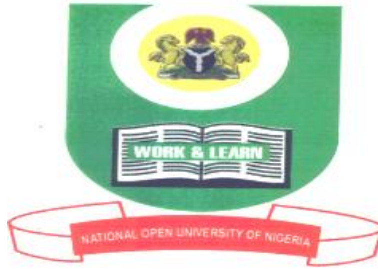

NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF BUSINESS AND HUMAN RESOURCES

COURSE CODE: MBA 820

COURSE TITLE: CORPORATE MANAGEMENT STRATEGY

MBA 820

CORPORATE MANAGEMENT STRATEGY

COURSE GUIDE

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MBA 820: CORPORATE MANAGEMENT STRATEGY

1.0 INTRODUCTION

MBA 820: Corporate Management Strategy is a two-credit course for students offering MBA Corporate Governance in the School of Business and Human Resources Management.

The course will consist of fifteen (14) units, that is three (3) modules for five (5) units for the first and the second modules and only four (4) units for the third module. The material has been developed to suit Masters students in Corporate Governance at the National Open University of Nigeria (NOUN) by using an approach that take care of fundamental issues in the strategic management of organizational operations.

A student who successfully completes the course will surely be in a better position to manage the operations of a corporate entity strategically for a competitive leverage in its industry.

The course guide tells you briefly what the course is about, what course materials you will be using and how you can work your way through this material. It suggests some general guidelines for the amount of time you are likely to spend on each unit of the course in order to complete it successfully. It also gives you some guidance on your tutor-marked assignments. Detail information on tutor-marked assignment is found in the separate assignment file which will be available in due course.

2.0 WHAT YOU WILL LEARN IN THIS COURSE

This course will introduce you to the fundamental aspects of corporate management strategy generally. It includes the Organizational Mission, Goals, Objectives and Policies; Internal Analysis of the Firm; Industry Analysis and External Diagnosis; Strategic Planning; Corporate Strategic Posture; Strategic Typologies; Organizational Structure; Structure, Technology and Strategy; and Case Study.

3.0 COURSE AIMS

The course aims, among others, are to give you an understanding of the intricacies of corporate management strategy and how to tackle case analysis in organizational operations as far as an enterprise is concerned.

The Course will help you to appreciate the essence of Organizational Mission, Goals, Objectives and Policies; Internal Analysis of the Firm; Industry Analysis

and External Diagnosis; Strategic Planning; Corporate Strategic Posture; Strategic Typologies; Organizational Structure; Structure, Technology and Strategy; and Case Study.

The aims of the course will be achieved by:

· Explaining the Concept of strategy in general terms;

· Identifying Organizational Mission, Goals, Objectives and Policies;

· Identifying the fundamental aspects of Internal Analysis of the Firm;

· Discussing the aspects of Industry Analysis;

· Analyzing the aspects of External Diagnosis;

· Highlighting and discussing the aspects of Strategic Planning;

· Analyzing Corporate Strategic Posture;

· Highlighting and Discussing Strategic Typologies;

· Analyzing Organizational Structure;

· Discussing Structure in relation to Technology and Strategy; and

· Identifying and explaining Principles of Case Study and Case Analysis.

4.0 COURSE OBJECTIVES

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

· Define the concept of strategy

· Discuss Organizational Mission, Goals, Objectives and Policies;

· Discuss the fundamental Aspects of Internal Analysis of the Firm;

· Analyzing the aspects of Industry Analysis;

· Discuss the aspects of External Diagnosis;

· Analyzing Corporate Strategic Posture;

· Listing and Discussing Strategic Typologies;

· Analyzing Organizational Structure

· Explaining the Influence of Technology and Strategy on Structure; and

· Identifying and explaining the Principles of Case Study and Case Analysis.

5.0 WORKING THROUGH THIS COURSE

To complete this course, you are required to read all study units, attempt all the tutor-marked assignments and study the principles and approach to case study and case analysis in this material provided by the National Open University of Nigeria (NOUN). You will also need to undertake practical exercises for which you need access to a personal computer because of the requirements of the e-Examination for the Course. Each unit contains self-assessment exercises, and at certain points during the course, you will be expected to submit assignments. At the end of the course is a final examination for the Course. The course should take you about a total 17 weeks to complete. Below are the components of the course, what you have to do, and how you should allocate your time to each unit in order to complete the course successfully on time.

6.0 COURSE MATERIALS

Major components of the course are:

· Course Guide

· Study Units

· Textbooks

· Assignment file

· STUDY UNITS

The study units in this course are as follows:

MODULE 1:

Unit 1: Concepts of Strategy

Unit 2: Organizational Mission

Unit 3: Organisational Goals

Unit 4: Organizational Objectives

Unit 5: Organizational Policies

MODEL 2:

Unit 1: Internal Analysis of the Firm

Unit 2: Industry Analysis

Unit 3: External Diagnosis

Unit 4: Strategic Planning

Unit 5: Corporate Strategic Posture

MODULE 3:

Unit 1: Strategic Typologies

Unit 2: Organisational Structure

Unit 3: Structure, Technology and Strategy

Unit 4: Case Study

8.0 ASSIGNMENT FILE

In this course, you will find all the details of the work you must submit to your tutor for marking. The marks you obtain for these assignments will count towards the final mark you obtain for this course. Further information on assignments will be found in the assignment file itself and later in the section on assessment in this course guide. There are 14 tutor-marked assignments in this course; the student should attempt all the 14.

9.0 PRESENTATION SCHEDULE

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

10.0 ASSESSMENTS

There are two aspects to the assessment of the course: first are the tutor-marked assignments and second is a written examination.

In tackling the tutor-marked assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal assessment in accordance with the deadlines stated in the Presentation Schedule and the Assignment File. The work you submit to your tutor will count for 30% of your total course mark.

At the end of the course, you will need to sit for a final written examination of 'three hours' duration. This examination will also count for 70% of your total course mark.

11.0 TUTOR-MARKED ASSIGNMENT (TMAs)

There are fifteen tutor-marked assignments in this course and you are advised to attempt all. Aside from the course material provided, you are advised to read and research widely using other references (under further reading) which will give you a broader viewpoint and may provide a deeper understanding of the subject. Ensure all completed assignments are submitted on schedule before set deadlines. If for any reasons, you cannot complete your work on time, contact

your tutor before the assignment is due to discuss the possibility of an extension. Unless in exceptional circumstances, extensions may not be granted after the due date.

12.0 FINAL EXAMINATION AND GRADING

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

Utilize the time between the conclusion of the last study unit and sitting for the examination to revise the entire course. You may find it useful to review your

self-assessment tests, tutor-marked assignments and comments on them before the examination.

13.0 COURSE MARKING SCHEME

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

Table 1: Course Marking Scheme

ASSESSMENT MARKS

Assignment 6 (TMAs) 4 assignments, best 3 will be used for

the Countinuous Assessment

= 10 x 3 = 30%

Final Examination 70% of overall course marks

Total 100% of course marks

14.0 ASSIGNMENT FILE

Unit Title of work Weeks

activity

Assessment (end

of unit)

1 Concepts of Strategy 1

2 Organizational Mission 1

3 Organisational Goals 1

4 Organizational Objectives 1

5 Organizational Policies 1

6 Internal Analysis Of The Firm 1

7 Industry Analysis 1

8 External Diagnosis 1

9 Strategic Planning 1

10 Corporate Strategic Posture 1

11 Strategic Typologies 1

12 Organizational Structure 1

13 Structure, Technology And Strategy 1

14 Case Study 1

Revision

Total 14

15.0 TUTORS AND TUTORIALS

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

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter as they would provide assistance to you during the course. You must submit your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion group if you need help.

The following might be circumstances in which you would find help necessary, when:

- you do not understand any part of the study units or the assigned readings.
- you have difficulty with the self-tests or exercises.
- you have a question or problem with an assignment with your tutor's comment on an assignment or with the grading of an assignment.

You should try your possible best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of

your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participation in discussions.

16.0 SUMMARY

MBA 820: Corporate Management Strategy intends to expose the graduate student to the nitty-gritty of managing the strategic posture of an enterprise, be it a private or public entity. Upon completing the course, you will be equipped with the knowledge required to produce a good research work.

We hope you enjoy your acquaintances with the National Open University of Nigeria (NOUN). We wish you every success in the Future

MBA 820

CORPORATE MANAGEMENT STRATEGY

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UNIT 1: CONCEPTS OF STRATEGY

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1.0 INTRODUCTION

Corporate organizations are established with the intent of pursuing preconceived purpose as embedded in the organizational mission. This corporate mission is normally marshaled

into desirable goals that can serve as focus for the operational direction. Theses goals themselves are not end but just some means towards and end. The ultimate end of organizational operations is profitable results which are derived from the predetermined goals. These desirable operational results are normally instituted right from the time mission and goals are marshaled out for the organization.

Fundamentally, corporate objectives and the related policy framework are formalised within the framework of a corporate strategy. In the absence of an explicit statement of strategy, it becomes more difficult for business organisations to reconcile coordinated action with entrepreneurial effort. Therefore, an explicit strategy for the business organisation is necessary to ensure that people cooperate together in order to achieve the benefits of mutual reinforcement, and to checkmate the effects of changing environmental conditions.

In this first unit of the study material, therefore, you will be exposed to the discussion on organizational strategies.

2.0 OBJECTIVES

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

· explain the meaning of and the need for strategy

· explain the scope of strategy

· list and discuss criteria and steps involved in formulation of strategy

· mention and discuss the influences on strategy choice

· Mention and explain the inherent advantages of strategy formulation

· Identify and explain various forms of organizational strategy.

3.0 MAIN CONTENT

3.1 CONCEPTUALIZATION OF STRATEGY

Strategy is all about competition and the ultimate warfare in the business world. Competition like warfare, as you will understand form the discussion in this unit, is inevitable in the corporate world because all companies are struggling to win the preferences and patronage of the consumers and users of their products and services.

Competition is therefore inevitable. All companies compete to enhance their operational fortunes by deploying all the relevant resources to capture the markets, survive and please the shareholders as well as other stakeholders. Hence, there is the inevitable formulation and use of strategy. The relevant question is what is the meaning of this awesome term called strategy?

In order to proffer answer to the above pertinent question, it is necessary to consider the opinions of some writers. There are many views on the conceptualization of the term strategy. An array of such views on the meaning of strategy is discussed below.

In a simple conceptualization, Hill and Jones (2004) posit that the term strategy refers to

the determination of the basic long-term goals and objectives of an enterprise and the adoption of relevant courses of action and the allocation of resources to carry out these goals.

There is another view which states that strategy involves a pattern of decisions in a corporate enterprise that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving these goals. Furthermore, corporate strategy defines the range of business the business enterprise is to pursue, the kind of economic and human organisation it intends to utilize and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities. Therefore, the strategy of a corporate entity defines the business in which it will compete, preferably in a way that focuses resources to convert distinctive competence into competitive advantage (Pearce II and Robinson Jr., 1998).

In a succinctly description of strategy, Delaney (2008) opines that strategy is the weapon fashioned against competitive attacks from competitors in the corporate world. This is because the best weapon against competition is preparation of relevant arsenal to ward off competitors' actions in the company's line of business. This implies that companies never believe that the competitors will never attack. Therefore, they are always prepared for such as it will amount to sheer folly to believe that a corporate entity will sit idle by given an engagement in business competition.

The various perceptions on the essence of strategy as discussed above suggest that strategy constitutes the choice of major directions for pursuing predetermined corporate objectives and the allocation of scarce resources. According to Hill and Jones (2004), strategy represents a company's game plan in the world of stiff competition.

In essence, strategy is a large scale, future oriented plans for interacting with the competitive environment to optimize achievement of organisation objectives. Therefore, grand strategy, for instance, specifies how the organisation will be operated and run, and what entrepreneurial, competitive and functional area approaches and actions will be taken to put the organisation into the desired position that would realize chosen objectives.

The various forms of strategy such as corporate strategy, business strategy, operational strategy, and functional strategy are all necessary towards detailing all future deployments in areas of human, financial and material resources. Fundamentally, therefore, strategy provides a framework for managerial decisions, and it reflects a company's awareness of how to compete, against whom, when, where and for what.

Formulation of strategy is as important as the strategy itself and it reflects the inherent

stuff of the organization and the seriousness in its operational posture. A good example of weak corporate strategy is the type displayed by the Transnational Corporation (Transcorp) Nigeria Plc formed during the twilight days of the Obasanjo civilian administration. The grand strategy is embedded in starting business operations with the acquisition of some government-owned corporations. The existing workers of these corporations who were used to government ways of doing business would not succeed in enhancing the ideal business posture of a typical private enterprise.

It implies therefore, that strategy formulation goes beyond sentiments and political patronage. Strategy formulation involves a defined process whereby the management develops an organisation's strategic mission, derives specific strategic objectives, and chooses a strategy for the operational activities of the company. The process includes all the direction-setting components of managing the total organisation.

According to Thompson Jr. and Strickland (1987), strategies are usually formulated in relation to the current and potential activities of competitors. They are also formulated to deal with the vagaries of the business environment. Formulation is an intellectual activity that is devoid of shrewd corporate maneuvering or connivance. It is a continuous or

systematic process aimed at challenging current and potential threats while utilizing current and potential opportunities to improve company's results.

3.1.1 Scope of Strategy

Thompson Jr. and Strickland (1987) observe that strategy consists of four components including product-market scope, growth vector, competitive advantage and synergy. The product-market aspect of the strategy indicates the particular industries to which the firm confines its product market position and compete for patronage.

The aspect of growth posture specifies the direction in which the firm is moving with respect to its current product market exposure. The competitive advantage as a strategy involves identifying unique opportunities within the scope defined by the other aspects of the company's strategy.

The above aspects of strategy in terms of the product-market scope, growth posture and competitive advantage collectively indicate the firm's posture regarding the product market posture in the external environment. The product market defines the scope of search while the growth posture provides directions within the scope of the strategy.

The aspect of competitive advantage describes the firm's ability to make good the individual entries into the markets. The product-market scope, growth posture and competitive advantage aspects of strategy describe the firm's search for available profitable opportunities in the external environment.

The aspect of synergy is indicative of the common string that measures the firm's ability to make good on a new product market entries. By providing capabilities for success in new ventures, synergy enables the firm to realize its full profit potential, Synergistic

efforts involve the creation of business units that support and complement each other.

Accordingly, synergistic effect may arise from acquisition, vertical integration, research competence, marketing network etc. A company may adopt an aggressive or defensive posture to capitalize on its synergy. The firm uses its outstanding competence such as its extensive distribution network, under its aggressive posture, to enter into new product-markets. For a defensive posture to bring successful operations, new market entries are required to provide some key competence.

In fundamental terms, strategy is embedded in content, construct and contextual scope. The contextual scope of the synergy incorporates the structure, the type, the size and the environment of the strategy in terms of the conditions and circumstances of the strategy. The construct scope is indicative of the necessary form of the strategy. This may manifest in areas of growth, competitive, survival or turnaround strategies. The aspect of content in strategy involves the capacity of the strategy to curtail an identified threat or utilize available opportunity towards good results.

According to Thompson Jr. and Strickland (1987), citing the work of Mintzberg (1978), the scope of strategy can be broadened into five distinct but interlocking areas but are mutually exclusive. These are as highlighted below:

i) Strategy as a Plan:- this is regarded as a consciously intended course of action.

ii) Strategy as a Ploy:-this is regarded as a specific maneuver intended to outwit a competitor.

iii) Strategy as a Pattern:-this is regarded as consistency in behaviour whether intended or not.

iv) Strategy as a Position:-this is regarded as a means of locating an organisation in an environment.

v) Strategy as a Perspective:-this is regarded as an ingrained way of perceiving the world.

The above descriptions of a strategy is indicative of the fact strategy is subject to different interpretation and opinions. Nevertheless, the basic idea remains, which involves the posture adopted by a firm to cope with the dictates of its environment for a profitable operation.

SELF-ASSESSMENT EXERCISE 1

Identify and explain the various areas of the scope of strategy.

3.1.2 Process of Strategy Formulation

According to Thompson Jr. and Strickland (1987), the formulation of strategy goes through a process with some identifiable steps such as highlighted below:

i) Assessment of the external environment in order to identify and forecast opportunities and threats lurking within the environment including the analysis of the significant industry;

ii) Assessment of the internal environment of the company in order to identify the firm's competitive strengths and weaknesses in relation to the competitors in the industry;

iii) Assessment of the values of top managers and stakeholders to identify the common shared values among them for the benefit of the firm.

iv) Matching the external environment analysis with both the internal organisational analysis and value analysis, taking into consideration the relevant industry.

v) Identify the strategic mission or purpose of the organisation.

vi) Formulate the long-term or strategic objectives for the firm which would invariably be narrowed down to quantitative or verifiable objectives.

vii) Identify and appraise all possible alternative grand designs or strategies with which the organisation can pursue formulated objectives.

viii) Identify and make a feasible choice out of the strategic alternatives that are open to the firm, in the luminosity of the company exigencies, situations and capabilities.

The above steps in the process of formulating corporate strategy are imperative towards having a workable grand design for the organizational profitable operations.

