameters
3. Perform measurements
4. Compare measured results to the pre-defined standard
5. Make necessary changes.

DIMENSIONS OF STRATEGY

- A strategy as a **plan**: course of action, a guideline to deal with a situation
- A strategy as a **ploy**- i.e. a maneuver to win competitors
- A strategy as a **pattern** i.e. a series of consistent actions/activities
- A strategy as a **position**- a means of locating an organization in the environment/market
- A strategy as a **perspective**-it unites an organization by a common thinking towards achieving common goals

THE HISTORY OF STRATEGIC MANAGEMENT

Briefly, strategy has originated from different disciplines. Firstly was the Military influences in strategy: Military influences in strategy "Strategos" referred to a general in command of an army The art of the general By 450 B.C. it came to mean managerial skill By 330 B.C. it referred to the skill of employing forces to overcome positions to create a system of global governance Carl von Clausewitz "tactics…(involve) the use of armed forces in the engagement, strategy (is) the use of engagements for the object of war" 1838 On War. Secondly was the Academic influences in strategy: Academic influences in strategy 1911 Scientific management (Taylor) – Still in place today (UPS), some consider it micromanaging HBS requires a class in Business Policy in 1912 Adam Smith's "invisible hand" (the market) gives way to Alfred Sloan (GM CEO from 1923-1946) concept of the "visible hand"—middle manager Chester Bernard influential book "The Executive" argues that managers should pay attention to "strategic factors" Ronald Coase's 1937 article "why firms exist" (Nobel Prize in economics) and Joseph Schumpter's concept of "disruptive technologies" written in 1942 bring in organizational economics Max Weber warns against bureaucratic organizations but sees a shift toward this way of organizing. Third can be the Recent influences in strategy: Recent influences in strategy 1960s (Strategy and structure; Corporate Strategy) 1963 Harvard business conference leads to SWOT analysis BCG founded in 1963 "strategy boutique" Created the portfolio analysis Stars, dogs, cash cows, question marks 1980s (Porter's 5 forces) 1990s (Resource based view of the firm)

In a more elaborate form, the trategectory that strategy has taken can be discussed thus: It has increased both in its level of detail and in its importance as the complexity of the environment has increased. Between World War II and the early 1960s, *business policy,* following the so-called prostrate paradigm, addressed the problem of coordinating he operations of the various functional departments of the firm. Policies were established by top management to integrate activities that each department was to carry out. Thus policy served to standardize and specify behavior within functional departments. Strategy was usually viewed as an implicit concept reserved for the topmost managers. In the top manager's mind, this concept, reserved for the top, most managers. In the top manager's mind, this concept, environmental characteristics, certain organizational goals, and political circumstances, along with years of management

experience, all came together to reduce what was hoped would be the right collection of policies. Strategy was seldom analyzed once it was decided on by top management, and rarely changed. When operations did not meet expectations, it was policy that typically was analyzed and modified. Most firms were single-line businesses; business policy making was conducted in large part at what is known today as the business level.

The rapid rise during the 1950s and early 1960s in the number of interest groups making demands on organizations of all kinds, along with the proliferation of mergers and acquisitions, began to strain the applicability of the relatively simple business-policy approach to management. Divisional zed firms no longer had a single line of business. Thus a different set of policies was needed for each subsidiary and managers sought a common thread that might bind them together. The internal complexity of firms had increased in an attempt to deal with the complexity of a pluralistic society. Davis and Bloodstream describe social pluralism as a society "in which diverse groups maintain autonomous participation and influences in the social system." Business is merely one such influence (interest group) and competes with many other groups for time, money, interest, allegiance, or attention. Increasingly organization that were operated without an understanding of, or respect for, the various interest-group influence have been subjected to successful attacks by these groups. Electric utilities were forced by many interest groups to cease or radically change the nature of nuclear power plant construction projects. Through the pressure of consumer groups, automobile manufactures have been made to correct deficiencies in their products. Industrial polluters were required by environmental groups to clean up or stop harmful discharges. Product labeling requirements were tightened, Equal Employment Opportunity assurances became stricter and product safety standards were improved. These changes, and hundreds of others, were bought about largely by the political actions of interest groups. Their activities often resulted in enactment of legislation that today regulates the conduct of business.

In response to this growth in the dimensions of firms' environments, and also to the growth in the number of Divisional zed firms, strategy increasingly became interpreted as the link between an organization and its environment. All of the "policy" problems remained, but they were compounded by a baffling set of external claims, and also by the needs imposed by multiple product lines and business-level activities.

Because of its inability to deal with these factors, the business-policy model underwent several evolutionary changes and emerged as what was later called strategic planning. Dubbed the *initial strategy paradigm,* this view of corporate management focused heavily on the process

of strategy formulation with emphasis on environmental pressures, yet it had four major shortcomings. First it did not clearly differentiate between corporate-level strategy (question related to the collection of business activities a divisional zed company owned) and business level strategy (how to compete within a particular business activity).

Second, the initial strategy paradigm was unclear about the nature of relationships between strategy and the operation of the various functional areas of business. How does the task of marketing management, for example, change with different strategic focuses and how can the functional areas be integrated into an effective whole? Such questions largely went unanswered.

Third, this paradigm was incomplete in its discussion of the role of general management. Some authors contended that strategic planning was the province of only top managers, whereas others claimed that all mangers should be involved in strategic planning.

Finally, there was disagreement about whether strategy included both goals and action plans, or just action plans.

The *strategic management* paradigm, although still in its infancy, is the third step in the evolution of thought about strategy, and it addresses the shortcomings of strategic planning. As initially codified by Schedule and Hofer, strategic management is far from representing a consensus. Yet there is perceptible movement toward consolidation around many of its principles. In particular, there is now a widely accepted distinction between corporate-level business-level, and functional-level strategy. A fourth strategy level, enterprise strategy, has been proposed by An off, but the concept has not endured (enterprise strategy was defined as describing the interaction of a firm with its environment—it is now felt by many that this interaction is best incorporated in each of the other strategy levels and not reserved only for a separate category of strategy.) In some ways related to Ansoff's concept of enterprise strategy, a more global strategic orientation is described by Magazines and Reich; they call it international strategy. Here too, during the early 1990s the idea of isolating global issues and direction in a separate strategy level has given way to the practice of incorporating international competitive matters into all levels of strategic decision making.

The strategic management paradigm not only distinguishes among different levels of strategy but is sufficiently adaptable to accommodate the need for this expanded scope of strategic thinking.

Next, strategic management address the issue of functional integration by identifying various functional strategies. At the same time, responsibility for strategic thinking is viewed within this paradigm as the responsibility of manager's not just top-level executives. Although there is much work to be done in learning how best to integrate functional strategy with other strategy levels, the strategic management paradigm lays the groundwork for the conduct of such research.

Finally, by separating the steps of goal formulation and strategy (action plan) formulation, this paradigm is more objective, more teachable, and less mysterious than earlier interpretations. It may help to continue the increase in popularity of strategy-focused management and thus expand the competitiveness of U.S. business in the international marketplace.

DELIBERATE/PLANNED STRATEGY VS EMERGENT STRATEGY:

An deliberate strategy is one that arises from conscious, thoughtful, and organized action on the part of a business and its leadership. It's typically generated from a rigorous analysis of data, including metrics such as:

- *Market growth*
- *Segment size*
- *Customer needs*
- *Competitor strengths and weaknesses*
- *Technological trajectories*

A deliberate strategy is often employed by large businesses or corporations that are firmly established within their markets. History and stability provide them with enough data and experience to plot out a long-term strategy (sometimes called a five- or ten-year strategic plan) and confidence in their ability to project that far out into the future. While useful, deliberate strategy comes with challenges.

An emergent strategy is one that arises from unplanned actions and initiatives from within an organization. It's typically viewed as the product of spontaneous innovation, and often a direct result of the daily prioritization and investment decisions made by individual contributors, such as middle managers, engineers, financial staff, and salespeople.

Compared to a deliberate strategy, an emergent strategy is often more flexible. Though the organization still has goals that it's working toward, there's flexibility to adjust those goals and pursue other opportunities or priorities as they emerge. As such, many startups leverage an emergent strategy in their earliest stages.

TOPIC TWO

KEY CONCEPTS IN STRATEGIC MANAGEMENT

Topic Objectives

By the end of this topic, the learners must be able to describe;

- ✓ *The concepts of strategy,*
- ✓ *The concept of strategic intent,*
- ✓ *The concept of stretch,*
- ✓ *The concept of strategic thinking,*
- ✓ *The concept of strategic competition*
- ✓ *The principle of competitive exclusion*
- ✓ *The concept of competitive advantage.*

Like any profession, strategy has a unique set of terms that are shared by strategic management scholars across the globe. The following are just a few of the common terminologies that are often used.

Strategy

This refers to a course of action adopted to achieve the stated goals and objectives. It is a coherent set of decisions & actions that a company will take to increase its competitive advantage/ a means of competitively winning battles against your rivals (like military strategies).A unified, comprehensive and integrated plan for achieving the strategic direction, that relates the strategic advantages of a firm to the challenges in the environment

Strategy vs. Strategic Management:

Strategy entails series of goal-directed decisions and actions matching an organization's skills and resources with the opportunities and threats in its environment while Strategic management involves analyze current situation Develop appropriate strategies Put strategies into action Evaluate, modify, or change strategy. Also, Strategy involves Organization's goals Goal-oriented action Related decisions and actions Internal strengths External opportunities and threats Strategic management Planning Organizing Implementing Controlling

Strategic intent

This refers to a statement of the desired leadership position that an organization wishes to achieve/a goal that employees perceive as inherently worthwhile. It exceeds your current strategic focus (picture) and existing resources. Its a corporate ambition /obsession/ challenge to win at all levels. A company exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its competitive actions and energies on achieving that objective

Stretch

A strategic planning period adopted by an organization better to refer your stretch to the 'strategic window' of your chosen strategy (a period within which you chosen strategy will favorably work coz everything is changing)

Competitive advantage

It refers to any internal factor that enables a firm to have market superiority or leverage or an edge over its competitors on a sustainable basis. It must be Must be valuable, rare,& inimitable(originates from a firm's core competence).

Sources of competitive advantage

- Superior skills
- Superior resources
- Superior position
- Customer service
- Continuous innovation
- Superior technology
- Superior quality
- Government protected monopoly
- Patents and copyrights/accumulated brand equity

Strategic thinking

Long term thinking (about what the future should be like). Building scenarios of the future and plotting backwards to see how your present actions can influence the future. Involves seeing the big picture (picture painting) about the future. Can only be successful when you get commitment from top executives and those key organizational members who will implement the strategy for achieving your strategic direction.

Competitive exclusion

The argument that no two firms can co-exist if they continue to make their living in an identical way (may be achieved through competitive market targeting and market positioning).

A firm survives at the expense of another similar one.

“Policy” and “tactic”

“Policy” and “tactic” are other terms that have been defined in many different ways. We use policy to refer to standing directions, instructions that vary little with changes in strategy. Thus organization can have vacation policy, a policy on absenteeism, affirmative action policy, and so on. Policy tends to have fewer competitive implications than strategy when used in this way. However, in many curricula the management course is called business policy. A tactic is a short-term action taken by management to adjust to internal or external perturbations. They are formulated and implemented within a strategic effort, usually with the intention of keeping the organization on its strategic track.

Question:

Find out the Meanings of the following strategic management concepts

- *Strategic issues*
- *Strategic problem*
- *Management/operational problem*
- *Strategic fit*
- *Business portfolio*

TOPIC THREE

MANAGEMENT LEVELS, DECISIONS AND SKILL REQUIREMENTS

Topic Objectives

By the end of this topic, the learners must be able to describe;

- ✓ *The* Managerial levels at which strategy can be made
- ✓ Decisions carried out at each level and the skills required here are generally three levels at which strategy is crafted namely the corporate level, the Business Unit level and the Functional level. It is however not uncommon to find some sources of literature which also suggest that whatever decisions take place at the operational level also deserve some level of strategic recognition. For example, Thompson and Strickland propose four levels: corporate strategy, business strategy, functional area support strategy, and operating-level strategy. The strategic decisions made at lower levels must be coherent and thus supportive of those made at higher organizational levels. This creates what is well known as the strategy hierarchy.

In most (large) corporations there are several levels of management. Strategic management is the highest of these levels in the sense that it is the broadest - applying to all parts of the firm - while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are typically business-level competitive strategies and functional unit strategies.

Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "which businesses should we be in?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the corporation as a whole?"

Business strategy refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. Strategic business unit is a unit in the organisation which is sufficiently autonomous for it to have a strategy which could be distinct from other units if this was desirable. According to Michael Porter, a firm must formulate a business strategy that incorporates the cost leadership strategy, differentiation, or focus to achieve a sustainable competitive advantage and long-term success.

Functional strategy: In contrast with the other levels of strategy, functional strategies serve as guidelines for the employees of each of the firm's subdivisions. Which ones of these segments or functional areas are included in a firm's functional strategy set is itself a matter of strategy. For example, whether to have an R & D department or not in the first place is a strategic decision. Functional goals and action plans are developed for each of he functional parts of the firm to guide the behavior of people in a way that would put the other strategies into motion. If part of a firm's business-level strategy were a target of a 10 percent increase in sales to be brought about by market penetration, for example, marketing strategy might include a change in compensation policy for salespersons and a specified increase in the advertising budget. In that way marketing strategy would provide some detail about how the marketing aspects of the market penetration action plan would be implemented. Similarly, financial strategy would consist of a set of guidelines on how the financial elements of the firm would be put into effect. Personal strategy, production strategy, research and development strategy, and appropriate other functional strategy areas would do the same.

Functional strategies generally include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies. Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or SBUs. A strategic business unit is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters. A technology strategy, for example, although it is focused on technology as a means of achieving an organization's overall objective(s), may include dimensions that are beyond the scope of a single business unit, engineering organization or IT department.

Operational strategy: An additional level of strategy called operational strategy was encouraged by Peter Drucker in his theory of management by objectives (MBO). It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies. Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process. This notion of strategy has been captured under the rubric of dynamic strategy, popularized by Carpenter and Sanders's

textbook. This work builds on that of Brown and Eisenhart as well as Christensen and portrays firm strategy, both business and corporate, as necessarily embracing ongoing strategic change, and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets.

The General Managers need to possess the following Skills:

- More conceptual skills
- Organisational skills
- Analytical skills
- Design & planning skills
- Critical thinking skills
- Human relations & interpersonal skills
- General skills rather than specialized skills
- Less need for technical abilities

Business Level Roles and Skills required

This level houses Strategic business unit managers, corporate planners and Consultants

Their Roles include the following

- SBU executives may set strategies for their units / businesses
- Roles are generally similar to top level managers but for their units
- Create multiple strategies on a contingency basis

SBU Executive skills required include:

- Entrepreneurial skills
- Develop new ventures
- Detailed planning skills
- Expertise in strategic planning
- They share skill requirements with top level managers

Middle / Tactical/ Functional level Roles and Skills required

Their Roles include

- Receive from top – policies, goals
- Interpret for subordinates for action
- Policy implementers
- Take un-structured tactical decisions
- Structure them, guide lower levels for implementation
- Examples of tactical decisions
    - Customers (in general) to be given credit
    - Products / services for specific markets

Functional level Skills required include

More inter-personal skills such as

- Assertiveness
- Conflict management
- Facilitation and meeting
- Negotiation
- Motivation & influencing skills
- Mentoring / coaching
- Networking

Question:

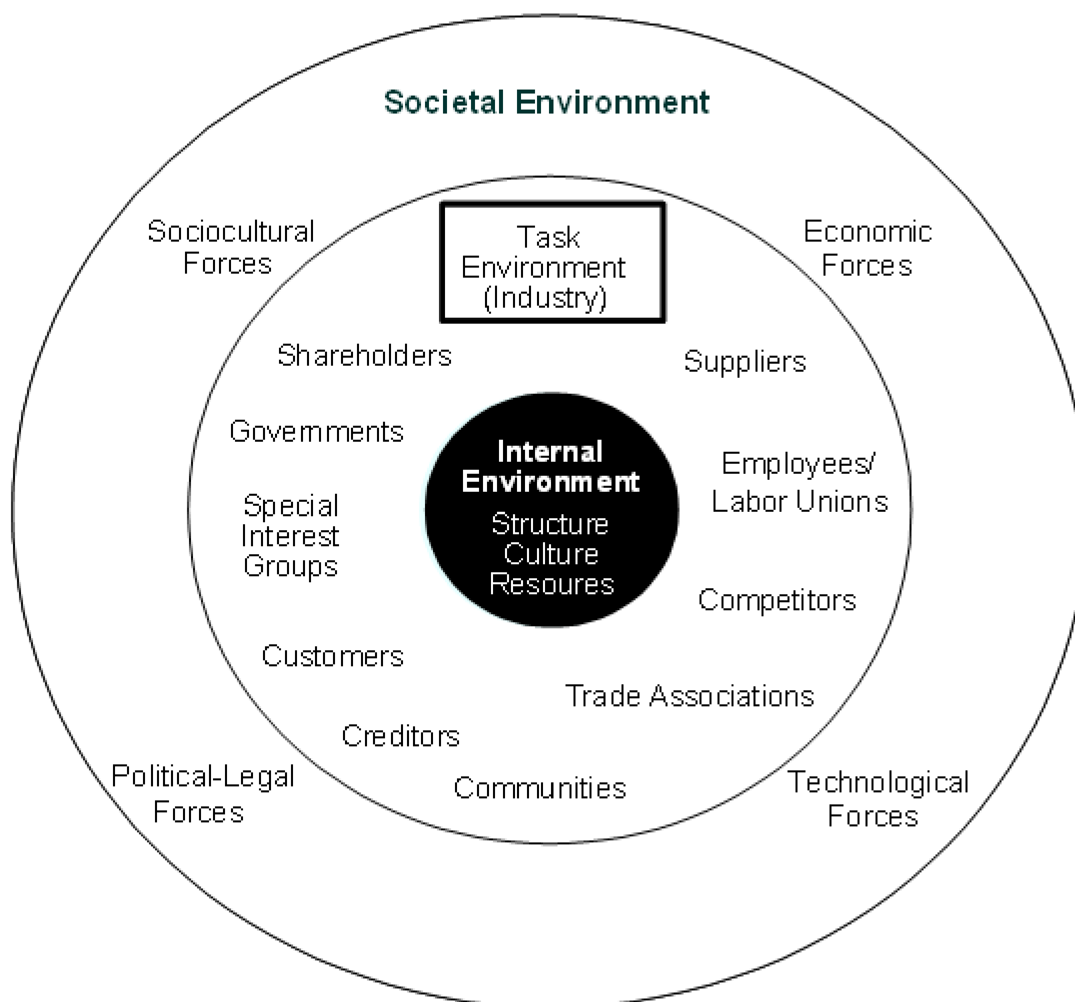
Discuss the management roles by Mintzberg in line with the roles and strategic decisions that ought to be taken at the corporate level by managers

TOPIC 3

ENVIRONMENTAL ANALYSIS

Where are we as a business?

A business enterprise does not operate in a vacuum. It operates in an environment and its success does not only depend on its competences but on how quickly and effectively it can respond to the changes in this environment.



Environmental analysis refers to the monitoring, evaluating and disseminating of information from the external environment with the objective of identifying threats and opportunities and assessing their impact given the company's internal strengths and weaknesses.

Why study the environment?

1. Environmental factors influence strategic choice - provides information on the nature of competition as a step to developing *sustainable competitive advantage*
2. Helps organizations to identify *opportunities* that might be explored and *threats* that need to be contained
3. Enhances the possibilities for strategic networks and other linkages which lead to sustainable co-operative linkages that may strengthen an organization in its environment.
4. Enables companies to measure their strength and weaknesses and how they could be used to manage the external environment.

MACRO/SOCIETAL / EXTERNAL ENVIRONMENT (PESTEL) ANALYSIS

A host of external factors influence a firm's choice of direction and action, and ultimately its organizational structure and internal processes. The macro environment includes general forces that do not directly touch on the short –run activities of the organization but that can and often does influence its long-run decisions. This environment presents firms with opportunities, threats, and constraints, but rarely does a single firm exert any meaningful reciprocal influence. Analyzing this environment requires one to examine PESTE factors; Political-legal, Economic, Social-cultural, Technological & Ecological factors.

Political/Legal factors

- Political stability
- Political ideology
- Legislation, e.g. on taxation and employment
- Relations between government and private business organizations

- Government attitude towards foreign companies
- Government regulation and deregulation
- Foreign policies
- Regulations on foreign ownership of assets
- Patent rights
- Environmental laws

Economic factors

- Total GDP and GDP per head(trends)
- Inflation rates
- Consumer expenditure and disposable income
- Interest rates
- Currency fluctuations and exchange rates
- Investment, by the state, private enterprise and foreign companies
- Unemployment levels
- Energy , transport, communications and raw material costs
- Economic system and structure-free enterprise or controlled

Socio- cultural factors

- Shifts in values and culture
- Language
- Change in lifestyle
- Attitudes to work and leisure
- Education and health
- Demographic changes
- Attitude towards foreigners
- Group behavior
- Aesthetics
- Religion

Technological factors

- New research initiatives
- New patents and products
- Cost of technology
- Speed of change and adoption of new technology
- Level of expenditure on R&D by organization's rivals
- Developments in nominally unrelated industries that might be applicable
- Rates of obsolescence
- Customers attitude towards technology

EXTERNAL/SOCIETAL/MACRO ENVIRONMENT

1. **Political-legal**

   The direction and stability of political factors are a major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which a firm operates. Political constraints are placed on firms through fair trade decisions, antitrust laws, tax programs, minimum wage legislation, pollution, environmental protection laws, special incentives, attitudes towards foreign companies, stability of Government etc.

   E.g. Piracy in China. Microsoft's performance in the Chinese market is greatly affected by lack of legal enforcement of piracy and also by the policies of the Chinese government. Likewise the government's actions in support of its competitor, Linux have limited Microsoft's ability to penetrate the Chinese Market.

2. **Economic factors**

   This concerns the nature and direction of the economy in which a firm operates. Consumption patterns are affected by the relative wealth /prosperity of various market segments; each firm must consider economic trends in the segments that affect its industry. On both the national & international level, managers must consider the general availability of credit, the level of disposable income, and the propensity of people to spend. Other important economic variables include GDP trends, interest rates, money supply, inflation rates, unemployment levels, wage /price controls, devaluation / revaluation, disposable & discretionary income.

3. **Social – Cultural**
   The social factors that affect a firm involve the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning. As social attitudes change, so too does the demand for various types of clothing, books, leisure activities etc. other variables include career expectations, growth rate of population, age distribution of population, Regional shifts in population, life expectancies, birth rates etc.

4. **Technological Factors**
   To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products, for improvements in existing products or in manufacturing and marketing techniques. Other important technological variables may include total industry spending, productivity improvements, through automation, telecommunication infrastructure.

INDUSTRY/TASK /OPERATING ENVIRONMENT

This includes those elements or groups in the immediate environment of a company that directly affect the corporation and in turn are affected by it. An industry is a group of firms producing products or services that are similar or are close substitutes to each other. According to Michael Porter the nature and the degree of competition in an industry hinge on five forces that drive competition in the industry; the threat of new entrants, the bargaining power of

buyers, the bargaining power of suppliers, the threat of substitute products or services, rivalry among existing firms

PORTERS FIVE FORCES

1. Threat of new entrants:

These are potential competitors that currently are not competing in the industry but which have the capability to do so if they choose. They are therefore a threat to established corporations. The threat to entry depends on the presence of entry barriers and the reaction that can be expected form existing competitors. An entry barrier is an obstruction that makes it difficult for a company to enter an industry.

Some of the possible barriers to entry include:

i) Brand Loyalty

This refers to the buyers' preference for the products of established companies. A company can create brand loyalty through continuous advertising of brand and company names, patent protection of products, and product innovation through research and development programs, high product quality or good after sale services. Brand loyalty makes it difficult for new entrants to enter the market and gain market share because they may find it costly to break down well established consumer preferences.

ii) Economies of scale

These are the cost advantages associated with large company size. Sources of scale economies include cost reductions gained through mass production of a standard output, discounts on bulk purchases economies, the spreading of fixed costs over a large volume and scale economies in advertising. If these cost advantages are significant then the new entrant faces the dilemma of either entering on a small scale and suffering significant cost disadvantages or taking a very large risk by entering on a large scale and bearing significant capital costs.

ii) Product differentiation

This focuses on the endeavor to continuously distinguish the firm and its offers from those of competitors. This may be in form of image building, high quality and distinctive products, superior support services, unique design and packaging, product reliability or convenient payment systems. Product differentiation creates a barrier to new entrants that may want to enter the market by offering substitute products since it caters for changes in customers' tastes and preferences.

iii) Capital requirements

The need to invest large financial resources in order to compete creates a barrier to entry, especially if the capital is required for unrecoverable expenditures in up-front advertising or R&D. For example the need to invest huge financial resources in manufacturing facilities in order to produce large commercial airplanes creates a significant barrier to entry to any competitor for Boeing and Airbus.

iv) Absolute cost advantages

Entrenched (well established) companies may have cost advantages not available to potential rivals, no matter what their size and attainable economies of scale. These advantages can stem from the effects of the learning and experience curves, assets purchased at pre-inflation prices, govt subsidies and favorable locations. Sometimes cost advantages are enforceable legally, as they are through patents.

v) Access to distribution channels

A new corporation has to secure distribution for its product or service. For example small entrepreneurs find difficulties accessing supermarket shelf space for their goods because large retailers give priority to the established firms who can pay for the advertising needed to generate high customer demand. The more limited the wholesale or retail channels are and the more the existing competitors have these channels tied up, obviously the tougher the entry into the industry will be.

vi) Government

Governments can limit entry into an industry through licensing requirements by restricting access to raw materials such as oil drilling sites in protected areas or timber in Uganda.

2. Rivalry among existing firms

Corporations in an industry may take any of the following tactics like price competition, product introduction and advertising slugfests (slow wittingly). Where corporations in an industry are mutually dependent, a competitive move by one firm can be expected to have a noticeable effect on its competitors & thus may cause retaliation or counter efforts e.g. celtel, mango, MTN. The extent of rivalry among established companies with in an industry is largely a function of three factors; industry competitive structure, demand conditions and the height of exit barriers in the industry;

i) Industry competitive structure

Competitive structure refers to the number; size and distribution of companies in an industry. There are two major industry competitive structures; consolidated industry structure and fragmented industry structure.

A fragmented industry structure is one that contains a large number of small companies none of which is in a position to dominate the industry. Fragmented industries are characterized by low entry barriers and commodity type products that are hard to differentiate. The combination of these traits tends to result into boom and bust cycles forcing companies to use price cuts as a means competition. Examples of fragmented include real estate brokerage, health clubs, agricultural produce etc.

A consolidated industry structure refers to a situation where there are relatively few companies in the industry characterized by high entry barriers. Since companies are few and big they can avoid the threat of price wars by following the price set by a dominant company in the industry and compete on non price factors such as product quality and design features. Consolidated competitive structures are common in industries like aerospace, automobiles and pharmaceuticals. Although competition exists even in consolidated structures the intensity of rivalry is not as intense as in fragmented industries.

ii) Rate of industry growth

When industry growth is slow it precipitates fights for market share that involve expansion minded members. On the other hand growing demand tends to moderate competition since existing companies can expand market share in an industry without a marked increase in competitive pressure.

iii) Height of exit Barriers

Exit barriers are economic, strategic and emotional factors that keep a company in an industry even when the returns are low. If exit barriers are low companies can become locked into an unfavorable industry resulting into excess productive capacity. In an attempt to obtain orders needed to utilize their idle capacity companies cut prices which leads to intensified price competition. ***Common exit barriers include;***

- Investments in plant and equipment that have no alternative uses and can not be sold off
- High fixed costs of exit such as severance pay to workers in case they are laid off
- Strategic relationships between business units – a low return business unit may provide vital inputs for a higher return business based in another industry.

***3*. Bargaining power of buyers**

Buyers affect an industry through their ability to force down prices, bargaining for higher quality or more services and play competitors against each other. A buyer or a group of buyers is powerful if some of the following factors hold true.

i) A buyer purchases a large proportion of the seller's service e.g. oil filters bought by a major automaker.

ii) Alternative suppliers are plentiful because the product is standardized or undifferentiated e.g. motorists can choose among many gas stations.

iii) When buyers can switch orders between suppliers at low costs e.g. office supplies are easy to find.

iv) The purchased product is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely for example, electric wire bought for use in lamps.

v) When buyers can use the threat to supply their own needs through back ward integration.

4. Bargaining Powerful suppliers

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods & services. A supplier or supplier group is powerful if some of the following factors apply.

- A few companies dominate the supplier industry, but it sells to many for example, the petroleum industry.
- Its product or service is unique and it has built up switching costs.
- Substitutes are not readily available e.g. electricity
- Suppliers are able to integrate forward and compete directly with their present customers (e.g. a microprocessor producer like Intel can make PCs)

- A purchasing industry buys only a small portion of the supplier group's goods and services and is thus unimportant to the supplier. For example sales of lawn mower tires are less important to the tire industry than are sales of auto tires.

5. Threat of substitute products

Substitutes are products or services that satisfy the same basic consumer needs. The existence of close substitutes presents a strong competitive threat limiting the price a company can charge and thus its profitability. The threat of substitutes is determined by the following;

a) The relative price of substitutes
b) Quality of substitutes in terms of performance, assurance, durability etc
c) Switching costs

6. Relative Power of other stakeholders

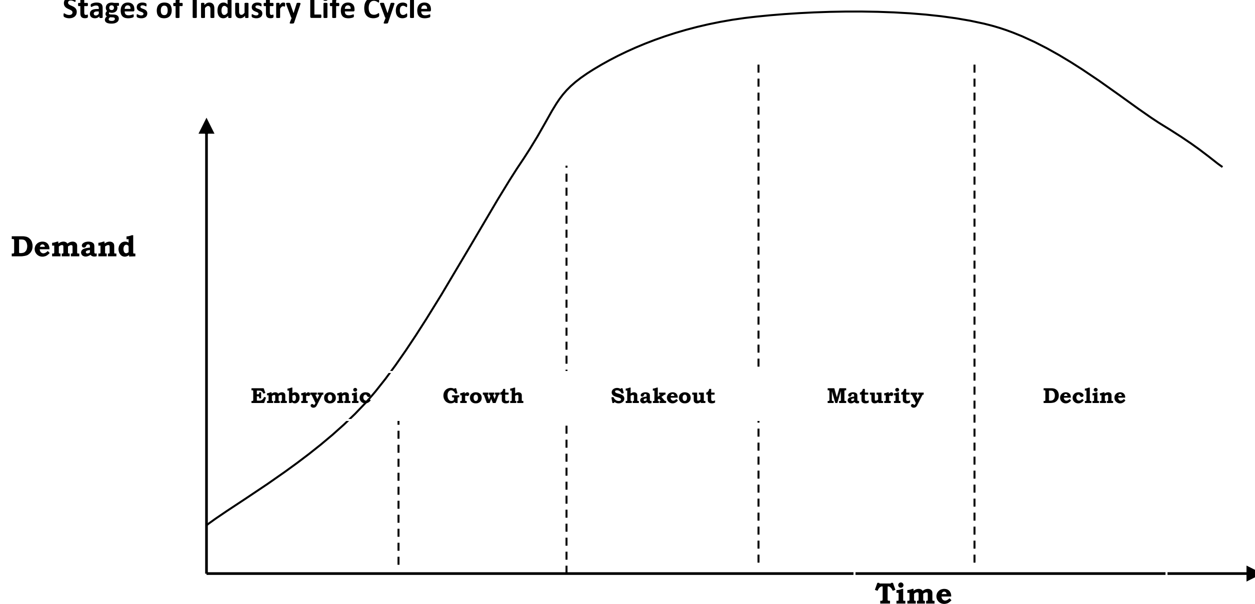
Stake holders are individuals or groups that have claim on the company. They are divided into internal and external claimants. Internal claimants include stockholders, executive officers, board members & employees. External claimants are all other individuals or groups affected by the company's actions. Some of these groups include governments, local communities, creditors, trade associations, & complementors (a company or industry whose product works well with another industry's or firm). Each of these groups has demands and expectations from the company. Stockholders provide the enterprise with capital and in exchange expect an appropriate return on their investment. Employees provide labor and skills and in exchange expect commensurate income and job satisfaction. Customers want value for money. Suppliers seek dependable buyers. Governments insist on adherence to legislative regulations. Unions demand benefits for their members in proportion to their contributions to the company. Rivals seek fair competition. Local communities want companies that are responsible citizens. The general public seeks some assurance that the quality of life will be improved as a result of the

company's existence. All these stakeholders can justifiably expect that the company will attempt to satisfy their particular demands.