3.1.3 Influences on Strategic Choice

A good number of factors would influence the choice of a particular strategy by the company. The factors are:

i) The background of the organisation which sets the path for the organisation into the future, it would not make sense for the organisation to abandon or divorce the path.

ii) The mission of the organisation within the realm of its product-market definition would also suggest .what strategy should be selected.

iii) The external environment of the organisation also presents specific opportunities and threats, which may warrant specific adaptive strategy e.g. a competitive threat, may suggest a competitive strategy as a response.

iv) The shareholders and indeed other stakeholders of the company may come up with new resources, needs, expectations, agitation, threats and opportunities which may be strategically responded to.

v) Available operational resources of a company would also suggest the type and the extent to which a strategy can be operated.

vi) Operational values cherished by both owners and top managers would also determine the choice of a particular strategy. If the core values of the owners and top executives a company can be located in operations then the appropriate strategies would be selected.

vii) Distinctive competencies of a company would also dictate the form of strategy the organisation can adopt.

viii) Strategic objective of a company would also influence in identifying all feasible alternative strategies from which a choice can be made. Any objective to be

pursued such as capturing more market share or market leadership would engender the adoption of competitive strategies.

ix)

Prevailing government policies can also have a direct influence on strategic choice of a company. For instance, a policy on the utilization of locally available raw materials for production may affect a company's strategic choice.

3.1.4 Criteria for Assessing Strategic Alternatives

According to Hill and Jones (2004), all relevant and feasible strategic alternatives of a corporate entity should be judged against some identifiable criteria as highlighted and explain below:

i) Appropriateness to Available Resources

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

ii) Appropriate Time Horizon

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

iii) Internal Consistency

Formulated strategies for a corporate entity must be assessed as consistent with established mission statements, values and objectives. The selected strategy must fit these and other strategic elements.

iv) External Consistency

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

v) Acceptable Degree of Risk

Strategy makers should understand the degree of risk that the company is capable of contending with in relation operational constraints. The degree of risk that can be assumed by a company depends on the following factors:

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

Basically, the degree of risk various in most cases with changes in these factors. It has been argued that risk and payoff are correlated. Therefore, high risk strategies go with high payoff but at the same time they are susceptible to threat for the survival of an enterprise in the event that forecast goes wrong.

3.1.5 Inherent Advantages of Corporate Strategic Formulation

As observed by Hill and Jones (2004), strategy formulation and implementation have inherent benefits to a company such as in following areas of business operations.

- Enhances company growth expansion.
- Put a company in a good stead to act rather than react.
- Entails a basis for measuring performance.
- Creates strategic learning experiences in managers.
- Enhances the setting and the acceptance of common goals.
- Prepares and develops managers to inculcate strategic action skills.
- Provides early indication of financial and other needs.
- Enhances the company's ability to utilize available opportunities;
- Provides hedge against environmental threats

•

Enhances the company's ability to formulate proactive measures for growth, survival and competitive advantage, and profitable operations.

3.2 THE NEED FOR STRATEGY

The absence of an organizational strategy may result in members of the organisation working at cross-purposes. The intentions of top management may not be communicated clearly to those at lower levels in the hierarchy who are expected to implement these intentions. Obsolete patterns of behaviour become very difficult to modify. Change comes about from either subjective or intuitive assessment, which becomes increasingly unreliable as the rate of change increases. Developing a statement of strategy demands a creative effort. If organizational operation is to be successful, it requires different methods of behaviour and often fundamental change in the nature of interactions among managers (Pearce II and Robinson Jr., 1998).

According to Pearce II and Robinson Jr. (1998), once objectives have been established, the appropriate mix of business engaged in can be evaluated against the following criteria:

i) Probable contribution – the estimated contribution of existing bureaucratic corporate performance given no major changes in competitive picture.

ii) Minimum standards – disengagement from unsatisfactory situations where standards of performance cannot be achieved with the existing mix of business. As well as identifying attractive new opportunities, a well-managed corporation has an active procedure for disengaging from unsatisfactory situations.

iii) Trade-offs – the requirement for trade-off decisions in establishing standard for unit performance, for example, growth versus profitability; or short-term profitability versus long-term profitability.

iv) Risk level – the degree of risk represented by the portfolio. Groups of business may be associated together within a single company because the risk inherent in the total is less than would be present if the businesses were separate.

v) Synergism – the nature and extent of mutual reinforcement which individual businesses provide for the whole. This may be either operational reinforcement where two businesses operated jointly improve the company's strategic advantage, or financial reinforcement because of the different patterns in funding, timing, or because of the appeal of the whole to the financial continuity.

vi) Extrapolation – the range of additional opportunities for which an appropriate mix of businesses provides a platform, where the company may go from the present position and what is required to do so. This may be expressed as the normal situation. What should be the next business added to the existing portfolio?

vii) Funds requirements – the constraint of balancing the funds requirements and resources available in order to meet successfully the corporate strategy. If synergy is to be assessed rationally it must be translated into funds flow projection.

Increased business competitiveness and the dynamic external environment have placed important emphasis on corporate strategy and the competencies of managers. Hill and Jones (2004) observe that that if organisations are to be effective in strategic terms they must be able to deal with the pressures and demands of change. Managers should be

strategically aware and appreciate the origins and nature of change. They should possess a comprehensive set of skills and competencies and be able to deal effectively with the forces which represent opportunities and threats to the organisation. Effective strategic management creates productive alliance between the nature and the demands of the environment, the organization's culture and values, and the resources that the organisation has at its disposal.

Some form of corporate strategy is necessary for all organisations, particularly large organisations and including service organisations and those in the public sector. In the public sector, for example, the government authorizes are implored to adopt a corporate approach to their affairs in order to ensure that scarce resources are deployed most effectively.

SELF-ASSESSMENT EXERCISE 2

Mention and explain the reasons for the formulation of corporate strategy.

3.3 FORMS OF ORGANIZATIONAL STRATEGY

The various forms of strategies according to Hill and Jones (2004), including the strategies as identified and discussed below:

3.3.1 Corporate Strategy

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

Corporate strategy also involves marshalling the available resources for definite missions and planning alternative strategies in anticipation of changing contingencies and creating flexible conditions in structure and employee attitudes favourable towards achieving the corporate goal.

The corporate strategy defined a company's general posture in the broad economy. The business strategy outlined the competitive posture of its operations within the domestic movie exhibition industry. But to increase the likelihood that these strategies will be successful, more specific guidelines are needed for the business's operating components.

3.3.2 Business Strategy:

Business strategy refers to the aggregated strategies of a single business firm. In other words, business strategy is a strategy designed to position the strategic business unit in a diversified corporation. Each firm formulates a business strategy in order to achieve a sustainable competitive advantage.

3.3.3 Operational Strategy:

The concept of operational strategy was popularized and encouraged by Peter Drucker (1954) in his theory of management by objectives. This is needed for the day-to-day operational activities in the organisation. It must operate within the budget and cannot create a budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.

Other forms of strategy are the functional and grand strategies which are discussed in detail as shown below.

3.3.4 Functional Strategy

A functional strategy is the short-term game plan for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future. Thus, functional strategies clarify the business strategy, giving specific, short-term guidance to operating managers.

Functional strategies must be developed in the key areas of marketing, finance, production, operations, research and development, and personnel. They must be consistent with long-term objectives and grand strategy. Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company (e.g., marketing, finance, production, etc.) to pursue the business strategy in daily activities.

3.3.5 Grand Strategy

Grand strategies which are also known and called master business strategies are intended to provide basic direction for strategic actions. Therefore, they are seen as the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. More often that not, grand strategies indicate how long-range objectives will be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides major actions.

A principal grand strategy could serve as the basis for achieving major long-term objectives such as single business concentration, market development, product development, innovation, horizontal integration, vertical integration, joint venture, concentric diversification, conglomerate diversification, retrenchment/turnaround, divestiture and liquidation. A company which is involved with multiple industries, businesses, product lines, or customer groups uses several grand strategies. Such grand strategies are discussed below with examples to indicate some of their relative strengths and weaknesses.

4.0 CONCLUSION

Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of relevant courses of action and the allocation of resources to pursue

and achieve these goals. Formulation of strategy goes through a process while some factors needed to be taken into consideration in the course of formulating strategy. There are reasons and advantages which necessitate the use of strategy, and strategy assumes various forms such as corporate strategy, business strategy, operational strategy, functional strategy and grand strategy.

5.0 SUMMARY

In this initial study unit of the course, we have discussed the following topics:

· Conceptualization of Strategy

· Scope of Strategy

· Process of Strategy Formulation

· Influences on Strategic Choice

· Criteria for Assessing Strategic Alternatives

· Inherent Advantages of Corporate Strategic Formulation

· The Need for Strategy, and

· Forms of Organizational Strategy.

In the next study unit, you will be taken through discussion on organization mission.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss the various forms of organizational strategy

Answer to Self-Assessment Exercise

1. The various areas of the scope of strategy are as follows:

i) Strategy as a Plan:- this is regarded as a consciously intended course of action.

ii) Strategy as a Ploy:- this is regarded as a specific maneuver for competition.

iii) Strategy as a Pattern:- this is regarded as consistency in behaviour.

iv) Strategy as a Position:- a means of locating an organisation in an environment.

v) Strategy as a Perspective:- an ingrained way of perceiving the world.

2. The reasons for the formulation of corporate strategy areas follows:

i) Probable contribution – the estimated contribution of corporate performance.

ii) Minimum standards – disengagement from unsatisfactory situations where standards of performance cannot be achieved with the existing mix of business.

iii) Trade-offs – the requirement for trade-off decisions in establishing standard for unit performance, e.g., growth versus profitability.

iv) Risk level – the degree of risk represented by the business portfolio of the company.

v) Synergism – the nature and extent of mutual reinforcement which individual businesses provide for the whole.

vi) Extrapolation – the range of additional opportunities for which an appropriate mix of businesses provides a platform.

vii) Funds requirements – the constraint of balancing the funds requirements and resources available in order to meet the corporate strategy satisfactorily.

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UNIT 2: ORGANIZATIONAL MISSION

CONTENTS

8.0 Introduction

9.0 Objectives

10.0 Main Content

3.1 Meaning of Organizational Mission

3.2 Formulating a Corporate Mission

3.3 Influences on Corporate Mission

11.0 Conclusion

12.0 Summary

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1.0 INTRODUCTION

Organizations are entities established to pursue and achieve certain predetermined goals and objectives. Such goals and objectives are normally determined and incorporated in the mission of the organization. Hence, in charting a course for a new business or reformulating direction for an ongoing company, the basic goals, characteristics, and philosophies that will shape a firm's strategic posture must be determined. This company mission will guide future executive action.

In this unit of the study material, therefore, you will be taken through the discussion on organizational mission.

2.0 OBJECTIVES

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

· explain the meaning of organizational mission

· Discuss the formulation of corporate mission

· mention and discuss the influences on corporate mission

3.0 MAIN CONTENT

3.1 MEANING OF ORGANIZATIONAL MISSION

Hills and Jones (2004) posit that mission statement of an organization refers to a description or declaration of the reason responsible for a company's existence and operation, which provides the framework or context within which strategies are formulated. According to them, the three main components of organizational mission are:

- a statement of the raison d'etre of a company or organization, that is its reason for existence;
- a statement of the key values or guiding standards that will drive and shape the actions and behaviour of the employees; and
- a statement of major goals and objectives.

Basically, therefore, the mission of an organization incorporates the formal declaration of the pre-occupation and the fundamental purpose of the company in terms of it is out to achieve in its operations.

In the same vein, according to Pearce II and Robinson Jr. (1998), the organizational or corporate mission is defined as the fundamental, unique purpose that sets a business apart from other firms of its type and identifies the scope of its operations in product and market terms. The mission is a broadly framed but enduring statement of company intent.

Corporate mission, according to Pearce II (1982), embodies the business philosophy of strategic decision makers; implies the image the company seeks to project; reflects the firm's self-concept; indicates the principal product or service areas and primary customer needs the company will attempt to satisfy. In short, the mission describes the product, market, and technological areas of emphasis for the business. And it does so in a way that reflects the values and priorities of strategic decision makers.

More often than not the mission of a corporate body contains few specific directives, only broadly outlined or implied objectives and strategies. Characteristically, it is a statement

of attitude, outlook, and orientation rather than of details and measurable targets.

A corporate mission, according to King and Cleland (1978) as cited by Pearce and Robinson (1998), is normally designed to accomplish the following:

1.

To ensure unanimity of purpose within the organization.

2.

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

3.

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

4.

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

5.

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

6.

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

7.

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

SELF-ASSESSMENT EXERCISE 1

What are the intended benefits of a corporate mission?

3.2 FORMULATING A CORPORATE MISSION

The process of defining the mission for a specific business can be likened to thinking about a firm at its inception. In the case of a typical business organization, the formulation of a mission begins with the beliefs, desires, and aspirations or a single entrepreneur. Therefore, in the opinion of Pearce II and David (1987), the sense of mission for such an owner-manager is, usually based on several fundamental elements such as follows:

1.

Belief that the product or service can provide benefits at least equal to its price.

2.

Belief that the product or service can satisfy a customer need currently not met adequately for specific market segments.

3.

Belief that the technology to be used in production will provide a product or service that is cost and quality competitive.

4.

Belief that with hard work and the support of others the business can do better than just survive, it can grow and be profitable.

5.

Belief that the management philosophy of the business will result in a favorable public image and will provide financia1 and psychological rewards for those willing to invest their labour and money in helping the firm to succeed.

6.

Belief that the entrepreneur's self-concept of the business can be communicated to and adopted by employees and stockholders.

Redefinition of the company mission may be necessary as the company grows or is forced by competitive pressures to alter its product/market/technology, If so, the revised mission statement will reflect the same set of elements as the original. It wil1 state the basic type of product or service to be offered, the primary markets or customer groups to be served, the technology to be used in production or delivery; the fundamental concern for survival through growth and profitability; the managerial philosophy of the firm; the public image sought; and the self concept those affiliated with it should have of the firm.

The essential components of a corporate mission statement are: specification of the basic product or service; primary market and principal technology for production or delivery.

SELF-ASSESSMENT EXERCISE 2

Enumerate the fundamental elements of the sense of mission of an owner-manager.

3.3 INFLUENCES ON CORPORATE MISSION

According to Pearce II and Robinson Jr. (1998), the major influences on the formulation of a corporate mission are as follows:

1. Company Goals

Three economic goals guide the strategic direction of almost every viable business organization. Whether or not they are explicitly stated, a company's mission statement reflects a company's intention to secure its survival through sustained growth and profitability.

Profitability is the mainstay goal of a business organization. Regardless of how it is measured or defined, profit over the long time is the clearest indication of a firm's ability to satisfy the principal claims and desires of employees and stockholders. The phrase in the sentence is "over the long term". It has been argued that decisions on a short-term concern for profitability would lead to a strategic suicide. A firm might overlook the enduring concerns of customers, suppliers, creditors, ecologists and regulatory agents. In the short term, the results may produce profit, but over time the financial consequences are likely to be detrimental.

A firm's growth is inextricably tied to its survival and profitability. In this context, the meaning of growth must be broadly defined. While growth in market share has been shown by the product impact market studies to be correlated with the firm profitability, other important forms of growth do exist. For example, growth in the number of market

served, in the variety of product offered, and in the technologies used to provide goods or services frequently leads to improvements in the company's competitive ability. Growth means change, and proactive change is a necessity in a dynamic business environment.

The issue of growth raises a concern about the definition of a company mission. Hence, there arise issues such as: how can a business specify product, market and technology sufficiently to provide direction without delimiting unanticipated strategic options? How can a company define its mission and opportunistic diversification can be considered while at the same time maintaining parameters that guide growth decisions? These issues are best addressed when a firm outlines its mission conditions under which it might depart from ongoing operations.

2. Company Philosophy

The statement of company's philosophy, often called a company creed, usually accompanies or appears as part of the mission. It reflects of explicitly states basic beliefs, values, aspirations and philosophical priorities. In turn, strategic decision makers are

committed to emphasizing these in managing the firm. Fortunately, company philosophers vary little from one firm to another. Thus, owners and managers implicitly accept a general, unwritten, yet persuasive code of behaviour.

The use of this philosophy, actions in a business setting are governed and largely self-regulated. In realty, statement of philosophy are so similar and are so full of platitudes that they look or ready more like public relations statements than the commitment to values they are meant to be.

The similarities in these philosophies notwithstanding, strategic managers; intentions in developing them do not warrant cynicism. In most cases, managers attempt, often successfully, to provide a distinctive and accurate picture of the firm’s managerial outlook.

3. Public Image

Particularly for the growing firm involved in a redefinition of its company mission, public image is important. Both present and potential customers attribute certain qualities to a particular business. Thus, mission statements often reflect public anticipation, making achieving the firm’s goals a more likely consequence.

On the other hand, a negative public image often prompts firms to re-emphasize the beneficial aspects reflected in their mission. A firm’s concern for its public image is seldom addressed in an intermittent fashion. While public agitation often stimulates greater response, a corporation is concerned about its image even when public concern is not expressed.

4. Company Self-Concept

A major determinant of any company's continued success is the extent to which it can relate functionally to the external environment. Finding its place in a competitive situation requires the firm to realistically evaluate its own strengths and weaknesses as a competitor. This know itself is the essence of the company's self-concept.

Fundamentally, the need for each to know the self is crucial. The ability of a firm to survive in a dynamic and highly competitive environment would be severely limited if the impact on others and of others is not understood.

In some senses, then, the organization takes on a personality of its own. It has been recognized that much behaviour in organizations is organizationally based, that is, a business acts on its members in other than individual and interacting ways. Thus businesses are entities that act with a personality transcending those of particular company members. As such, the firm can be seen as setting decision-making parameters, baaed on aims different than and distinct from the individual aims of its members. The effects of organizational considerations are pervasive.

Fundamentally, as succinctly observed by Pearce II and Robinson Jr. (1998), organizations do have policies, do not condone violence, and may or may not greet you with a smile. They also manufacture goods, administer policies, and protect the citizenry. These are organizational actions and involve properties of organizations, not individuals. They are carried out by individuals, even in the case of computer-produced letters, which are programmed by individuals – but the genesis of the actions remains in the organization.