INDUSTRY EVOLUTION

Most industries pass through a series of well defined from growth through maturity and eventually into decline. This industry evolution is what is referred to as industry life cycle. Each stage of industry lifecycle is accompanied by a particular industry environment presenting different opportunities and threats.

Stages of Industry Life Cycle



Embryonic industry environment

- First stage of the industry life cycle
- Growth is slow because buyers are unfamiliar with the industry's product
- High prices due to inability of companies to reap any significant economies of scale
- Poorly developed distribution channels
- Barriers to entry tend to be based on access to key technological know-how rather than cost economies or brand loyalty
- Rivalry is based not so much on price but upon educating customers, opening up distribution channels and perfecting the design of the product
- The company that solves the design problem first gets an opportunity to develop a significant market position.

- The companies can generate a lot of capital internally and thus its success depends on its ability to demonstrate a unique competence to attract outside investors or venture capitalists

Growth stage

- The demand for industry product begins to take off
- Demand is expanding rapidly as many new consumers enter the market
- Technological knowledge ceases to be a barrier to entry
- Barriers to entry tend to be low since few companies have achieved significant scale economies or differentiated their product sufficiently to guarantee brand loyalty
- Many firms are attracted to enter the industry though paradoxically high growth levels means that new entrants can be absorbed in an industry without a marked increase in competitive pressure.
- Here strategically aware companies prepare themselves for intense competition a head in the industry shakeout

Industry shakeout

- Companies are awakened by the reality that the explosive growth can not be maintained indefinitely
- Demand approaches saturation levels, growth rate slows and the industry enters into a shake out.
- Rivalry becomes intense and demand is limited to replacement demand
- Companies produce under excess productive capacity and resort to price cuts as a method of competition
- This drives many of the inefficient companies into bankruptcy
- Efficient companies that have brand loyalty and low cost operations survive and stabilize because the industry becomes less attractive for new entrants.

Mature industries

- The market is totally saturated.
- Growth is very low or zero – whatever little growth there is comes from population expansion.
- Barriers to entry increase – companies have built brand royalty
- Companies consolidate and become oligopolies
- Companies tend to recognize their interdependence and the stable demand gives them the opportunity to enter into price leadership agreements
- However a general slump in the economic activity can depress industry demand leading to further price wars
- As companies fight to maintain their revenues in the face of declining demand, price leadership agreements break down, rivalry increases prices and profits fall and the industry enters into a decline

Declining industries

- Eventually most industries enter decline stage
- Growth becomes negative for a variety of reasons; technological substitution, social &demographic changes, international competition
- Depending on the speed of decline and height of exit barriers competitive pressures can become as fierce as in the shake out stage
- Falling demand leads to excess capacity which results into price wars pushing companies further down the drain.

Criticisms of the industry life cycle

- It is difficult to determine the duration of *some life cycles* and to identify the precise stage an industry has reached
- Some industries miss stages or cannot be clearly identified in their stages, particularly as a result of technological change
- Companies themselves can instigate change in their products and can as a result alter the shape of the curve
- At each stage of evolution, the nature of competition may be different: some industries have few competitors and some have many regardless of where they are in the cycle. This may be a far more important factor in determining the strategy to be pursued.

BUSINESS LEVEL STRATEGIES AT EACH STAGE OF INDUSTRY LIFE CYCLE

Stage of industry life cycle	Strong competitive position	Weak competitive position
Embryonic	Share building	Share building
Growth	growth	Market concentration
Shakeout	Share increasing	Market concentration/liquidation
Maturity	Hold & maintain/profit	Harvest or liquidation/divestiture
Decline	Market concentration, harvest or asset reduction	Turnaround, liquidation, or divestiture

Key factors for success- KFS

- Are those resources, skills and attributes of the organization in the industry that are *essential* to deliver success in the market place
- Success often means profitability, but may take on broader social values in the public institutions
- KFS are common to all the major organizations in the industry and do not differentiate one company from another
- When undertaking a strategic analysis of the environment, the identification of the KFS for an industry may provide a useful starting point

ANALYZING THE CO-OPERATIVE ENVIRONMENT

As well as competing with rivals, most organizations also co-operate with others:

- It may help in the achievement of sustainable competitive advantage;
- It may produce lower costs;
- It may deliver more sustainable relationships with those outside the organization

The co-operative linkages between the organization and its environment can usefully be explored under four headings:

1. Informal co-operative links and networks
2. Formal co-operative links
3. Complementors
4. Government links and networks.

The objective of this analysis is to establish the strength and nature of the co-operation that exists between the organization and its environment.

Informal co-operative links and networks (Opportunities and threats)

- Informal co-operative links and networks are the occasions when organizations link together for a mutual or common purpose *without* a legally binding contractual relationship
- By their nature, they may occur by accident as well as by design.
- They may include many forms of contact ranging from formal industry bodies that represent industry matters with other interested parties. i.e. UMA- to informal contacts that take place when like-minded individuals from a variety of industries meet at a social function
- The analysis will need to assess the opportunities that such links and networks present. Occasionally, there may be also threats from arrangements.

Formal co-operative linkages (Opportunities and threats)

- Formal co-operative linkages can take many business forms but are usually bound together by some form of legal contract
- They differ from the networks mentioned earlier in the higher degree of formality and permanence of the link with the organization
- Links are shown in alliances, joint ventures, joint shareholdings and many other deals that exist to provide competitive advantage and mutual support over many years.
- The strengths and weaknesses of such linkages should be measured in terms of their depth, longevity and degree of mutual trust

Complementors (Opportunities and threats)

- Complementors are those companies whose products add more value to the products of the base organization than they would derive from their own products by themselves. e.g computer hardware companies are complemented by software that goes with them.

- In strategic terms, there may be real benefits from developing new complementor opportunities that enhance both parties and contribute further to the links that exist between them.

Government links and networks (Opportunities and threats)

- Government links and networks concern the relationships that many organizations have with a country's national parliament, regional assemblies and the associated government administrators. e.g. **AGOA**
- Government links and networks can be vital in tax and legal matters, such as the interpretation of competition law
- Governments can also be important customers of organizations
- Outside organizations should therefore consider the opportunities and threats posed by government activities. These may form a significant part of their corporate strategic development, especially at very senior levels within the organization

ANALYZING THE IMMEDIATE COMPETITORS (COMPETITOR PROFILING)

Competitor profiling is an essential first step in analyzing immediate competitors. It seeks to identify the strategic resources of rivals

More generally, it will explore the objectives, resources, past performance, current products and services, and present strategies of at least one competitor. Competitor profiling should be regarded as an ongoing task

Aspects of competitor's organization that need to be explored:

- Objectives, goals and aspirations – seeking sales growth, market share growth or profit growth
- Resources - financial, physical, human, technological and organizational resources of the company
- Past record of performance
- Current products and services – you need to analyze customers, quality, performance, after-sales service, promotional material etc
- Links with other organizations – joint members, alliances and other forms of co-operation may deliver significant competitive advantage

- Present strategies – attitudes to innovation, leading customers, finance and investment, human resources management, market share, cost reduction, product range, pricing and branding all deserve investigation
- What has competitor done in the past one year to change the playing field?
- What is their strategic intent?
- Has anyone introduced game-changing products, new technologies or a new distribution channel?
- Are there any new entrants and what have they been up to in the past year? (stealing key sales people, introduced new products, mergers)

ANALYZING THE CUSTOMER AND MARKET SEGMENTATION

Why customer analysis?

- Loyal customers are more profitable – less sensitive to price increases and may even encourage new customers
- Attracting new customers costs organizations more than retaining loyal customers

There are 3 useful dimensions to the analysis of the customer:

- Identification of the customer and the market
- Market segmentation and its strategic implications
- Customer responsiveness

Identifying customers and the market:

- Who are our customers; both current and potential customers?
- What do they buy?
- Why do they buy?
- When do they buy?
- Where do they buy?
- How do they buy?

Importance of market segmentation for Strategy:

- Some segments may be more profitable and attractive than others
- Some segments may have more competition than others
- Some segments may be growing faster and offer more development opportunities than others

Qualities of a good market segment

- Distinguishable
- Must have a sustainable potential to justify the commitment of resources
- Must have the ability to purchase
- Must be reachable
- Big enough to guarantee reasonable returns

Bases for market segmentation

- Geographic location
- Demographic(sex, age, education etc)
- Socio-economic
- Benefits thought
- Life style**.**

Customer responsiveness:

- Ability of the company to attract, satisfy and sustain customers for a long period of time.
- The company must ensure that customers get exactly what they want, when they want it and where they want it. To be able to achieve this means that;
    - Customers' needs are clearly identified and sufficiently satisfied
    - Goods and services are customized to the unique demands of individual customers
    - Customer response time is minimized as much as possible
    - There is superior product design, superior service and superior after sale service and support

TOPIC 5

INTERNAL ANALYSIS

Managers perform internal analysis to identify strength to build on and weaknesses to overcome as they formulate strategies to gain competitive advantage. Analysts must look with in the organization itself to identify internal strategic factors that are likely to assist the firm to take advantage of opportunities while avoiding threats. Research and experience have shown that a firm's overall strength and weaknesses and its ability to execute may be even more important to its performance than other environmental factors.

Internal analysis involves auditing the following;

- Resources, capabilities and competencies
- Competitive advantage
- Value chain analysis
- Gap analysis
- Portfolio analysis

Resources, capabilities and competencies

Resources refer to the financial, physical, human, technological and organizational resources of the company. A resource is an asset, competency, processes, skill or knowledge controlled by a corporation. A resource is strength if it gives a company a competitive advantage but it can also be a weakness if it is inferior to those of the competitors. The resource based view shows firms as collections of tangible and intangible assets combined with capabilities to use those assets to develop competencies to achieve competitive advantage. The underlying premise is that firms differ in fundamental ways because each firm possesses a unique bundle of resources, each

firm develop competencies from these resources and when developed especially well, these become the source of the firm's competitive advantages.

The 3 basic categories of resources

1. Tangible assets

These are easy to identify and are often found on a firm's balance sheet. They include production facilities, raw materials, financial resources, real estate, and computers. Tangible assets are the physical and financial means a company uses to provide value to its customers.

2. Intangible Assets

These are things like brand names, company reputation, organizational morale, technical knowledge, patents, and trademarks technological or marketing know how and other accumulated experiences within an organization. While they are not assets that we can see or touch they are very often critical in creating competitive advantages.

3. Organizational capabilities

Capabilities refer to a company's skills at co-coordinating its resources and putting them into productive use. They are skills, the ability and ways of combining assets, people and processes that a company uses to transform inputs into outputs. Developed capabilities can be a source of sustained competitive advantage. They enable a firm to take the same input factors as rivals and convert them into products and services, either with greater efficiency in the process or greater quality in the output or both.

Four questions to evaluate a firms key resources

- **Value:** Does the resource provide a competitive advantage?
- **Rareness:** Do other competitors posses it?
- **Inimitability:** Is it costly for others to imitate?
- **Organization:** Is the firm organized to exploit the resource?

CLASSIFYING RESOURCES

1. **Financial resources-Cash reserves:** Short term financial assets, Borrowing capacity, Cash flow patterns
2. **Physical Resources-Plant equipment:** (scale, location, vintage/age (period), technology, flexibility)
3. **Human Resources:** The experience and skills of different categories of employee, adaptability of employees, loyalty of employees, Skills and experience of top management.
4. **Technology:** Proprietary technology in the form of patents, copyrights, and trade secrets, Technology resources in the form of R&D facilities.
5. **Reputation**: Product brands, Trademarks, Company reputation
6. **Relationship:** With customers, suppliers, distributors and government authorities.

Elements of resource based sustainable competitive advantage. What makes a resource valuable?

1. Competitive superiority; does the resource help fulfill a customer's need better than those of the firm's competitors?

For example 2 restaurants offer similar food at similar prices but one has a location much more convenient to down town offices than the other. The tangible asset, location helps fulfill daytime worker's lunch eating needs better than its competitor resulting in greater profitability and sales volume for the conveniently located restaurant. It is important to recognize that resources that contribute to competitive superiority are valuable. In the above example resources such restaurants menu were essential to doing business but contributed little to competitive advantage because they did not distinguish how the firm fulfilled the customer needs.

2. Resource Scarcity

Is the resource in short supply? When it is in short supply it is more valuable. When a firm possesses a resource and few if any others do, then it becomes a distinctive competence for the firm. The real way resource scarcity contributes value is when it can be sustained over time.

3. Inimitability

Is the resource easily copied or acquired? A resource that competitors can easily copy can only generate temporary value. It cannot generate a long-term competitive advantage. Inimitability doesn't last forever. Competitors will match or better any resource as soon as they can. The firm's ability to forestall this eventuality is very important; the RBV identifies four characteristics, called isolating mechanisms that make resources difficult to imitate.

a) **Physically unique resources;** these are virtually impossible to imitate. For example real estate location, mineral rights, and patents cannot be imitated.
b) **Path dependent resources;** are very difficult to imitate because of the difficult path another firm must follow to create the resource. These are resources that cannot instantaneously acquire but rather must be created over time in a manner that is frequently very expensive and always difficult to accelerate.
c) **Causal ambiguity;** this refers to situations where it is difficult for competitors to understand exactly how a firm has created the advantage it enjoys. Competitors can't figure out exactly what the uniquely valuable resource is or how resources are combined to create the competitive advantage. Causally ambiguous resources are often organizational capabilities that arise from subtle (not straight forwardly displayed) combinations of tangible and intangible assets and culture processes and organizational attributes the firm possesses.
d) **Economic deterrence;** this usually involves large capital investments in capacity to provide products or services in a given market that are scale sensitive. It occurs when a competitor understands the resource that provides a competitive advantage and may even have the capacity to imitate but chooses not to because of the limited market size that realistically would not support two players the size of the first mover.

4. Appropriability; ***who actually gets the profit created by a resource?*** Sports teams, investment services and consulting businesses are examples of companies that generate sizeable profits based on resources (key people, skills, contacts) that are not entangled /linked to the company and therefore do not allow the company to easily capture the profits. Super star sports players can move from one team to another or command excessively high salaries and this circumstance could arise in other personal services business situations.

5. Durability; ***how rapidly will the resource depreciate?*** The slower the resource depreciates the more valuable it is. Tangible assets like commodities or capital can have their depletion measured. Intangible resources like Brand names or organizational capabilities present a much more difficult depreciation challenge e.g. coca-cola brand has continued to appreciate whereas technical know-how in various computer technologies depreciates rapidly.

6. Substitutability; Are other alternatives available? If the firm can easily switch its resources to the production of the required good that meets the customers need without involving extra costs; this makes the resource more valuable.

CAPABILITIES

Capabilities refer to a company's skills at co-coordinating its resources and putting them to productive use. These skills reside in an organization's routines, that is, the way company makes decisions and managing internal processes in order to achieve organizational objectives

The common framework used to identify and classifying a company's capability is by looking at its different functions.

In the same way that businesses are organized along functional lines, organizational capabilities can be described and classified by functional areas.

Functional capabilities

Corporate

- Strategic control
- Multinational management
- Acquisitions management

Marketing

- International brand management
- Building customer trust
- Market research and segment-targeted
- Marketing

Human Resource management

- Building employee loyalty and trust
- Management development

Design

- New product design capability

R& D

- Research capability
- New product development capability

Operations

- Efficiency in volume manufacturing
- Manufacturing flexibility
- Quality manufacturing.

Management information systems

- Timely and comprehensive communication of information.

Sales and distribution.

- Efficiency and speed of distribution
- Order processing efficiency

COMPETENCIES

Refers to the ability to perform.

(Tangible Assets + intangible assets) * Capabilities = competencies. Assets combined with capabilities produce competencies that can yield competitive advantages.

Core competence (distinctive competencies)

Refers to the critical bundle of skills that an organization can draw onto distinguish itself from competitors, these skills/competencies /capabilities are normally superior to those of competitors. It is something that a corporation can do exceedingly well. It is a key strength.

Qualities of effective core competencies

Effective competencies are;

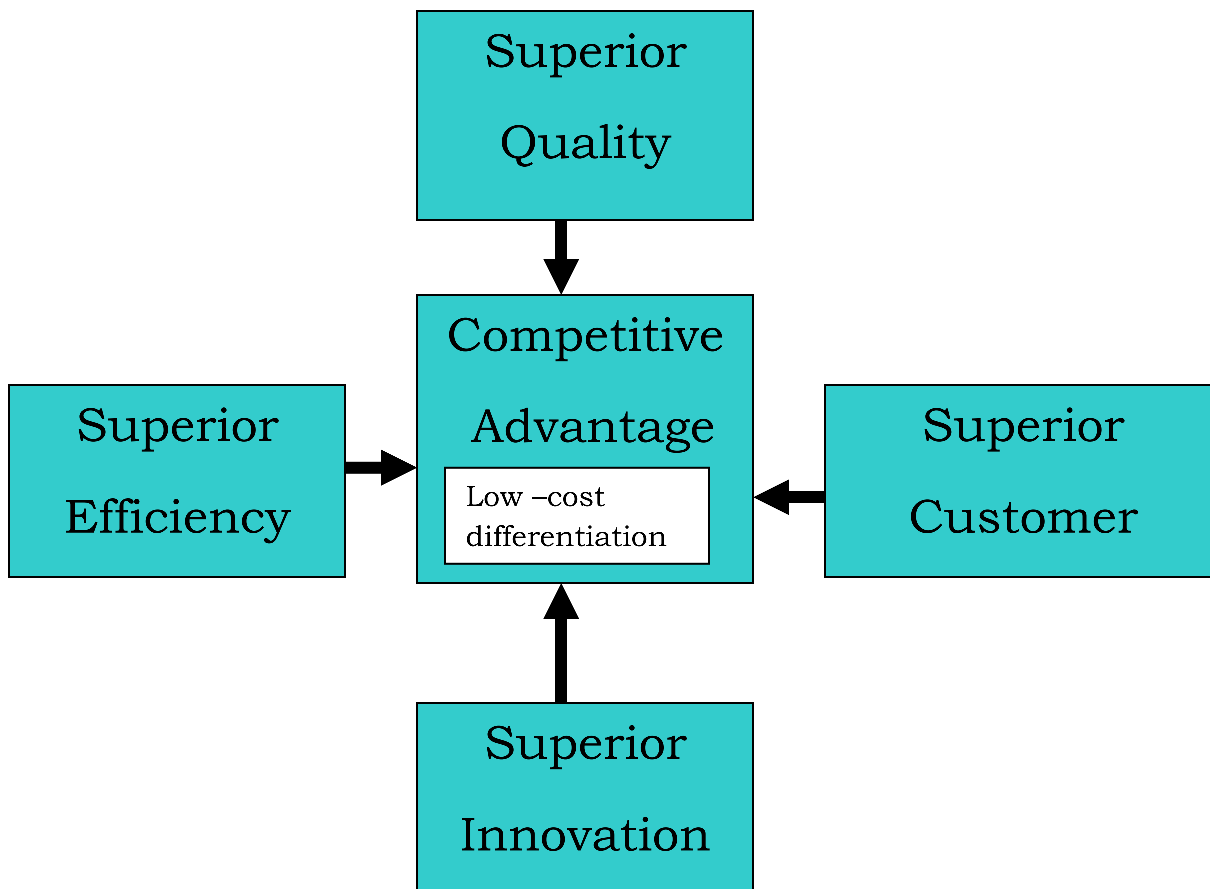
- *Skill or knowledge sets,* not products or functions. Executives need to look beyond the company's products to the intellectual skills or management systems that actually create a maintainable competitive edge
- *Flexible, long-term platforms*- capable of adoption or evolution. The real challenge is to consciously build dominating skills in areas that the customer will continue to value over time
- *Limited in number.* Most companies target two or three activities in the value chain most critical to future success
- *Unique sources of leverage in the value chain.* Effective competencies seek out places where there market imperfections or knowledge gaps that the company is uniquely qualified to fill and where investments in intellectual resources can be highly leveraged
- *Areas where the company can dominate.* Companies consistently make more money than their competitors only if they can perform some activities-which are important to customers – more efficiently than any one else.
- *Elements important to customers in the long run* – a company should identify where it can specialize and provide an activity at lower cost or more effectively to the customer
- *Embedded in the organizations systems*. Maintainable competencies cannot depend on one or two talented stars whose departure could destroy a company's success. Instead the firm must convert these competencies into a corporate reputation or culture that outlives the stars.

COMPETITIVE ADVANTAGE

- Why some companies do better than others in the same industry?
- What is the basis of competitive advantage?

Competitive advantage refers to that internal factor that enables a business firm to have market superiority or leverage over its competitors on a sustainable basis. It entails having an edge over competitors and achieving above average profitability that will maintain that position

There are four main dimensions/sources of competitive advantage



Examples of Competitive Advantage

- *Access to natural resources that are restricted from competitors*
- *Highly skilled labor*
- *A unique geographic location*
- *Access to new or proprietary technology*
- *Ability to manufacture products at the lowest cost*
- *Brand image recognition*

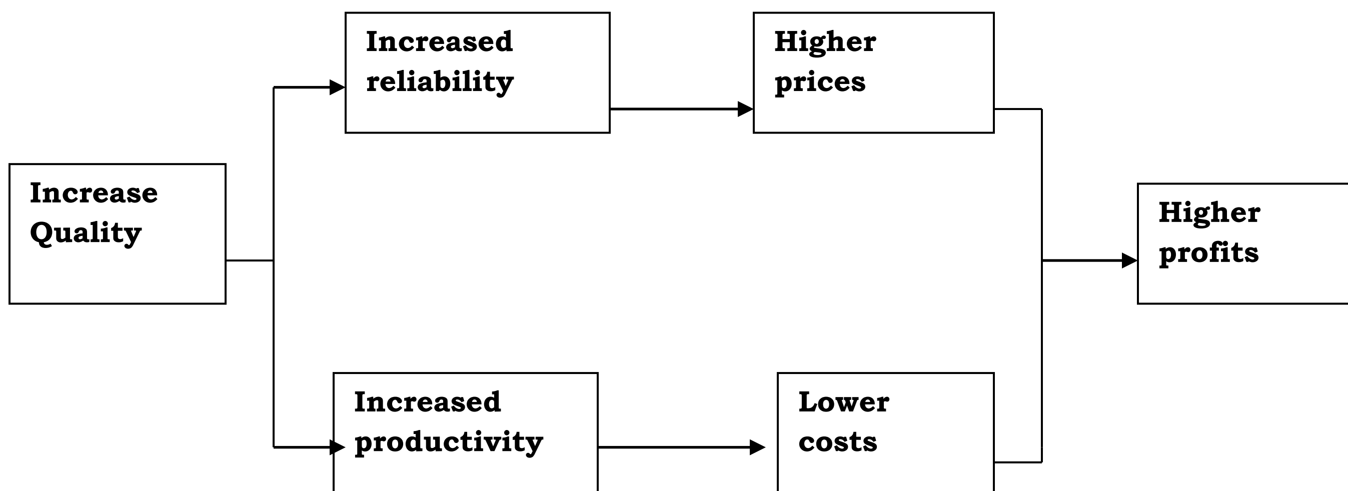
QUALITY

Quality products are goods and services that are reliable in the sense that they do the job they were designed for and do it well. Quality looks at issues like performance, features, reliability, conformance, durability, serviceability, aesthetics and the products' overall reputation.

The impact of high product quality on competitive advantage is two fold:

- High quality products create a brand name reputation for the company's products which allows the company to charge high prices.
- High quality standards result into improved productivity. Higher product quality means that less employee time is wasted making defective products or providing substandard services and less time is spent fixing mistakes.

The impact of quality on profits



EFFICIENCY

A company is a device for transforming inputs into out puts. Inputs are basic factors of production such as labor, land, capital, management, technological know-how and so on. Outputs are the goods and services that a company produces.

Efficiency is measured by the cost of inputs required to produce a given out put. The efficient the company, the lower is the cost of inputs required to produce a given output. The most important component of efficiency for most companies is employee productivity, which is usually measured by output per employee. e.g. Japanese automobile companies enjoy a cost-based competitive advantage that comes from their higher employee productivity.

INNOVATION

Innovation as anything new about the way a company operates or the products it produces. Innovation is perhaps the single most important building block of competitive advantage and may take different forms; advances in the different kinds of products, production processes, management systems, organizational structures and strategies developed by the company. A

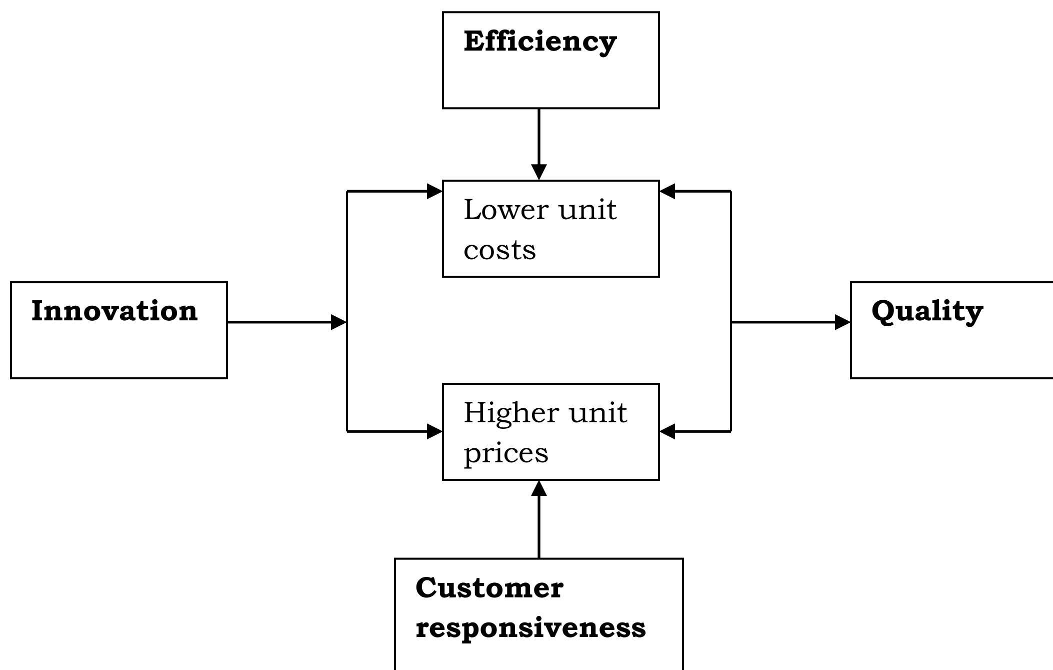
successful innovation gives a company something unique-that competitors lack. This uniqueness may allow a company to differentiate itself from its rivals and charge a premium price for its products. Alternatively it may allow a company to reduce its unit costs far below those of competitors.

CUSTOMER RESPONSIVENESS

This refers to the ability of the company to attract satisfy and sustain customers for a long period of time. To be able to achieve this company must ensure that customers get exactly what they want, when they want it and where they want it. This involves making sure that:

- Customers needs are clearly identified and sufficiently satisfied
- Goods and services are customized to the unique demands of individual customers
- Customer response time is minimized as much as possible
- There is superior product design, superior service and superior after sale service and support.

The impact of efficiency, quality, customer responsiveness and innovation on unit costs and prices:

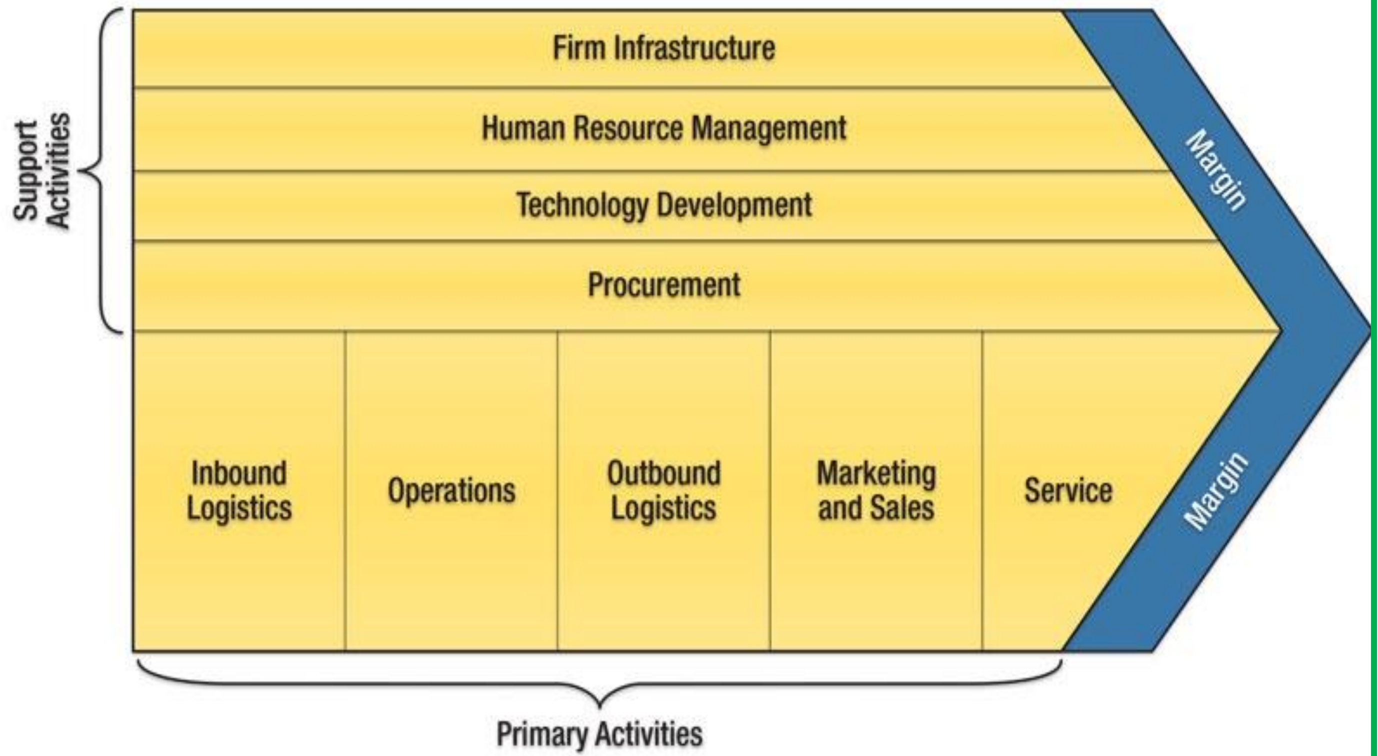


VALUE CHAIN ANALYSIS

The term value chain describes a way of looking at a business as a chain of activities that transform inputs into outputs that customers value. The value a company creates is measured by the amount that buyers are willing to pay for the product or service. A company is profitable if the value it creates exceeds the cost of performing value creation functions such as procurement, manufacturing and marketing. Customer value is derived from 3 basic sources, i.e. activities that differentiate the product, activities that lower its cost and activities that meet customers' need quickly. To be able to gain a competitive advantage a company must either perform value creation functions at lower cost than its rivals or perform them in away that leads to differentiation to be able to charge a premium price.

PORTER'S GENERIC VALUE CHAIN MODEL.

The value creation process can be illustrated using Porter's generic value chain model. The model is divided between primary and support activities and each activity adds value to the product. Value activities are physically and technologically distinct activities that a firm performs.


Support Activities
Firm Infrastructure
Human Resource Management
Technology Development
Procurement
Margin
Inbound Logistics
Operations
Outbound Logistics
Marketing and Sales
Service
Margin
Primary Activities

PORTER'S GENERIC VALUE CHAIN MODEL.

Primary activities

Primary activities are concerned with the physical creation of the product, its marketing and delivery to buyers and its support and after sale services. Primary activities are classified into five generic forms

Inbound Logistics

These are all processes that are involved in the receiving, storing, and internal distribution of the raw materials or basic ingredients of a product or service. The relationship with the suppliers is essential to the creation of value in this matter.

Production

These are all the activities (for example production floor or production line) that convert inputs of products or services into semi-finished or finished products. Operational systems are the guiding principle for the creation of value.

Outbound logistics

These are all activities that are related to delivering the products and services to the customer. These include, for instance, storage, distribution (systems) and transport.

Marketing and Sales

These are all processes related to putting the products and services in the markets including managing and generating customer relationships. The guiding principles are setting oneself apart from the competition and creating advantages for the customer.

Service

This includes all activities that maintain the value of the products or service to customers as soon as a relationship has developed based on the procurement of services and products.

Support activities

These are the functional activities that supplement and allow the primary activities to work smoothly. Support activities include;

i. **Materials management function** – controls the transmission of physical materials through the value chain
ii. **Research and Development function** – develops new product and process technologies which results into lower production costs and creation of more attractive products that demand a premium price
iii. **Human resource function** – ensures that the company has the right mix of skilled people to perform its value creation activities effectively
iv. **Company infrastructure** – this includes the company's organizational structure, control systems and culture

PORTFOLIO ANALYSIS

This refers to the techniques used to analyze big companies with multiple product lines or business units and how these various products and business units can be managed to boost the overall corporate performance. Portfolio analysis helps top managers to make decisions like what strategic business units to expand, ***maintain or retrench with a specific focus on the following:***

- How much time and money should be spent on best products and businesses to ensure that they continue to be successful.
- It looks at product lines/ business units as a series of investments from which the top management expects a profitable return.
- It looks at long term performance objectives; market share, profitability, sales growth and competitive strength.

During the 1960s and 1970s a number of management consulting companies developed a series of conceptual techniques whose stated purpose was to help the top officers of diversified corporations better manage their portfolio of businesses. These techniques were actively peddled by management consultants and eagerly applied at a number of diversified companies. The most popular ones include the Boston Consulting Group Business (Growth- Share) Matrix, the General Electric Business Screen (strength-attractiveness Matrix) and Life-cycle Matrix.

THE BOSTON CONSULTING GROUP GROWTH-SHARE MATRIX

This is also known as business matrix and is one of the most popular techniques used in portfolio analysis. The main objective of this technique is to help senior managers identify the cash flow requirements of different businesses in their portfolio. The BCG approach involves 3 steps;

- Dividing the Company into strategic business units and assessing the long-term prospects of each.
- Comparing SBUs against each other by means of a matrix that indicates the relative prospects of each.
- Developing strategic objectives with respect to each SBU

Defining and Evaluating Strategic Business Units

According to the BCG model a Company must create a SBU for each economically distinct business area that it competes in. When top managers identify SBUs their objective is to divide a Company into Strategic entries that are relevant for planning purposes. Normally a company defines its SBUs in terms of the product markets they are competing in.

Having defined SBUs top managers then assess each according to 2 criteria;

- The SBUs relative market share
- The growth rate of the SBUs industry

The objective of identifying a SBU's relative market share is to establish whether that SBU's market position can be classified as a strength or weakness. Relative market share is defined as the ratio of an SBU's market share to the market share held by the largest rival company in its industry. For example if SBU X has a market share of 10% and its rival has a market share of 30% then SBU X's relative market share is **10/30= 0.3**. If SBU is a market leader it will have its relative market share greater than **1.0.** Relative market share determines the relative competitive position of a product line or business unit because it gives a Company cost advantages from the economies of scale.

The objective of assessing industry growth rates is to determine whether industry conditions offer opportunities for expansion or whether they threaten the SBU (as in a declining industry). The growth rate of SBU's industry is assessed according to whether it is faster or slower than the growth rate of the economy as a whole. BCG's position is that industries with high growth rate (faster than average) offer a more favorable competitive environment and better long term prospects than slow growth industries.

Comparing Strategic Business Units:

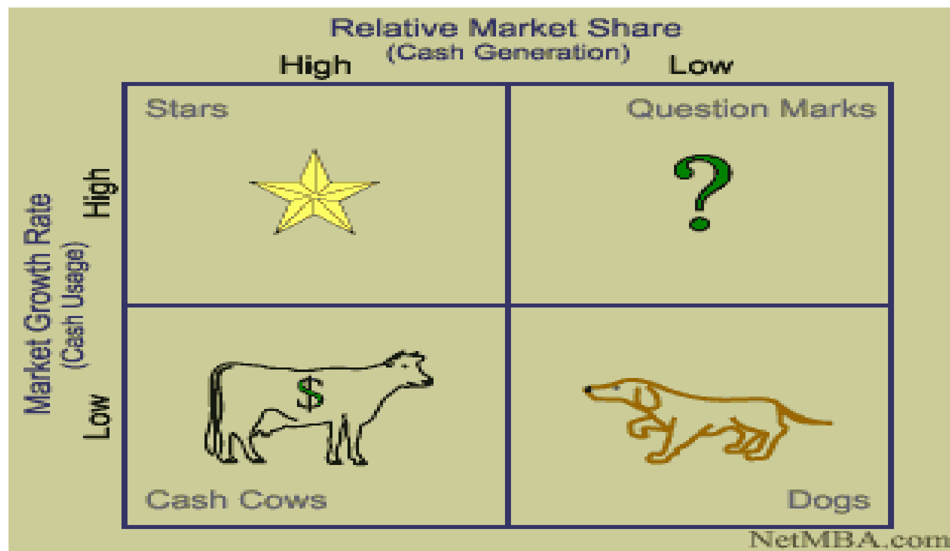
After dividing the Company into strategic business units the next step is to compare the SBU's against each other by means of matrix based on two dimensions; relative market share and industry growth. The horizontal dimension measures the relative market share while the vertical measures industry growth rate. The model is divided into four cells/quadrangles corresponding to their relative market share and industry growth rate and each cell contains at least a circle. The size of the circles is proportional to the sales revenue generated by each

business in the company’s portfolio. That is the bigger the circle, the larger is the size of a SBU relative to total corporate revenues.

BCG GROWTH-SHARE MATRIX

The BCG Growth-Share Matrix is a portfolio planning model developed by Bruce Henderson of the Boston Consulting Group in the early 1970's. It is based on the observation that a company's business units can be classified into four categories based on combinations of market growth and market share relative to the largest competitor, hence the name "growth-share". Market growth serves as a proxy for industry attractiveness, and relative market share serves as a proxy for competitive advantage. The growth-share matrix thus maps the business unit positions within these two important determinants of profitability.

BCG Growth-Share Matrix



The four categories are:

- **Dogs** - Dogs have low market share and a low growth rate and thus neither generate nor consume a large amount of cash. However, dogs are cash traps because of the money tied up in a business that has little potential. Such businesses are candidates for divestiture.
- **Question marks** - Question marks are growing rapidly and thus consume large amounts of cash, but because they have low market shares they do not generate much cash. The result is large net cash consumption. A question mark (also known as a "problem child") has the potential to gain market share and become a star, and eventually a cash cow when the market growth slows. If the question mark does not succeed in becoming the market leader, then after perhaps years of cash consumption it will degenerate into a dog when the market growth declines.

- **Stars** - Stars generate large amounts of cash because of their strong relative market share, but also consume large amounts of cash because of their high growth rate; therefore the cash in each direction approximately nets out. If a star can maintain its large market share, it will become a cash cow when the market growth rate declines. The portfolio of a diversified company always should have stars that will become the next cash cows and ensure future cash generation.
- **Cash cows** - As leaders in a mature market, cash cows exhibit a return on assets that is greater than the market growth rate, and thus generate more cash than they consume. Such business units should be "milked", extracting the profits and investing as little cash as possible. Cash cows provide the cash required to turn question marks into market leaders, to cover the administrative costs of the company, to fund research and development, to service the corporate debt, and to pay dividends to shareholders. Because the cash cow generates a relatively stable cash flow, its value can be determined with reasonable accuracy by calculating the present value of its cash stream using a discounted cash flow analysis

STRATEGIC IMPLICATIONS

The objective of the BCG portfolio matrix is to identify how corporate cash resources can best be used to maximize a company's future growth and profitability. BCG recommendations include the following;

- The cash surplus from any cash cows should be used to support the development of selected question marks and to nurture stars. The long-term objective is to consolidate the position of stars and to turn favored question marks into stars thus making the company's portfolio more attractive.
- Question marks with the weakest or most uncertain long term prospects should be divested to reduce demands on a company's cash resources.
- The company should exit from any industry where the SBU is a dog.
- If a company lacks sufficient cash cows, stars or question marks it should consider acquisitions and divestments to build a more balanced portfolio

CRITICISMS OF BCG MODEL

- ***The model is simplistic:*** An assessment of a SBU in terms of just two dimensions; market share and industry growth is bound to be misleading. A company's competitive position may be derived from other factors like differentiation of the company's products to serve a particular market segment other than solely depending on market share as the BCG model suggests. BMW (the auto manufacturers) has a strong competitive position derived from its market segment yet the BCG model would classify it as a dog because it is a low market share business in a low growth industry.

- The link between market share and profitability is questionable since increasing market share can be very expensive.
- The approach may overemphasize high growth, since it ignores the potential of declining markets.
- The model considers market growth rate to be a given. In practice the firm may be able to grow the market.

THE GENERAL ELECTRIC STRENGTH ATTRACTIVENESS MATRIX

The GE model also known as business screen or directional matrix is a two dimensional nine-cell matrix that analyzes a portfolio basing on long-term industry attractiveness and business strength/competitive position. The model has industry attractiveness on vertical axis and competitive strength on the horizontal axis.

In contrast to the BCG growth share matrix the GE business screen is a little more complex and detailed because it looks at factors that determine both industry attractiveness and competitive strength.

Industry attractiveness may be determined by factors like market growth, industry profitability, pricing practices, economies of scale among other possible opportunities and threats.

Business or competitive position may be determined by relative market share production capacity, company image, R&D strengths, and profitability among other possible strengths and weaknesses.

GENERAL ELECTRIC MATRIX (GE Matrix)

The general electric matrix was developed by GE with the assistance of the consulting firm McKinsey and Company. The model identifies the market position and profitability of different business units based on their market attractiveness and business unit strength. This is more advanced form of growth matrix model compared to BCG Matrix.

The main aims of GE Model

- Analyze the current portfolio of the business units and their position compared to others
- Develop growth strategies for each individual business units by adding new products and business to the portfolio
- Decide the business units to be sold or invested more to exploit future opportunities

There are two dimensions used namely: Market Attractiveness and Business Unit Strength. The Market attractiveness refers to the attractiveness of the market of the industry in which the business units operate.

Factors affecting the market attractiveness

- Market size
- Market growth and growth potential
- Market profitability
- Competition
- Market predictability
- New opportunities
- Macro environmental and economic factors

Business Unit Strength to the competitive position of each of the business units. It specifies the strength, market share, market position of the business.

Factors affecting the business Unit Strength

a) Assets and market under the business unit

b) Relative brand strength compared to others

c) Market share and growth in market share

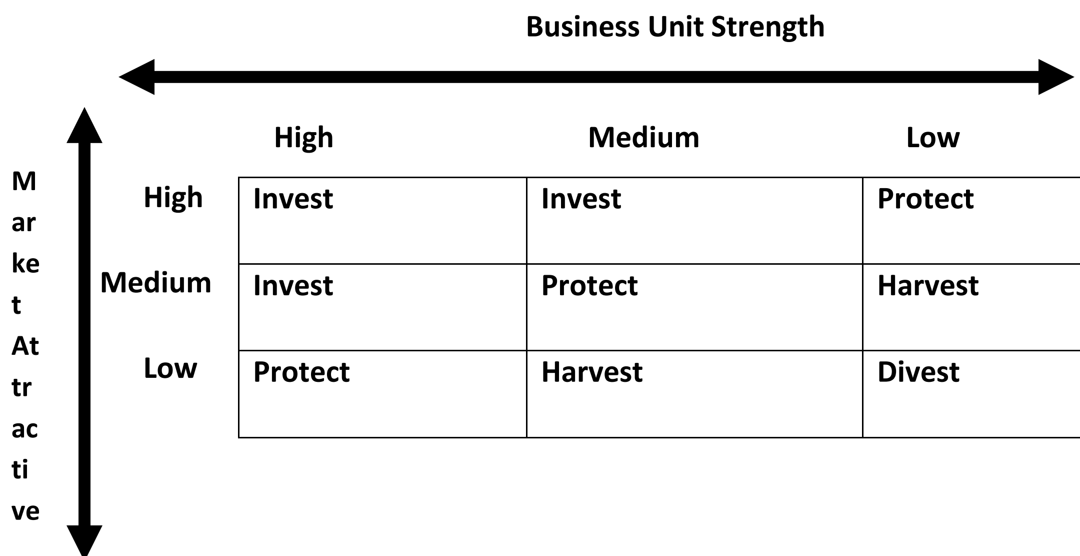
d) Brand loyalty

e) Distribution network and population reach

f) Research and development

g) More investment and access to capital

Based on these two dimensions, one 3*3 matrix is formed to be used as a GE Model. The matrix is shown below with the respective strategic decisions.



	High	Medium	Low
High	**Invest**	**Invest**	**Protect**
Medium	**Invest**	**Protect**	**Harvest**
Low	**Protect**	**Harvest**	**Divest**

It leads to four strategic decisions based on the outcome of this model.

- Invest
- Protect
- Harvest
- Divest

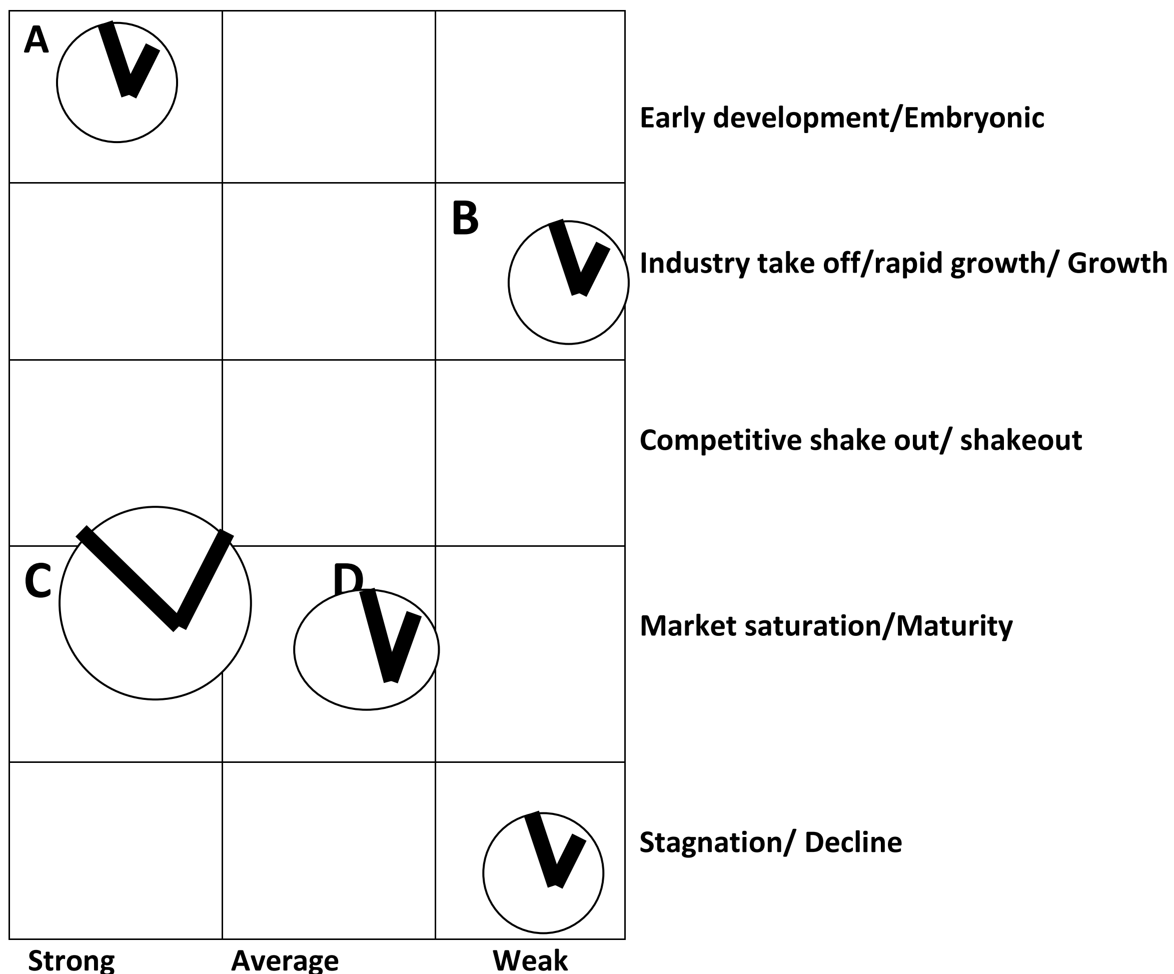
- **Investment** is made in the market on the basis of the existing market attractiveness in terms of growth. Also it is affected by the respective market share of the organisation
- **Protect** condition refers to the situation where a business doesn't want fresh investment rather it is willing to have the security of the given investment. So that it does not result in losses.
- **Harvest** refers to the situation where the business wants to generate cash out of the given investment (i.e. it does not want stock accumulation)
- **Divest** refers to the condition where a business organisation has finally decided to sale an undertaking or part of its undertaking. Divestment is the last option which a business organisation can undertake.

THE LIFE CYCLE MATRIX

This is also known as Hofer's life cycle or the product – market evolution portfolio matrix. This matrix highlights how a diversified firm's business is distributed across the stages of the industry life cycle.

The life cycle matrix was developed by Hofer who criticised the BCG and the GE models that they inadequately represent new businesses in new industries that are just starting to grow and that do not depict the positions of the businesses that are about to emerge as winners because the product or market is entering the take off stage. He came up with a two-dimensional15 cell matrix with competitive position of the business unit on the horizontal axis and life cycle stages on the vertical axis.

Hofer's life cycle Matrix



Business Unit Competitive Position

The size of the circle in the **matrix represents the size of the industries** involved and the pie wages with in the circles represent the market share of the firm.

- **The firm A/business enterprise A** appears to be a developing winner because it is located in the industry that is in its embryonic stage and has a strong competitive position.
- **The business enterprise B** is according to the matrix considered to be a potential loser because although its industry is in the growth stage it has a weak competitive position.
- **The business enterprise C** is an established winner because its industry has weathered the shake out stage and is in maturity stage while the company itself has a strong competitive position.
- **Enterprise D** could be considered a cash cow because its industry has reached maturity stage but still and it has an average competitive position.
- **Enterprise E** is a loser because it has a weak competitive position and its industry has reached the decline stage.

NOTE

Market share determine the strength of the company - the larger the company's market share, the stronger is its competitive position and the greater are the potential returns from future investment. Competitive position may be determined by the company's market share or its distinctive competencies. Large market share provides the company with the experience curve economies and suggests that the company has developed brand loyalty.

Distinctive competencies could be in form of;

- R & D expertise
- Manufacturing or marketing skills
- Knowledge of particular customer segments
- Unique reputation or brand name capital

TOPIC SIX

SWOT ANALYSIS

Topic Objectives

By the end of this topic, the learners must be able to;

- ✓ *Describe and evaluate the Strengths and Weaknesses of a given organization*
- ✓ *Describe and evaluate the Opportunities and Threats of a given organization*
- ✓ *Make use of The SWOT Matrix*

Introduction:

SWOT analysis, method, or model is a way to analyze competitive position of your company. SWOT analysis uses so-called SWOT matrix to assess both internal and external aspects of doing your business. The SWOT framework is a tool for auditing an organization and its environment.

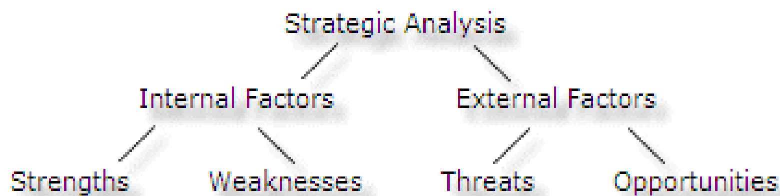
SWOT
ANALYSIS

SWOT is the first stage of planning and helps decision makers to focus on key issues. SWOT method is a key tool for company top officials to formulate strategic plans. Each letter in the word SWOT represents one strong word: **S = strengths**, **W = weaknesses**, **O = opportunities**, **T = threats**

SWOT model analyzes factors that are internal to your business and also factors that affect your company from outside. *Strengths* and *weaknesses* in the SWOT matrix are internal factors. *Opportunities* and *threats* are external factors.

What is SWOT matrix?

The concept of determining strengths, weaknesses, threats, and opportunities is the fundamental idea behind the SWOT model. To present the model in a more understandable way, scholars came up with so-called SWOT matrix. SWOT matrix is only a graphical representation of the SWOT framework.



Explanation

INTERNAL STRENGTHS

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. A Strength is a resource advantage relative to competitors and the needs of the markets a firm serves or expects to serve. Examples of such strengths include;

- Patents
- Strong brand names
- Good reputation among customers
- Cost advantages from proprietary know- how
- Exclusive access to high grade natural resources
- Favorable access to distribution networks
- Good management
- Access to economies of scale
- Product innovation abilities
- Adequate financial resources.

INTERNAL WEAKNESSES

A weakness is a limitation or deficiency in one or more resources or competencies relative to competitors that impedes a firm's effective performance. The absence of certain strength may be viewed as a weakness. Examples;

- Lack of patent protection
- A weak brand name
- Poor reputation among customers
- High cost structure
- Lack of access to the best natural resources
- Lack of access to key distribution channels
- Falling behind R&D
- State of facilities whether obsolete or need replacement
- Lack of managerial talent & depth
- Missing key skills or competencies

EXTERNAL OPPORTUNITIES

An opportunity is a major favorable situation in a firm's environment. This favorable situation may reveal chances of an organization increasing on its growth or profit. It may also be any external factor that creates a potential for a company to achieve a competitive advantage.

Examples:

- An unfilled customer need
- Arrival of new technologies
- Loosening of regulations
- Removal of international trade barriers
- Complacency among rival firms
- Improved buyer or supplier relationships.

EXTERNAL THREATS

A threat is a major unfavorable situation in a firm's environment. Threats are key impediments to the firm's current or desired position. A threat may be any external factor that endangers the integrity and profitability of a company's business.

Examples;

- Shifts in consumer tastes away from the firm's products
- Emergence of substitute products
- New regulations
- Increased trade barriers
- Slow market growth
- Increased bargaining powers of key buyers or suppliers
- Technological changes
- Adverse demographic changes

SUMMARY OF SWOT ANALYSIS

<table>
<tr><td rowspan="1">INTERNAL ENVIRON</td><td>STRENGTHS

▪ Patents
▪ Strong brand names
▪ Good reputation among customers
▪ Cost advantages from proprietary know- how
▪ Exclusive access to high grade natural resources
▪ Favorable access to distribution networks
▪ Good management
▪ Access to economies of scale
▪ Product innovation abilities
▪ Adequate financial resources
▪ ETC</td><td>WEAKNESSES

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▪ ETC</td></tr>
</table>

Effective SWOT analysis

The SWOT analysis needs to be more than a set of lists. It is essential to evaluate the SWOT listing in terms of what the implications are for strategy and what adjustments in strategy may need to be explored e.g. some strategy related strengths are more important than others. Some strategy related weaknesses could be fatal while others may not matter much or can easily be remedied. Some opportunities may make more sense to pursue than others and the firm may find itself much more vulnerable to some threats than to others.

To be effective SWOT analysis needs a methodical and objective approach. It is too easy for a company to look at itself and fail to see any problems, or to see strengths that are not real. We can help combat this by providing a fully objective view which can then be used to support and enhance your business and marketing planning.

SWOT analysis is undertaken by businesses at the start of planning to identify organizational strengths, weaknesses, opportunities and threats. They should not be seen as a process in isolation ant it is important that decisions are taken based on the findings. A SWOT starts with an external analysis of the business environment, often called a PEST analysis, and then looks at the organization's internal strength and weaknesses, relative to internal factors such prior performance and also to external factors, which may have been highlighted in the PEST analysis. The final stage is to combine the analyses to look at opportunities and threats facing the organization and to draw up plans to take advantage of the opportunities and to counter the threats.

When examining political factors, you need to look at any political changes that could affect your business. What laws are being drafted? What global change is occurring? Legislation on maternity rights, data protection health & safety, environmental policy, should be considered, for example. As an example, take a company employing a large number of women. Changes in maternity rights may have a major impact on such a business – the aware business will keep an eye out for changes in such legislation.

Often the political factors spill over into economic factors. For example, tax is usually decided by politicians, based on a mixture of political and economic factors. Interest rates, in many countries are decided by a central bank, but political factors may still be important. The fall of the Soviet Union caught most businesses and Western Governments by surprise – but not all. Some companies – notably Shell Petroleum – had picked up signals that all was not well in

Russia. Many of these were related to economic problems within the soviet Union. Other economic factors include exchange rates, inflation levels income growth, debt & saving levels (which impact available money) and consumer & business confidence. The current state of world stock markets is a typical example of the volatility of economic factors.

These areas are global, but it is also important to look at factors affecting individual industries. Are paper costs rising? For a book, magazine or newspaper publisher, the price of paper is a crucial economic measure. The UK software industry is currently complaining of a shortage of computer programmers – which is driving up wage costs. Again – the global picture can be important. Some companies are now using programmers in countries like India for software development. This helps them keep costs down – and leads to competitive advantage over companies with higher costs.

Advances in technology can have major impact on business success – with companies that fail to keep up often going out of business. Technological change impacts social-cultural attitudes. For example the way people spend their leisure has changed dramatically over the last 30 or so years. As well as advances in your own industry, think about the likely impact of new technologies – the Internet, EDI, mobile phones, and the increasing advances in computing and computers. Look out for any technology that could make producing your product easier. And watch out for the technology that could make your product obsolete.

Finally, all this influences and is influenced by social factors – the elements at build society. Social factors influence people's choices and include the beliefs, values and attitudes of society. So understanding changes in this area can be crucial. Such changes can impact purchasing behavior. Typical things to look at for each of these follow: consumer attitudes to your product & industry – environmental issues (especially if you involves hazardous or potentially damaging production processes) – the role of women in Society – attitudes to health – attitudes to wealth – attitudes to age (children, the elderly, etc.)

Added complication when looking at social and cultural factors are differences in ethnic and social groups. Not all groups have the same attitudes – and this impacts how they view products and services. Demographic changes can also play a major part.

Developing SWOT analysis:

A SWOT analysis builds on the results of the PEST analysis, which looks at the company's external environment. Its purpose is to identify company strengths and weaknesses so that strengths can be maintained or increased and weaknesses corrected. A further purpose is to identify opportunities and threats resulting from external factors – especially those that have an impact on the company's strengths and weaknesses. Company strengths and weaknesses need to be identified in all aspects of the business.

- Relative to the rest of the market (i.e. compared to competitors)
- Relative to previous performance or expected performance
- Relative to customer demand (for example all companies in an industry may fail to satisfy a particular customer need. This is a weakness – and the first company to match this customer need will have strength relative to the other companies in the industry.

It is also important to realize that opportunities arise out of weaknesses. Correcting a weakness presents a marketing opportunity. Similarly, failing to maintain strength is a threat to the company. A preliminary approach for carrying out a SWOT analysis is to list perceived company strengths, weaknesses, opportunities and threats under each of these headings. Ensure that no weaknesses cancel out company strengths and potential threats to the company strength or opportunities that could arise out of correcting weaknesses.

On the above list, highlight key areas of concern or areas that require action. These become the focus for future planning. This approach is preliminary – as it does not evaluate the relative importance of each issue. A further approach is to list key aspects in a table – and score them out of 5, where 5 is a major strength and 1 a major weakness. Scoring can be based on the following factors – relative to the overall industry – relative to major competitors or the next largest competitor – relative to expected performance – relative to previous performance.

An item that won on all 4 categories would be a major strength and vice versa for weaknesses. Areas where the company has better performance than competitors, but where performance is below expectations would receive a higher score than where performance has improved but still is weaker than competitors.

The following is list of some of the things that should be considered:

Marketing Aspects

Market share and market segments addressed – Competitive Structure Customer base (quality size, loyalty, etc). – Demand forecasts – Product range and quality. Services provided – Distribution capabilities and costs – Sales effectiveness – Promotional effectiveness. Image and reputation – Pricing options – Speed to market – Customer service – R&D and Innovation / New products. Marketing skills and experience – International / export market capabilities.

Operational / Manufacturing Aspects

Production / Manufacturing facilities (age, quality, speed…) – Economies of scale – Skills (Employee, technical, etc.) – Product failure rate – Flexibility – Costs – Supply / raw material availability.

Human Resource Aspects

- Employees skills, motivation, dedication and experience – Employee satisfaction – Employee costs – Work environment – Staff turnover rate – Management and Organisational Aspects Management skills and experience – Leadership and team skills – Ability to respond to market change – Flexibility and adaptability

Financial Aspects

Cost of capital – Profitability / Return on investment – Financial Stability – Sales / Employee – Cash availability

This scheme allows the company to identify where it is strongest against competitors – the company's competitive advantage – and against previous and expected performance.

Finally after compiling the list, management should start to consider whether action is needed regarding each identified item. A way forward here is to rank each item on importance to the company.

Low performance **(i.e. a score of 1 or 2)** and high importance should be the major priority. Similarly, high performance (4 or 5 score) and high importance indicates areas where performance needs to be maintained.

Conversely, low importance and low performance can be given a lower priority, while low importance items that are viewed as strengths can be ignored. It is better to spend time and money improving or maintaining areas that matter to the company than worrying about perceived strengths that do not add anything worthwhile to the company. This can be summarized as:

1. Low priority – monitor for changes. Focus on only if finances and time allow.
2. Medium priority – focus on after the high priority items have been looked at, or if finances allow.
3. High priority – main focus. Ensure adequate finance to address issues. The results of this analysis then feed into a marketing or organization strategic plan.