In essence, the actual role of the corporate self-concept has been translated as follows:

1.

The corporate self-concept is based on management perception of the way others (society) will respond to the corporation.

2.

The corporate self-concept will function to direct the behaviour of people employed by the company.

3.

The actual response of others to the company will in part determine the corporate self-concept.

4.

The self-concept is incorporated in statements of corporate mission to be explicitly communicated to individuals inside and outside the company, that is, to be actualized.

Descriptions of self-concept per se do not appear in company mission statements. Yet, strong impressions of a firm's self-image are often evident.

5. Company Responsibility to Claimants

In defining or redefining the company mission, strategic managers must recognize and acknowledge the legitimate claims of other stakeholders of the firm. These include both investors and employees as well as outsiders' affected by the company's actions. Such outsiders commonly include customers, suppliers, governments, unions, competitors, local communities, and the general public. Each of these interest groups has justifiable reasons to expect, and often to demand, the company to act in a responsible manner in satisfying their claims.

Generally, stockholders claim appropriate returns on their investment; employees seek broadly defined job satisfaction; customers want what they pay for; suppliers seek dependable buyers; governments want adherence to legislation, unions seek benefits for members in proportion to contributions to company success; competitors want fair competition; local communities want companies to be responsible citizens; and the general public seeks improvement in the quality of life resulting from the firm’s existence.

However, when a business attempts to define its mission to incorporate the interests of these groups, broad generalizations are insufficient. Thus, four steps need to be taken:

· Identification of claimants.

· Understanding of specific claims regarding the company.

· Reconciliation of claims and assigning them priorities.

· Coordination of claims with other elements of the mission.

i) Identification

Obviously though, every business faces a slightly different set of claimants, who vary in number, size, influence, and importance. In defining a mission; strategic managers must identify all claimant groups and weight their relative ability to affect find success.

ii) Understanding

The concerns of principal claimants tend to center around the generalities in the right-hand column of Figure 3-1. However, strategic decision makers should understand the specific demands of each group. Then strategic managers will be better able to both appreciate these concerns and initiate clearly defined actions.

iii) Reconciliation and Priorities

Unfortunately, the concerns of various claimants often conflict. For example, the claims of governments and the general public tend to limit profitability, which is the central concern of most creditors and stockholders. Thus, claims must be reconciled. To achieve unified approach managers must define a mission that resolves the competing, conflicting, and contradictory claims. For objectives and strategies to be internally consistent and precisely focused, mission statements must display a single-minded, though multidimensional, approach to business aims.

iv) Coordination with Other Elements

Demands of claimant groups for responsible action by a company constitute only one set of inputs to the mission. Managerial operating philosophies and determination of the product-market offering are the other principal components considered. The latter factors

essentially pose a reality test the accepted claims must pass. The key question is how can the company satisfy claimants and simultaneously optimize its success in the marketplace.

4.0 CONCLUSION

Organizational mission involves the declaration of the fundamental purpose for the existence of the organization and the major area of operations in the society. In the formulation of a mission statement, it is important to take into consideration variables such as nature of the company’s operations, the product or service of the company, the technology for production, strategies for profitable operations, management philosophy of the business, the entrepreneur's self-concept of the business and public image. The influences on organizational mission include company goals, company philosophy, public image, company self-concept and company responsibility to claimants

5.0 SUMMARY

In this unit, we have discussed the following topics:

· Meaning of Organizational Mission;

· Formulating a Corporate Mission; and

· Influences on Corporate Mission.

In the next study unit, you will be taken through the discussion on organizational goals.

6.0 TUTOR MARKED ASSIGNMENT

Mention and discuss the major influences on corporate mission.

Answer to Self-Assessment Questions

1. The intended benefits of a corporate mission are as follows:

i) ensure unanimity of purpose within the organization.

ii)provide a basis for motivating the use of the organization's resources.

iii) develop a basis, or standard, for allocating organizational resources.

iv) establish a general tone or organizational climate.

v) serve as a focal point for the organization's purpose and direction.

vi) deter those who cannot from participating further in the organization's activities.

vii) facilitate the translation of objectives and goals into a work.

2. The fundamental elements of the sense of mission of an owner-manager are as follows:

i) Belief that the product or service can provide benefits at least equal to its price.

ii) Belief that the product or service can satisfy a customer need currently.

iii) Belief that the technology for production will provide a product that is competitive.

iv) Belief that with hard work the business can do better, survive, grow and be profitable.

v) Belief that the management philosophy of the business will result in a favorable public

image.

vi) Belief that the entrepreneur's self-concept of the business can be communicated to and adopted by employees and stockholders.

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UNIT 3: ORGANISATIONAL GOALS

CONTENTS

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3.1.1 Meaning of Organizational Goals

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3.3 Classification of Organisational Goals

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References and Further Reading

1.0 INTRODUCTION

Corporate organizations as business entities cannot exist without certain predetermined goals. Such goals are normally determined and incorporated in the mission of the organization. Hence, corporate goals are imperative towards charting the operational direction of the enterprise. These goals shape a firm's strategic posture and provide standards to guide future executive action in the organization.

In this unit of the study material, therefore, the discussion is on organizational goals as derivatives of organizational mission.

2.0 OBJECTIVES

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

· explain the meaning of organizational goals

· list the functions of organizational goals

· Discuss the integration of Personal Goals and Organisational Goals

· mention and discuss various types of organizational goals.

3.0 MAIN CONTENT

3.1 NATURE OF ORGANIZATIONAL GOALS

3.1.1 Meaning of Organizational Goals

The concept of organisational goals may be difficult to define but goals constitute the guides of corporate actions and operations. Pearce and David (1987) opine that goals may be expressed, in the case of business organisations, as operational efficiency and profit making. These broadly based goals are very ambiguous and susceptible to be taken for granted, and they indicate little about the emphasis placed on the various activities of the organisation in meeting its goals.

Nevertheless, profit is very important because it serves as the reward for the shareholders' investment. It also provides the needed tonic for further capital, and a means of ensuring the continued existence of the organisation and maintaining its growth and development.

According to Glueck (1980), goals are value premises which serve as inputs to decisions. Goals at different levels within the organisation contribute to alternatives for decision-making. Glueck sees goals more as sets of constraints which the organisation must satisfy; for example, profit for shareholders, or a minimum rate of return on investments; satisfying demands of consumers; complying with government legislation on safety standards; providing job satisfaction for staff; protecting the environmental against pollution.

Hence, goals limit the scope of actions and decision-making at lower levels of the organisation. Constraints may themselves be regarded as goals in that they represent objectives which management is trying to meet.

Members of the organisation have different and often conflicting goals. As a result, the goals which the organization actually pursues (informal goals) may be distinguished from the officially stated goals (formal goals) which are set out in broad terms as the reasons for the purpose of the organisation. Informal goals may be inferred from the actual decisions made and actions taken within the organisation. Managers, and other members of the organisation, will have:

(i)

their own perception of the goals of the organisation, for example, to produce high-quality television sets which satisfy requirements of the customers; and

(ii)

their personal goals, for example, to earn high wages, to achieve promotion, to gain social satisfaction, to achieve status; which they expect to fulfill by participating in the activities of the organisation.

3.1.2 The Functions of Goals

According to Hill and Jones (2004), organisational goals serve a number of important functions such as follows:

- Goals provide a standard of performance. They focus attention on the activities of the organisation and the direction of the efforts of its members.
- Goals provide a basis for planning and management control related to the activities of the organisation.
- Goals provide guidelines for decision-making and justification for actions taken. They reduce uncertainty in decision-making and give a defence against possible criticism.

- Goals influence the structure of the organisation and help determine the nature of technology employed. The manner in which the organisation is structured will affect what it will attempt to achieve.
- Goals help to develop commitment of individuals and groups to the activities of the organisation. They focus attention on purposeful behaviour and provide a basis for motivation and reward systems.
- Goals help to develop commitment of individuals and groups to the activities of the organisation. They focus attention on purposeful behaviour and provide a basis for motivation and reward systems.
- Goals give an indication of what the organisation is really like, its true nature and character, both for members and for people outside of the organisation.
- Goals serve as a basis for the evaluation of change and organization development.
- Goals are the basis for objectives and policies of the organisation.

SELF – ASSESSMENT EXERCISE 1

Mention the functions of organizational goals.

3.2 Integration of Personal Goals and Organisational Goals

According to Pearce II and David Jr. (1987), goals are an important feature of work organisations. To be effective, goals should be emphasised, stated clearly and communicated to all members of the organisation. The movement towards greater

delegation and empowerment down through the hierarchy means that staff at all levels must be aware of their key tasks and actions, and exactly what is expected of them and their department/sections. There must be clearly laid down organisational goals, objectives and strategy.

The goal-setting process is of importance to all types of organisation and facilitates the attainment of objectives. In the public sector, for example, organisation such as hospitals, local authorities and universities have complex, diverse and competing goals. The clarification of goals and objectives is the basis for corporate planning, and a planning, programming, budgeting systems approach to decision-making.

Hill and Jones (2004) observe that strictly speaking, organisations have no goals; only people do. This is because organisational goals are established by people, either individually, or more usually, by a number of individuals cooperating together. For example, a group of senior managers may collectively agree on a particular desired course of action which may then come to be referred to as an organizational goal; but this is still the goal of those managers who initially determined it.

Furthermore, success of the organisation is measured by the progress of people towards goals set by people. This gives rise to the issues such as:

- How far are the goals of management compatible with the goals of the organisation?
- To what extent do individual members obtain satisfaction of their own goal through the attainment of organisational goals?

Hill and Jones (2004) observe that if organisational goals and personal goals are pulling in different directions conflict will arise and performance is likely to suffer. An organisation will be more effective when personal goals are compatible with organisational goals. Organisational performance will depend ultimately on the extent to which individuals are provided with the opportunity to satisfy their own goals by contributing to the goals of the organisation.

Management has a responsibility to clarify organisational goals and to attempt to integrate personal goals (including their own) with the overall objectives of the organisation. Only when organisational goals are shared by all members of the organisation will complete integration be achieved. In practice, this is unlikely.

Perfect integration of organisational requirements and individual goals and needs is, of course, not a realistic objective. In adopting this principle, we seek that degree of integration in which the individual can achieve his goals best by directing his efforts towards the success of the organisation.

Management should endeavour, therefore, to structure the organisation so that people may realise their own (personal) goals by helping the organisation to satisfy its goals.

One attempt at integrating organisational goals with the needs of the individual members of the organisation is provided by the approach of Management by Objectives (MBO).

3.3 CLASSIFICATION OF ORGANISATIONAL GOALS

According to Pearce II and David Jr. (1987), the goals of an organisation may be classified in a number of different ways.

1. The Concept of Compliance

Etzioni (1964) as cited by Pearce and David Jr. (1987), provides a classification which distinguishes three types of organisational goals in terms of their relationship with the concept of power and compliance.

•

Order goals are negative and attempt to place some kind of restraint upon members of the organisation and to prevent certain forms of behaviour.

- Economic goals are concerned with the production of goods and/or services for people outside of the organisation.
- Cultural goals are concerned with symbolic objects and with creating or maintaining value systems of society. Social goals, which serve the various needs of members of the organisation, are classified as a sub-type under cultural goals.

Most organisations would be expected to display one of three central combinations of organisational goals and compliance structure. Although there are other possibilities the three most usual combinations are:

- Organisations with order goals and a coercive compliance structure, for example, closed persons.
- Organisations with economic goals and a utilitarian compliance structure, for example, business firms.
- Organisations with cultural goals and a normative compliance structure, for example, professional bodies.

Organisations may, of course, serve more than one goal, and these goals may not necessarily fall into the same category. Usually, however, there is one main goal which maintains a relationship with compliance structure in keeping with one of the three central combinations.

2. Goals as the outcome of Bargaining

Goals as observed by Glueck (1980) result from the outcome of bargaining among

members of sub-coalitions. They identify five organisational goals related specifically to a business firm.

- Production goal – related to minimising variations in the range of production operatives over a given period of time, and to the overall level of production.
- Inventory goal – aspirations related to levels of completed goods. The inventory goal acts as a buffer between production and sales.
- Sales goal – aspirations related to the level of sales, either in monetary terms, number of units, or both. The sales goal provides some general criteria of sales effectiveness.
- Market share goal – concerned with a measure of sales effectiveness or with comparative success. The market share goal can be used as an alternative to the sales goal, or both can be used.
- Profit goal – linked to accounting procedures for determining profit and loss. The profit goal may be an aspiration relating to amount of monetary profit, or profit share, or return on investment.

The above five goals are not listed in any necessary order of importance, but all the goals must be satisfied by a corporation. This suggests that most of the time no order of importance is necessary, although there may be an implicit order of priority in different organisations.

3. A General Model of Organisational Goals

A more general model of organisational goals is related to the following list of types of organizational goals:

•

Satisfaction of interests. Organisations exist to satisfy multiple interests of various people, both members of the organisation and outsiders. These interests are hard to identify and overlapping. This category of purpose might be referred to as welfare, utility, benefit or payoff.

•

Output of services or goods. The output of products, goods or services (tangible or intangible) which the organisation makes available to clients.

•

Efficiency or profitability. The efficient use of available, scarce inputs relative to outputs. Inputs and outputs, and the relationship between them, may be calculated in a number of ways. 'Profitability' is applicable when both outputs and inputs can be expressed in monetary terms.

•

Investment in organisational viability. The diversion of inputs from the production of output to investment in physical, human and organisational assets in order to maintain survival and growth.

•

Mobilisation of resources. The organisation must mobilize resources for inputs in order to produce goods or services or to invest in viability.

•

Observance of codes. Usually expressed in terms of acceptable margins of deviation. Codes include both formal and informal rules developed by the organisation and patterns of behaviour imposed by law, moral considerations and standards of professional ethics.

•

Rationality. Actions which are regarded as satisfactory in terms of desirability, feasibility and consistency. Rationality applies on both technical and administrative (managerial) considerations.

Organisational goals are not necessarily the same for any one group of people, for example, top management. Rather they are representative of the organisation as a collection of individuals and groups, and define the characteristics and activities of the whole organisation as a system. All organisations have multiple goals. It is difficult to develop criteria of performance against such broadly based goals and they need to be translated into more specific goals capable of measurement in particular organisations.

4. A Systems view of Organisational Goals

There are then a number of possible classifications. However, by adopting a systems view of organisations, we can distinguish four main types of organisational goals:

- Consumer goals. These relate to the nature of outputs in terms of the market to be served and consumer satisfaction: that is, the range and nature of goods and/or services produced or supplied in order to meet the needs of customers or clients. Examples are consumer products, educational services, or health care.
- Product goals. These relate to the nature and characteristics of the outputs themselves, that is, the goods and/or services provided. This is the main area in which organisations deliberately attempt to distinguish themselves from other organisations, for example in the range, design, quality and availability of their outputs.
- Operational goals. These relate to the series of activities involved in providing outputs, and to the operation and functioning of the organisation. Examples are the management of opportunities and risks, the choice of structure, the nature of technology, and management processes.
- Secondary goals. These relate to goals that are not related to the main aim of the organisation. They arise from the manner in which the organisation uses its power and influence in pursuit of its outputs, and in undertaking the series of activities to achieve these outputs. Political aims, aid to the community, the development of staff, and social responsibilities would come under this heading.

SELF – ASSESSMENT EXERCISE 2

Mention and explain the four main types of organisational goals under the systems view of organizations.

4.0 CONCLUSION

Organizational goals refer to the value premises of a corporation. Therefore, they serve functions such as inputs to decisions, standard of performance, basis for planning and management control, provide guidelines for operational actions, reduce uncertainty in decision-making, and generally influence the structure of the organization. It is always necessary for the organization to integrate its own goals with those of the workers. Goals can be classified on the bases such as the concept of compliance, goals as the outcome of bargaining, general model of organisational goals, and a systems view of organisational goals.

5.0 SUMMARY

In this unit, we have discussed the following topics:

- Meaning and Nature of Organizational Goals
- The Functions of Goals
- Integration of Personal Goals and Organisational Goals
- Classification of Organisational Goals

In the next study unit, you will be taken through the discussion on organizational objectives.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss the various types of organizational goals under the general model of organizational goals?

Answer to Self-Assessment Exercise

1. The functions of organizational goals are as follows:

- Goals provide a standard of performance.
- Goals provide a basis for planning and management control
- Goals provide guidelines for decision-making actions taken.

- They reduce uncertainty in decision-making.
- Goals influence the structure of the organization.
- Goals help to develop commitment of individuals and groups to the activities of the organisation.
- Goals give an indication of what the organisation is really like, its true nature and character.
- Goals serve as a basis for the evaluation of change and organization development.
- Goals are the basis for objectives and policies of the organisation.

2. The four main types of organisational goals under the systems view of organizations are as follows:

- Consumer goals. These relate to the nature of outputs in terms of the market to be served and consumer satisfaction.
- Product goals. These relate to the nature and characteristics of the outputs themselves.
- Operational goals. These relate to the series of activities involved in providing outputs, and to the operation and functioning of the organisation.
- Secondary goals. These relate to goals that are not related to the main aim of the

organisation. They arise from the manner in which the organisation uses its power and influence in pursuit of its outputs, and in undertaking the series of activities to achieve these outputs.

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UNIT 4: ORGANIZATIONAL OBJECTIVES

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1.0 INTRODUCTION

Corporate goals are normally translated into specific objectives, which are sine qua non for the operational efficiency. Such objectives established essentially to give teeth to both the mission statement and the organizational goals which are derivatives of the former. It implies that objectives constitute appendages to the mission and mission. Hence, organizational objectives are designed to streamline the operational activities of the organization in terms of the specific expectations or results from operations.