A SWOT Analysis is an effective way of analyzing your company's potential by identifying your Strengths and Weaknesses, and to examine the Opportunities and Threats which may affect you.

Carrying out an analysis using the SWOT tool will be enough to reveal changes which can be implemented easily and gain results.

To carry out a SWOT Analysis effectively, get a team together from the various departments of your company for a *brain storming* session. If possible use a whiteboard and write down all ideas and comments that might be raised. Later you can edit each one and delete anything not relevant.

The best method is to split the whiteboard into a 4 sections as follows:

Strengths	Weaknesses
Opportunities	Threats

List down answers to the following questions:

Strengths:

What are your advantages?

What do you do well?

What makes you different from your competition?

Consider this from your own point of view and from the point of view of the people you deal with. It's important to be honest and realistic. Ensure your team feels comfortable and understands the purpose.

Weakness:

What could be done better?

What is done badly?

What should be avoided?

What causes problems or complaints?

It is important to be realistic not and face any unpleasant truths as soon as possible.

Opportunities

Where are the good chances facing you?

What are the interesting trends?

Examples of opportunities can be:

- Changes in technology and markets
- Changes in government policy or regulations
- Changes in social patterns, population, lifestyle changes, economical
- Local and global events

Threats

- What obstacles do you face?
- What is your competition doing?
- Are the specifications for your products or services changing?
- Is changing technology threatening your business?
- Do you have bad debt or cash-flow problems?

Once the SWOT analysis has been completed, mark each point with the followings:

- Things that MUST be addressed immediately
- Things that can be handled now
- Things that should be researched further
- Things that should be planned for the future.

Now that each point has been prioritized, set an action point for each and assign it to a person, add a deadline.

Although the SWOT analysis will assist in identifying issues, the action plan will ensure that something is done about each one. With complicated issues a further brainstorming session might be done to analyze it further and decide what action to take.

SWOT MATRIX

This is a model which illustrates how external opportunities and threats facing a particular corporation can be matched with the company's internal strengths and weaknesses to result into possible strategic alternatives that give the company a competitive edge. According to this matrix internal factors are plotted on the horizontal axis while the external factors on the vertical axis

SWOT MATRIX

Internal factors / **External factors**	**Strengths (S)** ▪ List 5-10 internal strengths	**Weaknesses(W)** ▪ List 5-10 internal weaknesses
Opportunities(O) ▪ List 5-10 external opportunities	**Strengths-Opportunities strategies** ▪ Generate strategies that use strengths to take advantage of opportunities	**Weakness-opportunities strategies** ▪ Generate strategies that take advantage of opportunities by overcoming weaknesses
Threats (T) ▪ List 5-10 external threats	**Strengths-Threats strategies** ▪ Generate strategies that use strengths to avoid or combat threats	**Weakness-Threats strategies** ▪ Generate strategies that minimize weaknesses to avoid or combat threats

An example of a SWOT Analysis of a Pharmaceutical Sector:

Strengths

- Cost Competitiveness
- Well Developed Industry with Strong Manufacturing Base
- Well Established Network of Laboratories and R&D infrastructure
- Access to pool of highly trained scientists, both in India and abroad
- Strong marketing and distribution network
- Rich Biodiversity
- Competencies in Chemistry and process development

Weakness

- Low investments in innovative R & D
- Lack of resources to compete with MNCs for New Drug Discovery Research and to commercialize molecules on a worldwide basis.
- Lack of strong linkages between industry and academia.
- Lack of culture of innovation in the industry
- Low medical expenditure and healthcare spend in the country
- Inadequate regulatory standards
- Production of spurious and low quality drugs tarnishes the image of industry at home and abroad

Opportunities

- Significant export potential
- Licensing deals with MNCs for NCEs and NDDS.
- Marketing alliances to sell MNC products in domestic market
- Contract manufacturing arrangements with MNCs
- Potential for developing India as a centre for international clinical trials
- Niche player in global pharmaceutical R&D

Threats

- Product patent regime poses serious challenge to domestic industry unless it invests in research and development.
- R&D efforts of Indian pharmaceutical companies hampered by lack of enabling regulatory requirement. For instance, restrictions on animal testing outdated patent office.
- Drug Price Control Order puts unrealistic ceilings on product prices and profitability and prevents pharmaceutical companies from generating investible surplus.
- Export effort hampered by procedural hurdles in India as well as non-traiff barriers imposed abroad.
- Lowering of tariff protection

The Advantages of SWOT Analysis in a Strategic Plan

A SWOT analysis is an integral part of a company's strategic planning process because it provides a good all-around view of the company's current and forward-looking situation. The strengths (S) and weaknesses (W) sections provide a look at the company's current position. The opportunities (O) and threats (T) sections help the company project possibilities and challenges going forward. Each of these four sections has specific advantages to the overall analysis.

Strengths

The strengths section allows the company to consider its competitive advantages in the marketplace. These advantages are typically a focal point of the company's operation and strategic planning. They also often coincide with the way the company markets. For instance, companies that have strengths related to manufacturing and production quality often promote themselves as high-quality brands. Companies that have very efficient distribution systems and good bargaining power with suppliers as strengths can often leverage those to provide low costs to buyers.

Weaknesses

It may seem counterintuitive that a company would see advantages in assessing its weaknesses, but understanding them makes them easier to deal with. Generally, companies have two approaches to dealing with weaknesses. They can either seek to improve them if those weaknesses restrict the company from implementing its strategies to achieve objectives. Or, they realize that their weaknesses are simply a part of the overall business approach and company leaders try to downplay those weaknesses in marketing their brand.

Opportunities

The opportunities section is critical to development of company strategies as it helps the company identify ways to improve and grow. Constantly reviewing market opportunities helps companies take advantage of emerging markets or changes in the marketplace that the company has strengths to match. These are significant advantages over companies that fail to routinely assess opportunities and miss out on the ability to gain new business, market share and access to capital.

Threats

Again, analyzing threats to your business is not a fun part of a SWOT analysis, but it helps the company insulate itself as well as possible from external threats. The environment, regulations, technology and trends are among possible factors that can threaten the viability and ongoing

success of a business. By assessing these risks and challenges, company leaders can better prepare them or decide how to respond from a strategic standpoint.

Strategic Plan

A strategic plan is a very high-level plan that business managers and directors create to give an organization a clear focus. The plan provides a framework for the company's overall strategy for success. Creating a strategic plan involves analyzing the current business market, setting goals and then charting out a map for how the company will achieve those goals. The plan nunifies employees and managers, giving them clarity about how to operate the business.

SWOT Analysis

A SWOT analysis is a decision-making tool that puts the company's strengths, weaknesses, opportunities and threats into the proper perspective. Looking at strengths and opportunities gives managers an idea of the advantages they have over the competition, while analyzing weaknesses and threats exposes possible vulnerabilities. A SWOT analysis often compares the company to its competitors.

The Difference

A SWOT analysis is one element of a strategic plan. When plotting out a strategic plan, one of the most important details to explore is how the company will make decisions and manage competition. Therefore a SWOT is a business planning tool while a strategic plan is an overall business proposal for how the company will find its success. Also, a SWOT focuses on a company's current position while a strategic plan forecasts into the future.

SWOT Analysis: How Competitive Forces Shape Strategy

Competitive forces affect strategy because your competitors react to the strategic actions you take in the marketplace, and your company has to react to their strategic moves. You have to make sure this interplay works to your advantage by using SWOT analysis to identify your company's strengths, weaknesses, opportunities and threats, and by performing the same analysis for your competition. You use this information to take action in areas where you are strong and your competitors are weak, exploiting their threats and capitalizing on your opportunities.

Identifying Strengths

You can identify the strengths of your company by looking at the areas where you are successful, and looking for the reasons for that success. If your operations usually achieve or surpass targets, look for special abilities, equipment or training. If your marketing is especially effective, add that to the list of strengths. Perform similar evaluations for your competitors.

Place the evaluations into a table so you can see where your competitors are stronger and where you have the advantage.

Linking Strengths to Opportunities

After identifying your company's strengths, look at your market environment and check where your strengths match actions you can take to reach your company's goals. If you examine the needs of your customers, the technology available, the economic trends, and the product developments, you can find initiatives that match your strengths and that your company will successfully support. The key is to find at least one opportunity for each strength that you listed in your table.

Competitors' Weaknesses

To shape your strategy to match the competitive environment, you have to find the opportunities in areas where your table shows that you are strong but your competitors are weak. If your table shows that you have strong marketing but your competitors do not and there is a corresponding opportunity, you can initiate a marketing program that overwhelms your competition. If you are strong and have weak competition in a particular niche, you can concentrate your efforts there as a strategy, and meet ambitious business targets.

Avoiding Competitive Threats

Your competitors may undertake a similar analysis and try to exploit any weaknesses you may have. You can neutralize threats of this nature in three primary ways. You can avoid engaging your competition in areas where you are weak. You can acquire resources or partners that resolve your weakness, or you can strengthen your company so it no longer has a particular weakness. Your strategic direction has to include such decisions for your weaknesses, or you run the risk of wasting resources on initiatives that will not succeed.

Questions:

1. Write a note on TOWS Matrix?
2. Explain the need to undertake SWOT analysis in the context.

TOPIC SEVEN

BUSINESS GOALS

Topic Objectives

By the end of this topic, the learners must be able to;

- ✓ *The Managerial levels at which strategy can be made*
- ✓ *Formulate Objectives, Business purpose, Business philosophy, Mission, Vision, Core values.*
- ✓ *Comment on the relevancy of the Management By Objectives (MBO) concept*

This Unit addresses the Strategic Direction aspect of strategy and particularly answers the Question 'Where do we want to be/achieve?' This question is answered by setting goals and objectives (desired end results to be achieved at different organizational levels and times). The aspects to be drafted include the company strategic vision/intent, mission/mission statement to guide competitive decision making, and good hierarchical objectives

Arrangement of business goals/purposes

Whether in a strategic plan or business plan or marketing plan, the generally accepted arrangement is as follows; vision/intent, mission/mission statement, Goals and Objectives

Vision statement

This is a view of an organizations future direction and business course. It is a guiding concept for what the organization is trying to do and to become. It is a big picture perspective of the organization It shows where the organization is headed. Ambitious firms follow it with the strategic intent. A Vision statement is a statement of the kind of organization that top management is trying to create. It is sometimes associated with the strategic intent.

An organization's strategic intent is the purpose that it exists and why it will continue to exist, providing it maintains a competitive advantage. Strategic intent gives a picture about what an organization must get into immediately in order to achieve the company's vision. It motivates the people. It clarifies the vision of the vision of the company. Strategic intent helps management to emphasize and concentrate on the priorities. Strategic intent is, nothing but, the influencing of an organization's resource potential and core competencies to achieve what at first may seem to be unachievable goals in the competitive environment. A well expressed strategic intent should guide/steer the development of strategic intent or the setting of goals and objectives that require that all of organization's competencies be controlled to maximum value.

Strategic intent includes directing organization's attention on the need of winning; inspiring people by telling them that the targets are valuable; encouraging individual and team

participation as well as contribution; and utilizing intent to direct allocation of resources. Strategic intent differs from strategic fit in a way that while strategic fit deals with harmonizing available resources and potentials to the external environment, strategic intent emphasizes on building new resources and potentials so as to create and exploit future opportunities.

An effective vision statement must have following features-

- It must be unambiguous.
- It must be clear.
- It must harmonize with organization's culture and values.
- The dreams and aspirations must be rational/realistic.
- Vision statements should be shorter so that they are easier to memorize.

Mission Statement

Mission statement is the statement of the role by which an organization intends to serve its stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence). A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., "about where we are"). For instance, Microsoft's mission is to help people and businesses throughout the world to realize their full potential. Wal-Mart's mission is "To give ordinary folk the chance to buy the same thing as rich people." Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizational growth and innovations. In today's dynamic and competitive environment, mission may need to be redefined. However, care must be taken that the redefined mission statement should have original fundamentals/components. Mission statement has three main components-a statement of mission or vision of the company, a statement of the core values that shape the acts and behaviour of the employees, and a statement of the goals and objectives.

Features of a Mission

- Mission must be feasible and attainable. It should be possible to achieve it.

- Mission should be clear enough so that any action can be taken.
- It should be inspiring for the management, staff and society at large.
- It should be precise enough, i.e., it should be neither too broad nor too narrow.
- It should be unique and distinctive to leave an impact in everyone's mind.
- It should be analytical, i.e., it should analyze the key components of the strategy.
- It should be credible, i.e., all stakeholders should be able to believe it.

Generally, the Mission should focus on "long-range economic potentials, attitudes toward customers, product and service quality, employee relations, and attitudes toward owners." It provides identity, continuity of purpose, and overall definition, and should convey the following categories of information.

1. Precisely why the organization exists, its purpose, in terms (a) its basic product or service, (b) its primary markets, and (c) its major production technology.

2. The moral and ethical principles that will shape the philosophy and charter of the organization.

3. The ethical climate within the organization.

Thus mission outlines the firm's identity and provides a guide for shaping strategies at all organizational levels. The role played by mission in guiding the organization is an important one. Specifically it:

1. Serves as a basis for consolidation around the organization's purpose.
2. Provides impetus to and guidelines for resource allocation.
3. Defines the internal atmosphere of the organization, its climate.
4. Serves as a set of guidelines for the assignment of job responsibilities.
5. Facilitates the design of key variables for a control system.

Many examples of firms that have these characteristics as a result of a finely honed sense of cooperation and value acceptance are presented by **Deal and Kennedy**. A few of these are listed here, along with the slogans that have come to represent their value systems.

- **Dupont:** “Better things for better living through chemistry—a belief that product innovation, arising out of chemical engineering…
- **Sears, Roebuck:** “Quality at a good price—the mass merchandiser from Middle America.
- **Dana Corporation:** “Productivity Through people—enlisting the ideas and commitment of employees at every level in support of Dana’s strategy of competing largely on cost and dependability rather than product differentiation…
- **Chubb Insurance Company:** “Underwriting excellence—an overriding commitment to excellence in a critical function.
- **Price Waterhouse and Company:** “Strive for technical perfection” (in accounting).
- **PepsiCo’s** overall mission is to increase the value of our shareholder’s investment. We do this through sales growth, cost controls and wise investment of 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.

Goals and objectives

- A goal in an expected result. Synonyms for goal include the words aim, end, and objectives.
- A qualitative goal is an aspiration toward which effort is directed; a goal to be reached for but not necessarily grasped, rather than a quantitative level of a certain variable. Thus, a firm might aspire to be a good corporate citizen.
- A quantitative goal is one intended to be reached, a quantified expected result. There are two types: (1) A hurdle goal value is a certain level of a quantitative goal that is to be exceeded (synonyms include instrumental and interim goal); (b) a final or overall quantitative goal is a value that should be achieved. A final goal could be established without hurdles have been reached. Achieving a ten percent increase in total revenue within three years would be a final goal. Hurdle goals would be the targeted revenue increase intended at the end of Years 1 and 2.

Generally, a Goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization.

Well-made goals have following features:

a. These are precise and measurable.

b. These look after critical and significant issues.

c. These are realistic and challenging.

d. These must be achieved within a specific time frame.

e. These include both financial as well as non-financial components.

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Effective objectives have following features-

f. These are not single for an organization, but multiple.

g. Objectives should be both short-term as well as long-term.

h. Objectives must respond and react to changes in environment, i.e., they must be flexible.

i. These must be feasible, realistic and operational.

Exhibit: Examples of Types of Strategic Goals and Their Definitions

Goal Type	**Definition**	**Examples**
Qualitative	An aspiration	"Good corporate citizenship" "Ethical practices" 'Improved quality of life" "Heightened awareness"
Quantitative (Final Goal)	Numerical aim	"6 percent increase in sales" "Raise ROI by percent"
Hurdle goal	Minimum to be reached win a	"Increase sales by percent per year for there

timeframe

Strategic goals or objectives

- These are long-term (3-5years) objectives set by top management, are broad/generalized/less detailed to allow flexibility at the different parts and levels of the organization that they affect.
- They are usually not SMART enough
- Are sometimes accompanied by SBU/Divisional/branch objectives especially for already existing large organizations or firms

Why long term goals and objectives?

To ensure achievement of sustained growth and profitability

Areas where a firm may develop goals and objectives include:

- Profitability
- Customer orientation
- Productivity
- Internal structuring
- Competitiveness
- Physical and financial resources
- Employee development, etc

Societal Goals

Societal goals (also called enterprise goals), in organizations that employ societal strategy, would occupy the topmost levels of an organization's hierarchy of goals. In those that to not develop a separate societal strategy, these goals would be woven into corporate-, business-, and functional-level strategies. Societal goals mainly address expectations about the firm's societal legitimacy. Sometimes included in statements called creeds or guiding philosophies, societal goals identify the major ways in which the organization will operate so as to stay within the legal, ethical, and cultural constraints placed on it by society. Although they guide the behavior of people at all levels of the organization, they have particular relevance for the decisions of key managers related to balancing the claims on the firm of society's interest groups and institutions, owners, and managers (which we refer to generally as the firm's stakeholders).

Legitimacy goals should address the overall role of the firm in the daily functioning of society. They should include goals that pertain to the major social issues and legislation of the day.

“Some examples are pollution standards, the firm’s antidiscrimination position, safety in working conditions, and sexual harassment.

Corporate levels Goals

Corporate-level goals consist of quantitative and qualitative outcomes that encompass management’s expectations about the optimal combination and types of business that make up the company. They direct the integration of the particular collection of businesses that makes up the overall organization and they serve as behavior specifications for staff members at the corporate level.

Business-Level Goals

Goals at the business level specify the anticipated performance results of each SBU. Their values are intended to balance with those of equivalent variables for other SBUs and thereby contribute to the achievement of corporate level goals. For example, a corporate-level final goal of sales growth of 5 percent in one year could be achievable partly by acquisition or divestiture moves, but primarily through the contributions of sales increases by present. SBUs. Therefore, in this case an average cross SBU sales increase of 5 percent could satisfy the corporate-level target and one would expect each business-level strategy to contain a sales growth element that defines that SBUs “contribution” so to speak, to the corporate level sales growth goal.

Business-level goals integrate the activities of the SBUs functional departments and guide the behavior of business unit managers. In other words business a strategy defines the role of each functional area relative to each other and to resource requirements and availability. One might say that business-level strategy balances the roles of organizational functions within each business unit in terms of their contributions toward reaching higher level goals.

Functional-Level Goals

At this level goals are set for each of the functional departments into which each SBU is organized. The point of functional-level goals is to defined several aims for each department in such a way that their achievement would result in achievement of business-level goals. Thus to reach a business-level target of 5 percent sales growth, it might be necessary for the personnel department to recruit and screen twenty-five production workers and three more clerical people; for marketing to raise advertising costs by a certain amount increase the number of sales representatives by a specified number within a certain region, and hire one more inside salesperson; and so on. These functional requirements become, either directly or indirectly, goals of the respective functional departments to e achieved within appropriate time frames.

Goal Formulation

Four sets of factors affect the nature of an organization's collection of goals: (1) The present goals (and action plans); (2) the set of strengths weaknesses, threats, and opportunities that result from environmental and internal analysis; (3) the set of political influences within which individual compete over goal preferences; and (4) the personal values of the organization's key managers that shape their preferences.

Present Goals and Action Plans

The degree of success experienced by an organization in reaching past or present goals and in implementing related action plans provides insight into the need for new or modified goals. Failure to meet the goal of retired Chairman Willard Rockwell, Jr., to build a $1 billion Rockwell International consumer products division led company managers, under the leadership of new chairman and **CEO Robert Anderson,** to adopt a new goal: $1 billion in foreign sales. This change seems to have been precipitated by the widespread realization that the previous consumer products goal was not likely to be achieved.

Direction for goal formulation at any organizational level also exists in the strategy of the next highest organizational level. These higher levels' goals have the effect of partially defining the context within which goals are to be set at lower levels. For example, when corporate goals are stated in terms of long-term profitability and sales growth, then business-level goals should be consistent with them. Of course, more information would be required about the other factors that affect goal formulation, but at least corporate goals serve significantly to define the goal choices available for the business level. Similarly, business-level goals can structure the formulation of goals at the functional level and thereby define the context of functional-level goals. Think for a moment of the difficulties that might be encountered by a functional department manager, say, the marketing director, in trying to manage the department without any idea of what business-level goals were important to top management.

The Data Set

The contents of an organization's environmental and internal data set provide major clues for goal formulation. Threats and opportunities (determined by analysis and forecasts of the organization's external circumstances), along with weakness and strengths (of the

organization's internal state of affairs, in the present and future time frames), can be transformed into goal sets at appropriate organizational levels.

At the corporate level, goals are formulated to define the optimal collection of types of businesses in which the organization is engaged. The firm's data set can be the primary source of information about what types of businesses would be most conducive to future success. The internal portion of the data set highlights problems with existing operations; the external part points out merger possibilities as well as types of operations to avoid. Forecasts can identify potential problems with the present collections of businesses.

Existing business-level goals can e evaluated against the contents of the data set as well. Since business-level goals address business unit performance and competition, such factors as performance shortcomings, competitive position, latent capabilities, potential obstacles, and new opportunities can be discovered through the environment and internal analysis and their respective parts of the resultant data set.

The data set is also intended to provide major inputs into decisions about the appropriateness of functional-level goals. At this level the portions of the data set that reflect internal strengths and weaknesses play a critical role in goal setting. One might find, for example, during financial analysis that the firm's selling and administrative expenses are excessively high as a percentage of sales. Further analysis might show that sales growth has slowed and that turnover of salespeople is high. Goals could be set for the marketing department that reflects more desirable performance along these dimensions. Marketing action plans would then be modified to achieve the new goals.

Goal Formulation Theories

Many explanations have been offered in the management literature for how organizational goals are formulated. Mintzberg notes that, during this century, organizational goal formulation theories have undergone a complete reversal form the "rational man" view (one goal setter setting a single organizational goal) through the coalition bargaining view (many goals, many goal setters) to the political arena view no organizational goals, power games among individuals).

Some examples of the influential goal formulation theories that have appeared over the past several decades follow, in chronological order:

Barnard (1938): Organizational goals are formed by a "trickle-up" process in which subordinates expectations are adopted by a consensus-based acceptance process.

Papandreou (1958) A top manager forms the organization's goals as a multivariate function of the preferences of influential actors.

Cyert and March (1963): Multiple goals emerge from the bargaining among various coalitions that form out of the parrying for control and personal power by key actors.

Simon (1964): Goals are constraints on profit maximization imposed by decision makers bounded rationality.

Granger (1964): Hierarchy of gals results from a process of screening, filtering, and narrowing broad expectations to more focused, specific sub-goals in a reasonably logical fashion.

Ansoff (1965) New organization goals are tried out iteratively as means for closing gaps between present goals and hoped-for results.

Allison (1971) (1) Organization process modes-reasonably stable goals emerge as incompatible constraints the represent the quasi-resolution of conflict among internal and external interest groups;

(2) Bureaucratic politics modes – key players play" politics to product goals they agree with as individuals.

Georgiou (1973): Personal goals of individual come and go as organizational goals according to the short-term victories of key managers as they engage in political combat. There are no organizational goals as such.

Hall (1978) Goals are set according to three processes, the appropriateness of which depends upon two contingencies, concentration of power and amount of goal-preference conflict: problem solving – concentrated power, no preference conflict; and bargaining – balanced power, preferences in conflict.

MacMillan (1978) Organizational coalition members demand coalition commitment to personal goals; the coalition responds by developing commitment to generalized versions of

individual members' goals. These generalized goals (not the specific goals of individuals) become the organization's goals.

OBJECTIVES OF THE BUSINESS

The objective is the starting point of the marketing plan. Once environmental analyses and marketing audit have been conducted, their results will inform objectives. Objectives should seek to answer the question *"Where do we want to go?"* The purposes of objectives include:

- To help to motivate individuals and teams to reach a common goal.
- To provide an agreed, consistent focus for all functions of an organization.

All objectives should be **SMART** i.e. Specific, Measurable, Achievable, Realistic, and Timed.

- **Specific –** Be precise about what you are going to achieve
- **Measurable –** Quantify you objectives
- **Achievable –** Are you attempting too much?
- **Realistic –** Do you have the resource to make the objectives happen (men, money, machines, materials, and minutes?)
- **Timed –** State when you will achieve the objectives (within a month? By February 2010?)

1.2.2. Examples of SMART objectives:

Some examples of SMART objectives follow:

1. **Profitability Objectives**

To achieve a 20% return on capital employed by August 2017.

2. **Market Share Objectives**

   To gain 25% of the market for sports shoes by September 2016

3. **Promotional Objectives**

To increase awareness of the dangers of AIDS in India from 12% to 25% by June 2016

To insure trail of X washing powder from 2% to 5% of our target group by January 2016.

4. **Objectives for Growth**

To survive the current double-dip recession.

5. **Objectives for Growth**

To increase the size of out German Brazilian operation from $200,000 in 2002 to $400,000 in 2017

6. **Objectives for Branding**

To make Y brand of bottled beer the preferred brand of 21-28 year old females in North America by February 2018.

These are many examples of objectives. Be careful not to confuse objectives with goals and aims. Goals and aims tend to be vaguer and focus on the longer-term. They will not be SMART. However, many objectives start off as aims or goals and therefore they are of equal importance.

THE MANAGEMENT BY OBJECTIVES (MBO) CONCEPT

This was engineered by Peter Drucker and it refers to a consistent cycle of clearly accepted procedures of involving all organizational members in the achievement of common organizational goals and objective

It is Aimed at ensuring commitment/ a goal contract (especially the unwritten goal contract) among all managers (and staff) concerned in the different functional areas and at the different levels of the entire enterprise

It is also aimed at tapping the creativity and innovativeness, facit knowledge, experience, and other latent competences. Effective communication, team work, motivation/encouragement/mentoring from the managers, recognizing and rewarding excellent performance KSFs are necessary for MBO to succeed

Steps involved in MBO

1. Central goal setting
2. Goal/objectives setting of individual departmental and operational level- through productive/effective meetings
3. Agreeing on how these objectives are to be achieved
4. Giving them autonomy to achieve (to tap their hidden competences) those agreed upon objectives
5. Clearly explaining how their performance is to contribute to the accomplishment of the overall company objectives
6. Measure their performance, identify the deviations, and why the results are that way
7. Reward performers, encourage and train those trainable non-performers

Advantages of MBO

- Since Management by objectives (MBO) is a result-oriented process and focuses on setting and controlling goals, if encourages managers to do detailed planning.
- Both the manager and the subordinates know what is expected of them and hence there is no role ambiguity or confusion.
- The managers are required to establish measurable targets and standards of performance and priorities for these targets. In addition, the responsibilities and authority of the personnel is clearly established.
- It makes individuals more aware of the company goals. Most often the subordinates are concerned with their own objectives and the environment surrounding them. But with MBO, the subordinates feel proud of being involved in the organizational goals. This improves their morale and commitment.
- Management by objectives (MBO) often highlights the area in which the employees need further training, leading to career development.
- The system of periodic evaluation lets the subordinates know how well they are doing. Since MBO puts strong emphasis on quantifiable objectives, the measurement and appraisal can be more objective, specific and equitable.
- It improves communication between management and subordinates.

Disadvantages of MBO

- MBO can only succeed if it has the complete support of the top management.
- Management by Objectives (MBO) may be resented by subordinates. They may be under pressure to get along with the management when setting goals and objectives and these goals may be set unrealistically high.
- They may seriously believe that MBO is just another of the management’s ploys to make the subordinates work harder and become more dedicated and involved. The emphasis in the MBO system is on quantifying the goals and objectives. It does not leave any ground for subjective goals.
- There is considerable paperwork involved and it takes too much of the manager’s time. Too many meetings and too many reports add to the manager’s responsibility and burden. Some managers may resist the program because of this increased paperwork.
- The emphasis is more on short-term goals. Since the goals are mostly quantitative in nature, it is difficult to do long-range planning because all the variables affecting the process of planning cannot be accurately forecast due to the constantly changing socio-economic and technological environment which affects the stability of goals.
- Most managers may not be sufficiently skilled in interpersonal interaction such as coaching and counseling, which is extensively required.
- The integration of MBO system with other systems such as forecasting and budgeting etc. is very poor. This makes the overall functioning of all systems mare difficult.
- Group goal achievement is more difficult. When the goals of one department depend on the goals of another department, cohesion is more difficult to obtain.

TOPIC 8

STRATEGY ALTERNATIVES

Strategies can be categorized into four;

- Functional level strategies
- Business level strategies
- Corporate level strategies
- Global strategies

FUNCTIONAL LEVEL STRATEGIES

The functional level strategies revolve around the four generic building blocks of competitive advantage; superior quality, superior efficiency, superior innovation and superior customer responsiveness. To appreciate functional level strategies we need to explore how the different value creation functions help in achieving the four generic building blocks of competitive advantage

a) Role of different value creation functions in achieving superior efficiency

Value creation function	**Primary roles**
Infrastructure	▪ Provide company wide commitment to efficiency ▪ Facilitate cooperation between functions
Manufacturing	▪ Where appropriate pursue experience –curve based cost economies ▪ Implement flexible manufacturing systems
Marketing	▪ Where appropriate adopt aggressive to ride down the experience curve ▪ Limit customer defections by building brand loyalty
Material management	▪ Implement JIT systems
R & D	▪ Design products for ease of manufacture ▪ Seek process innovation
Human resources	▪ Institute training programs to build skills ▪ Implementing self managing teams ▪ Implement pay for performance

b) Role of different value creation functions in achieving superior quality:

Value creation function	**Primary role**

Infrastructure (leadership)	▪ Provide leadership and commitment to quality ▪ Find ways to measure quality ▪ Set goals and create incentives ▪ Solicit input from employees
Manufacturing	▪ Shorten production runs ▪ Trace defects to source
Marketing	▪ Focus on the customer ▪ Provide customer feedback on quality
Materials management	▪ Help suppliers implement TQM ▪ Trace defects to suppliers
R &D	▪ Design products that are easy to manufacture
Human resource	▪ Institute TQM training programs ▪ Organize employees into quality teams

c) Role of different value creation functions in achieving superior innovation

Value creation function	**Primary role**
Infrastructure (leadership)	▪ Overall project management ▪ Facilitating cross functional cooperation
Manufacturing	▪ Cooperating with R&D on designing products that are easy to manufacture ▪ Working with R &D on developing process innovations
Marketing	▪ Providing market information to R&D - developing new products
Materials management	▪ No primary responsibility
R &D	▪ Developing new products and processes ▪ Cooperating with other functions, particularly marketing and manufacturing in the product development process
Human resource	▪ Hire talented scientists and engineers

d) Role of different value creation functions in achieving superior customer responsiveness

Value creation function	**Primary role**

Infrastructure (leadership)	▪ Through leadership by example, build a company wide commitment to customer responsiveness
Manufacturing	▪ Achieve customization by implementing flexible manufacturing ▪ Achieve rapid response through flexible manufacturing
Marketing	▪ Know the customer ▪ Communicate customer feedback to appropriate functions
Materials management	▪ Develop logistics systems capable of responding quickly to unanticipated customer demands(JIT)
R &D	▪ Bring customers into the product development process
Human resource	▪ Develop training programs that make employees think of themselves as customers

BUSINESS LEVEL STRATEGIES

Companies pursue business level strategies to gain a competitive advantage that allows them to out perform rivals and achieve above average returns. Business level strategies are premised on the three foundations; customer needs or what is to be satisfied, customer groups or who is to be satisfied and distinctive competencies or how customer needs are to be satisfied. There are various business level strategies but the major ones include;

Porter's generic strategic alternatives

Companies pursue strategies to gain competitive advantage and achieve above average returns. Michael Porter suggested three generic strategies; cost leadership, differentiation and focus. These strategies are called generic strategies because they can be pursued by all businesses or industries regardless of whether they are manufacturing, service or not-for-profit enterprises.

Cost leadership strategy

This generic strategy focuses on being the lowest cost producer relative to competitors in an industry. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers because it will have already become dominant in the industry or because it will be benefiting from exceptional returns. Even without a price war, as the industry matures and prices decline the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market.

Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have the following internal strengths:

- Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome
- Cost cutting innovations that minimize operational costs
- Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
- High level of expertise in manufacturing process engineering.
- Efficient distribution channels
- Economies of scale

This strategy is applicable where;

- Firms have been in production for long and enjoy the benefits of experience curve
- Markets are very sensitive to prices – demand is elastic
- Product is standardized and price reduction is the only way of differentiation
- Switching costs to cheaper product are lower or non existent

Cost leadership strategy protects a firm from all the five competitive forces as suggested by Porter

- Rivalry among the existing firms – a low cost firm stands higher chances of out competing its rivals because it can sell its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share.
- Threat of new entrants – low cost production acts as a barrier for new entrants since they lack the experience to produce at low costs
- Bargaining power of buyers- a low cost firm has the ability to sell at lower prices
- Substitute products – low cost firm is in a better position to use low prices to counter substitute products
- Suppliers – producing at low cost allows the firm to adjust its prices upwards incase suppliers increase prices for their inputs

Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customer perceive to be better than or different from the products of the competitor**.** The value added by the uniqueness of the product may allow the firm to charge a premium for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Differentiation can be obtained through pricing, image building, high quality and distinctive products, superior support services or the products' appeal to customers' psychological needs such as need for prestige or status.

Firms that succeed in differentiation strategy often have the following internal strengths:

- Access to leading scientific research.
- Highly skilled and creative product development team
- Strong sales team with the ability to successfully communicate the perceived strength s of the product
- Corporate reputation for quality and innovation

Differentiation can also guard against competitive forces:

- **Rivals –** a differentiated satisfies its customers in way that competitors can not which enables it to charge a premium price and gain above average profits
- **Threat of new entrants** – differentiation creates a barrier to entry because of customers' preference and loyalty for the company's brand.
- **Buyers** – customers are willing to pay an extra shilling for a differentiated product which satisfies their needs better
- **Suppliers -** Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily.
- **Substitutes –** differentiated product build high customer loyalty which protects the firm against substitutes

FOCUS STRATEGY

The focus strategy involve s dividing the market into a number of market segments and focusing/concentrating on one or more particular segment with either a low cost or differentiation strategy. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation –focused strategy may be able to pass higher costs on to customers since close substitute

products do not exist. Firms that succeed in focus strategy are able to tailor a broad range of product development strength to a relatively narrow market segment they know very well.

The focus strategy works better where;

- Different groups of buyers with different needs or utilize the product in different ways
- No rival is attempting to specialize in the target segment
- The firms resources do not permit to go for a wide segment of the market
- Some segments are much more attractive than others due to differences in size growth rate and profitability.

The focus strategy also guards the firm against competitive forces:

- Rivals – rival firms may not be able to serve the market segment as the focuser does
- Threat of new entrants – the competitive advantage due to the focuser's unique competences makes it difficult for new entrants to enter
- Substitutes – the focuser is in a better position to satisfy the customers better than the substitutes
- Buyers – understanding customers' needs and sufficiently satisfying them creates customer loyalty
- Suppliers - pursuing a differentiation –focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Product-market strategies

Igor Ansoff gives four strategic approaches available to the firms, which are represented on the product-market matrix. Ansoff's product-market matrix with existing and new markets on the vertical axis while existing and new products on the horizontal axis.

ANOFF'S PRODUCT-MARKET MATRIX

To portray alternative corporate growth strategies, Igor Anoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoff's matrix is shown below:

ANSOFF MATRIX

	Existing Products	**New Products**
Existing Markets	**Market Penetration**	**Product Development**
New Markets	**Market Development**	**Diversification**

Ansoff's matrix provides four different growth strategies:

- **Market Penetration** - the firm seeks to achieve growth with existing products in their current market segments, aiming to increase its market share.
- **Market Development** - the firm seeks growth by targeting its existing products to new market segments.
- **Product Development** - the firms develops new products targeted to its existing market segments.
- **Diversification** - the firm grows by diversifying into new businesses by developing new products for new markets.

<u>Selecting a Product-Market Growth Strategy</u>

The **market penetration** strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow.

Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy.

A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share.

Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, this quadrant of the matrix has been referred to by some as the "suicide cell". However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

GLUECK ET-AL'S APPROACH TO COMPETITIVE STRATEGIES

a) Stability strategies:

This is where a firm maintains the status quo with minor or no modifications. The firm continues serving the same customer needs in the same market using the same means. This strategy is less risky and ideal for firms that have already consolidated their positions in their markets and they therefore see no reason of changing a winning formula. However it is only appropriate if the business environment is relatively stable or predictable.

b) Expansion strategy

This involves introducing additional products, venturing into new territories or expanding its functions through vertical integration. Glueck et al give the following reasons for adopting the expansion strategy:

- It's a sign of good performance in terms of effectiveness
- Motivates the firms management

- Pressure from stockholders to reinvest the firms' profit for expansion
- To take advantage of the existing or emerging un exploited market

However expansion may be costly. Therefore, a business pursuing this strategy must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks

c) Retrenchment strategies:

This is where a firm reduces its product lines or divests itself of a major product line, abandons some market territories or reduces its functions. A company may pursue retrenchment strategies when it has a weak competitive position in some or all of its product lines resulting in poor performance.

- Sales are down and the firm is making losses.
- Ideal in declining stages of a firm with no prospects
- Environment is so threatening that the firm's internal strengths are not sufficient to meet the problems on threat in the environment.
- Firm perceives better opportunities else where.

d) Combination of strategies:

This is where a firm consciously uses several of the above strategies simultaneously or sequentially. A firm may stabilize in its strongholds, expand profitable ones and retrench the un profitable activities. Combination strategies are ideal for big multiple strategic business units with different product or industry life cycles.

Market-oriented strategies:

Kotler and Armstrong give four strategic market oriented approaches to competitiveness. According to them firms occupy different competitive positions in markets depending on the roles they play in the target market. A firm may be a market leader, market challenger, market follower or a market Nicher. All these competitive positions require different competitive strategies.

1. **Strategies for market leaders**

   In any industry there is always an acknowledged market leader that enjoys the largest market share. To remain number one the leading firm needs to expand its total market, protect its current market share or expand its market share

a) **Expanding the total market**

   A firm may expand its markets by looking for new users; new uses and ensuring increased usage of the company's products.

   - New users can be got in new geographical markets which are unaware of the product or convincing those who have not been consuming the product to so.
   - New uses – the market leader may discover the new uses itself or can observe its customers to find out how else they are using the product.
   - More usage can be increased by convincing the customers to use the product more often. This is applicable where the excessive use of the product is not harmful to health.

b) **Protecting market share**

   The firm may protect its market share using the following defensive strategies;

   - Position defense: firm defends the current market position against attack
   - Flanking defense: the firm protects its more vulnerable
   - Preemptive defense: the leader strikes competitor's strong holds before they can attack it.
   - Counter offensive defense:leader reacts aggressively to competitor's attacks.
   - Mobile defense: leader stretches into new markets that can serve as future bases for defense and offense
   - Contraction defense: A company gives up weaker positions and concentrates its resources on stronger ones

c) **Expanding market share**

   A leading firm needs to grow its market shares further to increase its sales volume and profitability.

2. **Strategies for market challengers**

   Attacking a market leader may be risky because the leader will always respond aggressively.

   The market challenger can use the following attack strategies

   - **Frontal attack –** challenger goes head-on and attacks the leader's strong holds.

- Flanking attack – challenger attacks the opponents weak areas and develops them into strong bases
- By pass attack – challenger by passes the competitor and leapfrogs into new technologies to replace existing products
- Guerilla attack – challenger makes small periodic attacks to harass or demoralize the competitor with the hope of eventually establishing permanent footholds. Normally guerilla attacks are followed by stronger attacks and are carried out by small firms against large firms.

3. **Sstrategies for market followers**

   Due to fear of response most companies prefer to follow rather than attack the leader. Market follower may take any of the following;

- Cloner – follower closely copies the leader's marketing programs
- Imitator – copies but maintains some differentiation

4. **Strategies for market nichers**
5.

   A market nicher is a firm in an industry that serves small segments that other firms overlook or ignore. Such small segments are called niches. This strategy is ideal for a small firm with limited resources but which concentrates on a market segment and serve it better than competitors, which enhances its competitive position. Kotler et al suggest different strategies that can be used by a market nicher.

- End use specialist – targets a segment of end users e.g. specializing in garments for professional women
- Vertical level specialist – specializes at some level of production distribution cycle e.g. Simba telecom
- Customer size specialist – firm concentrates on either small, medium or large customers(retailers & wholesalers)
- Geographical specialist – sells to a certain locality or area
- Product or feature specialist e.g. producing exhaust pipes or wheel caps for cars
- Quality –price specialist e.g. high quality high price- low quality low price
- Service specialist e.g. software for computer manufacturers

CORPORATE LEVEL STRATEGIES

Corporate level strategy is concerned with two main questions;

a) What business areas should a company participate in so as to maximize its long run profitability?
   - Vertical integration
   - Strategic alliances
   - Diversification

b) What strategies should a company use to enter into and exit from business areas or revitalize its core business area?
   - Acquisition
   - Internal new ventures
   - Joint ventures
   - Restructuring
   - Turn around

1) **VERTICAL INTERGRATION**

There are two types of vertical integration; backward or upstream integration and forward or down stream integration.

Backward integration is when a company is producing its own inputs.

For example a steel company that supplies its iron ore needs from company-owned iron ore mines exemplifies backward integration.

Forward integration means that a company is disposing of its own output. E.g. an auto manufacturer that sells its cars through company own distribution outlets illustrates forward integration

Besides, forward and backward integration a firm may use full or taper integration. A company achieves full integration when it produces all of a particular inputs needed for its processes or when it disposes of all its output through its own distribution channels. Taper integration occurs when a company buys from independent suppliers in addition to company owned suppliers or when it disposes of its output through independent outlets in addition to company owned outlets.

Arguments for pursuing a vertical integration strategy

- **Building barriers to entry**
  By vertically integrating backward to gain control over resources of critical inputs or vertically integrating forward to gain control over distribution channels, a company can build a barriers to entry into its industry.

- **Facilitating investments in specialized assets**
  A specialized asset is an asset that is designed to perform a specific task and whose value is significantly reduced in its next best use. A specialized asset may be a piece of equipment that has very specialized uses, or it may be know how or skills that an individual or company has acquired through training and experience. Companies are hesitant to outsource specialized assets because they fear **mutual dependence and risk of hold up** and the suppliers hesitant to invest in them for the very reason. Mutual dependence is a situation where as a result of investment in specialized assets suppliers depend on the company as the only possible customer of their output while the company depends on the suppliers as only source for its inputs. Risks of hold up refers to a risk of being taken

  Advantage of by a trading partner after investment in specialized assets has been made.

- **Protecting product quality**
  Vertical integration enables a company to control quality. E.g. when MacDonald's decided to open up its own restaurant in Moscow, it found that in order to serve food and drinks indistinguishable from that served in their restaurant elsewhere it had to vertically integrate backward and supply their own needs. The quality of Russian potatoes and meat was simply too poor. Thus to protect the quality of its product, MacDonald's set up it own diary firms, cattle ranches, vegetable fruits and food processing plants with soviet union.

- **Improved scheduling**
  Companies which vertically integrate backwards enjoy easier planning, coordination and scheduling of adjacent processes. This is particularly important in companies trying to realize the benefits of Just In time (JIT) inventory systems because they control the source of inputs. Forward vertical integration may also enable a company respond better to sudden changes in demand conditions or get its products into the market place faster.

Arguments against Vertical integration

- **Cost disadvantages**
  Vertical integration can raise costs if a company becomes committed to purchasing inputs from company owned suppliers when low cost external sources of supply exist. Company owned suppliers usually have higher operating costs compared with independent suppliers because company owned suppliers know that they can always sell their output to other parts of the company. Since they do not have to compete for orders, it lessens the incentive to minimize

operating costs. Managers of the supply operations may be tempted to pass on any cost increases to other parts of the company in form of high transfer prices, rather than looking for ways to lower those costs.

- **Technological change**
  When technology is changing fast, vertical integration poses the hazard of tying the company to an obsolescent technology. E.g. in 1950's radio manufacturers which integrated backwards and acquired vacuum tubes companies later found themselves stranded in technological obsolescent businesses when transistors replaced vacuum tubes. On contrary competitors that did not integrate rapidly switched to new technologies (transistors) which enhanced their market share.

- **Demand uncertainty**
  Vertical integration can also be risky in unstable and unpredictable demand conditions. Unstable demand brings the problem of balancing capacity among the different stages of the process and results into inefficiencies which give rise to significant bureaucratic costs. E.g. an auto manufacturer might vertically integrate to acquire a supplier of carburetors that has a capacity exactly matching the auto manufacturers' needs. However if the demand for autos subsequently falls the auto makers will find itself locked into the business that is running below capacity which certainly would be uneconomical.

- **Bureaucratic costs**
  These are generally the costs of running a vertically integrated organization. As already noted integration may result in substantial costs caused by lack of incentives on part of the company owned suppliers to reduce costs, lack of strategic flexibility in times of changing technology, by uncertain demand and all other costs that stem from bureaucratic inefficiencies. It makes sense for a company to vertically integrate only if the value created by such a strategy exceeds bureaucratic costs associated with expanding the boundaries of the organization to incorporate additional upstream and downstream activities.

2. STRATEGIC ALLIANCE

This is where two companies enter into long term cooperative relationship with their trading partners. One company agrees to supply the other while the other agrees to continue purchasing from that supplier. Both companies make commitment to jointly seek ways of either lowering costs or raising the quality of inputs into the down stream company's value creation processes. This allows companies to share the value associated with vertical integration while avoiding many of the bureaucratic costs linked with the ownership of an adjacent stage in the raw material to consumer production chain. This strategy is widely used by most Japanese auto companies which produce less than 30 percent of their output in house and out-source more than 70 percent through strategic alliances with other companies.

How to make strategic alliances work

Companies may hesitate to enter strategic alliances due to lack of trust and the fear of hold up that arises when one company has to invest in a specialized asset in order to trade with another. To address these fears companies can take specific steps to ensure that each party to contract keeps its side of the bargain.

- **Hostage taking**
  This is essentially a means of guaranteeing that a partner will keep its side of the bargain. Companies hold each other hostage by each supplying a vital input to the other. This makes both companies to be mutually dependent and can be used as an insurance against each other's unilateral renege on prior agreements.

- **Credible commitments**
  A credible commitment is a believable commitment to support the development of a long term relationship between companies. Companies enter into contractual agreements that commit them to continue purchasing or supplying to their counterparts. Where a company has to invest in specialized assets in order to trade with another, the buying company may contribute on the costs of developing customized assets. By putting some money in development of customized assets essentially means that a company has made a credible commitment to continue purchasing those assets from the supplier.

Maintaining market discipline

This is where companies put sanctions to govern their long –term relationships. To avoid being dependent on an inefficient partner a company has to find a way of applying some kind of market discipline to its partner. This can be done through renegotiated contracts and parallel sourcing policy. With renegotiated contracts a partner knows that if it fails to live up its commitments, the company may refuse to renew the contract. Parallel sourcing refers to a situation where a company enters into a long term contract with two suppliers for the same part. This arrangement gives a company a hedge against a defiant partner, for each supplier knows that if it fails to comply with the agreement, the company can switch all its business to the other.

- The major disadvantage with strategic alliance is that a company runs the risk of giving away key technology to its partner. However this risk could be minimized if a company gets a credible commitment from its partner.

3. DIVERSIFICATION

There are two major types of diversification;

Related diversification and unrelated diversification

Related diversification is a diversification into a new business activity that is linked to a company's existing business activity or activities by commonality between one or more components of each activity's value chain.

Unrelated diversification is diversification into new business area that has no obvious connection with any of the company's existing areas

- **Creating value through diversification**
  The diversified company can create value in three ways; by acquiring and restructuring poorly run enterprises, by transferring competencies among businesses and by realizing economies of scope.

- **Acquiring and restructuring**
  A restructuring strategy rests on the presumption that an efficiently managed company can create value by acquiring inefficient and poorly managed enterprises and improving their efficiency. This approach can be considered diversification because the acquired company does not have to be in the same as the acquiring company for the strategy to work. Improvements in the inefficiency of an acquired company may come from; replacing the top management team with more aggressive management, selling off unproductive assets, seeking out efficient methods, motivating the new management team and linking the reward system with performance.

- **Transferring competences**
  Companies that base their diversification strategy on transferring competences seek out new business related to their existing business by one or more value creation functions. Companies may use one or more of their existing value creation functions in order to improve the competitive position of the new businesses. Alternatively a company may acquire a company in a different business area in the belief that some of the skills of the acquired company can improve the efficiency of their existing value creation activities.

- **Economies of scope**
  Economies of scope arise when **2 or more business units** share resources such as manufacturing facilities, distribution channels, advertising campaigns or R&D costs. Each business that shares the resources has to invest less in the shared functions. In addition such a strategy can utilize the capacity of certain functions better. E.g. by producing the components from the assembly operations of two distinct businesses, a component manufacturing plant

may be able to operate at greater capacity, there by realizing economies of scale in addition to economies of scope.

LIMITATIONS OF DIVERSIFICATION

Research indicated that extensive diversification tends to depress rather than improve company profitability.

- **Bureaucratic costs**

One reason for the failure of diversification is that all too often the bureaucratic costs of diversification exceed the value created by the strategy. The level of bureaucratic costs in a diversified organization is a function of two factors;

a) *the number of business in a company's portfolio and*
b) *The extent of coordination required between the different businesses of the company in order to realize value from a diversified strategy.*

The greater the number of businesses in a company's portfolio the more difficult it is for corporate management to remain informed about the complexity of each business. Management may not have the time to process the information overload in extensively diversified companies which may lead corporate level management to base important resource allocation decisions on superficial analysis of each business unit's competitive position. On the other hand both the transfer of competitive competencies and achievement of economies of scope demand close coordination among business units which increases the bureaucratic costs, depress the company's profits and hence significantly erodes the benefits associated with diversification.

- **Diversifying for wrong reasons**

More often than not companies diversify either to pool risks or to achieve greater growth.

Both reasons end up dissipating value rather than creating it. Research shows that corporate diversification is not a very effective way to pool risks. This is because the business cycles of different industries are not easy to predict and in any case they tend to be less important than a general economic down turn, which may hit all the industries simultaneously. On the other hand growth on its own does not create value. Growth should be the by product not the objective of diversification strategy. Otherwise scattering the company's resources in pursuit of growth alone may be a source of competitive disadvantage.

4. ACQUISITIONS VERSUS INTERNAL NEW VENTURES AS ENTRY STRATEGIES

Acquisitions involve buying an existing business and internal new venture involves starting a new business from scratch. Entry into new business area through acquisition involves purchasing an established company, complete with all its facilities, equipment and personnel. Entry into business area through internal new venturing means starting a business from scratch; building facilities, purchasing equipment, recruiting personnel opening up new distribution channels and so on.

Factors that influence the choice between acquisitions and internal new venture

- **Barriers to entry**

When barriers to entry are substantial, a company finds entering an industry through internal new venturing difficult. To enter, a company may have to construct an efficient-scale manufacturing plant, undertake massive advertising to break down established brand loyalties, and quickly build distribution outlets – all involve substantial expenditures. In such a case acquiring an already existing company is viable option.

- **Relatedness**

The more related the new business is to a company's established operations, the lower are the barriers to entry and the more likely it is that the company has accumulated experience with this type of business. This makes new venturing a more attractive mode of entry. In contrast the more unrelated a new business is, the more likely is entry to be through acquisition.

- **Speed and costs of development**

  Internal new venturing takes years to generate substantial profits yet establishing a significant market presence can be both costly and time consuming. On average it takes eight years for a new venture to reach profitability and ten to twelve years before the profitability of average venture equals to that of mature business. In contrast acquisition is a much quicker way to establish a significant market presence and generate profitability. A company can purchase a market leader in a strong cash position rather than spend years building up market leadership position through internal development.

- **Risk of entry**

  New venturing tends to be an uncertain process with low probability of success. Research shows that only between 10 to 12 percent of R&D- based new ventures actually succeed in earning an economic profit. On the other hand with acquisition, a company is acquiring known profitability, known revenues, and known market shares; thus it reduces uncertainty**.**

- **Industry life cycle factors**

  The different stages of industry life cycle present different competitive environments which influence the choice between acquisition and internal new venturing. Internal

new venturing seems to be the favored entry mode in embryonic and growth industries because of low entry barriers whereas acquisition is more appropriate in mature industries.

Why acquisitions fail?

There are 4 major reasons why many acquisitions fail to create value.

a) Integration of divergent corporate cultures

The acquiring company has to integrate the acquired business into its own organizational structure. Integration can entail the adoption of common management and financial control systems, the joining together of operations or the establishment of linkages to share information and personnel. However due to the differences in corporate cultures integration may cause unexpected problems to occur. E.g. many acquired companies experience high management turn over, possibly their employees do not like the acquiring company's way of doing things. This loss of management talent and expertise, let alone the damage of the constant tension between the businesses, can materially harm the performance of the acquired unit.

b) Over estimating the economic benefits

More often than not companies over estimate the strategic advantages that can be derived from the acquisition and thus pay more for the target company than it is probably worth. This situation is normally created by top managers who over estimate their ability to create value from an acquisition, primarily because rising to the top of the corporation gives them an exaggerated sense of their own abilities

c) Expenses of acquisition

Sometimes expenses of acquiring a company may be enormous. This is especially so for publicly traded companies where two or more companies simultaneously bid for control of a single target company. Thus the acquiring company must often pay a premium over the current market value of the target.

d) Inadequate pre - acquisition screening

Many companies decide to acquire other firms without thoroughly analyzing the potential benefits and costs. It is until after acquisition that most companies discover that instead of buying a well run businesses, they have purchased troubled organization. The screening should begin with a detailed assessment of the rationale for making the acquisition and identification of the kind of enterprise that would make an ideal acquisition candidate. The screening should scan the potential target of acquisition basing its financial position, product market position, competitive environment, management capabilities and corporate cultures.

Why internal new ventures fail?

a) Scale of entry

Most internal new ventures fail because they enter on a small scale and as a result suffer significant cost disadvantages. Although in the short run large scale entry means significant development costs and substantial losses, in long run it brings greater returns than small scale entry.

b) Commercialization

To be commercially successful innovations must be developed with the market requirements in mind. Many internal new ventures fail when a company ignores the basic needs of the market. A company may be obsessed with technological possibilities of a new product and fail to analyze market opportunities properly.

c) Poor implementation

Most companies expect a lot of benefits from the venture too soon. This is brought about by the failure to anticipate the time and costs involved in the venture processes. Some companies work with a philosophy of killing the new businesses if they do not turn a profit by the end of the third year yet on average, it takes eight to ten years before a venture generates substantial profits.

5. JOINT VENTURES

This is a situation where a company prefers to jointly enter into a new business area with another company.

Advantages associated with this strategy include;

- **Shared costs and risks**

Sometimes the costs associated with starting up a new business may be more than what a company is willing or able of assuming on its own which necessitates seeking for a partner.

Also because of risks associated with starting up new ventures a company is better off if it shares the risks with the partner.

- **Complementary assets and skills**

Joint ventures can work smoothly if the two companies have complementary skills and assts.

However, this strategy has got a number of drawbacks;

- Profits are divided between the two companies

- A joint venture runs the risk of giving critical know how away to its joint venture partner, which might use that know how to compete directly with the company in future.
- Different business philosophies, investment preferences and risk profiles can cause substantial control problems.

6. RESTRUCTURING

This is a strategy for reducing the scope of the company by exiting from some business areas. There are a variety of reasons why companies restructure;

- Over diversification – the bureaucratic inefficiencies created by expanding the scope of the organization outweigh the additional value that can be created by such a move which depresses the company's performance.
- Competitive challenges may force a company to concentrate on its core business making it inevitable to exit from some business areas.
- Innovations in management processes may diminish the advantages of vertical integration and diversification. E.g. long term cooperative relationships (strategic alliances) between a company and its suppliers have become a viable alternative to vertical integration.

Companies choose from these three main strategies for exiting business areas;

- Divestment
- Harvest
- Liquidation

7. TURN AROUND STRATEGY

These are strategies that companies employs to revitalize their core business area. There are different steps that a company can do to turn around their businesses but first it is necessary to know why companies fail.

The causes of corporate failure:

- Poor management
- Over expansion
- Inadequate financial controls
- High costs
- New competition
- Unforeseen demand inertia
- Prior competitive commitments

Main steps of turn around:

- Changing the strategic leadership
- Redefining strategic focus
- Asset sales and closures
- Improving profitability
  - ✓ Layoffs of employees
  - ✓ Investment in labor saving equipments
  - ✓ Assignment of profit responsibility to individuals and sub units within the company
  - ✓ Tightening financial control
  - ✓ Reengineering business processes to cut costs and boost productivity.
  - ✓ Acquisition to strengthen the company’s core business.

CORPORATE LEVEL STRATEGIES

- **Vertical integration**
- **Strategic alliances**
- **Diversification**
- **Acquisition**

1. VERTICAL INTEGRATION

There are two types of vertical integration; backward or upstream integration and forward or down stream integration.

Backward integration is when a company is producing its own inputs. For example a steel company that supplies its iron ore needs from company-owned iron ore mines exemplifies backward integration.

Forward integration means that a company is disposing of its own outputs. For example an auto manufacturer that sells its cars through company owned distribution outlets illustrates forward integration.

Besides forward and backward integration a firm may use full or taper integration. A company achieves full integration when it produces all of a particular input needed for its processes or when it disposes of all of its output through its own distribution channels. Taper integration occurs when a company buys from independent suppliers in addition to company owned suppliers or when it disposes of its output through independent outlets in addition to company owned outlets.

Arguments for pursuing a vertical integration strategy

- **Building barriers to entry**

By vertically integrating backward to gain control over the sources of critical inputs or vertically integrating forward to gain control over distribution channels, a company can build barriers to entry into its industry.

- **Facilitating investment in specialized assets:**

A specialized asset is an asset that is designed to perform a specific task and whose value is significantly reduced in its next best use. A specialized asset may be a piece of equipment that has very specialized uses, or it may be know how or skills that an individual or company has acquired through training and experience. Companies are hesitant to outsource specialized assets because they fear mutual dependence and risk of hold up and the suppliers hesitant to invest in them for the very reason. Mutual dependence is a situation where as a result of investment in specialized assets suppliers depend on the company as the only possible customer of their output while the company depends on the suppliers as only source for its inputs. Risk of hold up refers to a risk of being taken advantage of by a trading partner after investment in specialized asset has been made.

- **Protecting product quality**

Vertical integration enables a company to control quality. For example when McDonald's decided to open up its own restaurant in Moscow, it found that in order to serve food and drink indistinguishable from that served in their restaurants else where it had to vertically integrate backwards and supply their own needs. The quality of Russian potatoes and meat was simply too poor. Thus, to protect the quality of its product, McDonald's set up its own dairy firms, cattle ranches, vegetable plots and food processing plant with the Soviet Union.

- **Improved scheduling**

Companies which vertically integrate backwards enjoy easier planning, coordination and scheduling of adjacent processes. This is particularly important in companies trying to realize the benefits of Just in Time inventory systems because they control the sources of in puts. Forward vertical integration may also enable a company respond better to sudden changes in demand conditions or get its products into the market place faster.

Arguments against vertical integration.

- **Cost disadvantages**

Vertical integration can raise costs if a company becomes committed to purchasing inputs from company owned suppliers when low cost external sources of supply exist. Company owned suppliers usually have high operating costs compared with independent suppliers because company owned suppliers know that they can always sell their output to the other parts of the company. Since they do not have to compete for orders it lessens the incentive to minimize operating costs. Managers of the supply operations may be tempted to pass on any cost increases to other parts of the company in form of high transfer prices, rather than looking for ways to lower those costs.

- **Technological change**

When technology is changing fast, vertical integration poses the hazard of tying a company to an obsolescent technology. For example in the 1950s radio manufacturers which integrated backwards and acquired vacuum tubes companies later found themselves stranded in technologically obsolescent businesses when transistors replaced vacuum tubes. On contrary competitors that did not integrate rapidly switched to new technologies (transistors) which enhanced their market share.

- **Demand uncertainty**

Vertical integration can also be risky in unstable or unpredictable demand conditions. Unstable demand brings the problem of balancing capacity among the different stages of the process and results into inefficiencies which give rise to significant bureaucratic costs. For example an auto manufacturer might vertically integrate to acquire a supplier of carburetors that has a capacity exactly matching the auto manufacturer's needs. However if the demand for autos subsequently falls the auto maker will find itself locked into a business that is running below capacity which certainly would be uneconomical.

- **Bureaucratic costs**

These are generally the costs of running a vertically integrated organization. As already noted integration may result in substantial costs caused by lack of incentives on part of company owned suppliers to reduce costs, lack of strategic flexibility in times of changing technology, by uncertain demand and all other costs that stem from bureaucratic inefficiencies. It makes sense for a company to vertically integrate only if the value created by such a strategy exceeds bureaucratic costs associated with expanding the boundaries of the organization to incorporate additional upstream and downstream activities.

2. STRATEGIC ALLIANCE

This is where two companies enter into long term cooperative relationships with their trading partners. One company agrees to supply the other while the other agrees to continue purchasing from that supplier. Both companies make commitment to jointly seek ways of either lowering costs or raising the quality of inputs into the down stream company's value creation processes. This allows companies to share the value associated with vertical integration while avoiding many of the bureaucratic costs linked with ownership of an adjacent stage in the raw-material-to –consumer production chain. This strategy is widely used by most Japanese auto

companies which produce less than 30 percent of their out put in house and out-source more than 70% through strategic alliances with other companies.

How to make strategic alliances work

Companies may hesitate to enter strategic alliances due to lack of trust and the fear of hold up that arises when one company has to invest in a specialized asset in order to trade with another. To address these fears companies can take specific steps to ensure that each party to contract keeps its side of the bargain.

- **Hostage taking**

  This is essentially a means of guaranteeing that a partner will keep its side of the bargain. Companies hold each other hostage by each supplying a vital input to the other. This makes both companies to be mutually dependent and can be used as insurance against each other's unilateral renege on prior agreements.

- **Credible commitments**

  A credible commitment is a believable commitment to support the development of a long term relationships between companies. Companies enter into contractual agreements that commit them to continue purchasing or supplying to their counterparts. Where a company has to invest in specialized assets in order to trade with another, the buying company may contribute on the costs of developing customized assets. By putting some money in development of customized assets essentially means that a company has made a credible commitment to continue purchasing those assets from the supplier.