In this unit of the study material, therefore, the discussion is on organizational objectives

as derived from organizational goals.

2.0 OBJECTIVES

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

· explain the meaning of organizational Objectives

· differentiate between annual objectives and long-term objectives

· list and explain the qualities of annual objectives and long-term objectives

· mention and discuss the functional areas of long-term objectives.

3.0 MAIN CONTENT

3.1 NATURE OF ORGANIZATIONAL OBJECTIVES

Organizational objectives are derivable from the goals, all which are based on the organizational mission. Goals are broad-based statements of intent in terms of what are desirable out of the operational activities of the organization. On the strength of these goals appropriate objectives are formulated to marshal out the goals into specific and

realizable targets. These are communicated to the strategic business units of the organization for implementation by the various functional managers.

According to Pearce II, and Robinson Jr. (1998), objectives are specific, measurable statements of what the organization is expected to achieve in a defined period of operations. Furthermore, such objectives if established for subunits become what the strategic business units are expected to achieve in terms of contributing to the accomplishment of the business's grand strategy.

In the opinion of Hill and Jones (2004), objectives are the desired future state in terms of what a company wants to realize. Such corporate goals must be precise, measurable, challenging but realistic, specific and time bound, issues focused in terms of incorporating the specific operational results expected for the strategic business units.

3.2 FALLACY OF THE SINGLE OBJECTIVE

Drucker has referred to the fallacy of the single objective of a business. The search for the one, right objective is not only unlikely to be productive, but is certain to harm and misdirect the business enterprise.

According to Drucker, to emphasis only profit, for instance, misdirects managers to the point where managers may endanger the survival of the business. To obtain profit today, managers may undermine the future. And to manage a business is to balance a variety of needs and goals. Hence, the very nature of business enterprise requires multiple objectives which are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business.

Drucker goes on to suggest eight key areas in which objectives should be set in terms of

performance and results:

(i)

market standing – for example: share of market standing; range of products and markets; distribution; pricing; customer loyalty and satisfaction;

(ii)

innovation – for example: innovations to reach marketing goals; developments arising from technological advancement; new processes and improvements in all major areas of organisational activity;

(iii)

productivity – for example: optimum use of resources; use of techniques such as operational research to help decide alternative courses of action; the ratio of 'contributed value' to total revenue;

(iv)

physical and financial resources – for example: physical facilities such as plant, machines, offices and replacement of facilities; supply of capital and budgeting; planning for the money needed; provision of supplies;

(v)

profitability – for example: profitability forecasts and anticipated time scale for capital investment policy; yardsticks for measurement of profitability;

(vi)

manager performance and development – for example: the direction of managers and setting up their jobs; the structure of management; the development of future managers;

(vii)

worker performance and attitude – for example: union relations; the organisation of work; employee relations;

(viii)

public responsibility – for example: demands made upon the organisation such as by law or public opinion; responsibilities to society and the public interest.

The organisation therefore must give attention to all those areas which are of direct and vital importance to its survival and prosperity. Etzioni (1964) as cited by Thompson Jr. and Strickland (1987) posits that the systems model, however, leads one to conclude that just as there may be too little allocation of resources to meet the goals of the organisation, so there may also be an over-allocation of these resources. The systems model explicitly recognises that the organisation solves certain problems other than those directly involved in the achievement of the goal, and that excessive concern with the latter may result in insufficient attention to other necessary organisational activities, and to a lack of coordination between the initiated goal activities and the de-emphasised non-goal activities.

The managers in the organisation are not necessarily guided at all times by the primary goals of the organisation. Simon (1974) as cited by Thompson Jr. and Strickland (1987), espouses, in respect of the profit goal, that profit may not enter directly into the decision-making of most members of a business organisation. Again, this does not mean that it is improper or meaningless to regard profit as a principal goal of the business. It simply means that the decision-making mechanism is a loosely coupled system in which the

profit constraint is only one among a number of constraints and enters into most subsystems only in indirect ways.

The above analysis has pointed out that although the profit objective is clearly of importance, by itself it is not a sufficient criterion for the effective management of a business organisation. There are many other considerations and motivations which affect the desire for the greatest profit or maximum economic efficiency.

3.3 ANNUAL OBJECTIVES

Annual objectives, according to Pearce II, and Robinson Jr. (1998), are objectives which are established to be pursued and attained within a period of one year. A critical step in successful implementation of grand strategy is the identification and communication of annual operating objectives that relate logically to the strategy's long-term objectives.

Accomplishment of these annual objectives adds up to successful execution of the business's overall long-term plan. A comprehensive set of annual objectives also provides a specific basis for monitoring and controlling organisational performance.

Such objectives can aid in the development of “trigger points” contribution, certain basic qualities must be incorporated in developing and communicating them.

Annual objectives are specific, measurable statements of what an organisational subunit is expected to achieve in contributing to the accomplishment of the business’s grand strategy. Although this seems rather obvious, problems in strategy implementation often stems from poorly conceived or stated annual objectives. To maximize these objectives’ contribution, certain basic qualities must be incorporated in developing and communicating them.

3.3.1 Qualities of Annual Objectives

Pearce II, and Robinson Jr. (1998) provided the following qualities of effective annual objectives for a company:

1. Linkage to Long-Term Objectives

An annual objective must be clearly linked to one or more long-term objectives of the business’s grand strategy. However, to accomplish this, it is essential to understand how the two types of objectives differ. Four basic dimensions distinguish annual and long-term objectives:

•

Time frame:- Long-term objectives are focused usually five years or more into the future. Annual objectives are more immediate, usually involving one year.

•

Focus:-Long-term objective focus on the future position of the firm in its competitive environment. Annual objectives identify specific accomplishments for the company, functional areas, or other subunits over the next year.

- Specificity:-Long-term objectives are broadly stated. Annual objectives are very specific and directly linked to the company, a functional area, or other subunit.
- Measurement:- While both long-term and annual objectives are quantifiable, long-term objectives are measured in broad, relative terms; for example, thirty five percent market share. Annual objectives are stated in absolute terms, such as a twenty percent increase in sales in the next year.

Annual objectives are meant to add breadth and specificity in identifying what must be accomplished in order to achieve the long-term objective. For example, the long-term objective indicating attainment of certain percent market share in some years clarifies where the business wants to be. But achieving that objective can be greatly enhanced if a series of specific annual objectives identify what must be accomplished each year to achieve that objective. For example, if market share is now fifteen percent, then the likely annual objective would be to achieve a minimum ten percent increase in relative market share in the next five years.

Specific annual objectives should provide targets for performance of operating areas if long-term objective is to be achieved. The link between short-term and long-term objectives should resemble cascades through the business from basic long-term objectives to numerous specific annual objectives in key operating areas.

Thus, long-term objectives are segmented and reduced to short-term (annual) objectives. The cascading effect has the added advantage of providing a clear reference for vertical communication and negotiation, which may be necessary to ensure integrated objectives and plans at the operating level.

2. Integrated and Coordinated Objectives.

The implementation of grand strategies requires objectives that are integrated and coordinated. Nevertheless, a manufacturing firm might logically prefer long production runs and plant warehousing to maximize customer convenience. There are other functional conflicts which may arise or obtainable. The absence of concerted effort to integrate and coordinate annual objectives may make these natural conflicts to contribute to the failure of long-term objectives and by extension, the grand strategy, even though the separate annual objectives are well designed.

The successful implementation of strategy depends on coordination and integration of operating units. This is encouraged through the development of short-term (annual) objectives. In other words or expressed another way, annual objectives provide a focal point for identifying and resolving conflicts between organizational subunits that might otherwise impede strategic performance.

SELF-ASSESSMENT EXERCISE 1

Mention and explain the basic dimensions which distinguish annual form long-term objectives.

3. Consistency in Annual Objectives

Empirical evidence indicates that managers in the same organisation will have different ways of developing objectives. For example, managers in different functions, departments, or other subunits will often emphasise different criteria. Due to this lack of consistency, units may not be comparable, commitment to objectives may differ, and the interdependence of units may be dysfunctional.

The annual objectives are more consistent when each objective clearly states what is to be accomplished, when it will be done, and how accomplishment will be measured. Objectives can then be used to monitor both the effectiveness of an operating unit and, collectively, progress toward the business's long-term objectives. If objective are measurable and state what is to be done and when it will be achieved in a clear, understandable manner, misunderstanding is less likely to occur among the interdependent operating managers who must implement the grand strategy.

4. Measurable

The issue of measurability cannot be overemphasized as a key quality of annual objectives. Unfortunately, some key results are easier to measure than others. The line units, for production, may easily be assessed by clear, quantifiable measures, while criteria for certain staff areas (e.g., personnel) are more difficult to measure. However, successful implementation requires setting measurable annual objectives in these difficult areas, as well. This is usually accomplished by initially focusing on measurable activity, followed by the identification of acceptable, measurable outcomes.

There are other qualities of good objectives such as acceptable, flexible, suitable, motivating, understandable and achievable – also apply to annual objectives. While these will not be discussed here, the reader should review the earlier discussion to appreciate the qualities common to all objectives.

5. Priorities

Another critical quality of annual objectives involves the need to prioritize short-term objectives. Due to timing considerations and relative impact on strategic success, annual objectives often have relative priorities.

The consideration of timing often necessitates initiating or completing one activity before another is started. For example, a company such as a bank may encounter a problem in implementing a program designed to expand its credit card base as part of an ambitious market development strategy in the financial services industry. The bank's objective for establish the accounting procedures needs to support the meeting program may not have been given sufficient priority

All annual objectives are important but some deserve additional attention because of their

particular impact on the success of a strategy. For instance, if such priorities are not discussed and indicated, conflicting assumptions about the relative importance of annual objectives might inhibit progress toward strategic effectiveness.

Business priorities are usually established in one of several ways. A simple ranking may be based on discussion and negotiation during the planning process. However, this does not necessarily communicate the real difference in the importance of objectives, so terms such as primary, top, or secondary may be used to indicate priority. Nevertheless, whatever the method used to establish priorities, recognizing the priorities of annual objectives are an important dimension in implementing the strategy.

3.4 LONG-TERM OBJECTIVES

In the opinion of Pearce II and Robinson Jr. (1998), long-term objectives are objectives which are established to be pursued and attained over a period of many years. The long-term objectives as benchmarks for corporate and business strategies use such measures as market share; return on investment (ROI), return on equity (ROE), stock price, and new market penetration provide guidance in assessing the ultimate effectiveness of a chosen

strategy. While such objectives clarify the long-range purpose of a grand strategy and the basis for judging its success, they are less useful in guiding the operating strategies and immediate actions necessary to implement a grand strategy.

3.4.1 Qualities of Long-Term Objectives

According to Pearce II and Robinson Jr. (1998), there are some qualities of an objective which are necessary towards improving its chances of being attained in organizational operations. Such qualities are embedded in criteria that should be used in preparing long-term objectives such as acceptable, flexible, measurable over time, motivating, suitable, achievable. These qualities are as discussed below:

1. Acceptable

The managers are most likely to pursue objectives that are consistent with perceptions and preferences of the managers. In addition, certain long-term corporate objectives are frequently designed to be acceptable to major interest groups external to the firm. An example might involve air-pollution control efforts undertaken at the insistence of the Environmental Protection Agency.

2. Flexible

Strategic objectives should be modifiable in the event of unforeseen or extraordinary changes in the firm's competitive or environmental forecasts. At the same time, flexibility is usually increased at the expense of specificity. In the same vein, employee confidence may be tempered because adjustment of a flexible objective may affect their job. One recommendation for providing flexibility while minimizing associated negative effects is to allow for adjustments' in the level rather than the nature of an objective.

For instance, an objective for a personnel department to provide managerial development

training for ten supervisors per year over the next two years can easily be understood and thereby leading to changes in the number of people to be trained. In contrast, changing the personnel department's objective to assisting production supervisors in reducing job-related injuries by five percent per year would understandably create dissatisfaction.

3. Measurable

Strategic objectives must clearly 'and concretely state what will be achieved and within what time frame. Numerical specificity minimizes misunderstandings; thus, objectives should be measurable over time. For example, an objective to "substantially improve our return on investment" would be better stated as "increase the return on investment on our line of paper products by a minimum of 1 percent a year and a total of 5 percent over the next three years."

4. Motivating

The workers who are the strategic inanimate machines are most productive when objectives are set at a motivating level in terms of making them high enough to challenge but not so high as to frustrate or so low as to be easily attained. The problem is that individuals and groups differ in their perceptions of standards. Therefore, the ideal

situation is to develop multiple objectives, some aimed at specific groups. More sweeping statements are usually seen as lacking appreciation for individual and somewhat unique situations. Such tailor-made objectives require time and involvement from the decision maker, but they are more likely to serve as motivational forces.

5. Suitable

The objectives must be suited to the broad aims of the organisation, which are expressed in the statement of company mission. Each objective should be a step toward attainment of overall goals. In fact, objectives that do not coincide with company or corporate missions can subvert the aims of the firm. For example, if the mission is growth oriented, an objective of reducing the debt-to-equity ratio to one in order to improve stability would probably be unsuitable and counterproductive.

6. Understandable

The managers of the strategic business units at all levels must have a clear understanding of what is to be achieved. They must also understand the major criteria by which their performance will be evaluated. Thus, objectives must be stated so that they are understandable to the recipient as they are to the giver. In simple terms, objectives must be prepared in clear, meaningful, and unambiguous fashion.

7. Achievable

The other important objectives must be possible to achieve. This is easier said than done. The rumbling in the remote and operating environments adds to the dynamic nature of a business's internal operations. This creates uncertainty, limiting strategic management's accuracy in setting feasible objectives.

SELF-ASSESSMENT EXERCISE 2

Mention and explain the qualities of long-term objectives.

3.4.2 Functional Areas of Long-Term Objectives

According to Pearce II and Robinson Jr. (1998), strategic managers recognize that short-run profit maximization is rarely the best approach to achieving sustained corporate growth and profitability. For most strategic managers a small amount of profit now to maintain vitality, but sow the majority to increase the likelihood of a long-term supply is the ideal. This is the most frequently used rationale in selecting objectives.

In order to achieve sustained corporate growth and profitability strategic planners commonly establish long-term objectives in seven areas such as discussed below:

1. Profitability

The ability of any business to operate in the long run depends on attaining an acceptable level of profits. Strategically managed firms characteristically have a profit objective usually expressed in earnings per share or return on equity.

2. Productivity

Strategic managers constantly try to improve the productivity of their systems.

Companies that can improve the input-output relationship normally increase profitability.

Thus, businesses almost always state an objective for productivity.

In terms of measurement, the number of items produced or number of services rendered per unit of input are commonly used. Nevertheless, productivity objectives are sometimes stated in terms of desired decreases in cost.

This represents an equally effective way to increase profitability if unit output is maintained. For example, objectives may be set for reducing defective items, customer complaints leading to litigation, or overtime.

3. Competitive Position

One important measure of corporate success is relative dominance in the marketplace.

Larger firms often establish an objective in terms of competitive position to gauge their comparative ability for growth and profitability. Total sales or market share are often used; and an objective describing competitive position may indicate a corporation's priorities in the long term.

4. Employee Development

The employees of a corporate organization value growth and career opportunities in their workplace. In the prevalence of such opportunities, productivity is often increased and expensive turnover decreased. Therefore, strategic decision makers frequently include an employee development objective in their long-range plans.

For instance, a company can declare an objective of developing highly skilled and flexible employees, thereby providing steady employment for a reduced number of

workers.

5. Employee Relations

Corporate organizations or companies actively seek good employee relations, whether or not they are bound by union contracts. In fact, a characteristic concern of strategic managers is taking proactive steps in anticipation of employee needs and expectations. Strategic managers believe productivity is partially tied to employee loyalty and perceived management interest in worker welfare.

Therefore, strategic managers set objectives to improve employee relations. For example, safety programs, worker representation on management committees, and employee stock option plans are all normal outgrowths of employee relations objectives.

6. Technological Leadership

Corporate entities or businesses must decide whether to lead or follow in the marketplace. While either can be a successful approach, each requires a different strategic posture. Therefore, many corporate entities or businesses state an objective in terms of technological leadership.

7. Public Responsibility

The business entities recognize their responsibilities to customers and the society at large. In most cases, many of them actively seek to exceed the minimum demands made by the government regulations. In addition, they also work to develop reputations for fairly priced products and services. Nevertheless, they also attempt to establish themselves as responsible corporate citizens. Hence, they are found establishing charitable and educational foundations, training facilities for disadvantage groups, community welfare schemes, and provision of infrastructure.

4.0 CONCLUSION

We have discussed in unit that organizational objectives are derivable from the goals of the organization, and they are in form of annual and long-term objectives. As you have observed, the former type of objectives are for the strategic business units while the latter objectives are formulated for the whole organization. We also discussed the qualities of both annual and long-term objectives, and the differences between the two type of objectives.

5.0 SUMMARY

In this study unit, topics discussed include the following:

· Nature of Organizational objective

· The Fallacy of Single Objective

· Annual Objectives

· Qualities of Annual Objectives

· Long-Term Objectives

· Qualities of Long-Term Objectives, and

· Functional Areas of Long-Term Objectives.

In the next study unit, you will be taken through the discussion on organizational policy.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss the functional areas of long-term objectives.

Answer to Self-Assessment Exercise

1. The basic dimensions which distinguish annual form long-term objectives are as follows:

i) Time frame:-Long-term objectives are focused usually five years or more into the future. Annual objectives are more immediate, usually involving one year.

ii) Focus:-Long-term objective focus on the future position of the firm in its competitive environment. Annual objectives identify specific accomplishments for the company, functional areas, or other subunits over the next year.

iii) Specificity:-Long-term objectives are broadly stated. Annual objectives are very specific and directly linked to the company, a functional area, or other subunit.

iv) Measurement:-While both long-term and annual objectives are quantifiable, long-term objectives are measured in broad, relative terms; for example, thirty five percent market share. Annual objectives are stated in absolute terms, such as a twenty percent increase in sales in the next year.

2. The qualities of long-term objectives are as follows:

i. Acceptable

The managers are most likely to pursue objectives that are consistent with perceptions and preferences of the managers.

ii. Flexible

Strategic objectives should be modifiable in the event of unforeseen or extraordinary changes in the firm's competitive or environmental forecasts.

iii. Measurable

Strategic objectives must clearly and concretely state what will be achieved and within what time frame.

iv. Motivating

The workers are most productive when objectives are set at a motivating level in terms of making them high enough to challenge but not so high as to frustrate or so low as to be easily attained.

v. Suitable

The objectives must be suited to the broad aims of the organisation, which are expressed in the statement of company mission.

vi. Understandable

The managers of the strategic business units at all levels must have a clear understanding of what is to be achieved. They must also understand the major criteria by which their performance will be evaluated.

vii. Achievable

The other important objectives must be possible to achieve. This is easier said than done. The dictates of the remote and operating environments adds to the dynamic nature of a business's internal operations. Therefore, this must be taken into consideration.

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UNIT 5: ORGANIZATIONAL POLICIES

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3.0 Main Content

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3.2 Nature of Organizational Policy

3.3 The Purpose of Policies

3.4 Distinction between Objectives and Policy

4.0 Conclusion

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6.0 Tutor Marked Assignment

7.0 References and Further Reading

1.0 INTRODUCTION

Corporate organizations operate within the ambit of the necessary guides which are normally the organizational procedures and regulations for effectiveness and efficiency. Basically, policies incorporate all the necessary operational procedures and regulations of an organization. Therefore, all the operational activities of an organization are circumscribed within the ambit of organizational policy.

Hence, the issue of organizational policy cannot be compromised. All organizations must operate with policy as it is normally formulated for the good of healthy operations and interrelationships among the various subsystems of the organization. In this unit of the study material, therefore, the discussion is on organizational policy.

2.0 OBJECTIVES

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

· explain the meaning of organizational

· discuss the purpose of organizational policies

· differentiate between objectives and policies

3.0 MAIN CONTENT

3.1 MEANING OF ORGANISATIONAL POLICY

According to Pearce II and Robinson Jr. (1998), policies are specific guides for operating managers and their subordinates. Policies are powerful tools for strategy implementation and control once they are clearly linked to operating strategies and long-term objectives.

In the opinion of Thompson Jr. and Strickland (1987), policies are directives designed to guide the thinking, decisions, and actions of managers and their subordinates in

implementing an organization's strategy. Policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm's strategic objectives. Often referred to as standard operating procedures, policies serve to increase managerial effectiveness by standardizing many routine decisions and controlling the discretion of managers and subordinates in implementing operational strategies. Logically, policies should be derived from functional strategies (and, in some instances, from corporate or business strategies) with the key purpose of aiding in strategy execution.

In essence, a policy is a guideline for organisational action and the implementation of goals and objectives. Policy is translated into rules, plans and procedures; it relates to all activities of the organisation, and to all levels of the organisation. Clearly stated, policy can help reinforce the main functions of the organisation, make for consistency and reduce dependence on the actions of individual managers.

Policy clarifies roles and responsibilities of managers and other members of staff and provides guidelines for managerial behaviour. Securing agreement to a new or revised policy can help overcome reliance on outdated practices and aid the introduction of organisational change.

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

- give priority to promotion from within the organisation;
- enforce retirement at government pensionable age;
-

employ only graduate or professionally qualified accountants;

•

permit line managers, in consultation with the personnel manager, to appoint staff up to a given salary/wage level.

Some policy decisions are directly influenced by external factors, for example, government legislation on equal opportunities.

3.2 Nature of Organizational Policy

Policies in their nature can vary in their level of strategic significance. Some, such as travel reimbursement procedures, are really work rules that are not necessarily linked to the implementation of a specific strategy. A policy, for instance, couched that requirement that every location invest a certain percent of gross revenue in local advertising are virtually functional strategies.

Policies can also be externally imposed or internally derived depending on the ownership interest. Policies regarding equality of opportunity practices are often developed in compliance with external (government) requirements. In the same vein, some organizational policies regarding leasing or depreciation may be strongly influenced by current tax regulations. Regardless of the origin, formality, and nature of the policy, the key point to bear in mind is the valuable role policies can play in strategy implementation.

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

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

SELF-ASSESSMENT EXERCISE 1

Explain the term 'organizational policy'.

3.3 THE PURPOSE OF POLICIES

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

1. Policies establish indirect control over independent action by making a clear statement about how things are now to be done. By limiting discretion, policies in effecting control decisions and the conduct of activities without direct intervention by top management.
2. Policies promote uniform handling of similar activities. This facilitates coordination of work tasks and helps reduce friction arising from favoritism, discrimination, and

disparate handling of common functions.

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

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

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

6. Policies can counteract resistance to or rejection of chosen strategies by organisation members. When major strategic change is undertaken, unambiguous operating policies

help clarify what is expected and facilitate acceptance, particularly when operating managers participate in policy development.

7. Policies offer a predetermined answer to routine problems, giving managers more time to cope with non-routine matters; dealing with ordinary and extraordinary problems is greatly expedited – the former by referring to established policy and the latter by drawing on a portion of the manager's time.

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

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

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

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

i) Managers are required to think through the policy's meaning, content, and intended

use.

ii) The policy is explicit so misunderstandings are reduced.

iii) Equitable and consistent treatment of problems is more likely.

iv) Unalterable transmission of policies is ensured.

v) Authorization or sanction of the policy is more clearly communicated, which can be

helpful in many cases.

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

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

SELF-ASSESSMENT EXERCISE 2

What are the reasons for the formulation of organizational policies?

3.4 Distinction between Objectives and Policy

While objectives set out more specifically the goals of the organisation; the aims to be achieved and the desired end-results, policy is developed within the framework of

objectives. It provides the basis for decision-making and the course of action to follow in order to achieve objectives.

The relationship between the organisation, its objectives and management is espoused as one of the managerial duties of an organization, which it is to ensure that the human and material organisation is consistent with the objective, resources and requirements of the concern. The established objectives and policy, therefore constitute an integral part of the process of management and a necessary function in every organisation.

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

Regardless of the type of organization under consideration, there is need for lines of direction through the establishment of objectives and determination of policy. Objectives and policy form a basis for the process of management.

The choice of objectives is an essential part of the decision-making process including future courses of action. Objectives may be set out either in general terms or in more specific terms. General objectives are determined by top management. Specific objectives are formulated within the scope of general objectives and usually have more defined areas of application and time limits.

Objectives may be just implicit but the formal, explicit definition of objectives will help

highlight the activities which the organisation needs to undertake as the comparative importance of its various functions. An explicit statement of objectives may assist communications and reduce misunderstandings, and provide more meaningful criteria for evaluating organisational performance. However, objectives should not be stated in such a way that they detract from the recognition of possible new opportunities, potential danger areas, the initiative of staff or the need for innovation or change.

Objectives emphasise aims and are stated as expectations, but policies emphasise rules and are stated in the form of directives. In terms distinction between objectives and policy, the figure below is very relevant.

Figure 5.1: Comparison between Objectives and Policy

Functional Area Objective Policy

Marketing Complete market coverage The company will sell to

every retail outlet that is

creditworthy, as decided by

the Company Accountant.

Production Low units costs from long

production runs

The company will not

produce one-off jobs

without the specific

authority of the Board.

Finance To maintain adequate

liquidity

Accountant will draw up a

cash budget and inform the

Board if working capital is

likely to fall below a

specified limit.

Personnel Good labour relations Set up and maintain

schemes for: Joint

Consultation, Job

Evaluation, Wage

Incentives.

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, 3rd Edition, p.346.

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

4.0 CONCLUSION

In this unit we have discussed that policies are directives designed to guide the thinking, decisions and actions of managers in implementing an organization's strategy. You have observed from the analysis that policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm's strategic objectives. We also discussed that policies are interrelated with objectives because the former is normally designed to pursue and achieve the latter. Lastly, we have also discussed that there are fundamental differences between policies and objectives particularly in business functional areas.

5.0 SUMMARY

In this unit, the topics discussed include the following:

· Meaning of Organizational Policy

· Nature of Organizational Policy

· The Purpose of Policies, and

· Distinction between Objectives and Policy.

In the next study unit, you will be taken through the discussion on organizational policy.

6.0 TUTOR-MARKED ASSIGNMENT

Differentiate between policy and objective in business functional areas.

Answer to Self-Assessment Exercise

1. Policy refers to the specific guide for operating managers and their subordinates in carrying out their routine responsibilities. Policy operates like the internal law of an organization.

2. The reasons for the formulation of organizational policies are as follows:

i. Policies establish indirect control over independent action by making a clear statement about how things are now to be done.

ii. Policies promote uniform handling of similar activities.

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

iv. Policies help institutionalize basic aspects of organisation behaviour.

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

vi. Policies can counteract resistance to or rejection of chosen strategies by organisation members.

vii. Policies offer a predetermined answer to routine problems, giving managers more time to cope with non-routine matters.

viii. Policies afford managers a mechanism for avoiding hasty and ill-conceived decisions in changing operations.

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UNIT 6: INTERNAL ANALYSIS OF THE FIRM

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1.0 INTRODUCTION

A prelude to the development of strategies for a corporate entity is the internal analysis. The company's internal strengths and weaknesses are evaluated in relation to the competitors' position in the industry. Hence, it becomes imperative for the managers or strategic makers to pre-occupy themselves with the industry analysis in order to determine appropriate strategic posture to adopt towards carving a viable position for itself in the industry.

In this study unit therefore, the discussion is on the nature of internal analysis of a company.

2.0 OBJECTIVES

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

- explain the nature of industry analysis
- identify and explain the strategic factors I internal analysis
- evaluate the strategic internal factors of a company
- apply both qualitative and quantitative approaches to evaluate the strategic internal factors of a company

3.0 MAIN CONTENT

3.1 NATURE OF INTERNAL DIAGNOSIS

Pearce II and Robinson Jr. (1998) posit that internal analysis involves the assessment of a company's profile in relation to the dictates of the external environment. The analysis of

the internal position of a company that leads to a realistic company profile frequently involves trade-offs, value judgments, and educated guesses as well as objective, standardized analysis. Nevertheless, this dichotomy can lead managers to slight internal analysis by emphasizing personal opinion.

Systematic internal analysis leading to an objective company profile is essential in the development of a realistic, effective strategy. Internal analysis must identify the strategically important strengths and weaknesses on which a firm should ultimately base its strategy. Ideally, this purpose can be achieved by first identifying key internal factors (e.g., distribution channels, cash flow, locations, technology, and organizational structure) and second by evaluating these factors.

In actual practice, the process is neither linear nor simple. The steps tend to overlap, and managers in different positions and levels approach internal analysis in different ways. One major study found that managers even use different criteria for evaluating apparent strengths and potential weaknesses.

While the process of internal analysis in most firms is not necessarily systematic, it is nonetheless recognized as a critical ingredient in strategy development. If only on an intuitive basis, managers develop judgements about what the firm does particularly well – its key strengths or distinct competencies. And based on the match between these strengths and defined or projected market opportunities, the firm ultimately charts its strategic course.

In internal analysis of a company the issue of a company profile is very important. In the opinion of Pearce II and Robinson Jr. (1998), a company profile is the determination of a firm's strategic competencies and weaknesses. This is accomplished by identifying and

then evaluating strategic, internal factors.

The relevant issues in internal diagnosis are:

- What are strategic internal factors?
- Where do they originate?
- How do we decide which are truly strategic factors that must be carefully evaluated?

The above issues might be raised by managers in identifying and evaluating key internal factors as strengths or weaknesses on which to base the firm's future strategy.

SELF-ASSESSMENT EXERCISE 1

Explain the term ‘internal diagnosis’.

3.2 IDENTIFICATION OF STRATEGIC INTERNAL FACTORS

1. A Function Approach.

Strategic internal factors are a firm's basic capabilities, limitations, and characteristics. A typical list of factors in internal capabilities of a company includes considerations such as:

i) Marketing in areas of products, market share, channels of distribution, pricing strategy, promotion strategy, after-sales services, brand loyalty, and goodwill;

ii) Finance in areas of short-term capital, long-term capital, taxes, debt management,

leverage position, working capital, cost control, finance size, efficient accounting

system, etc;

iii) Production in areas of raw materials cost, inventory control, economies of operation, technical efficiency, cost/benefit, research and development, patents, trademarks, etc;

iv) Personnel in areas such as management of personnel, employees' skill and morale, labour relations, effective personnel policies, employee turnover, etc;

Some of the above factors are the focus of internal analysis in most business firms. According to Pearce II and Robinson Jr. (1998), Firms are not likely to consider all of the factors in as potential strengths or weaknesses. To develop or revise a strategy, managers would rather identify the few factors on which success will most likely depend.

Equally important, reliance on different internal factors will vary by industry, market

segment, product life cycle, and the firm's current position. Managers are looking for what Chester Barnard calls "the strategic factors," those internal capabilities that appear most critical for success in a particular competitive area. For example, strategic factors for firms in the oil industry will be quite different from those of firms in the construction or hospitality industries.

Strategic factors can also vary between firms within the same industry. In the mechanical writing industry, for example, the strategies of BIC and Cross, both successful, are based on different internal strengths: BIC's on its strengths in mass production, extensive advertising, and mass distribution channels; Cross's on high quality, image, and selective distribution channels.

Analysis of past trends in sales costs and profitability is of major importance in identifying strategic internal factors. Basically, this identification should be based on a clear picture of the nature of the firm’s sales. An anatomy of past trends broken down by product lines, channels of distribution, key customers or types of customers, geographic region, and sales approach should be developed in detail.

A similar anatomy should focus on costs and profitability. Detailed investigation of the firm's performance history helps isolate internal factors influencing sales, costs, profitability, or their interrelationships. These are of major importance to future strategy decisions. To understand such results, a firm may determine that certain key internal factors (e.g., experience in particular distribution channels, pricing policies, warehouse location, and technology) deserve major attention in formulating future strategy.

The analysis of the strategic factors also requires an external focus. When a strategist isolates key internal factors through analysis of past and present performance, industry conditions/trends and comparisons with competitors also provide insight. BIC's identification of mass production and advertising as key internal factors is based as much on analysis of industry and competitive characteristics as on past performance of BIC itself.

The changes in the industry conditions can lead to the need to reexamine internal strengths and weaknesses in the light of new emerging determinants of success in the industry. Furthermore, strategic internal factors are often chosen for in-depth evaluation because firms are contemplating expansion of products or markets, diversifications, and so forth. Clearly, scrutinizing the industry under consideration and current competitors is a key means of identifying strategic factors if a firm is evaluating its capability to move into unfamiliar markets.

2. The Value Chain Approach

Pearce II and Robinson Jr. (1998) posit that diagnosing a company's key strengths and weaknesses requires the adoption of a disaggregated view of the firm. Examining the firm across distinct functional areas is one way to disaggregate the firm for internal analysis purposes. Another way to disaggregate the firm is to use a framework called the

value chain.

Developed by Michael Porter, a value chain is a systematic way of viewing the series of activities a firm performs to provide a product to its customers. The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of the firm's cost and its existing or potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities, the key internal factors, more cheaply or better than its competitors.

Fundamentally, every firm can be viewed (disaggregated) as a collection of value activities that are performed to design, produce, market, deliver, and support its product. Such activities can be grouped into nine basic categories for virtually any firm at the business unit level. Within each category of activity, a firm typically performs a number of discrete activities that may represent key strengths or weaknesses for the firm.

Service activities, for example, may include such discrete activities as installation, repair, parts distribution, and upgrading – any of which could be a major source of competitive advantage or disadvantage. Through the systematic identification of these discrete

activities, managers using the value chain approach can target potential strengths and weaknesses for further evaluation.

The basic categories of activities can be grouped into two broad types, namely: the primary and secondary activities. Primary activities are those involved in the physical creation of the firm's product or service, its delivery and marketing to the buyer, and its after-sale support. Overarching each of these are support activities, which provide inputs or infrastructure allowing the primary activities to take place on an ongoing basis.

According to Pearce II and Robinson Jr. (1998), in order to identify the primary value activities the company requires the isolation of activities that are technologically and strategically distinct. Each of the five basic categories of primary activities is divisible into several distinct activities, such as the following:

i) Inbound Logistics

Activities associated with receiving, storing, and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers.

ii) Operations

Activities associated with transforming inputs into the final product form, such as machining, packaging, assembly, equipment maintenance, testing, printing, and facility operations.

iii) Outbound Logistics

Activities associated with collecting, sorting, and physically distributing the product to buyers, such as finished goods warehousing, material handling, delivery vehicle operation, order processing, and scheduling.

iv) Marketing and Sales

Activities associated with providing a means by which buyers can purchase the product and inducing them to do so, such as advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing.

v) Service

Activities associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment.