TOPIC 9

STRATEGY IMPLEMENTATION

Though important strategy formulation is not a sufficient condition for its success. Many times strategies fail because of poor implementation. Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan. It consists of processes of transforming a plan into action and ensuring that the intended out comes do result. It tries to answer the following questions.

- Who are the people to carry out the strategic plan?
- What must be done to align the company's operations in the new intended direction?
- How is every one going to work together to do what is needed?

Problems that are frequently encountered during strategy implementation.

- Implementation may take more time than originally planned.
- Unanticipated major problems may arise.
- Activities may be ineffectively coordinated
- Competing activities and crises may take attention away from implementation.
- The involved employees may have insufficient capabilities to perform the jobs.
- Lower – level employees may be inadequately trained.
- Uncontrollable external environmental may factors create problems
- Departmental managers could provide inadequate leadership and direction
- Key implementation tasks and activities may be poorly defined
- The information system may inadequately monitor activities.

Major components of the strategy implementation process

- Communication of measurable corporate objectives and strategy
- Determination of key managerial tasks that need to be accomplished
- Assigning tasks to various departments of the organization
- Establish coordination mechanisms and how authority will be delegated
- Budgeting and allocation of resources to the implementing departments
- Formulate and state policies and procedures as guides to the tactical decisions and actions
- Clarify goals of various individual managers preferably through a participatory approach like MBO
- Operationalize ways and state the indicators to measure performance
- Build an IT based MIS to provide adequate and timely data for business evaluation
- Install a reward system to motivate staff and achieve desirable behavior like creativity
- Develop staff and inculcate corporate values and styles of behavior and leadership
- Ascertain adequacy of control mechanisms

Who implements strategy?

In most large multi industry corporations, the implementers are every one in the organization. Heads of functional areas and heads / directors of divisions or strategic Business units, work with their subordinates to put together large-scale implementation plans. Every operational manager down to the first line supervisor and every employee are involved in some way in implementing corporate, business and functional strategy. Changes in mission, objectives, strategies, and policies and their importance must be clearly communicated to all operational managers in order to avoid resistance to change.

What must be done?

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

- **Programmes:**

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

- **Budgets:**

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

- **Procedures:**

  Procedures, sometimes termed "Standard Operating Procedures'' (SOPS) are a system of sequential steps or techniques that describe in detail how particular task or job is to be done. These procedures ensure that the day-to-day operations will be consistent over time and consistent among locations. After the programme, divisional and corporate budgets are approved; procedures must be developed or revised. They typically detail the various activities that must be carried out to complete a corporation's programs.

- **Policies**

  A policy is a broad guide line for decision making that links the formulation of a strategy with implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives and strategies.

Policies help to ensure that;

1. Strategic decisions are implemented
2. There is a basis for control
3. The amount of time executives spend making decisions is reduced
4. Similar situations are handled consistently
5. Coordination between units occurs

Achieving synergy

One of the goals to be achieved in strategy implementation is synergy between and among functions and business units, which is why corporations commonly reorganize after an acquisition. Synergy is said to exist for a divisional corporation if the return on investment (ROI) of each division is greater than what the return would be if each division were an independent business. The acquisition of or development of additional product lines is often justified on the basis of achieving some advantages of scale in one or more of a company's functional areas.

Synergy can take place in one of six ways;

1. Shared know-how
2. Coordinated strategies
3. Shared tangible resources
4. Economies of scale or scope
5. Pooled negotiating power
6. New business creation

How is strategy to be implemented?

Before plans can lead to actual performance, top management must ensure that the corporation is appropriately organized, programs are adequately staffed and activities are being directed toward the achievement of desired objectives.

The role of Organizational structure:

Generally designing the organizational structure involves answering the following questions

- How does the firm structure itself to get effective results?
- Which organizational structure is best in the circumstances of the firm?
- What tasks need to be performed to accomplish the strategy?
- To whom should these tasks be assigned?
- To what extent do these tasks depend on each other?
- How can we ensure effective performance of these tasks?

Any change in corporate strategy is very likely to require some sort of change in the organization structure and in the kind of skills needed in particular positions. Managers must therefore closely examine the way their company is structured in order to decide what if any changes should be made in the way work is accomplished for example should activities be grouped differently? Should the authority to make decisions be centralized at headquarters or decentralized to managers in distant locations? Should a company be organized into a tall structure with many layers of managers, each having a narrow span of control (that is few employees to supervise) for better control of subordinates or should it be organized into a flat structure with few layers of managers each having a wide span of control (that is more employees to supervise) to give more freedom to subordinates?

Flat versus tall structure

Flat structures have few hierarchal levels relative to the size of the organization and thus a relatively wide span of control. The span of control is defined as the number of subordinates a manager directly manages. Tall structures have many hierarchal levels relative to size and thus a relatively narrow span of control. Organizations should keep their structures as flat as possible because of the problems and bureaucratic costs associated with tall structures. These include;

- Coordination problems-Too many hierarchical levels impede communication and coordination between employees and functions and raise bureaucratic costs. Communication takes longer as the chain of command lengthens. This leads to inflexibility and valuable time is lost in bringing new product to the market or keeping up with technological developments.
- Information distortion- both upward and downward information may be misinterpreted, distorted, blocked or deliberately doctored to suit the interest of the various gatekeepers along the hierarchy
- Motivational problems-managers in the flat structure have much more authority and since they are few their performance is more visible and can therefore expect big rewards when the company does well. This enhances their motivational levels.
- Expenses –managerial salaries, benefits, offices, secretaries

Tall versus Flat Organizations

	Advantages	Disadvantages
Tall	▪ More promotional opportunities ▪ Smoother progression from one level to another ▪ Small spans of control lead to more personal contact	▪ Promotions less meaningful ▪ More expensive in terms of management overheads ▪ Extra levels of management slow down decision-making and communication
Flat	▪ Wide span of control encourages more delegation ▪ Lower management costs ▪ Better communication ▪ Promotions are real and meaningful ▪ Closer contract between senior management and lower levels	▪ Lack of personal contact ▪ Fewer promotions ▪ Higher risk of failure when promoted

Centralization v Decentralization

Authority is centralized at the upper levels of the organizational hierarchy retain the authority to make the most important decisions. When authority is decentralized, it is delegated to divisions, functional departments, and managers at lower levels in the organization. The arguments for and against decentralization are as follows:

Pros	Cons
• Senior management free to concentrate on strategy-reduces information overload • Reduces bureaucratic costs – reduces communication and coordination costs since information does not have to be constantly sent to the top of the organization for decisions to be made. • Better local decisions due to local expertise • Quicker responses to customer needs • Better motivation- handling challenging tasks motivates low level managers • Flexibility-low level managers are authorized to make spot-on-decisions. • Training / career path	• Loss of control – managers at all levels can make their own decisions • Dysfunctional decisions due to a lack of goal congruence – many decisions may make the organization to loose focus of its broad objectives • Poor decisions made by inexperienced managers • Inappropriate for crisis situations where speedy decision making and a concerted response by the whole organization is required • Training costs • Duplication • Extra costs re information

Structure follows strategy

Changes in corporate strategy leads to changes in organizational structure. Changes in the environment tend to be reflected in changes in a corporation's strategy, thus leading to changes in a corporation's structure. Strategy, structure and the environment need to be closely aligned; otherwise, organizational performance will suffer e.g. a business unit following a differentiation strategy needs more freedom from headquarters to be successful than does another unit following a low cost strategy.

Stages of corporate development

Successful corporations tend to follow a pattern of structural development, called stages of development as they grow and expand.

- Simple structure of the Entrepreneurial firm (everybody does everything)
- These simple firms get larger and organize along functional lines with marketing, production and finance departments.
- With continued success it adds new product lines in different industries and organizes itself into interconnected divisions. N.B the problems, objectives, strategies, reward systems and other characteristics are different in all the 3 stages.

DIFFERENT TYPES OF STRUCTURES

A typical pattern of structural change can be represented by the following sequence.

Entrepreneurial/simple structure

This type of structure is built around the owner manage and is typical of small companies in the early stages of their development. The structure is totally centralized with all key decisions being made by the strategic leader. The entrepreneur tends to make all the important decisions personally and is involved in every detail and phase of the organization. The company has little formal structure, which allows the entrepreneur to directly supervise the activities of every employee. Planning is usually short-range or reactive. The typical managerial functions of planning, organizing, directing, staffing and controlling are usually performed to a very limited degree if at all. The greatest strengths of a stage I corporation are its flexibility and dynamism. The drive of the entrepreneur energizes the organization in its struggle for growth.

Its greatest weakness is its extreme reliance on the entrepreneur to decide general strategies as well as detailed procedures.

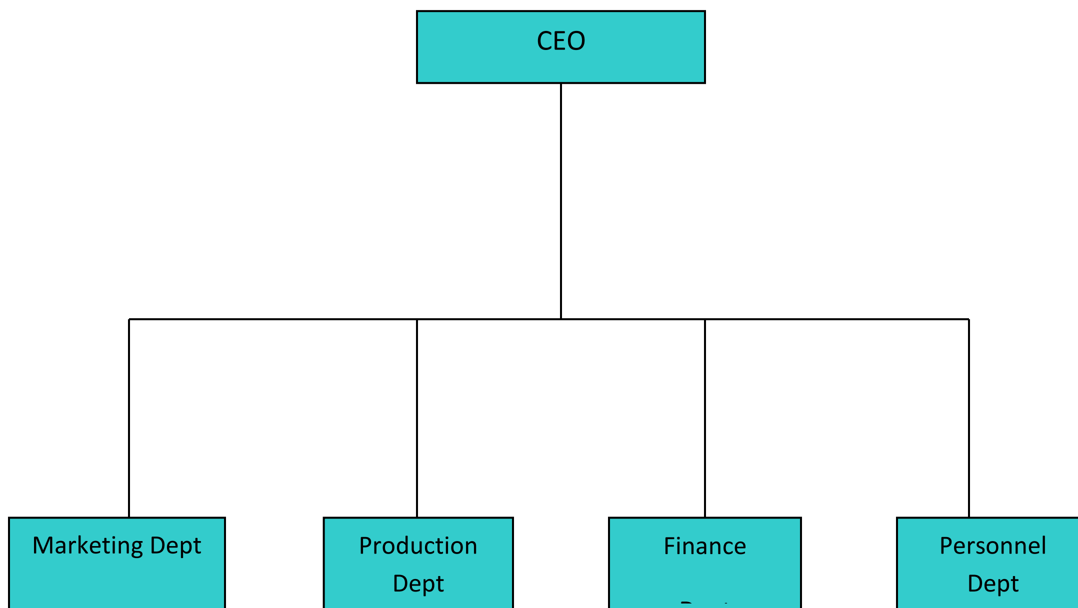
If the entrepreneur falters, the company usually flounders.

Advantage	Disadvantages
▪ Fast decision making ▪ More responsive to market ▪ Good control ▪ Close bond to workforce	▪ Lack of career structure ▪ May be too centralized ▪ Cannot cope with diversification / growth

The Functional structure

This type of structure is common in organizations that have outgrown the entrepreneurial structure and now organize the business on a functional basis. It is most appropriate to small companies, which have few products and locations, which exist in a relatively stable environment.

Functional structure

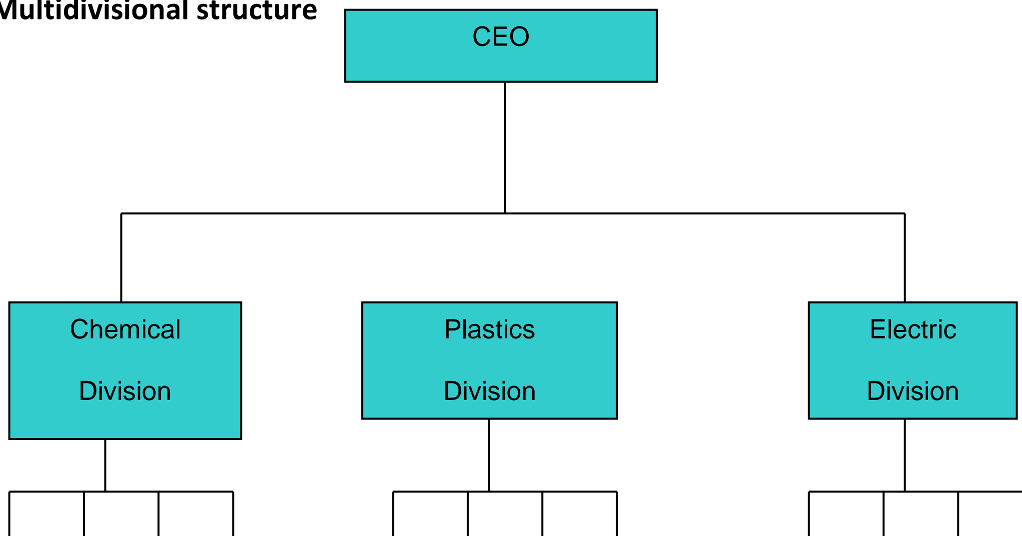


Advantage	Disadvantages
• Economies of scale • Standardization • Specialists more comfortable • Greater control of organizational activities	• Communication problems – functional orientations • Measurement problems • Location problems • Conflicts between functions

Multidivisional structure

The multi divisional structure possesses two main innovations over a functional structure, which let a company grow and diversify while overcoming control loss problems. The organization is structured in accordance with product lines or divisions. Divisions are likely to be seen as profit centers and may be seen as strategic business units for planning and control purposes and are headed by general managers.

Multidivisional structure



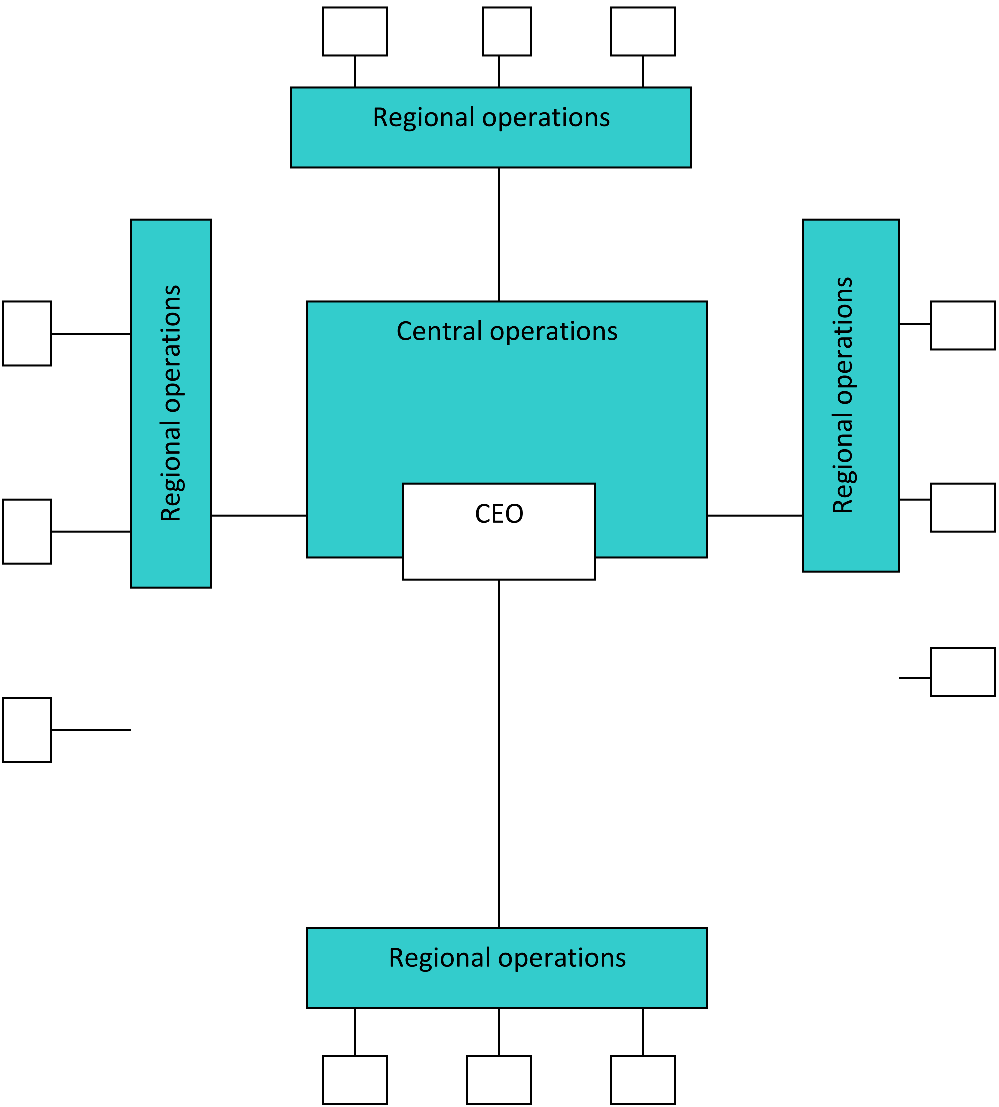
Advantage	Disadvantages
• Enables product growth • Enhance corporate financial control • Reduced overload at the center • Enhances growth and diversification • Stronger pursuit for internal efficiency – divisional managers are more accountable • Training of general managers	• Potential loss of control – dilemma apportioning authority between the operating division and the corporate head quarter • Distortion of information • Lack of goal congruence • Competition for resources • Transfer pricing • Short term research and development focus • Bureaucratic costs

Geographic Structure

When a company operates a geographic structure, geographic regions become the basis for the grouping of organizational activities. For example, a company may divide its manufacturing operations and establish manufacturing plants in different regions of the country. This allows it to be responsive to the needs of regional customers and reduces transportation costs. Common in organizations that operate over a wide geographic area usually used in sales and production, accounts being centralized.

Advantage	Disadvantages
• Enables geographic growth • Increased responsiveness-closer to the customers • Reduced transport costs • Economies of scale because the purchasing function remains centralized • Clear responsibility for areas • Training of general mangers	• The same as for a divisional structure. • May not be appropriate for very large companies

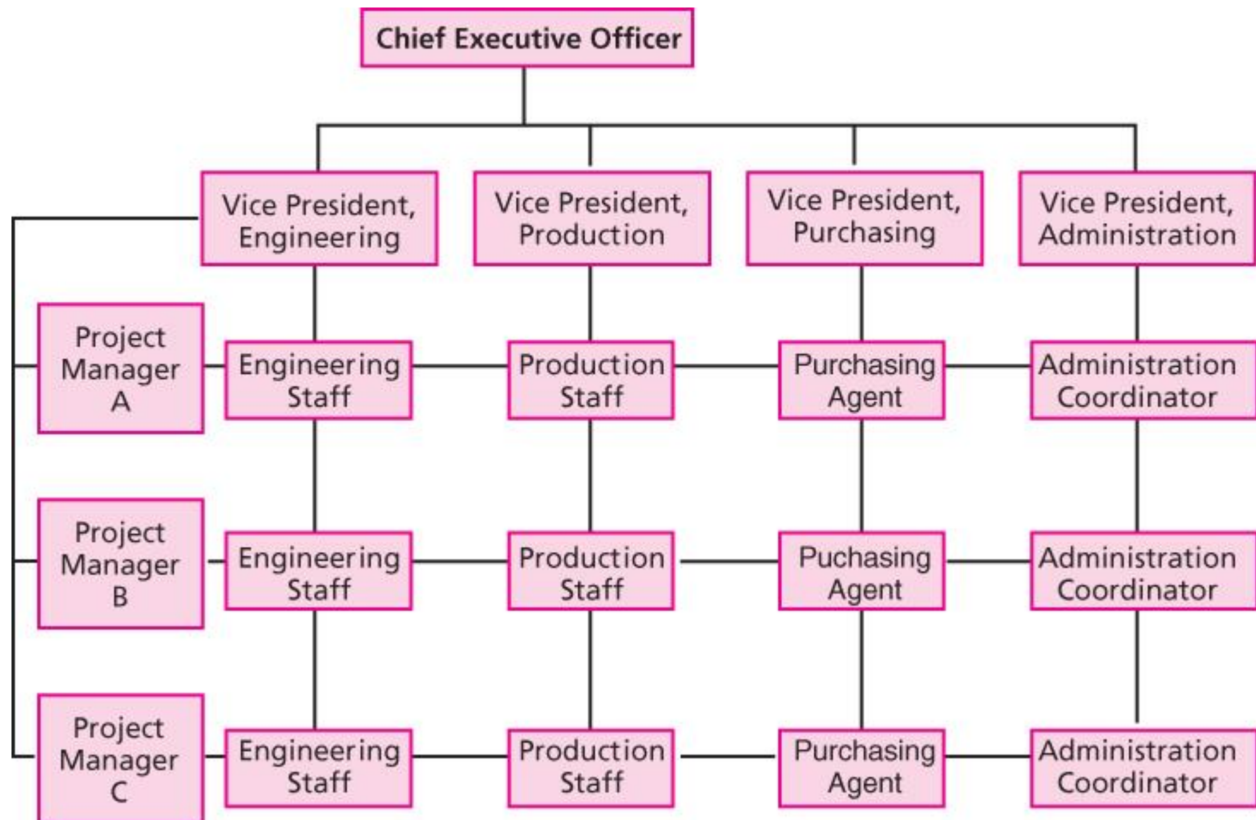
Geographic Structure



Individual stores

Matrix Structure

The matrix organizational structure is one in which functional and staff personnel are assigned to both a basic functional area and to a project or product manager. The matrix form is intended to make the best use of talented people within a firm by combining the advantages of functional specialization and product-project specialization.



ADVANTAGES OF MATRIX STRUCTURE:

- **Better coordination and control: -** This structure is very much suitable to coordinate and control the functional activities and project activities. Project manager has got responsibility to establish better coordination and control system in organization. Functional authority flows downwards and project authority flows horizontally which enables to establish better control and coordination.

- **Adaptable to dynamic environment: -** It is hybrid type of organizational structure which can easily adjust with changing environment at business world. The project managers have functional independently and they can get quickly feedback with information related with project. Along with project mange, employees from different functional area are specialists and adjustment does not become problematic.

- **Effective utilization of resources: -** Project structure makes very much effective utilization of resources available. The whole staff along with project manager is specialists in various areas. And has to make maximum utilization of resources. They know better hoe to utilize project capacity and time, how to utilize human and financial resources they know better.

- **Particular management: -** In this type of organizational structure people work in project as a team. They participate in decision making and problem solving activity. They make joint team effort. They have authority to carry out day to day activity. Frequent sharing of ideas and opinion with project manager is common.

- **Sufficient time for top management:** It encourages delegation of authority to project managers. Project managers are responsible for operation of the project. They have authority to take decision about day to day activity of project. Employee working in project will also have sufficient authority. Hence, top management will have sufficient time to think about policy and strategies.

- **Excellence in inter disciplinary specialization:** In matrix organizational structure experts and specialists from various functional areas are combined together and quality performance becomes possible. All experts from various disciplinary or functional areas interact with each other and they make excellent specialization.

- **Development of team work:** Team work is facilitating project organization or matrix organization itself is team work. Employees from various functional areas work under the spirit of team and make the project successful. Team effort is made.

Disadvantages of Matrix Structure:

- **Violation of unity of command:** They get command from two superior functional or departmental manager and project manager. He or she has to report superior at a time i.e; project manager and functional manager. He/she will be in confusion. Unity of command hence is violated.

- **Costly structure:** Matrix organizational structure involves huge overhead cost. There will be much paper work and information collection that involves heavy cost. Most of the worker or employees are specialist and they are given high remuneration and facilities and amount is given to project workers in many cases as incentives.

- **Problem of overspecialization:** Matrix organizational structure create problem of over specialization in some situations. Specialist from both functional project works gather to show many complex problems of the organization. As many experts gather to solve problems they waste valuable time in supporting their own ideas and sometimes problems remains unsolved. It becomes like the famous saying "Too many cooks spoils the food".

- **Difficult to balance:** There will be two types of specialists functional and project specialist. And, to make a balance between these two specialists is a difficult task. Therefore, high level of interpersonal skill or specialists is required to balance these two types of experts and to maintain balance between project authority and functional authority is also difficult task.

- **Feeling of insecurity:** Those employees who are specially appointed for the projects they feel a sense of insecurity after the completion of the project. This may cause project completion delay. Loyalty and commitment towards project may decrease.

- **Lack of white coordination:** In a matrix organization there will be a problem of maintaining effective coordination among project workers, functional workers and among the workers from various functional areas. Project manager have to make a high level of exercise to maintain effective coordination in the organization.

- **Lack of commitment:** In a matrix organization, there will be lack of commitment among employees towards project. No one will be responsible and loyal to the completion of the project. Due to the lack of commitment project completion delays, project cost increases. Unless and until the project is completed. They will get good amount with salary and benefit, this also decreases their commitment.

Determinants of organizational design

- **Age**- older organizations tend to be more formal with established structures
- **Size** – as organizations grow, there is usually an increasing need for formal methods of communication and greater coordination(more formal structures are required)
- **Environment** – rapid changes in the organization's environment will need a structure that is capable of responding quickly and appropriately
- **Centralization**/decentralization decisions. Will depend on:
  - Need for local service and responsiveness
  - The nature of the business
- **Overall work to be undertaken.** Value chain linkages across the organization will clearly need to be coordinated and controlled
- **Technical content of the work**. The more that the work controls the workers, the more necessary it will be to have standardized and bureaucratic procedures and structures
- **Different tasks** in different parts of the organization will require integration and coordination
- **Culture** – the degree to which the organization accepts change, the ambitions of the organization and its desire for experimentation are all elements to be considered
- **Leadership.** The style, background and beliefs of the leader may have an important effect on organization design.

Characteristics of effective organizational structures

- Organize primarily around processes not task e.g. base performance objectives on customer needs
- Flatten the hierarchy by minimizing sub division of processes
- Entrust managers with visible leadership skills with processes and performance
- Link performance objectives and evaluation of all activities to customer satisfaction
- Make teams not individuals the focus of organizational performance and design
- Combine managerial and non managerial activities as often as possible
- Emphasize that each employee develops several competences – multiskilling
- Maximize supplier and customer contact with everyone in the organization.

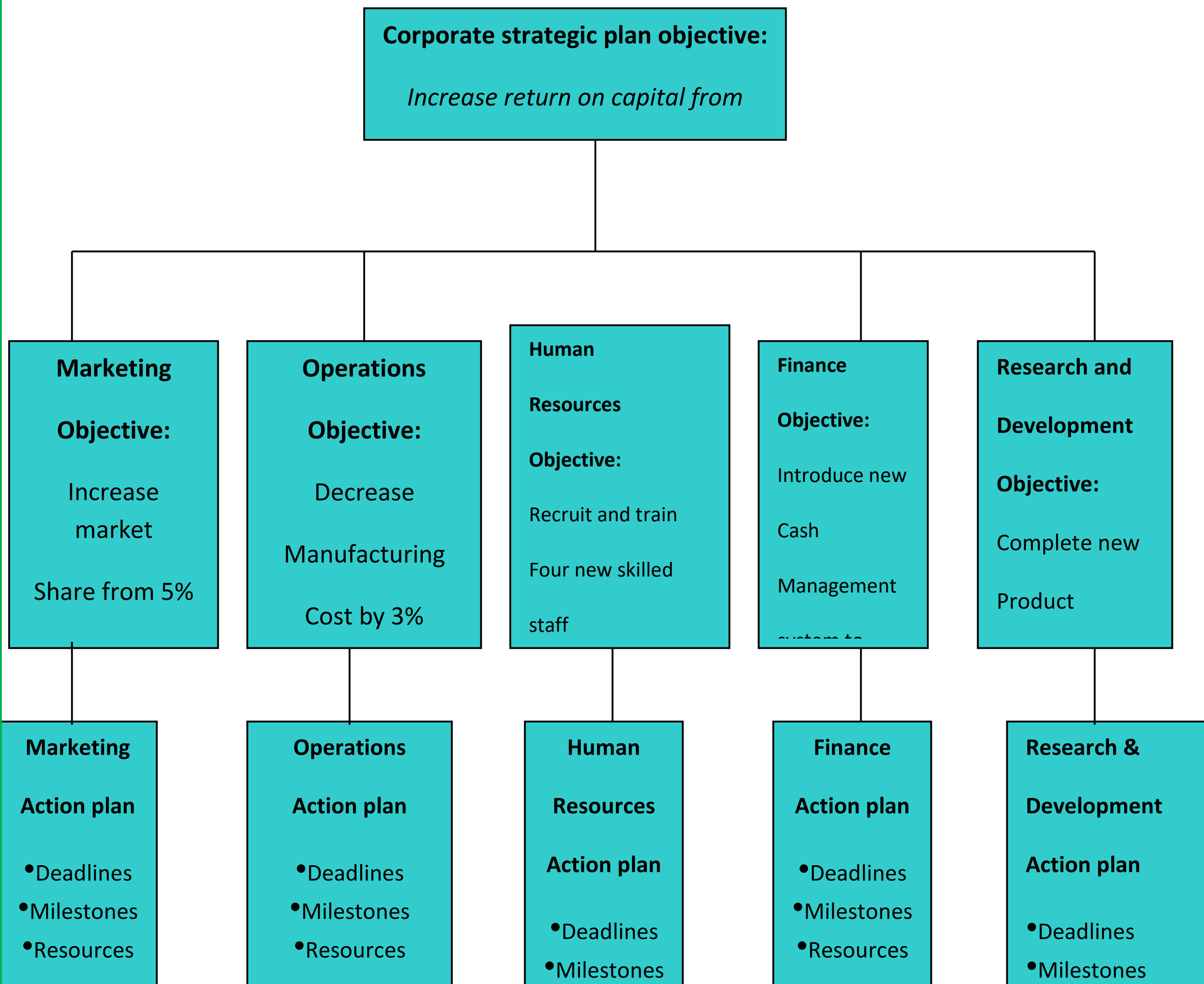
Objectives, task setting and communication processes

It is important to set out and agree clear guidelines with those individuals who will implement the strategies. The process of task setting and communications will cover what is to be done, by what time and with what resources.

Typical questions will include:

- Who will implement the strategies?
- What objectives and tasks will they need to accomplish?
- How can objectives and tasks be handled in fast-changing environments?
- How will the implementation process be communicated and coordinated?

Translating corporate objectives into tasks in a functional organization



THE MCKINSEY 7-S FRAME WORK

The **McKinsey 7S Framework** is a management model developed by well-known business consultants Robert H. Waterman, Jr. and Tom Peters in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7S's are structure, strategy, systems, skills, style, staff and shared values.

The model is most often used as an organizational analysis tool to assess and monitor changes in the internal situation of an organization.

The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change.

Whatever the type of change – restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

THE MCKINSEY 7-S FRAME WORK

Explanation:

- **Strategy.** First there should be a good strategy that can be implemented to give a firm a competitive edge
- **Structure.** structure follows strategy .the organization should be organized in such a way who is supposed to what and when and how different tasks are both divided and integrated
- **Systems.** This refers to processes and work flows that show how an organization gets things done. These include information systems, manufacturing processes, quality control systems, inventory management systems performance measurement systems etc
- **Style.** This refers to the management style. For effective implementation to occur management should have good management practices like open door policy and informal culture where employees feel that their interest are safe with the organization.
- **Staff.** The should always try to attract and maintain high caliber staff
- **Skills.** These are both individual and collective competences
- **Shared values.** Finally for implementation to work smoothly the organization should be bound together by the specific collection of norms, standards and values that it cherishes. The sense of mission and destiny that amplifies its strategic thrust.

HOW CAN I USE THIS 7S FRAMEWORK?