Support value activities arise in one of four categories and can be identified or disaggregated by isolating technologically or strategically distinct activities. Often overlooked as sources of competitive advantage, these four areas can typically be distinguished as follows:

a) Procurement

Activities involved in obtaining purchased inputs, whether raw materials, purchased services, machinery, or so on. Procurement stretches across the entire value chain

because it supports every activity – every activity uses purchased inputs of some kind. Many discrete procurement activities are typically performed within a firm, often by different people.

b) Technology Development

Activities involved in designing the product as well as in creating and improving the way the various activities in the value chain are performed. People tend to think of technology in terms of the product or manufacturing process. In fact, every activity a firm performs involves a technology or technologies, which may be mundane or sophisticated, and a firm has a stock of know-how for performing each activity. Technology development typically involves a variety of discrete activities, some performed outside the R&D department.

c) Human Resource Management

There are activities necessary to ensure the recruiting, training, and development of personnel. Every activity involves human resources, and thus human resource management activities cut across the entire chain.

d) Firm Infrastructure

Such activities as general management, accounting, legal, finance, strategic planning, and all others decoupled from specific primary or support activities but essential to the entire chain's operation.

The value chain provides a useful approach to guide a systematic internal analysis of the

firm's existing or potential strengths and weaknesses. By systematically disaggregating a firm into its distinct value activities across the nine activity categories, the strategist has identified key internal factors for further examination as potential sources of competitive advantage.

Whether using the value chain, an examination of functional areas, or both approaches, the strategist's next step in a systematic internal analysis is to compare the firm's status with meaningful standards to determine which value activities are strengths or weaknesses. Four sources of meaningful standards used to evaluate internal factors and value activities are discussed in the next section.

SELF-ASSESSMENT EXERCISE 1

Identify and explain the four categories in which support value activities can arise.

3.3 Evaluation of Strategic Internal Factors

As observed by Pearce II and Robinson Jr. (1998), identification and evaluation of key internal factors have been separated for discussion, but in practice, they are not separate, distinct steps. The objective of internal analysis is a careful determination of a firm's strategic strengths and weaknesses.

An internal analysis that generates a long list of resources and capabilities has provided little to help in strategy formulation. Instead, internal analysis must identify and evaluate a limited number of strengths and weaknesses relative to the opportunities targeted in the firm's current and future competitive environment.

A factor is considered a strength if it is a distinct competency or competitive advantage. It is more than merely what the firm has the competence to do. It is something the firm does (or has the future capacity to do) particularly well relative to abilities of existing or potential competitors. A distinctive competence (strength) is important because it gives an organization a comparative advantage in the marketplace.

A factor is considered a weakness if it is something the firm does poorly or doesn't have the capacity to do although key rivals have the capacity. Centralized production facilities and lack of capital resources can be major weaknesses.

The critical question is how strategists should evaluate key internal factors and value activities as strengths or weaknesses. There are four basic perspectives:

· comparison with the firm's past performance;

· stage of product/market evaluation;

· comparison with competitors, and

· comparison with key success factors in the firm's industry.

1. Comparison with Past Capabilities and Performance.

According to Pearce II and Robinson Jr. (1998), strategists use the historical experience of the firm as a basis for evaluating internal factors. Managers are most familiar with their firm, its internal capabilities and problems, because they have been immersed over time in managing the firm's financial, marketing, production, and R&D activities.

Therefore, a manager's assessment of whether certain internal factors – such as production facilities, sales organization, financial capacity, control systems, and key personnel – are strengths or weaknesses will be strongly influenced by his or her internal experience. In the capital-intensive industry, for example, debt capacity is a strategic internal factor.

2. Stages in Product/Market Evolution

The requirements for success in product/market segments evolve and change over time. As a result, strategists can use these changing patterns associated with different stages in product/ market evaluation as a framework for identifying and evaluating the firm's strengths and weaknesses.

Four general stages of product/market evolution and the typical changes in functional capabilities often associated with business success at each stage. The early development of a product/ market, for example, entails minimal growth in sales, major R&D emphasis,

rapid technological change in the product, operating losses, and a need for sufficient resources or slack to support a temporarily unprofitable operation. Success at this stage may be associated with technical skill with being first in new markets or with having a marketing advantage that creates widespread awareness.

The strengths necessary for success change in the growth stage. Rapid growth brings new competitors into the market. Such factors as brand recognition, product/market differentiation, and the financial resources to support both heavy marketing expenses and the effect of price competition on cash flow can be key strengths at this stage.

According to Pearce II and Robinson Jr. (1998), as the product/market moves through a "shakeout" phase and into the maturity stage, market growth continues but at a decreasing rate. The number of market segments begins to expand, while technological change in product design slows considerably. The result is usually more intense competition, and promotional or pricing advantages or differentiation become key internal strengths.

Technological change in the process design becomes intense as the many competitors seek to provide the product in the most efficient manner. Where R&D was critical in the development stage, efficient production has now become crucial to a business's continued success in the broader market segments. Chrysler has found efficiency a key strength in the maturing auto industry.

When products/markets move toward a saturation/decline stage, strengths and weaknesses centre on cost advantages, superior supplier or customer relationships, and financial control. Competitive advantage can exist at this stage, at least temporarily, if a firm serves gradually shrinking markets that competitors are choosing to leave.

3. Comparison with Competitors

A major focus in determining a firm's strengths and weaknesses is comparison with existing (and potential) competitors. Firms in the same industry often have different marketing skills, financial resources, operating facilities and locations, technical know-how, brand image, levels of integration, managerial talent, and so on. These different internal capabilities can become relative strengths (or weaknesses) depending on the strategy the firm chooses.

In the assessment of the choice of strategy, a manager should compare the company's key internal capabilities with those of its rivals, thereby isolating key strengths or weaknesses.

In ultimately developing a strategy, distribution network, technological capabilities, operating costs, and service facilities are a few of the internal factors to be considered. To ascertain whether their internal capabilities on these and other factors are strengths or weaknesses, comparison to key competitors can prove useful.

Significant favourable differences (existing or expected) are potential cornerstones of the firm's strategy. Likewise, through comparison to major competitors, a firm may avoid strategic commitments it cannot competitively support.

4. Comparison with success Factors in the Industry

Industry analysis involves identifying factors associated with successful participation in a given industry. The key determinants of success in an industry may be used to identify the internal strengths and weaknesses of a firm. By scrutinizing industry competitors, as well as customer needs, vertical industry structure, channels of distribution, costs, barriers to entry, availability of substitutes, and suppliers, a strategist seeks to determine whether a firm's current internal capabilities represent strengths or weaknesses in new competitive arenas.

3.4 Quantitative versus Qualitative Approaches in Evaluating Internal Factors

Numerous quantitative tools are available for evaluating selected internal capabilities of a firm. These entail measurement of a firm's effectiveness vis-à-vis each relevant factor and comparative analysis of this measurement against both competitors (directly or through industry averages) and the historical experience of the firm. Ratio analysis is useful for evaluating selected financial, marketing, operating factors. The firm's balance sheet and income statement are important sources from which to derive meaningful ratios. The appendix at the end of this unit illustrates the use of these techniques for internal analysis.

Quantitative tools cannot be applied to all internal factors, and the normative judgements of key planning participants may be used in evaluation. Company or product image and prestige are examples of internal factors more amenable to qualitative evaluation. But, even though qualitative and judgemental criteria are used, identification and serious

evaluation of this type of factor are necessary and important aspects of a thorough internal analysis.

While managers used past performance and competitive comparison in evaluating tentative strengths, they relied heavily on normative judgement (qualitative assessment and opinion) in evaluating probable weaknesses.

4.0 CONCLUSION

We have discussed that the internal analysis of a company involves the assessment of the operational strengths and weaknesses in terms of the available assets of the company in relation to the dictates of the external environment. You have observed that in order to diagnose the internal strengths and weaknesses of a company, we have to identify the internal factors in functional operational areas of production, marketing, personnel, finance, etc. We also discussed that both qualitative and quantitative approaches can be used to evaluate the internal factors of a company.

5.0 SUMMARY

In this study unit, the topics discussed include the following:

· Nature of Internal Diagnosis;

· Identification of Strategic Internal Factors;

· Evaluation of Strategic Internal Factors; and

· Quantitative versus Qualitative Approaches in Evaluating Internal Factors.

In the next study unit, the discussion is on industry analysis in terms of the diagnosis of the competitiveness of the industry in which a company operates.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss four basic perspectives in evaluation of internal factors and value activities as strengths or weaknesses.

Answer to Self-Assessment Exercise

1. Internal analysis involves the assessment of a company's profile in relation to the dictates of the external environment. Such analysis of the internal position of a company leads to a realistic company profile.

2. The four categories in which support value activities can arise

a) Procurement

Activities involved in obtaining purchased inputs, whether raw materials, purchased services, machinery, or so on.

b) Technology Development

Activities involved in designing the product as well as in creating and improving the way the various activities in the value chain are performed. Technology development typically involves a variety of discrete activities, some performed outside the R&D department.

c) Human Resource Management

There are activities necessary to ensure the recruiting, training, and development of personnel. Every activity involves human resources, and thus human resource management activities cut across the entire chain.

d) Firm Infrastructure

Such activities as general management, accounting, legal, finance, strategic planning, and all others decoupled from specific primary or support activities but essential to the entire chain's operation.

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UNIT 7: INDUSTRY ANALYSIS

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1.0 INTRODUCTION

All industries are characterized by competition due to the fact there are always many companies operating in any given industry. The nature and degree of competition in an industry are dependent on forces such as the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services, and the competition among current contestants. In order to establish a strategic agenda for dealing with these contending currents and to grow despite them, a company must understand how such competitive forces work in its industry and how they affect the company in its particular situation.

Therefore, in this study unit, the discussion is on the assessment of the forces that shape competition in an industry.

2.0 OBJECTIVES

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

- discuss the use of strategy in relation to the prevailing competitive forces in an industry.
- mention and explain the various forces that shape competition in an industry.
- discuss what constitute threat to entry in a given industry.
- list and explain the factors that can determine the power of suppliers.
- mention and explain the various factors that determine the power of buyers.
- discuss how substitute products can pose problem to the firms in an industry.

3.0 MAIN CONTENT

3.1 INDUSTRY COMPETITIVE FORCES AND STRATEGY

According to Pearce II and Robinson Jr. (1998), the essence of strategy formulation is coping with competition. Yet it is easy to view competition too narrowly and too pessimistically. While one sometimes hears executives complaining to the contrary, intense competition in an industry is neither coincidence nor bad luck.

Furthermore, in the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry.

The state of competition in an industry depends on five basic forces such as the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services, and the competition among current contestants

The collective strength of these forces determines the ultimate profit potential of an industry. It ranges from intense in industries like tires, metal cans, and steel, where no company earns spectacular returns on investment, to mild in industries like oil-field services and equipment, soft drinks, and toiletries, where there is room for quite high returns.

In the opinion of Pearce II and Robinson Jr. (1998) , in the economists’ "perfectly competitive" industry, jockeying for position is unbridled and entry to the industry very easy. This kind of industry structure, of course, offers the worst prospect for long-run profitability. Nonetheless, the weaker the forces collectively the greater will be the

opportunity for superior performance.

Regardless of their collective strength, the corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favor. The collective strength of the forces may be painfully apparent to all the antagonists; but to cope with them, the strategist must delve below the surface and analyze the sources of competition. For example, considerations are the situation that makes the industry vulnerable to entry and the strengths that determines the bargaining power of suppliers.

Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic changes may yield the greatest payoff, and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats. Understanding these sources also proves to be of help in considering areas for diversification.

SELF ASSESSMENT EXERCISE 1

What are the various forces that influence competitive situation in an industry?

3.2 FORCES DRIVING INDUSTRY COMPETITION

The framework of forces affecting industry competition was developed by Porte (1979). These forces are, according to Porter, are the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, and the threat of substitute products or services. According to Pearce II and Robinson Jr. (1998), the strongest competitive force or forces determine the profitability of an industry and so are of greatest importance in strategy formulation.

For example, even a company with a strong position in an industry unthreatened by potential entrants will earn low returns if it faces a superior or a lower-cost substitute product-as the leading manufacturers of vacuum tubes and coffee percolators have learned to their sorrow. In such a situation, coping with the substitute product becomes the number one strategic priority.

Every industry has an underlying structure, or a set of fundamental economic and technical characteristics, that gives rise to these competitive forces. The strategist, wanting to position his company to cope best with its industry environment or to influence that environment in the company's favour, must learn what makes the environment tick.

This view of competition pertains equally to industries dealing in services and to those selling products. To avoid monotony in this article, I refer to both products and services as "products." The same general principles apply to all types of business. A few

characteristics are critical to the strength of each competitive force. They will be discussed in this section.

3.2.1 Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Companies diversifying through acquisition into the industry from other markets often leverage their resources to cause a shape-up, as Philip Morris did with Miller beer. The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a newcomer can expect sharp retaliation from the entrenched competitors, obviously he will not pose a serious threat of entering.

In the opinion of Pearce II and Robinson Jr. (1998), there are six major sources of barriers to entry such as follows:

i)

Economies of Scale.

These economies deter entry by forcing the aspirant either to come in on a large scale or to accept a cost disadvantage. Scale economies in production, research, marketing, and service are probably the key barriers to entry in the mainframe computer industry, as Xerox and GE sadly discovered. Economies of scale can also act as hurdles in distribution, utilization of the sales force, financing, and nearly any other part of a business.

ii)

Product Differentiation

Brand identification creates a barrier by forcing entrants to spend heavily to overcome customer loyalty. Advertising, customer service, being first in the industry, and product differences are among the factors fostering brand identification. It is perhaps the most important entry barrier in soft drinks, over-the-counter drugs, cosmetics, investment banking, and public accounting. To create high fences around their business, brewers couple brand identification with economies of scale in production, distribution, and marketing.

iii)

Capital Requirements

The need to invest large financial resources in order to compete creates a barrier to entry, particularly if the capital is required for unrecoverable expenditures in up-front advertising or R&D. Capital is necessary not only for fixed facilities but also for customer credit, inventories, and absorbing

start-up losses. While major corporations have the financial resources to invade almost any industry, the huge capital requirements in certain fields such as computer manufacturing and mineral extraction, limit the pool of likely entrants.

iv)

Cost Disadvantages Independent of Size

Entrenched 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 curve (and of its first cousin, the experience curve), proprietary technology, access to the best raw material sources, assets purchased at pre-inflation prices, government subsidies or favourable locations. Sometimes cost advantages are legally enforceable, as they are through patents.

v)

Access to Distribution Channels

The new boy on the black must, of course, sector distribution of his product or service. A new food product, for example, must displace others from the supermarket shelf via price breaks, promotions, intense selling efforts, or some other means. The more limited the wholesale or retail channels are and the more that existing competitors have these tied up, obviously the tougher that entry into the industry will be. Sometimes this

barrier is so high that, to surmount it, a new contestant must create its own distribution channels.

vi) Government Policy

The government can limit or even foreclose entry to industries with such controls as license requirements and limits on access to raw materials. Regulated industries like trucking, liquor retailing, and freight forwarding are noticeable examples; more subtle government restrictions operate in fields like ski-area development and coal mining. The government also can playa major indirect role by affecting entry barriers through controls such as air and water pollution standards and safety regulations.

Pearce II and Robinson Jr. (1998) observe that the potential rival's expectations about the reaction of existing competitors also will influence its decision on whether to enter. The company is likely to have second thoughts if incumbents have previously lashed out at new entrants, or if:

The incumbents possess substantial resources to fight back, including excess cash and unused borrowing power, productive capacity, or clout with .distribution channels and customers.

The incumbents seem likely to cut prices because of a desire to keep market shares or because of industry-wide excess capacity. Industry growth is slow, affecting its ability to absorb the new arrival and probably causing the financial performance of all the parties involved to decline.

From a strategic standpoint there are two important additional points to note about the threat of entry. First, strategic decisions involving a large segment of an industry can have a major impact on the conditions determining the threat of entry.

Second, it changes, of course, as these conditions change. The expiration of Polaroid's basic patents In instant photography, for instance, greatly reduced its absolute cost entry barrier built by proprietary technology into the market. Product differentiation in printing has all but disappeared. Conversely, in the auto industry economies of scale increased enormously with, post-World War II automation and vertical integration-virtually stopping successful new entry.

3.2.2 Bargaining Power of Suppliers

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

For instance, by raising their prices, soft-drink concentrate producers have contributed to the erosion of profitability of bottling companies because the bottlers, facing intense competition from powdered mixes, fruit drinks, and other beverages, have limited

freedom to raise their prices accordingly. Customers likewise can force down prices, demand higher quality or more service, and play competitors off against each other-all at the expense of industry profits.

The power of each important supplier or buyer group depends on a number of characteristics' of its market situation and on the relative importance of its sales or purchases to the industry compared with its overall business.

The supplier's power is determined by the following factors:

1. Dominated by a few companies

It is dominated by a few companies and is more concentrated than the industry it sells to.

2. Unique or differentiated products

Its product is unique or at least differentiated, or if it has built up switching costs. Switching costs are fixed costs buyers face in changing suppliers. These arise because, among other things, a buyer's product specifications tie it to particular suppliers, it has invested heavily in specialized ancillary equipment or in learning how to operate a supplier's equipment (as in computer software), or its production lines are connected to the supplier's manufacturing facilities (as in some manufacture of beverage containers).

3. It is not obliged to contend with other products for sale to the industry

For instance, the competition between the steel companies and the aluminum companies to sell to the can industry checks the power of each supplier.

4. Credible threat of forward integration

It poses a credible threat of integrating forward into the industry's business. This provides

a check against the industry's ability to improve the terms on which it purchases.

5. The industry is not an important customer of the supplier group

If the industry is an important customer, suppliers' fortunes will be closely tied to the industry, and they will want to protect the industry through reasonable pricing and assistance in activities like research and development, and lobbying.

SELF ASSESSMENT EXERCISE 2

Mention and discuss the factors that determine the power of suppliers in an industry.

3.2.3 Bargaining Power of Buyers

The power of each important buyer group depends on a number of characteristics' of its market situation and on the relative importance of its sales or purchases to the industry compared with its overall business.

The power of the buyers can be determined by following factors:

1. It is concentrated or purchases in large volumes

Large-volume buyers are particularly potent forces if heavy fixed costs characterize the industry as they do in metal containers, corn refining, and bulk chemicals, for example, which raise the stakes to keep capacity filled.

2. The products it purchases from the industry form a component of its product and represent a significant fraction of its cost

The buyers are likely to shop for a favorable price and purchase selectively. Where the product sold by the industry in question is a small fraction of buyers' costs, buyers are usually much less price sensitive.

3. It earns low profits, which create great incentive to lower its purchasing costs

Highly profitable buyers, however, are generally less price sensitive (that is, of course, if the item does not represent a large fraction of their costs). The industry's product is unimportant to the quality of the buyers' products or services. Where the quality of the buyers' products is very much affected by the industry's product, buyers are generally less price sensitive.

4. User's impression influenced by the quality of enclosures

Industries in which this situation obtains include oil-field equipment, where a malfunction can lead to large losses; and enclosures for electronic medical and test instruments where the quality of the enclosure can influence the user's impression about the quality of the equipment inside.

5. The industry's product does not save the buyer money

Where the industry's .product or service can pay for itself many times over, the buyer is rarely price sensitive; rather, he is interested in quality. This is true in services like investment banking and public accounting, where errors in judgment can be costly and embarrassing, and in businesses like the logging of oil wells, where an accurate survey can save thousands of dollars in drilling costs.

6. A credible threat of backward integration by buyers

The buyers pose a credible threat of integrating backward to make the industry's product. Producers and major buyers of cars have often used the threat of self' manufacture as a bargaining lever. But sometimes an industry engenders a threat to buyers that its members may integrate forward.

7. Buyers or consumers acting as a group

Most of these sources of buyer power can be attributed to consumers as a group as well as to industrial and commercial buyers; only a modification of the frame of reference is necessary. Consumers tend to be more prices sensitive if they are purchasing products that are undifferentiated, expensive relative to their incomes and of a sort where quality is not particularly important.

8. Middlemen influencing consumers purchasing decisions

The buying power of retailers is determined by the same rules, with one important addition. Retailers can gain significant bargaining power over manufacturers when they can influence consumers' purchasing decisions, as they do in audio components, jewelry, appliances, sporting goods, and other goods.

3.2.4 Threat of Substitute Products

According to Pearce II and Robinson Jr. (1998), placing a ceiling on prices it can charge, substitute products or services limit the potential of an industry. The implication is that unless it can upgrade the quality of the product or differentiates it somehow (as via marketing), the industry will suffer in earnings and possibly in growth.

Manifestly, the more attractive the price-performance trade-off offered by substitute products, the firmer the lid placed on industry’s profit potential. Sugar producers confronted with the large-scale commercialization of high-fructose corn syrup, a sugar substitute, are learning this lesson today.

Substitutes not only limit profits in normal times; they also reduce the bonanza and industry can reap in boom times. For instance, the producers of fiberglass insulation enjoyed unprecedented demand as a result of high energy costs and severe winter weather. But the industry’s ability to raise prices was tampered by the plethora of insulation substitutes, including cellulose, rock wood, and Styrofoam. These substitutes are bound to become an even stronger force once the current round of plant additions by fiberglass insulation producers has boosted capacity enough to meet demand.

Substitute products that deserve the most attention strategically are those that: are subject to trends improving the price-performance trade-off with industry’s products, or are

produced by industries earning high profits; and Substitutes often come rapidly into play if some developments increases competition in their industries and cause price reduction or performance improvement.

3.3 FORMULATION OF COMPETITIVE STRATEGY

According to Pearce II and Robinson Jr. (1998), the strategic action available to the company involved is considered herein. A company's choice of suppliers to buy from or buyer groups to sell to should be viewed as a crucial strategic decision. A company can improve its strategic posture by finding suppliers or buyers who possess the least power to influence it adversely.

Most common is the situation of a company being able to choose whom it will sell to in other words, buyer selection. Rarely do all the buyer groups a company sell to enjoy equal power. Even if a company sells to a single industry, segments usually exist within that industry that exercise less power (and that are therefore less price sensitive) than others. For example, the replacement market for most products is less price sensitive than the overall market.

As a rule, a company can sell to powerful buyers and still come away with above-average profitability only if it is g low-cost producer in its industry or if its product enjoys some unusual, if not unique, features. In supplying large customers with electric motors, Emerson Electric earns high returns because its low cost position permits the company to meet or undercut competitors' prices.

If the company lacks a low cost position or a unique product, selling to everyone is self-defeating because the more sales it achieves, the more vulnerable it becomes. The company may have to muster the courage to turn away business and will sell only to less potent customers.

As the factors creating supplier and buyer power change with time or as a result of a company's strategic decisions, naturally the power of these groups rises or declines. In the ready-to-wear clothing industry, as the buyers (department stores and clothing stores) have become more concentrated and control has passed to large chains, the industry has come under increasing pressure and suffered falling margins. The industry has been unable to differentiate its product or engender switching costs that lock in its buyers enough to neutralize these trends.

Once the corporate strategist has assessed the forces affecting competition in his industry and their underlying causes, he can identify his company's strengths and weaknesses. The crucial strengths and weaknesses from a strategic standpoint are the company's posture vis-à-vis the underlying causes of each force. The crucial considerations are questions such as these: Where does it stand against substitutes? What are the sources of entry barriers?

The strategist is then with the option to devise a plan of action that may include:

- positioning the company so that its capabilities provide the best defense against the competitive force; and/or
- influencing the balance of the forces through strategic moves, thereby improving the company's position; and/or

The strategist then will be anticipating shifts in the factors underlying the forces and responding to them, with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognize it.

4.0 CONCLUSION

We have discussed in this unit that the essence of strategy formulation is to cope with competition in an industry and such competition in an industry is rooted in its underlying economics, and competitive forces. We have also discussed the various forces that shape competition in an industry. Lastly, the discussion in this unit also considered the formulation of strategy with which to contend with competitive forces in the industry.

5.0 SUMMARY

In this study unit, the topics discussed include the following:

· Industry Competitive Forces and Strategy;

· Forces Driving Industry Competition;

· Threat of Entry in an Industry;

· Bargaining Power of Suppliers;

· Bargaining Power of Buyers;

· Threat of Substitute Products; and

· Formulation of Competitive Strategy.

In the next study unit, the discussion is on external diagnosis in terms of the analysis of the larger external environment.

6.0 TUTOR MARKED ASSIGNMENT

Mention and discuss the various forces that shape competition in an industry.

Answer to Self-Assessment Exercise

1. The various forces that influence competitive situation in industry include:

· threat of new entrants;

· bargaining power of customers;

· bargaining power of suppliers;

· threat of substitute products; and

· competition among current contestants.

2. The supplier's power is determined by the following factors:

i) It is dominated by a few companies and is more concentrated than the industry it sells to.

ii. Its product is unique or at least differentiated, or if it has built up switching costs. Switching costs are fixed costs buyers face in changing suppliers. These arise because, among other things, a buyer's product specifications tie it to particular suppliers, it has invested heavily in specialized ancillary equipment or in learning how to operate a supplier's equipment (as in computer software), or its production lines are connected to the supplier's manufacturing facilities (as in some manufacture of beverage containers).
iii.. It is not obliged to contend with other products for sale to the industry. For instance, the competition between the steel companies and the aluminum companies to sell to the can industry checks the power of each supplier.

iv. It poses a credible threat of integrating forward into the industry's business. This provides a check against the industry's ability to improve the terms on which it purchases.

v. The industry is not an important customer of the supplier group. If the industry is an important customer, suppliers' fortunes will be closely tied to the industry, and they will want to protect the industry through reasonable pricing and assistance in activities like research and development, and lobbying.

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· Further Reading

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UNIT 8: EXTERNAL DIAGNOSIS

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3.0 Main Content

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3.2.1 External Opportunities

3.2.2 External Threats

3.3 Usefulness of SWOT Analysis

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References and Further Reading

1.0 INTRODUCTION

In the previous study unit, the discussion is on the analysis of the industry in which a company operates. Such consideration is a minute aspect of the external environment of the firm. In the larger business environment are the uncertainties, human needs, production, markets, technology, politics and government regulations, and competition. It is pertinent at this junction to assess the larger external environment of the business other than the competitive nature of an industry because the firm operates in an omnibus environment. Therefore, the discussion in this study unit is on such consideration in terms of the analysis of the larger external environment of the firm.

2.0 OBJECTIVES

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

· discuss the nature of external diagnosis

· explain the nature of opportunities for the firm in external environment

· discuss forms of threat to firm's operations in external environment, and

· identify the advantages of SWOT analysis.

3.0 MAIN CONTENT

3.1 NATURE OF EXTERNAL DIAGNOSIS

The environmental analysis as the assessment of the business operating environment is a strategic planning method used to evaluate the strengths, weaknesses, opportunities, and

threats called SWOT. The SWOT analysis determines the following in business: the strengths and weaknesses that are internal factors which creates value or harmful to achieving the objectives of business. They can include assets, skills or resources that a company has at its disposal, compared to its competitors. Al these considerations have been discussed earlier in Unit 7 of this study material.

Generally, strategic planning involves specifying the objective of the business venture or programme and identifying the internal and external factors that are favourable and unfavourable to achieving the set objective. An aspect of this consideration is the analysis of the external environment, which is the subject of discussion in this unit.

According to Hill and Jones (2004), opportunities and threats are external factors or conditions that can create value or destroy the value of business performance. A company cannot control these variables because they are external factors to the business, but they emerge from either the competitive dynamics of the industry/market or from demographic, economic, political, technical, social, legal or cultural factors (PEST).

In the opinion of Hill and Jones (2004), opportunities arise when a company can take advantage of conditions in its external environment to formulate and implement strategies that enable it to become more profitable. For instance, the rise in telecommunications service industry coupled with deregulation in Nigeria, is seen as an enormous opportunity for new the companies that have sprung in recent times in the provision of such services in the country.

Threats, as held by Hill and Jones (2004), arise when conditions in the external environment endanger the integrity and profitability of the company's business. For, the incoming of the numerous telecommunication companies into the Nigerian terrain has

spelt stiff competition for the existing company such as the Nigerian Telecommunications Limited (NITEL). The rapid entry of new companies such as Globacom, MTN, Zain, Visa, Etisalat, Starcom, Multilink, and many others to take advantage of growing demand and profits led t the excess industry capacity in Nigerian Telecommunication Limited (NITEL). This has created the grave threat that is almost leading to the demise of Nigerian Telecommunication Limited (NITEL).

The entry of many telecommunication companies to take advantage of the expanding demand for telecom services leads to the existing price war and falling fortunes of some of the old ones in the industry; such as Nigerian Telecommunication Limited (NITEL) and Zain. The problem of stiff competition partly led to crisis in Zain as a telecommunication company which was originally known as Econet to change its name several times form Econet to Vmobile to Celltel and invariably to the present name as Zain.

The diagram below (Figure 9.1), which incorporates all the elements of the SWOT analysis is indicative of the process of the evaluation of the prevailing business condition in the environment. It is instructive to note that the diagram portrays both the internal and

external environment of the business. The diagnosis of the internal environment of the business is the internal analysis which has been discussed earlier.

Hence, the second segment is the analysis of the external environment of the business. In other words, external analysis or diagnosis involves the assessment of opportunities and threats in the external environment. The essence of this analysis or diagnosis of the external environment involves the assessment of the prevailing threats and available opportunities in the external environment of the business.

Figure 9.1 SWOT Analysis Diagram

SWOT ANALYSIS

INTERNAL ANALYSIS EXTERNAL ANALYSIS

THREATS OPPORTUNITIES WEAKNESSES STRENGTH

Source: Hill, C. W. L. and Jones, G. R. (2004). Strategic Management; An Integrated Approach, Sixth Edition, Indian Adaptation, p. 39.

SELF-ASSESSMENT EXERCISE 1

Differentiate between opportunity and threat to business in the external environment.

3.2 ENVIRONMENTAL OPPORTUNITIES & THREATS

The situation I the internal environment can affect the company's external environment. We have to recall the analysis of the internal analysis in terms of the considerations of the instances of strengths and weaknesses.

In a typical analysis of internal and external diagnosis are considered. For the internal analysis, there are areas of strengths such as below:

i) Specialist marketing expertise;

ii) Exclusive access to natural resources;

iii) Patents;

iv) New, innovative product or services;

v) Location of your business;

vi) Cost of advantage through owners knowledge;

vii)Quality processes and procedures ;

viii)Strong brand or reputation

For the internal analysis, there are areas of weakness such as below:

i) Lack of marketing expertise;

ii) Undifferentiated products and services;

iii) Location of your business;

iv) Competitors having superior access to distribution channels;

v) Poor quality of goods and services;

vi) Damaged reputation.

3.2.1 Environmental Opportunities

It has been observed earlier in this unit that opportunities arise when a company can take advantage of conditions in its external environment to formulate and implement strategies that enable it to become more profitable.

Laying credence to the above view, Pearce II and Robinson Jr. (1998) opines that opportunity is a major favourable situation in the firm's environment. Hence, for instance opportunities can arise from the following situations:

· key trends; favourable or unfavourable;

· identification of previously overlooked market segment;

· changes in competitive situation;

· changes in regulatory environment;

· changes in givernemental setup;

· technological changes; and

· improved buyer or supplier relations.

In a typical analysis of external diagnosis are considered. For the internal analysis, there are opportunities and threats that a business may have to contend with. The areas of opportunity are as follows:

For the external analysis, there are opportunities that a business may have to exploit for the enhancement of its fortunes. The other areas of opportunity in the environment are as follows:

i) Developing markets (internet);

ii) Mergers, joint ventures;

iii) Moving into new attractive market segment;

iv) A new international market;

v) Removal of international trade barriers;

vi) A market that is led by a weak competitors

3.2.2 Environmental Threats

It has been observed earlier in this unit that threats arise when conditions in the external environment endanger the integrity and profitability of the company's business.

According to Pearce II and Robinson Jr. (1998), a threat is a major unfavourable situation in the firm's environment. Therefore, it is a key impediment to the firm's cuurent and desired future competitive position in its industry. For instance, threats can arise from the following situations:

- the entry of new competitors such as in the telecom industry in relation to NITEL operational fortunes;
- slow market growth;
- increased bargaining power of key buyers;
- enhanced bargaining power of key supplies;
- major technological changes; and
- changing regulations.

For the external analysis, there are threats that a business may have to contend with. The other areas of threats in the external environment are as follows:

i) A new competitors in your home market;

ii) Price war;

iii) Competitor has a new, innovative substitute production service;

iv) Increased trade barriers

v) A potential new taxation on your product or service.

SELF-ASSESSMENT EXERCISE 2

Mention examples of opportunity and threat to business in the external environment.

There is a template developed from the studies on SWOT which can be replicated for the purpose of our discussion herein. Hence, the SWOT analysis can be represented on a template such as follows:

1 -Values

2 -Appraise

3 -Motivation

4 -Search

5 -Select

6 -Programme

7 -Act

8 -Monitor and repeat steps 1, 2, and 3.

From empirical evidence, it is discovered that they could not change the value of the team or set the objectives for the team, so they started as the first step by asking the appraisal question, that is, what's good and bad about the operation? The studies involved such

considerations as questions like what is good in the present is satisfactory, good in the future is an opportunity; bad in the present is a fault and bad in the future is a threat.

The SWOT analysis can only be of benefit if it is related to issues which are embedded in the programme and planning categories of:

1. Product (what are we selling?)
2. Process (how are we selling it?)
3. Customer (to whom are we selling it?)
4. Distribution (how does it reach them?)
5. Finance (what are the prices, costs and investment?)
6. Administration (and how do we manage all this?)

Figure 9.2: SWOT Analysis

Numerous

environmental

opportunities

Cell 3: Supports a

Cell 1: Supports an

Critical turnaround-oriented

aggressive strategy

Substantial

internal

internal

weaknesses Cell 4: Supports

Cell 2: Supports a

strengths

defensive strategy diversification strategy

Major

environmental

threats

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.294.

3.3 USEFULNESS OF SWOT ANALYSIS

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organisations (both profit and non-profit). SWOT is an acronym for strengths, weaknesses, opportunities and threats.

i) analysis helps in analysing business and environmental factors.

ii) It helps in setting objectives.

iii) The analysis helps marketers to focus especially their relative competitive strengths and weaknesses.

iv) The analysis makes marketing managers to examine each competitor's cost structure, sources of profits, resources, competencies, competitive positioning and product differentiation.

v) The analysis is a tool used in management and strategic formation.

vi) The analysis works well in brainstorming meetings.

vii) The analysis can be used for business planning, strategic planning, competitors' valuation, marketing business and product development and research reports.

4.0 CONCLUSION

We have discussed in this unit that external analysis is used to evaluate opportunities and threats in relation to a firm's operations in the external environment. As you have observed, opportunities arise when a company can take advantage of conditions in its external environment to formulate and implement strategies that enable it to become more profitable. We also discussed that threats arise when conditions in the external environment endanger the integrity and profitability of the company's business. The last

area discussed in this unit is the SWOT analysis, which is useful in analyzing the operating environment of a business enterprise generally.

5.0 SUMMARY

In this study unit, topics discussed include the following:

· Nature of External Diagnosis;

· External Opportunities & Threats;

· External Opportunities;

· External Threats; and

· Usefulness of SWOT Analysis.