You can review each of the 7S to assess how the capabilities of an organization can be improved as the starting point of creating an action plan.

An example of applying the 7S framework to a marketing review

This example considers some of the issues related to introducing digital technology into an organization. A theme familiar to Smart Insights readers.

1. Strategy

The contribution of digital business in influencing and supporting organizations' strategy. The key issues are:

- Gaining appropriate budgets and demonstrating, delivering value and **ROI** from budgets.
- Annual planning approach.
- Techniques for using digital business to impact organization strategy.
- Techniques for aligning digital business strategy with organizational and marketing strategy.

2. Structure

The modification of organizational structure to support digital business. The key issues are:

- Integration of digital marketing or e-commerce teams with other management, marketing (corporate communications, brand marketing, direct marketing) and IT staff.
- Use of cross-functional teams and steering groups.
- Insourcing versus outsourcing.

3. Systems

The development of specific processes, procedures or information systems to support digital business. The key issues are:

- Campaign planning approach-integration.
- Managing or sharing customer information.
- Managing customer experience, service and content quality.
- Unified reporting of digital marketing effectiveness and
- In-house versus external best-of-breed versus external integrated technology solutions.

4. Staff

The breakdown of staff in terms of their background, age and sex and characteristics such as IT versus marketing, use of contractors/ consultants. The key issues are:

- Insourcing versus outsourcing.
- Achieving senior management buy-in/involvement with digital marketing.
- Staff recruitment and retention, and virtual working.
- Staff development and training.

5. Style

Includes both the way in which key managers behave in achieving the organization's goals and the cultural style of the organization as a whole. The key issues are:

- Defining a long-term vision for transformation.
- Relates to role of the digital marketing or e-commerce teams in influencing strategy – is it dynamic and influential or a service which is conservative and looking for a voice?

6. Skills

Distinctive capabilities of key staff, but can be interpreted as specific skill-sets of team members. The key issues are: staff skills in specific areas such as supplier selection, project management, content management and specific e-marketing media channels.

7. Shared values

The guiding concepts of the digital business or e-commerce organization which are also part of shared values and culture. The key issues are: improving the perception of the importance and

effectiveness of digital business amongst senior managers and staff it works with (marketing generalists and IT)

MANAGING STRATEGIC CHANGE

In the modern corporation, change rather than stability is the order of the day. Rapid changes in technology, competitive environment, and customer demands have increased the rate at which companies have to alter their strategies to survive the market place. Consequently companies have to through rapid structural reorganizations as they out grow their structures. Strategic change is the *pro-active management of change* in organizations to achieve clearly identified strategic objectives. It includes activities that involve the induction of new patterns of action, beliefs and attitudes among substantial sections of the corporation

Types of Strategic Change

- ***Slow organization change*** – introduced gradually and is likely to meet less resistance, progress more smoothly and have a higher commitment from the people involved
- ***Fast organizational change*** – introduced suddenly, usually as part of a major strategic initiative, and is likely to encounter significant resistance even if it is handled carefully

Causes of Strategic Change

- *Environment* – shifts in the economy, competitive pressures and legislative changes may call for major strategic change
- *Business relationships* – new alliances, acquisitions, partnerships and other significant developments
- *Technology shifts*
- *People* – new entrants may have different educational or cultural backgrounds or expectations that require change

THE CHANGE PROCESS

1. **Determining the need for change**

Change may be inevitable when;

- When divisions are fighting
- Competitor has introduced a superior product
- There is a gap between desired company performance and actual performance
- Divisions have become unprofitable due lack of innovation
- Company lacks integrating mechanisms to enjoy synergy

2. **Determining the obstacles to change**

Strategic managers must analyses the factors that are causing organizational inertia and preventing the company from reaching its ideal future state. Obstacles can be found at four levels in the organization.

- Corporate level change may be difficult because of the company's present structure and strategy and its corporate cultures
- Change is difficult at division level if divisions are highly interrelated and trade resources because one division's operations will affect other divisions
- Functional level-Like divisions, different functions have different strategic orientations and react differently to the changes management proposes. For example in a decline situation sales will resist attempts to cut down on sale s expenditures in order to reduce costs if it believes the problem stems from inefficiency in manufacturing
- At an individual level people are notoriously resistant to change because change implies uncertainty, which breeds insecurity and the fear of the unknown

3. **Implementing change**

When implementing change external consultants are preferred to internal managers because although the internal managers have a lot of knowledge about the company's operations they are too much part of the organization culture. A company can take two approaches; top down change or bottom up change. With top down approach, change implementation comes from the top management team and emphasizes speed of response and management of problems as they occur. Bottom up is a more gradual approach which emphasizes participation and keeping people informed about the change process.

4. **Evaluating change**

The last step in change process is to evaluate the effects of the changes in strategy and structure on organizational performance. This may be measured by changes in the stock market price, market share or organizational flexibility as a result of changes

Roles in the change process

1. Change strategists – those responsible for leading strategic change
2. Change implementers – those who have direct responsibility for change management
3. Change recipients – those who receive the change programme with varying degrees of anxiety depending on the nature of the change and how it is presented

Developing a Strategic Change Programme

The change programme needs to address four questions:

1. What areas of change are available?
2. What areas will we select and why?
3. Will people resist change? If so, how can this be overcome?
4. How will people use the politics of an organization?

Why people resist change?

- Anxiety, e.g. weaknesses revealed or loss of power or position
- Pessimism
- Irritation
- Lack of interest
- Opposition strategy proposals
- Different personal ambitions

Overcoming resistance to change

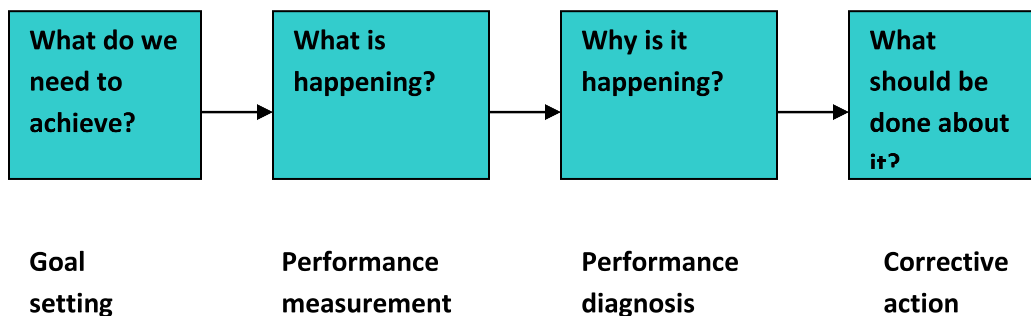
- Involving those who resist in the change process itself
- Building support networks
- Communications and discussions
- Use of managerial authority and status
- Offering assistance
- Extra incentives
- Encouraging and supporting those involved
- Use of symbols to signal the new era

TOPIC 10

STRATEGIC CONTROL

This is the process of establishing the appropriate types of control system at the corporate, business and functional levels in a company which allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation and customer responsiveness and implementing its strategy successfully. Control can be defined as the continuous comparison of actual results with those planned and taking management actions to correct adverse variances or to exploit favorable variances. To be able to achieve this, targets and standards need to be set and measurement and evaluation of performance undertaken.

THE GENERIC CONTOL MODEL



Factors that limit the organization's control of its systems and processes

- Lack of resources
- inexperience
- Lack of adequate information systems
- Lack of systematic review procedures
- Out of date information
- Inadequate understanding of the market
- Poorly focused strategies
- Failure to predict environmental shifts

STRATEGIC CONTROL SYSTEMS

These are the formal target-setting, monitoring, evaluations and feedback systems that provide management with information about whether the organizations strategy and structure are meeting strategic performance objectives. The primary function of strategic control systems is to provide management which the information it needs to control its strategy and structure. A company has to collect information that allows it to evaluate its performance and take corrective action.

CHARACTERISTICS OF AN EFFECTIVE CONTROL SYSTEM

(i) Flexibility

A good/effective control systems should be flexible enough to allow managers to respond as necessary to unexpected events.

(ii) Accurate information

An effective control system is one that provides accurate information, giving a true picture of organizational performance.

(iii) It should supply managers the information in a timely manner because making decisions on the basis of out dated information is a recipe for failure.

STEPS IN DESIGNING AN EFFECTIVE CONTROL SYSTEM.

1. Establish the standards or targets against which performance is to be evaluated.

The standards or targets that managers select are the ways in which a company chooses to evaluate its performance. Standards may range from general standards like achieving superior efficiency, and quality to specific targets e. g reducing costs by 7% a year. For service organizations their standards may include time targets for serving customers or guidelines for quality.

2. Create the measuring of monitoring systems that indicate whether the targets are being reached.

The company must establish procedures for assessing whether work goals at all levels in the organization are being achieved.

3. Compare actual performance against the established targets.

Managers evaluate whether and to what extent performance deviates from the targets developed. If performance is higher, management may decide that it had set standards too low and may raise them from the next time period. The Japanese are re-knowned for the way they use targets on production line to control costs. They are constantly trying to raise performance and they constantly raise the standards to provide a goal for managers to work toward.

4. Initiate corrective action when it is decided that the target is not being achieved.

The final stage in the control process is to take the corrective action that will allow the organization to meet its goals. Such corrective action may involve changing any aspect of strategy or structure e. g Managers may invest more resources in improving R & D or decide to diversify or even decide to change their organizational structure.

LEVELS OF CONTROL

Generally performance is measured at four levels in the organization.

- Corporate level
- Divisional level
- Functional level
- Individual levels

Managers at the corporate level are most concerned with over all and abstract measures of organizational performance such as profit, return on investment, or total labor turn over. The aim is to choose performance standards that measures overall corporate performance.

Similarly managers at other levels are more concerned with developing assets of standards to evaluate business or functional level performance. These measures should be tied as closely as possible to task activities needed to achieve superior efficiently quality, innovativeness and customer responsiveness at each level.

However care must be taken to ensure that the standards used at each level do not cause problems at other levels.

The concept of strategic control is based on the agency theory. An agency relation arises whenever one partly delegates decision-making authority or control over resources to another. At the top of a company, for example share holders delegate authority to top management to utilize organizational resources effectively for the shareholders' benefit, thus managers becomes the agents of shareholders. Similarly inside the organization whenever top managers delegate authority to managers below them in the hierarchy and give them the right to control resources, an agency leadership is established. However there is always an agency problem because: -

- Managers often find it difficult to evaluate how well a subordinate has performed because the latter possesses an information advantage that is a manager has trouble obtaining information needed to assess the quality of performance of a subordinate further down the organization ladders.
- Some times managers have an incentive to pursue their own goals at the expense of stockholders goals.

Hence the challenge for shareholders and managers at all levels in the organization is:

i) To over come information disadvantage.

ii) To shape the behaviors of those further down the organization so that they follow the goals set by those higher up.

TYPES OF CONTROL SYSTEMS

The types of control systems that organizations can use to overcome the agency problem range from those that measure organizational out put or outcome to those that measure and control organizational behavior. In general, outputs are much easier and cheaper to measure than behaviors because outputs are relatively tangible or objective. The control systems include market control, output control, bureaucratic control, organizational culture & reward systems.

1. **Market control**

One of the principal ways in which shareholders try to influence managers is by using market control to monitor and evaluate company performance. It is based on objective financial measures of performance and where the performance of one company is compared with that of another in terms of stock market price and return on investment.

i) Stock market price

Stock price is a useful measure of a company's performance primarily because the price of stock is determined competitively by the number of buyers and sellers in the market. Movements in the price of a stock provide shareholders with feedback on a company's performance. Stock market price acts as a powerful means of control because top manager's compensation is often linked to the stock price. Consequently they tend to be sensitive to falls in the stock market prices. Falling stock price may also provoke share holders unrest and take over attempts and this too serves to control managerial action finally because stock price reflects the long term future return from the stock, it can be regarded as an indicator of the company's long run potential.

ii) **Return on Investment**

This is determined by dividing net income by invested capital. At the corporate level, the performance of the whole company can be evaluated against other companies and it is in this sense that R.O.I can be used as a market control by shareholders and by top managers.ROI can also be used inside the company at the divisional level to judge the performance of an operating division by comparing it with a similar free standing business or the other internal divisions.

ROI is a powerful form of market control at the divisional level especially if the divisional managers are rewarded on the basis of their performance vis-a-vis-other divisions.

NB. Market control is feasible only when some form of a comparison system exists. When the stock prices fall or management fails to meet ROI targets, it signals the need to take corrective action. This may involve corporate reorganization such as change in structure or liquidation and divestiture of business. It can also signal the need for new strategic leadership.

2. Out put Control

This is the easiest and cheapest kind of control where a company estimates or forecasts appropriate targets for its various divisions departments or personal and their monitors their performance relative to these targets. Often the company's reward system is then linked to performance on these targets so that output control also provides an incentive structure for motivating managers at all levels in the organization.

Divisional goals

In creating divisional goals, corporate management sets the standards for judging divisional performance. Such standards include sales, productivity, growth and market share goals. Divisional managers use the standards as the basis for designing the organizational structure to meet the objectives. Generally corporate managers try to raise the standards over time to force divisions to adopt more effective strategies and structures. Divisional managers are given considerable autonomy to formulate a strategy to meet this goal and the divisions that fail are divested.

(i) Functional goals:

Out put control at the functional level is achieved by setting goals for each function. Generally functional performance is evaluated using the four building blocks of competitive advantage; efficiently, quality, customer responsiveness and innovation.

As at divisional level functional goals are established to encourage development of functional competencies that provide a company with a competitive advantage at the business level. For example in the sales function, goals related to efficiency (such as cash of sales) quality (such as numbers of returns) and customer responsiveness (such as the time needed to response to customer needs) can be established for the whole function. Then sales personal can be given specific goals related to functional goals – which they in turn are required to achieve. Functions and individuals are then evaluated on the basis of achieving or not achieving their goals and in sales compensation is commonly pegged to achievement. The achievement of these goals is a sign that the company's strategy is working and meeting organizational objectives.

(ii) Individual goals.

Out put control at the individual level is also common. Generally whenever employee performance can be easily monitored and evaluated, out put controls are usually appropriate. The piece – rate systems in which individuals are paid according to exactly how much they produce, are characteristic out put control systems. For many jobs out put control at an individual level is very difficult because individual's performance is harder to evaluate.

NOTE: The appropriate application of output control at any level of the organization can lead to un intended and un fortunate consequences. For example when wrong goals are used to evaluate divisions it may promote conflicts among divisions. Therefore strategic managers need to design out put controls that stimulate managers to pursue long run profitability goals but not at the expense of other organizational stakeholders. In practice out put or market controls must be used in conjunction with bureaucratic control and culture if the right strategic behaviors are to be achieved.

3. BUREAUCRATIC CONTROL

This is the control through the establishment of a comprehensive system of rules and procedures to direct the actions or behavior of divisions, functions and individuals. Rules standardize behaviors and make out comes predictable. If employees follow the rules then actions are performed and decisions handled the same way time and time again. The results is predictability and accuracy which are the goals of all control systems in using bureaucratic control, the intention is not to specify the goals but to standardize the way of reaching them.

Standardization:

This refers to the degree to which a company specifies decision making and coordination process so that employee behavior becomes predictable Standardization reduces the agency problem because it specifies the behaviors required of divisions, functions or individuals. In practice there are 3 things that an organization can standardize: in puts, conversion activities and outputs.

i) Standardization of inputs

One way in which an organization can control the behavior of both people and resources is by standardizing the inputs into the organization. This means that the organization screens inputs and allows only those that meet specified standards to enter. For example if employees are the inputs in question the one way of standardizing them is to recruit and select only those people who posses the qualities and skills specified by the organization. If the in puts in question are materials or component parts the same considerations apply.

(ii) Standardization of conversion activities

The aim of standardizing conversion activities is to program work activities so that they are done the same way time and time again. The goal is predictability. Bureaucratic controls such as rules and procedures help companies to standardize through puts as MC Donald's has gone.

Another way is to organize production tasks so that semi finished goods move from one production stage to the next in a predictable way to reduce the time and resources and enhance efficiency.

iii) Standardization of out put

The goal of standardizing outputs is to specify what the performance characteristics of the final product or service should be. To ensure that their products are standardized companies apply quality control and use various criteria to measure this standardization: -

- The number of goods returned from customers
- Number of customer complaints
- Periodic sampling of products on production levels to see whether products are meeting performance characteristics.

NOTE: Bureaucratic control is accompanied by problems.

- Rigid rules make the organization and people inflexible and slow to react to changing or unusual circumstances.
- Bureaucratic controls are costly e. g costs spent on managing the paper work necessary to satisfy organizational rules and procedures.
- Bureaucratic controls kill innovation and creativity hence reducing the number of rules and procedures to the essential minimum is important.

Hence top management must be careful to monitor and evaluate the usefulness of bureaucratic controls over time.

4. Organizational culture and socialization

Organizational culture may be defined as the specific collection of norms, standards and values that are shared by members of an organization and affect the way an organization does business. Employees are not controlled by some external system of constraint such as direct supervision, outputs or rules and procedures but rather by the soft disciplines (norms and values) that the organization cherishes and making them part of their own value system. Thus the value of culture for an organization is its ability to specify norms and values that govern employee behavior and solve the agency problem.

Socialization is the term used to describe how people learn organizational culture through socialization; people internalize the norms and values of the culture and learn to act like existing personnel. Control through culture is so powerful because once the values are internalized they become part of the individual values and the individual follows organizational values without thinking about them. Very often the culture of an organization is transmitted to its members through stories, signs and symbols, rites and ceremonies, norms and values, organizational rewards and others socialization tactics.

NOTE:

Organizational culture is shaped by the strategic leadership provided by an organization founder and stop management. Over time the leadership style established by the founders is transmitted to the company’s managers and as the company grows it typically attracts new managers and employees who share the same values.

5. STRATEGIC REWARD SYSTEMS

Organizations also strive to control employee behavior by linking reward systems to their control systems. An organization must decide which behaviors it wishes to reward, adopt a control system to measure these behaviors and then try to link the rewards structure to them. How to relate rewards to performance is a critical strategic decision because it determines the

incentive structure that affects the way managers and employees at all levels in the organization behave. The design of the organization's incentive system is a vital element in the control process because it motivates and reinforces desired behaviors.

TYPES OF REWARDS SYSTEMS

Generally reward systems are found at the individual and group or total organizational levels. Often these systems are used in combination, for example merit raises at the individual level may be accompanied by a bonus based on divisional or corporate performance. Within each type, several forms of rewards systems are available.

1. Individual Reward systems

i) Piece work plans

- Used when the output can be objectively measured.
- Essentially employees are paid on the basis of some set amount for each unit of output produced e. g production lines.

ii) Commission systems

- Resemble piece work systems except that they are normally tied not to what is produced but to how much is sold.
- This most commonly found in sales situations

iii) Bonus plans

- Rewarding the performance of a company's key individuals such as the CEO or senior Vice Presidents. The performance of these people is visible to the organization as a whole and to the stakeholders such as shareholders.

2. Group and organizational reward systems

Group and organizational reward systems provide additional ways in which companies can relate pay to performance. In general, the problem with these systems is that the relationship is less direct and more difficult to measure than in the case of individually based systems. Consequently they are viewed less motivating.

(i) Group based bonus systems

- Rewarding performance on the basis of group productivity.

- The system can be highly motivating because employees are allowed to develop the best work procedures for doing the job and are responsible for in providing their own productivity. It promotes team spirit.

(ii) Profit sharing systems

- Designed to reward employees on the basis of the profit a company earns in any one time period.
- Such plans encourage employees to take abroad view of their activities and feel connected with the company as a whole.

(iii) Employee stock option systems

- Rather than reward employees on the basis of short term profits a company sometimes establishes an employee stock ownership system and allows employees to buy its shares at below market prices heightening employee motivation. As shareholders, the employees focus not only on short term profits but also on long term capital appreciation for they are now the company's owners.

(iv) Organizational bonus system

Profit is not the only basis on which a company can reward organization-wide performance. Rewards are also commonly based on cost saving quality increases or production increases obtained in the last time period. Because these systems usually require that outputs be measured accurately, they are most common in production – line organizations or service company services of personnel.

Control through organizational reward systems complements all the other forms of control. Rewards act as the oil that makes a control system function effectively. To ensure that the right strategic behaviors are rewarded, rewards should be closely linked to organization's strategy.

TOPIC ELEVEN

INTERNATIONAL DIMENSION OF STRATEGY

Topic Objectives

By the end of this topic, the learners must be able to;

- ✓ Make an argument for the need to manage diversity in international markets
- ✓ Describe the Human aspect of international business
- ✓ Discuss the Various Global strategies
- ✓ *Discuss the Modes of entry into international markets*

Manage diversity and Human aspects in international markets

Generally, Diversity management refers to the voluntary organizational actions that are designed to create greater inclusion of employees from various backgrounds into the formal and informal organizational structures through deliberate policies and programs. Specifically, the term "diversity" refers to the way in which people differ from one another. Since such differences affect the way people interact in the workplace, diversity management is a factor for most organizations. In Cultural Diversity in Organizations, Taylor Cox Jr. explained that "cultural diversity means the representation, in one social system, of people with distinctly different group affiliations of cultural significance." Differing group affiliations that are likely to affect the workforce generally involve cultural or identity groups based on ethnicity, national origin, race, and religion. The world has been and is a stage of huge mix of people with different backgrounds, religion, castes, race, culture, behavior, age, marital status, nationality, educational qualification, political affiliation, and levels of ability, personality, gender and many more which vary across the globe. Other sources of differences include socio - economic background of individuals, membership and non membership of unions, forms and quality/quantity of education, period and nature of employment, drives to work, and work styles. Work place diversity therefore, intends to also consist of social, economic and political visible and non visible differences which might not have a direct creational origin from the work place, but certainly have direct impact on work attitude and performance at the work place. Diversity itself relates to the fact that we are all unique individuals.

The Benefits of Diversity

When people feel respected and their differences are accommodated rather than ostracized, they are better able to realize their full potential and make a meaningful contribution to their workplace. An environment that is positive and motivating for its people increases worker satisfaction, productivity and retention. In addition, the broader perspective of diverse teams facilitates innovation and provides clients and customers with increased value.

Diversity in the workplace simply makes good business sense, and can bring about many benefits, including the following:

- Improved marketing and customer service through better understanding and accommodation of diverse customer groups and their needs
- Improved employee morale, performance, and productivity through equitable workplace practices that select, develop, and treat people based on merit and fairness
- Improved retention and cost reductions due to lower absenteeism and turnover
- Improved ability to attract and recruit top talent
- Reduced risk of discrimination lawsuits as a result of more just and nondiscriminatory environment
- Eligibility for government contracts for which minority or gender-balanced businesses are given preference
- Improved corporate image, which generates public goodwill
- Improved employee creativity, problem-solving and decision-making through effective management of diverse perspectives and "creative conflict"

Challenges of Diversity:

Despite the potential benefits of diversity, many competitive advantages may not be fully realized if diversity in the workplace is not managed. How often have you heard news reports and read articles concerning diversity-related conflicts in the workplace? Media attention devoted to diversity and harassment issues is an indication of the impact of these important matters in today's business.

Naturally, diverse opinions, perspectives and values can contribute to increased conflict; however, if managed effectively, that conflict can yield organizational benefits and personal growth. It is this breadth of diverse perspective that adds richness and robustness to business analyses and contributes to the achievement of optimal decisions.

Setting up a Diversity Policy at the work place

Today the attrition rate of every corporate sector is high due to lack of proper diversity program/policy. It is more challengeable since we are in global village. Before we look to hire diverse candidates, we must be sure that our organizational culture and environment support diversity, otherwise retention will become a challenge. The purpose of the Diversity Policy is to encourage an atmosphere in which all staff embrace the benefits of working in a diverse community and to provide a framework for the fair and equitable treatment of all employees, job applicants, customers, suppliers and visitors irrespective of their individual differences or any personal characteristics.

The Following are 10 ways to ensure that an organization's diversity program is successful

1. Make it strategic: Incorporate diversity into your business strategy and communicate the professional "business sense" and leadership commitment to diversity; make training only a part of the overall diversity program; revisit existing policies and programs to ensure they align with and support your vision for diversity.

2. **Make it measurable:** Know your baseline: How do your current employees feel about your environment - Is it inclusive? Do they feel they are part of the company team? Do they feel their input is welcome? Periodic climate surveys and ongoing exit interview surveys can provide you with valuable information with which to measure your program's effectiveness.

3. **Make it relevant to your customers/clients:** Who are your current customers/clients? Who might your new customers/clients be and what are their interests? How might you position your organization to meet the needs of an increasingly diverse market?

4. **Make it inclusive:** Make your program applicable to all employees of the organization, rather than targeting people of color, women and/or disabled employees.

5. **Make sure there's accountability:** Assign responsibility to a core team of leadership professionals for the development and implementation of strategic action plans

6. **Make it experiential:** Roll out development programs that enable participants to draw from real world examples and engage in interactive exercises so that they can "try-on" new concepts and build new skills.

7. **Make it unifying:** Rather than polarizing or alienating, which many diversity programs tend to be as they recreate social inequities

8. **Make it standard:** Role model an appreciation of differences from the top down; the message must stem from leadership and business vision, and be modeled by senior executives.

9. **Make it collaborative:** Encourage accountability and ownership of the responsibility for fostering an inclusive environment by all managers and staff throughout the organization.

10. **Make it comprehensive:** Cover the basics, like rolling out compliance training and developing anti-harassment and anti-bias policies, but be sure to assign critical importance to the development of intercultural competence and the associated skills.

Examples of Policies that can support Diversity at the Global work place include

- No Discriminating Policy
- Electronic job posting
- Flexible work hours
- Harassment-free work environment
- Employee network groups
- Open Door Policy
- Education Assistance Program
- Open communications
- Management by objective (MBO)
- Share in company's success
- Provide development opportunities
- Safe and pleasant work environment

GLOBAL STRATEGIES

The Meaning of global/International strategy

Global strategy can be *defined in business terms is an organization's strategic guide to globalization. A sound global strategy should address these questions: what must be (versus what is) the extent of market presence in the world's major markets? How to build the necessary global presence? What must be AND (versus what is) the optimal locations around the world for the various value chain activities? How to run global presence into global competitive advantage?* 'Global Strategy' is a shortened term that covers mainly three areas: global, multinational and international strategies. Essentially, these three areas refer to those strategies designed to enable an organization to achieve its objective of international expansion. As international activities have expanded at a company, it may have entered a number of different markets, each of which needs a strategy adapted to each market. Together, these strategies form a multinational strategy. For example, a car company might have one strategy for the USA – specialist cars, higher prices – with another for European markets – smaller cars, fuel efficient – and yet another for developing countries – simple, low priced cars.

In developing 'global strategy', it is useful to distinguish between three forms of international expansion that arise from a company's resources, capabilities and current international position. If the company is still mainly focused on its home markets, then its strategies outside its home markets can be seen as international. For example, a dairy company might sell some of its excess milk and cheese supplies outside its home country. But its main strategic focus is still directed to the home market.

One of the basic decisions in global strategy begins by considering just how much local variation, if any, there might be for a brand. Another more basic decision might be whether to undertake any branding at all. Branding is expensive. It might be better to manufacture products for other companies that then undertake the expensive branding. Apple iPods are made in China with the Chinese company manufacturing to the Apple specification. The Chinese company then avoids the expense of building a brand. But faces the strategic problem that Apple could fail to renew its contract with the Chinese company, which might then be in serious financial difficulty.

As international activities have expanded at a company, it may have entered a number of different markets, each of which needs a strategy adapted to each market. Together, these strategies form a multinational strategy. For example, a car company might have one strategy for the USA – specialist cars, higher prices – with another for European markets – smaller cars, fuel efficient – and yet another for developing countries – simple, low priced cars. For some companies, their international activities have developed to such an extent that they essentially

treat the world as one market with very limited variations for each country or world region. This is called a global strategy. For example, the luxury goods company Gucchi sells essentially the same products in every country.

Implications of the three (At times four) definitions within global strategy:

- International strategy: the organization's objectives relate primarily to the home market. However, we have some objectives with regard to overseas activity and therefore need an international strategy. Importantly, the competitive advantage – important in strategy development – is developed mainly for the home market. Here, *International companies are importers and exporters, they have no investment outside of their home country.* Generally the *international strategy is much like the multinational as there are autonomous local subsidiaries. However, these subsidiaries are very dependent on headquarters for new processes and products. A good example is a pharmaceuticals company. The research labs in the headquarter company develop products for introduction around the world. Local subsidiaries stress product approval by local governments and local marketing.*

- Multinational strategy: the organization is involved in a number of markets beyond its home country. But it needs distinctive strategies for each of these markets because customer demand and, perhaps competition, are different in each country. Importantly, competitive advantage is determined separately for each country. Here, *Multinational companies have investment in other countries, but do not have coordinated product offerings in each country.* This strategy Is m*ore focused on adapting their products and service to each individual local market.* Generally, *The multinational strategy focuses on local responsiveness. Subsidiaries operate autonomously or in a loose federation. The advantage of this type of approach is that the firm can quickly respond to different local needs and opportunities. This strategy reduces the need for communications because local subsidiaries can make many decisions. There are heavy reporting requirements though, as the results from the subsidiaries have to be monitored at a headquarter location.*

- Global strategy: the organization treats the world as largely one market and one source of supply with little local variation. Importantly, competitive advantage is developed largely on a global basis. Here, *Global companies have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets. Generally one corporate office that is responsible for global strategy. Emphasis on volume, cost management and efficiency. Generally a global strategy stresses efficiency because there is strong central control from headquarters. Economics come from standard product designs and global manufacturing. An extensive communications and control system is necessary to centrally manage the global firm.*

- Transnational Strategy: *This is adopted by Transnational companies* are much more complex organizations. They have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each

individual foreign market. Generally the transactional firm attempts to do everything! It seeks global efficiency while retaining local responsiveness. The firm integrates global activities through cooperation among headquarters and foreign same time that it obtains the advantage of global integration, efficiency, and innovation.

Why is global strategy important?

There are at least four answers to this question depending on the context:

From a company perspective, international expansion provides the opportunity for new sales and profits. In some cases, it may even be the situation that profitability is so poor in the home market that international expansion may be the only opportunity for profits.

For example, poor profitability in the Chinese domestic market was one of the reasons that the Chinese consumer electronics company, TCL decided on a strategy of international expansion. It has then pursued this with new overseas offices, new factories and acquisitions to develop its market position in the two main consumer electronics markets, the USA and the European Union.

In addition to new sales opportunities, there may be other reasons for expansion beyond the home market. For example, oil companies expand in order to secure resources – called *resource seeking*. Clothing companies expand in order to take advantage of low labour costs in some countries – called *efficiency seeking*. Some companies acquire foreign companies to enhance their market position versus competitors – called *strategic asset seeking*. These issues are identified in the film that you will shortly be able to see on the page 'How do you build a global strategy?'

From a customer perspective, international trade should – in theory at least – lead to lower prices for goods and services because of the economies of scale and scope that will derive from a larger global base. For example, Nike sources its sports shoes from low labour cost countries like the Philippines and Vietnam. In addition, some customers like to purchase products and services that have a global image. For example, Disney cartoon characters or 'Manchester United' branded soccer shirts.

From the perspective of international governmental organizations – like the World Bank - the recent dominant thinking has been to bring down barriers to world trade while giving some degree of protection to some countries and industries. Thus global strategy is an important aspect of such international negotiations.

From the perspective of some international non-governmental organizations like Oxfam and Medicin sans Frontières, the global strategies of some – but not necessarily all – multinational companies are regarded with some suspicion. Such companies have been accused of exploiting developing countries – for example in terms of their natural mineral resources – in ways that are detrimental to those countries. This important aspect of global strategy is explored in the separate web section on *Globalization*

Benefits of a global strategy

1. *Economies of scope*: the cost savings developed by a group when it shares activities or transfers capabilities and competencies from one part of the group to another – for example, a biotechnology sales team sells more than one product from the total range.
2. *Economies of scale*: the extra cost savings that occur when higher volume production allows unit costs to be reduced – for example, an Arcelor Mittal steel mill that delivers lower steel costs per unit as the size of the mill is increased.
3. *Global brand recognition*: the benefit that derives from having a brand that is recognized throughout the world – for example, Disney.
4. *Global customer satisfaction*: multinational customers who demand the same product, service and quality at various locations around the world – for example, customers of the Sheraton Hotel chain expect and receive the same level of service at all its hotels around the world.
5. *Lowest labour and other input costs*: these arise by choosing and switching manufacturers with low(er) labour costs – for example, computer assembly from imported parts in Thailand and Malaysia where labour wages are lower than in countries making some sophisticated computer parts (such as high-end computer chips) in countries like the USA
6. *Recovery of research and development (R&D) costs and other development costs across the maximum number of countries* – new models, new drugs and other forms of research often amounting to billions of US dollars. The more countries of the world where the goods can be sold means the greater number of countries that can contribute to such costs. For example, the Airbus Jumbo A380 launched in 2008 where development costs have exceeded US$ 10 billion.
7. Emergence of new markets: means greater sales from essentially the same products.
8. To counter or pre-empt a competitors strategy

Costs of a global strategy

The costs of operating a global strategy may be greater than the benefits and so it's important to make a cost benefit analysis before taking on a global strategy.

1. *Lack of sensitivity to local demand:* Leavitt argued that people would be prepared to compromise on their individual tastes if the product was cheap enough deriving from economies of scale and scope. Is this really correct? Other writers argued that there could be costs in adapting products to match local tastes, local conditions like the climate and other local factors like special laws on environmental issues.
2. *Transport and logistics costs*: if manufacturing takes place in one country, then it will be necessary to transport the finished products to other countries. The costs for some heavy products, like steel bars, may be greater than the economies of scale from centralised production in one country.
3. *Economies of scale benefits may be difficult to obtain in practice:* plant takes time to commission, local competitors still using old plant and cheap labour may still be competitive. For an example, see the Tate & Lyle Case in Chapter 19 of Lynch.

4. *Communications costs will be higher*: standardization of products and services needs to be communicated to every country. In virtually every case, it will also be necessary to monitor and control the result. All this is time consuming, expensive and at the mercy of local managers who may have their own agendas and interests.
5. *Management coordination costs*: in practice, managers and workers in different countries often need to be consulted, issues need to be explored and discussed, and local variations in tax and legal issues need to be addressed. This means that senior managers operating a global strategy need to spend time visiting countries. It cannot all be done on the telephone and worldwide web. This takes a tremendous toll of people personally.
6. *Barriers to trade*: taxes and other restrictions on goods and services set by national governments as the goods cross their national borders.
7. *Other costs imposed by national governments to protect their home industries* - like special taxes or restrictions on share holdings.

Modes of entry into international markets*

A *mode of entry* into an international market is the channel which your organization employs to gain entry to a new international market. This lesson considers a number of key alternatives, but recognizes that alternatives are many and diverse. Here you will be consider modes of entry into international markets such as *the Internet, Exporting, Licensing, International Agents, International Distributors, Strategic Alliances, Joint Ventures, Overseas Manufacture and International Sales Subsidiaries.* Finally we consider the Stages of Internationalization.

There are two major types of entry modes: equity and non-equity modes. The non-equity modes category includes export and contractual agreements. The equity modes category includes: joint venture and wholly owned subsidiaries

Exporting

Exporting is the process of selling of goods and services produced in one country to other countries.

There are two types of exporting: direct and indirect.

Direct Exports

Direct exports represent the most basic mode of exporting made by a (holding) company, capitalizing on economies of scale in production concentrated in the home country and affording better control over distribution. Direct export works the best if the volumes are small. Large volumes of export may trigger protectionism. The main characteristic of direct exports entry model is that there are no intermediaries.

Passive exports represent the treating and filling overseas orders like domestic orders.

Types

Sales representatives

Sales representatives represent foreign suppliers/manufacturers in their local markets for an established commission on sales. Provide support services to a manufacturer regarding local advertising, local sales presentations, customs clearance formalities, legal requirements. Manufacturers of highly technical services or products such as production machinery, benefit the most from sales representation.

Importing distributors

Importing distributors purchase product in their own right and resell it in their local markets to wholesalers, retailers, or both. Importing distributors are a good market entry strategy for products that are carried in inventory, such as toys, appliances, prepared food.

Advantages

- Control over selection of foreign markets and choice of foreign representative companies
- Good information feedback from target market, developing better relationships with the buyers
- Better protection of trademarks, patents, goodwill, and other intangible property
- Potentially greater sales, and therefore greater profit, than with indirect exporting.

Disadvantages

- Higher start-up costs and higher risks as opposed to indirect exporting
- Requires higher investments of time, resources and personnel and also organizational changes
- Greater information requirements
- Longer time-to-market as opposed to indirect exporting.

Indirect exports

Indirect export is the process of exporting through domestically based export intermediaries. The exporter has no control over its products in the foreign market.

Types

Export trading companies (ETCs)

These provide support services of the entire export process for one or more suppliers. Attractive to suppliers that are not familiar with exporting as ETCs usually perform all the necessary work: locate overseas trading partners, present the product, quote on specific enquiries, etc.

Export management companies (EMCs)

These are similar to ETCs in the way that they usually export for producers. Unlike ETCs, they rarely take on export credit risks and carry one type of product, not representing competing ones. Usually, EMCs trade on behalf of their suppliers as their export departments.

Export merchants

Export merchants are wholesale companies that buy unpackaged products from suppliers/manufacturers for resale overseas under their own brand names. The advantage of export merchants is promotion. One of the disadvantages for using export merchants result in presence of identical products under different brand names and pricing on the market, meaning that export merchant's activities may hinder manufacturer's exporting efforts.

Confirming houses

These are intermediate sellers that work for foreign buyers. They receive the product requirements from their clients, negotiate purchases, make delivery, and pay the suppliers/manufacturers. An opportunity here arises in the fact that if the client likes the product it may become a trade representative. A potential disadvantage includes supplier's unawareness and lack of control over what a confirming house does with their product.

Non-conforming purchasing agents

These are similar to confirming houses with the exception that they do not pay the suppliers directly – payments take place between a supplier/manufacturer and a foreign buyer.

Advantages

- Fast market access
- Concentration of resources towards production
- Little or no financial commitment as the clients' exports usually covers most expenses associated with international sales.
- Low risk exists for companies who consider their domestic market to be more important and for companies that are still developing their R&D, marketing, and sales strategies.
- Export management is outsourced, alleviating pressure from management team
- No direct handle of export processes.

Disadvantages

- Little or no control over distribution, sales, marketing, etc. as opposed to direct exporting
- Wrong choice of distributor, and by effect, market, may lead to inadequate market feedback affecting the international success of the company
- Potentially lower sales as compared to direct exporting (although low volume can be a key aspect of successfully exporting directly). Export partners that incorrectly select a specific distributor/market may hinder a firm's functional ability.

Those companies that seriously consider international markets as a crucial part of their success would likely consider direct exporting as the market entry tool. Indirect exporting is preferred by companies who would want to avoid financial risk as a threat to their other goals.

Licensing

An international licensing agreement allows foreign firms, either exclusively or non-exclusively to manufacture a proprietor’s product for a fixed term in a specific market.

Summarizing, in this foreign market entry mode, a licensor in the home country makes limited rights or resources available to the licensee in the host country. The rights or resources may include patents, trademarks, managerial skills, technology, and others that can make it possible for the licensee to manufacture and sell in the host country a similar product to the one the licensor has already been producing and selling in the home country without requiring the

licensor to open a new operation overseas. The licensor earnings usually take forms of one time payments, technical fees and royalty payments usually calculated as a percentage of sales.

As in this mode of entry the transference of knowledge between the parental company and the licensee is strongly present, the decision of making an international license agreement depend on the respect the host government show for intellectual property and on the ability of the licensor to choose the right partners and avoid them to compete in each other market. Licensing is a relatively flexible work agreement that can be customized to fit the needs and interests of both, licensor and licensee.

Following are the main advantages and reasons to use an international licensing for expanding internationally:

- Obtain extra income for technical know-how and services
- Reach new markets not accessible by export from existing facilities
- Quickly expand without much risk and large capital investment
- Pave the way for future investments in the market
- Retain established markets closed by trade restrictions
- Political risk is minimized as the licensee is usually 100% locally owned
- Is highly attractive for companies that are new in international business.

On the other hand, international licensing is a foreign market entry mode that presents some disadvantages and reasons why companies should not use it as:

- Lower income than in other entry modes
- Loss of control of the licensee manufacture and marketing operations and practices leading to loss of quality
- Risk of having the trademark and reputation ruined by an incompetent partner

The foreign partner can also become a competitor by selling its production in places where the parental company is already in.

Franchising

The by the franchisor. In addition to that, while a licensing agreement involves things such as intellectual property, trade secrets and others while in franchising it is limited to trademarks and operating know-how of the business.

Advantages of the international franchising mode:

- Low political risk
- Low cost
- Allows simultaneous expansion into different regions of the world
- Well selected partners bring financial investment as well as managerial capabilities to the operation.

Disadvantages of franchising to the franchisor:

- Maintaining control over franchisee may be difficult
- Conflicts with franchisee are likely, including legal disputes
- Preserving franchisor's image in the foreign market may be challenging
- Requires monitoring and evaluating performance of franchisees, and providing ongoing assistance
- Franchisees may take advantage of acquired knowledge and become competitors in the future

Turn-key projects

A turnkey project refers to a project when clients pay contractors to design and construct new facilities and train personnel. A turnkey project is a way for a foreign company to export its process and technology to other countries by building a plant in that country. Industrial companies that specialize in complex production technologies normally use turnkey projects as an entry strategy.

One of the major advantages of turnkey projects is the possibility for a company to establish a plant and earn profits in a foreign country especially in which foreign direct investment opportunities are limited and lack of expertise in a specific area exists.

Potential disadvantages of a turnkey project for a company include risk of revealing companies secrets to rivals, and takeover of their plant by the host country. Entering a market with a turnkey project CAN prove that a company has no long-term interest in the country which can become a disadvantage if the country proves to be the main market for the output of the exported process.

Wholly owned subsidiaries (WOS)

A wholly owned subsidiary includes two types of strategies: Greenfield investment and Acquisitions. Greenfield investment and acquisition include both advantages and disadvantages. To decide which entry modes to use is depending on situations.

Greenfield investment is the establishment of a new wholly owned subsidiary. It is often complex and potentially costly, but it is able to provide full control to the firm and has the most potential to provide above average return. “Wholly owned subsidiaries and expatriate staff are preferred in service industries where close contact with end customers and high levels of professional skills, specialized know how, and customization are required.” Greenfield investment is more likely preferred where physical capital intensive plants are planned. This strategy is attractive if there are no competitors to buy or the transfer competitive advantages that consists of embedded competencies, skills, routines, and culture.

Greenfield investment is high risk due to the costs of establishing a new business in a new country. A firm may need to acquire knowledge and expertise of the existing market by third parties, such consultant, competitors, or business partners. This entry strategy takes much time due to the need of establishing new operations, distribution networks, and the necessity to learn and implement appropriate marketing strategies to compete with rivals in a new market.

Acquisition has become a popular mode of entering foreign markets mainly due to its quick access Acquisition strategy offers the fastest, and the largest, initial international expansion of any of the alternative.

Acquisition has been increasing because it is a way to achieve greater market power. The market share usually is affected by market power. Therefore, many multinational corporations apply acquisitions to achieve their greater market power, which require buying a competitor, a supplier, a distributor, or a business in highly related industry to allow exercise of a core competency and capture competitive advantage in the market.

Acquisition is lower risk than Greenfield investment because of the outcomes of an acquisition can be estimated more easily and accurately. In overall, acquisition is attractive if there are well established firms already in operations or competitors want to enter the region.

On the other hand, there are many disadvantages and problems in achieving acquisition success.

Integrating two organizations can be quite difficult due to different organization cultures, control system, and relationships. Integration is a complex issue, but it is one of the most important things for organizations.

By applying acquisitions, some companies significantly increased their levels of debt which can have negative effects on the firms because high debt may cause bankruptcy.

Too much diversification may cause problems. Even when a firm is not too over diversified, a high level of diversification can have a negative effect on the firm in the long-term performance due to a lack of management of diversification.

Difference between international strategy and global strategy

However, some industries benefit more from globalization than do others, and some nations have a comparative advantage over other nations in certain industries. To create a successful global strategy, managers first must understand the nature of global industries and the dynamics of global competition, international strategy (i.e. internationally scattered subsidiaries act independently and operate as if they were local companies, with minimum coordination from the parent company) and global strategy (leads to a wide variety of business strategies, and a high level of adaptation to the local business environment). Basically there are three key differences between them. Firstly, it relates to the degree of involvement and coordination from the Centre. Moreover, the difference relates to the degree of product standardization and responsiveness to local business environment. The last is that difference has to do with strategy integration and competitive moves.

Joint venture

There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships. Such alliances often are favorable when:

- The partners' strategic goals converge while their competitive goals diverge
- The partners' size, market power, and resources are small compared to the Industry leaders
- Partners are able to learn from one another while limiting access to their own proprietary skills

The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions. Potential problems include:

- Conflict over asymmetric new investments
- Mistrust over proprietary knowledge
- Performance ambiguity - how to split the pie
- Lack of parent firm support
- Cultural clashes

Strategic alliance

A strategic alliance is a type of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation. The modern form of strategic alliances is becoming increasingly popular and has three distinguishing characteristics:

- They are frequently between firms in industrialized nations.
- The focus is often on creating new products and/or technologies rather than distributing existing ones.
- They are often only created for short term durations.

Advantages

Some advantages of a strategic alliance include:

- **Technology exchange**

This is a major objective for many strategic alliances. The reason for this is that many breakthroughs and major technological innovations are based on interdisciplinary and/or inter-industrial advances. Because of this, it is increasingly difficult for a single firm to possess the necessary resources or capabilities to conduct their own effective R&D efforts. This is also perpetuated by shorter product life cycles and the need for many companies to stay competitive through innovation. Some industries that have become centers for extensive cooperative agreements are:

- ✓ Telecommunications
- ✓ Electronics
- ✓ Pharmaceuticals
- ✓ Information technology
- ✓ Specialty chemicals

- **Global competition**

There is a growing perception that global battles between corporations be fought between teams of players aligned in strategic partnerships. Strategic alliances will become key tools for companies if they want to remain competitive in this globalized environment, particularly in industries that have dominant leaders, such as cell phone manufactures, where smaller companies need to ally in order to remain competitive.

- **Industry convergence**

As industries converge and the traditional lines between different industrial sectors blur, strategic alliances are sometimes the only way to develop the complex skills necessary in the time frame required. Alliances become a way of shaping competition by decreasing competitive intensity, excluding potential entrants, and isolating players, and building complex value chains that can act as barriers.

- **Economies of scale and reduction of risk**

Pooling resources can contribute greatly to economies of scale, and smaller companies especially can benefit greatly from strategic alliances in terms of cost reduction because of increased economies of scale.

In terms on risk reduction, in strategic alliances no one firm bears the full risk, and cost of, a joint activity. This is extremely advantageous to businesses involved in high risk / cost activities such as R&D. This is also advantageous to smaller organizations which are more affected by risky activities.

- **Alliance as an alternative to merger**

Some industry sectors have constraints to cross-border mergers and acquisitions, strategic alliances prove to be an excellent alternative to bypass these constraints. Alliances often lead to full-scale integration if restrictions are lifted by one or both countries.

- **Risks of competitive collaboration**

Some strategic alliances involve firms that are in fierce competition outside the specific scope of the alliance. This creates the risk that one or both partners will try to use the alliance to create an advantage over the other. The benefits of this alliance may cause unbalance between the parties, there are several factors that may cause this asymmetry:

The partnership may be forged to exchange resources and capabilities such as technology. This may cause one partner to obtain the desired technology and abandon the other partner, effectively appropriating all the benefits of the alliance.

Using investment initiative to erode the other partner's competitive position. This is a situation where one partner makes and keeps control of critical resources. This creates the threat that the stronger partner may strip the other of the necessary infrastructure.

Strengths gained by learning from one company can be used against the other. As companies learn from the other, usually by task sharing, their capabilities become strengthened, sometimes this strength exceeds the scope of the venture and a company can use it to gain a competitive advantage against the company they may be working with.

Choosing a Partner for International Strategic Alliances:

- **Strategic compatibility:** The partners need to have same general goal and understanding in forming a joint venture. The differences in strategy produce more conflicts of interest in the later partnership (Lilley and Williams, 1991).

- **Complementary skills and resources:** Another important criterion is that the partners need to contribute more than just money to the venture (Geringer and Michael, 1988). Each partner must contribute some skills and resources that complement for another.
- **Relative company size:** Different size of companies may cause domination of one firm or unequal agreement, which is not favorable for long-term running (Lilley and Williams, 1991)
- **Financial capability:** The partners can generate sufficient financial resources to maintain the venture's efforts, which is also important for long-term partnership (Lilley and Williams, 1991)

THREE DIFFERENT RULES OF ENTRY MODE SELECTION:

The following introductions were based on the statement of Hollensen:

- **Naïve rule.** The decision maker uses the same entry mode for all foreign markets. The companies use this rule as the entry mode selection ignores the differences of individual foreign markets. The performance of this selection could not be calculated, because it highly depends on the luck of the manager.
- **Pragmatic rule.** The decision maker uses a workable entry mode for each foreign market, which means that the manager use different entry modes depend on the time stage or the business stage. For example, as the first step to international business, companies tend to use exporting.
- **Strategy rules.** This approach means that the company systematically compared all of the entry modes and evaluated the value before any choice is made. This approach is common in large firms, because the research requires resources, capital and time. It is rarely to see a small or medium sized company use this approach.

Besides these ***three rules,*** managers have their own ways to select entry modes. If the company could not generate a mature market research, the managers tend to choose the entry modes most suitable for the industry or make decisions by intuition.

TOPIC 12

ANALYZING A CASE STUDY AND WRITING A CASE STUDY ANALYSIS IN STRATEGIC MANAGEMENT:

What Is Case Study Analysis?

Case study analysis is an integral part of a course in strategic management. The purpose of a case study is to provide students with experience of the strategic management problems that actual organizations face. A case study presents an account of what happened to a business or industry over a number of years. It chronicles the events that managers had to deal with, such as changes in the competitive environment, and charts the managers' response, which usually involved changing the business- or corporate-level strategy.

The cases in strategy cover a wide range of issues and problems that managers have had to confront. Some cases are about finding the right business-level strategy to compete in changing conditions. Some are about companies that grew by acquisition, with little concern for the rationale behind their growth, and how growth by acquisition affected their future profitability.

Each case is different because each organization is different. The underlying thread in all cases, however, is the **use of strategic management techniques to solve business problems**.

Cases prove valuable in a strategic management course for several reasons.

First, cases provide you, the student, with experience of organizational problems that you probably have not had the opportunity to experience firsthand. In a relatively short period of time, you will have the chance to appreciate and analyze the problems faced by many different companies and to understand how managers tried to deal with them.

Second, cases illustrate the theory and content of strategic management—-that is, all the information presented to you in the previous topics. The theory and concepts help reveal what is going on in the companies studied and allow you to evaluate the solutions that specific companies adopted to deal with their problems.

Consequently, when you analyze cases, you will be like a detective who, with a set of conceptual tools, probes what happened and what or who was responsible and then marshals the evidence that provides the solution. Top managers enjoy the thrill of testing their problem-solving abilities in the real world.

It is important to remember that no one knows what the right answer is. All that managers can do is to make the best guess. In fact, managers say repeatedly that they are happy if they are right only half the time in solving strategic problems.

Strategic management is an uncertain game, and using cases to see how theory can be put into practice is one way of improving your skills of diagnostic investigation.

Why use Case Study Analysis?

- Provides you with experience not ordinarily available
- Cases illustrate the theory and content of strategic management
- It describes an organization's external and internal condition and raises issues concerning the firm's mission, strategies and objectives and policies.
- Includes all related management issues.
- Learning by doing

Analyzing a Case Study

The purpose of the case study is to let you apply the concepts of strategic management when you analyze the issues facing a specific company. To analyze a case study, therefore, you must examine closely the issues confronting the company. Most often you will need to read the case several times—once to grasp the overall picture of what is happening to the company and then several times more to discover and grasp the specific problems.

Generally, detailed analysis of a case study should include eight areas:

- The history, development, and growth of the company over time
- The identification of the company's internal strengths and weaknesses
- The nature of the external environment surrounding the company
- A SWOT analysis
- The kind of corporate-level strategy that the company is pursuing
- The nature of the company's business-level strategy
- The company's structure and control systems and how they match its strategy
- Recommendations

To analyze a case, you need to apply the concepts taught in this course to each of these areas.

1. ***Analyze the company's history, development, and growth.*** A convenient way to investigate how a company's past strategy and structure affect it in the present is to chart the critical incidents in its history—that is, the events that were the most unusual or the most essential for its development into the company it is today.

Some of the events have to do with its founding, its initial products, how it makes new-product market decisions, and how it developed and chose functional competencies to pursue. Its entry into new businesses and shifts in its main lines of business are also important milestones to consider.

2. ***Identify the company's internal strengths and weaknesses.*** Once the historical profile is completed, you can begin the SWOT analysis. Use all the incidents you have charted to develop an account of the company's strengths and weaknesses as they have emerged historically. Examine each of the value creation functions of the company, and identify the functions in which the company is currently strong and currently weak. Some companies might be weak in marketing; some might be strong in research and development. Make lists of these strengths and weaknesses. The SWOT Checklist below gives examples of what might go in these lists.

A SWOT Checklist

Potential internal strengths	Potential internal weaknesses
Many product lines? Broad market coverage? Manufacturing competence? Good marketing skills? Good materials management systems? R&D skills and leadership? Information system competencies? Human resource competencies? Brand name reputation? Portfolio management skills? Cost of differentiation advantage? New-venture management expertise? Appropriate management style? Appropriate organizational structure? Appropriate control systems? Ability to manage strategic change? Well-developed corporate strategy? Good financial management? Others?	Obsolete, narrow product lines? Rising manufacturing costs? Decline in R&D innovations? Poor marketing plan? Poor material management systems? Loss of customer good will? Inadequate human resources? Inadequate information systems? Loss of brand name capital? Growth without direction? Bad portfolio management? Loss of corporate direction? Infighting among divisions? Loss of corporate control? Inappropriate organizational structure and control systems? High conflict and politics? Poor financial management? Others?
Potential environmental opportunities	**Potential environmental threats**
Expand core business (es)? Exploit new market segments? Widen product range? Extend cost or differentiation advantage? Diversify into new growth businesses? Expand into foreign markets? Apply R&D skills in new areas? Enter new related businesses?	Attacks on core business (es)? Increases in domestic competition? Increase in foreign competition? Change in consumer tastes? Fall in barriers to entry? Rise in new or substitute products? Increase in industry rivalry? New forms of industry competition?

Vertically integrate forward?	Potential for takeover?
Vertically integrate backward?	Existence of corporate raiders?
Enlarge corporate portfolio?	Increase in regional competition?
Overcome barriers to entry?	Changes in demographic factors?
Reduce rivalry among competitors?	Changes in economic factors?
Make profitable new acquisitions?	Downturn in economy?
Apply brand name capital in new areas?	Rising labor costs?
Seek fast market growth?	Slower market growth?
Others?	Others?

3. *Analyze the external environment.* To identify environmental opportunities and threats, apply all the concepts from the industry and macro environments to analyze the environment the company is confronting. Of particular importance at the industry level are Porter's five forces model and the stage of the life cycle model. Which factors in the macro environment will appear salient depends on the specific company being analyzed. Use each factor in turn (for instance, demographic factors) to see whether it is relevant for the company in question.

Having done this analysis, you will have generated both an analysis of the company's environment and a list of opportunities and threats. The SWOT Checklist table also lists some common environmental opportunities and threats that you may look for, but the list you generate will be specific to your company.

4. *Evaluate the SWOT analysis.* Having identified the company's external opportunities and threats as well as its internal strengths and weaknesses, consider what your findings mean. You need to balance strengths and weaknesses against opportunities and threats. Is the company in an overall strong competitive position? Can it continue to pursue its current business- or corporate-level strategy profitably? What can the company do to turn weaknesses into strengths and threats into opportunities? Can it develop new functional, business, or corporate strategies to accomplish this change? *Never merely generate the SWOT analysis and then put it aside.* Because it provides a succinct summary of the company's condition, a good SWOT analysis is the key to all the analyses that follow. Sometimes you will be required to do a SWOT matrix

5. *Analyze corporate-level strategy.* To analyze corporate-level strategy, you first need to define the company's mission and goals. Sometimes the mission and goals are stated explicitly in the case; at other times, you will have to infer them from available information. The information you need to collect to find out the company's corporate strategy includes such factors as its lines of business and the nature of its subsidiaries and acquisitions. It is important to analyze the relationship among the company's businesses. Do they trade or exchange

resources? Are there gains to be achieved from synergy? Alternatively, is the company just running a portfolio of investments? This analysis should enable you to define the corporate strategy that the company is pursuing (for example, related or unrelated diversification, or a combination of both) and to conclude whether the company operates in just one core business.

Then, using your SWOT analysis, debate the merits of this strategy. Is it appropriate given the environment the company is in? Could a change in corporate strategy provide the company with new opportunities or transform a weakness into a strength? For example, should the company diversify from its core business into new businesses?

Other issues should be considered as well. How and why has the company's strategy changed over time? What is the claimed rationale for any changes? Often, it is a good idea to analyze the company's businesses or products to assess its situation and identify which divisions contribute the most to or detract from its competitive advantage. It is also useful to explore how the company has built its portfolio over time. Did it acquire new businesses, or did it internally venture its own? All of these factors provide clues about the company and indicate ways of improving its future performance.

6. *Analyze business-level strategy.* Once you know the company's corporate-level strategy and have done the SWOT analysis, the next step is to identify the company's business-level strategy. If the company is a single-business company, its business-level strategy is identical to its corporate-level strategy. If the company is in many businesses, each business will have its own business-level strategy. You will need to identify the company's generic competitive strategy—differentiation, low cost, or focus—and its investment strategy, given its relative competitive position and the stage of the life cycle. The company also may market different products using different business-level strategies. For example, it may offer a low-cost product range and a line of differentiated products. Be sure to give a full account of a company's business-level strategy to show how it competes.

Identifying the functional strategies that a company pursues to build competitive advantage through superior efficiency, quality, innovation, and customer responsiveness and to achieve its business-level strategy is very important. The SWOT analysis will have provided you with information on the company's functional competencies. You should investigate its production, marketing, or research and development strategy further to gain a picture of where the company is going. For example, pursuing a low-cost or a differentiation strategy successfully requires very different sets of competencies. Has the company developed the right ones? If it has, how can it exploit them further? Can it pursue both a low-cost and a differentiation strategy simultaneously?

The SWOT analysis is especially important at this point if the industry analysis, particularly Porter's model, has revealed threats to the company from the environment. Can the company deal with these threats? How should it change its business-level strategy to counter them? To evaluate the potential of a company's
Business-level strategy, you must first perform a thorough SWOT analysis that captures the essence of its problems.

Once you complete this analysis, you will have a full picture of the way the company is operating and be in a position to evaluate the potential of its strategy. Thus, you will be able to make recommendations concerning the pattern of its future actions. However, first you need to consider strategy implementation, or the way the company tries to achieve its strategy.

7. *Analyze structure and control systems.* The aim of this analysis is to identify what structure and control systems the company is using to implement its strategy and to evaluate whether that structure is the appropriate one for the company. As we discussed, different corporate and business strategies require different structures this provide you with the conceptual tools to determine the degree of fit between the company's strategy and structure.
For example, does the company have the right level of vertical differentiation (e.g.does it have the appropriate number of levels in the hierarchy or decentralized control?) or does it use a functional structure when it should be using a product structure?)? Similarly, is the company using the right integration or control systems to manage its operations? Are managers being appropriately rewarded? Are the right rewards in place for encouraging cooperation among divisions? These are all issues to consider.

In some cases, there will be little information on these issues, whereas in others there will be a lot. In analyzing each case, you should gear the analysis toward its most salient issues. For example, organizational conflict, power, and politics will be important issues for some companies. Try to analyze why problems in these areas are occurring. Do they occur because of bad strategy formulation or because of bad strategy implementation?

Organizational change is an issue in many cases because the companies are attempting to alter their strategies or structures to solve strategic problems. Thus, as part of the analysis, you might suggest an action plan that the company in question could use to achieve its goals. For example, you might list in a logical sequence the steps the company would need to follow to alter its business-level strategy from differentiation to focus.

8. *Make recommendations.* The quality of your recommendations is a direct result of the thoroughness with which you prepared the case analysis. Recommendations are directed at solving whatever strategic problem the company is facing and increasing its future profitability. Your recommendations should be in line with your analysis; that is, they should follow logically from the previous discussion. For example, your recommendation generally will center on the specific ways of changing functional, business, and corporate strategies and organizational structure and control to improve business performance.

The set of recommendations will be specific to each case, and so it is difficult to discuss these recommendations here. Such recommendations might include an increase in spending on specific research and development projects, the divesting of certain businesses, a change from a strategy of unrelated to related diversification, an increase in the level of integration among divisions by using task forces and teams, or a move to a different kind of structure to implement a new business-level strategy. Make sure your recommendations are mutually consistent and written in the form of an action plan. The plan might contain a timetable that sequences the actions for changing the company's strategy and a description of how changes at

the corporate level will necessitate changes at the business level and subsequently at the functional level.

After following all these stages, you will have performed a thorough analysis of the case. Remember that you must tailor your analysis to suit the specific issue discussed in the case. In some cases, you might completely omit one of the steps in the analysis because it is not relevant to the situation you are considering. **You must be sensitive to the needs of the case and not apply the framework we have discussed in this section blindly. The framework is meant only as a guide, not as an outline.**

TEN COMMANDMENTS OF CASE ANALYSIS

1. Read the case at least twice, once for an overview and once to gain full command of the facts; then take care to explore every one of the exhibits
2. Make a list of problems and issues that have to be confronted.
3. Do enough number crunching to discover the story told by the data presented in the case.
4. Look for opportunities to use the concepts and analytical tools you have learned earlier.
5. Be thorough in your diagnosis of the situation and make an outline of your assessment.
6. Support any and all opinions with well-reasoned arguments and numerical evidence. Avoid expressions like “I think” and “I feel” from your assessment and, instead, use “My analysis shows”.
7. Develop charts, tables, and graphs to expose more clearly the main points of your analysis.
8. Prioritize your recommendations and make sure they can be carried out in an acceptable time frame with the available skills and financial resources.
9. Review your recommended action plan to see if it addresses all of the problems and issues you identified.
10. Avoid recommending any course of action that could have disastrous consequences if it doesn’t work out as planned; therefore, be as alert to the downside risks of your recommendations as you are to their upside potential and appeal.