In the next study unit, the discussion is on strategic planning.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss various threats that can affect a company's fortunes in the external environment.

Answer to Self-Assessment Exercise

1. Opportunities arise when a company can take advantage of conditions in its external environment to formulate and implement strategies that enable it to become more profitable. For instance, the rise in telecommunications service industry coupled with deregulation in Nigeria, is seen as an enormous opportunity for new the companies that have sprung in recent times in the provision of such services in the country.
Threats arise when conditions in the external environment endanger the integrity and profitability of the company's business. For, the incoming of the numerous telecommunication companies into the Nigerian terrain has spelt stiff competition for the existing company such as the Nigerian Telecommunication Limited (NITEL). The rapid entry of new companies such as Globacom, MTN, Zain, Visa, Etisalat, Starcom, Multilink, and many others to take advantage of growing demand and profits led t the excess industry capacity in Nigerian Telecommunication Limited (NITEL). This has created the grave threat that is almost leading to the demise of Nigerian Telecommunication Limited (NITEL).

2. Examples of opportunity in the external environment include following:

i) Developing markets (internet);

ii) Mergers, joint ventures;

iii) Moving into new attractive market segment;

iv) A new international market;

v) Removal of international trade barriers;

vi) A market that is led by a weak competitors

Examples of threats in the external environment include following:

i) A new competitors in your home market;

ii) Price war;

iii) Competitor has a new, innovative substitute production service;

iv) Increased trade barriers

v) A potential new taxation on your product or service.

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UNIT 9: STRATEGIC PLANNING

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3.2.2 Establishing Relevant Goals and Objectives

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3.3 Strategy Evaluation and Control

3.4 Importance and Limitation of Strategic Management

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References and Further Reading

1.0 INTRODUCTION

Corporate organizations operate in a dynamic environment which is subject to frequent changes form time to time. Therefore, the business entities operate in a vulnerable position in relation to the interplay of the environmental forces. The impact of such environment forces can sometimes spell monumental consequences for the business entities. The present world economic meltdown offers a classical scenario to justify

strategic planning.

Since all business entities are established for perpetual existence presumably on the basis on profitable operations, there arises the need to assess operations and plan for the future. Hence, there is the need for strategic planning in every business enterprise.

In this study unit, therefore, the discussion is on strategic planning process in terms of the analysis of how business enterprises determine, on periodic basis, the appropriate strategic posture to assume for future operations.

2.0 OBJECTIVES

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

· discuss the nature of strategic planning

· mention and explain the components of strategic planning process

· discuss. Assessment of mission statement

· list and explain the corporate goals and objectives

•

discuss internal analysis of a company

•

explain external diagnosis of a company's environment

•

discuss strategy formulation, implementation and evaluation

analyze the importance and limitation of Strategic Management

3.0 MAIN CONTENT

3.1 NATURE OF STRATEGIC PLANNING

According to Pearce II and Robinson Jr., (1998), strategic planning involves the process of drawing up detailed action plans to achieve an organisational goals and objectives, taking into account the resources of the organisation and the environment within which it operates, and deploying appropriate strategies to pursue and achieve such goals and objectives.

Strategic planning as a systematic process of determining goals and objectives to be achieved in the foreseeable future consists of the following considerations:

•

management's fundamental assumptions about the future political economic, socio-cultural technological and competitive environments;

•

setting of goals and objectives to be pursued and achieved within a specified time frame;

•

engaging in both internal and external analysis;

•

formulating and selecting main organizational strategies to achieve these goals and objectives;

- instituting, implementing and monitoring the operational or tactical plans to achieve the objectives; and

- engaging in evaluation and control of the operational strategies designed and being implemented for achievement of desired goals and objectives.

The implementation and evaluation aspects of the process present a unique involvement of the executives so that immediate and appropriate measures can be instituted in the event of any observed deviations.

SELF-ASSESSMENT EXERCISE 1

What are the considerations to be taken into account in the formulation of corporate goals and objectives.

Hence, as observed by Hill and Jones (2004), strategic planning is the key link between strategic management and the organisation's external environment. Resource management is the factor that links strategic management to the organisation's resources, including finances, facilities and equipment, land, access to information, goodwill and personnel. Strategic planning is a formal process where the assumptions, reasons and plans themselves are all written with figures to serve for future reference.

Strategic planning is systematic and logical planning process done at the corporate (top) level of the organisation since it is mainly concerned with the long-term aspect of the business. Even research studies have concluded that strategic management is an integral and important function of organisation life.

Strategic management process is seen as a powerful tool and its value is with the executives and the ability to use the tool effectively in managing the enterprise. According to Charffee (1985), the strategic considerations in strategic management include the following:

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

Hence, strategic management involves the whole organization as well as all the strategic units of a company.

SELF-ASSESSMENT EXERCISE 2

Mention and explain the main elements of strategic management.

3.2 COMPONENTS OF THE STRATEGIC PLANNING PROCESS

Strategy makers and corporate planners normally carefully consider the position of the business scan the various driving forces in the environment such as competition, government policies, technological changes, socio-cultural upheavals, and the stage of the economic cycle in the process of strategic planning. The analysis of the company's strengths and weaknesses as well as the prevailing opportunities and threats in the external environment is very equally imperative in the process of strategic planning

Hence, as opined by Thompson Jr. and Strickland (1987), Pearce II and Robinson Jr., (1998), the process of strategic planning involves the following steps:

i) Assessing the corporate mission of the organization;

ii) Establishing relevant goals and objectives from the corporate mission;

iii) Analyzing the internal environment for company's strengths and weaknesses;

iv) Engaging in external diagnosis of the business for opportunities and threats;

v) Formulating and selecting appropriate organizational strategies for implementation;

vi) Implementing and monitoring the chosen strategies; and

vii) Evaluating and controlling the implementation of the strategies and derivative palns.

The figure 9.1 blow aptly portrays the above process of strategic planning in terms of showing the necessary steps in a kind of schematic flow.

3.2.1 Assessing the Mission of the Organization

Planners carefully look at the major issues and opportunities facing the organisation and then assess the organizational mission. Hence, the first accomplishment of the strategic management process is assessing the organisation's mission statement.

The mission of a company has been discussed extensively in Unit 2 of this study material. Nevertheless, it is pertinent at this junction to refresh your mind about the meaning of a corporate mission.

As you aware from transfer knowledge that a mission statement is a brief written description of the purpose of the organisation, and why a company is in operation. It also provides the framework with which the organizational goals, objectives and strategies are formulated.

According to Hills and Jones (2004), mission statement of an organization refers to a description or declaration of the reason responsible for a company's existence and operation, which provides the framework or context within which strategies are formulated. According to them, the three main components of organizational mission are:

- a statement of the raison d'etre of a company or organization, that is its reason for existence;
- a statement of the key values or guiding standards that will drive and shape the actions and behaviour of the employees; and
- a statement of major goals and objectives.

Therefore, a mission statement of a company in most cases has three main considerations such as:

a) A Statement which gives reason why the organisation came into existence and this refers to the mission or vision of the company;

b) Vision of the Company in terms of what it wants to achieve in the future;

c) The statement of the key values or guiding standard which will drive and shape the actions and behaviours of employees and a statement of major goals or objectives.

Meanwhile, mission statements vary in nature from very brief to quite comprehensive and including having a specific purpose statement that is part of the overall mission statement. Many people consider the value statement and vision statement to be part of the mission statement.

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

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

The formulation of the corporate mission involves some pertinent considerations. This is the first important step and is to come up with a definition of the organisation's business. Definition will answer these questions such as: What is our business?, What will it be?, and What should it be?

Nevertheless, the answers to these questions above guide the formulation of a mission statement. Therefore, from the model it is clear that strategic planning is an ongoing event, it never ends. Once a strategy has been formulated, its execution or implementation must be monitored to determine the extent to which strategic goals and objectives are actually being achieved and to what degree competitive advantage is being created and sustained. Once the corporate level of the organisation collects that information, it becomes input for the next round of strategy formulation and implementation.

3.2.2 Establishing Relevant Goals and Objectives

The next step is the formulation of goals and objectives from the mission statement. Basically, a goal is a desired future state or objective that a company attempts to realise. As Pearce and David (1987) observed, goals may be expressed, in the case of business organisations, as operational efficiency and profit making.

These broadly based goals are very ambiguous and susceptible to be taken for granted,

and they indicate little about the emphasis placed on the various activities of the organisation in meeting its goals. Therefore, these are supposed to be marshaled into objectives. These are discussed earlier on in Unit 3 of this study material. We have to restate the analysis on goals herein.

Glueck (1980), goals are value premises which serve as inputs to decisions. Goals at different levels within the organisation contribute to alternatives for decision-making. Glueck sees goals more as sets of constraints which the organisation must satisfy; for example, profit for shareholders, or a minimum rate of return on investments; satisfying demands of consumers; complying with government legislation on safety standards; providing job satisfaction for staff; protecting the environmental against pollution.

Hence, goals limit the scope of actions and decision-making at lower levels of the organisation. Constraints may themselves be regarded as goals in that they represent objectives which management is trying to meet.

Members of the organisation have different and often conflicting goals. As a result, the goals which the organization actually pursues (informal goals) may be distinguished from the officially stated goals (formal goals) which are set out in broad terms as the reasons

for the purpose of the organisation. Informal goals may be inferred from the actual decisions made and actions taken within the organisation.

Basically, managers and other members of the organisation, will have their: own perception of the goals of the organisation, for example, to produce high-quality television sets which satisfy requirements of the customers; and their personal goals, for example, to earn high wages, to achieve promotion, to gain social satisfaction, to achieve status; which they expect to fulfill by participating in the activities of the organisation.

As opined by Hill and Jones (2004), organisational goals serve a number of important functions to the corporate entities in the following areas:

i) Goals provide a standard of performance. They focus attention on the activities of the organisation and the direction of the efforts of its members.

ii) Goals provide a basis for planning and management control related to the activities of the organisation.

iiii) Goals provide guidelines for decision-making and justification for actions taken. They reduce uncertainty in decision-making and give a defence against possible criticism.

iv) Goals influence the structure of the organisation and help determine the nature of technology employed. The manner in which the organisation is structured will affect what it will attempt to achieve.

v) Goals help to develop commitment of individuals and groups to the activities of the

organisation. They focus attention on purposeful behaviour and provide a basis for motivation and reward systems.

vi) Goals help to develop commitment of individuals and groups to the activities of the organisation. They focus attention on purposeful behaviour and provide a basis for motivation and reward systems.

vii) Goals give an indication of what the organisation is really like, its true nature and character, both for members and for people outside of the organisation.

viii) Goals serve as a basis for the evaluation of change and organization development.

The above analysis portrays that goals are the basis for objectives and policies of a corporate organization.

Figure 10.1: Main Components of the Strategic Planning Process

Strategy

Implementation

Mission and Goal

External Analysis:

Opportunities and

Threats

SWOT Strategy

Choice

Internal Analysis:

Strengths and

Weaknesses

Functional Level Strategy

Business Level Strategy

Global Strategy

Corporate Level Strategy

Corporate Performance

Governance and Ethics

Implementing Strategy across

industries and countries

Feedback

Loop

Implementing Strategy in

a Single Industry

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.9.

The analysis in Unit 4 is indicative of the fact that organizational objectives are derivable from the goals, all which are based on the organizational mission. Goals are broad-based statements of intent in terms of what are desirable out of the operational activities of the organization. On the strength of these goals appropriate objectives are formulated to marshal out the goals into specific and realizable targets. These are communicated to the strategic business units of the organization for implementation by the various functional managers.

In order to avoid the fallacy of a single objective, Drucker suggested the following eight key areas in which objectives should be set in terms of performance and results:

- market standing – for example: share of market standing; range of products and markets; distribution; pricing; customer loyalty and satisfaction;
- innovation – for example: innovations to reach marketing goals; developments arising from technological advancement; new processes and improvements in all major areas of organisational activity;
- productivity – for example: optimum use of resources; use of techniques such as operational research to help decide alternative courses of action; the ratio of 'contributed value' to total revenue;
- physical and financial resources – for example: physical facilities such as plant, machines, offices and replacement of facilities; supply of capital and budgeting; planning for the money needed; provision of supplies;
- profitability – for example: profitability forecasts and anticipated time scale for capital investment policy; yardsticks for measurement of profitability;
- manager performance and development – for example: the direction of managers and setting up their jobs; the structure of management; the development of future managers;
- worker performance and attitude – for example: union relations; the organisation of work; employee relations;
- public responsibility – for example: demands made upon the organisation such

as by law or public opinion; responsibilities to society and the public interest.
The organization, therefore, must give attention to all those areas which are of direct and vital importance to its survival and prosperity.

Also involved in determination of goals and objectives is the action planning is carefully laying out how the strategic goals will be accomplished. Action planning often includes specifying objectives, or specific results, with each strategic goal. Often, each objective is associated with a tactic, which is one of the methods needed to reach an objective. Therefore, implementing a strategy typically involves implementing a set of tactics along the way and in that sense; a tactic is still a strategy.

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

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

3.2.3 Analyzing the Internal Environment of the Company

The following operational factors are the focus of internal analysis in most business firms.

- Marketing in areas of products, market share, channels of distribution, pricing strategy, promotion strategy, after-sales services, brand loyalty, and goodwill;
- Finance in areas of short-term capital, long-term capital, taxes, debt management, leverage position, working capital, cost control, finance size, efficient accounting system, etc;
- Production in areas of raw materials cost, inventory control, economies of operation, technical efficiency, cost/benefit, research and development, patents, trademarks, etc;
- Personnel in areas such as management of personnel, employees' skill and morale, labour relations, effective personnel policies, employee turnover, etc;

The basic perspectives in evaluating key internal factors and value activities as strengths or weaknesses of a company, as discussed earlier in Unit 6, are as follows:

i. Comparison with Past Capabilities and Performance.

According to Pearce II and Robinson Jr. (1998), strategists use the historical experience of the firm as a basis for evaluating internal factors. Managers are most familiar with their firm, its internal capabilities and problems, because they have been immersed over time in managing the firm's financial, marketing, production, and R&D activities.

Therefore, a manager's assessment of whether certain internal factors – such as production facilities, sales organization, financial capacity, control systems, and key personnel – are strengths or weaknesses will be strongly influenced by his or her internal experience. In the capital-intensive industry, for example, debt capacity is a strategic internal factor.

ii. Stages in Product/Market Evolution

The requirements for success in product/market segments evolve and change over time. As a result, strategists can use these changing patterns associated with different stages in product/ market evaluation as a framework for identifying and evaluating the firm's strengths and weaknesses.

Four general stages of product/market evolution and the typical changes in functional capabilities often associated with business success at each stage. The early development of a product/ market, for example, entails minimal growth in sales, major R&D emphasis, rapid technological change in the product, operating losses, and a need for sufficient

resources or slack to support a temporarily unprofitable operation. Success at this stage may be associated with technical skill with being first in new markets or with having a marketing advantage that creates widespread awareness.

The strengths necessary for success change in the growth stage. Rapid growth brings new competitors into the market. Such factors as brand recognition, product/market differentiation, and the financial resources to support both heavy marketing expenses and the effect of price competition on cash flow can be key strengths at this stage.

According to Pearce II and Robinson Jr. (1998), as the product/market moves through a “shakeout” phase and into the maturity stage, market growth continues but at a decreasing rate. The number of market segments begins to expand, while technological change in product design slows considerably. The result is usually more intense competition, and promotional or pricing advantages or differentiation become key internal strengths.

Technological change in the process design becomes intense as the many competitors seek to provide the product in the most efficient manner. Where R&D was critical in the development stage, efficient production has now become crucial to a business’s continued success in the broader market segments. Chrysler has found efficiency a key strength in the maturing auto industry.

When products/markets move toward a saturation/decline stage, strengths and weaknesses centre on cost advantages, superior supplier or customer relationships, and financial control. Competitive advantage can exist at this stage, at least temporarily, if a firm serves gradually shrinking markets that competitors are choosing to leave.

iii. Comparison with Competitors

A major focus in determining a firm's strengths and weaknesses is comparison with existing (and potential) competitors. Firms in the same industry often have different marketing skills, financial resources, operating facilities and locations, technical know-how, brand image, levels of integration, managerial talent, and so on. These different internal capabilities can become relative strengths (or weaknesses) depending on the strategy the firm chooses.

In the assessment of the choice of strategy, a manager should compare the company's key internal capabilities with those of its rivals, thereby isolating key strengths or weaknesses.

In ultimately developing a strategy, distribution network, technological capabilities, operating costs, and service facilities are a few of the internal factors to be considered. To ascertain whether their internal capabilities on these and other factors are strengths or weaknesses, comparison to key competitors can prove useful.

Significant favourable differences (existing or expected) are potential cornerstones of the firm’s strategy. Likewise, through comparison to major competitors, a firm may avoid strategic commitments it cannot competitively support.

iv. Comparison with success Factors in the Industry

Industry analysis involves identifying factors associated with successful participation in a given industry. The key determinants of success in an industry may be used to identify the internal strengths and weaknesses of a firm. By scrutinizing industry competitors, as well as customer needs, vertical industry structure, channels of distribution, costs, barriers to entry, availability of substitutes, and suppliers, a strategist seeks to determine whether a firm’s current internal capabilities represent strengths or weaknesses in new competitive arenas.

3.2.4 Engaging in External Diagnosis

The next step in the strategic management process is the analysis of the organisation’s external operating environment. Essentially, external analysis is to identify strategic opportunities and threats in the organisation’s operating environment that will affect how it pursues its mission. There are three interrelated environments that need to be examined:

(a)

Industry Environment – this relates to the environment in which the organisation operates.

(b)

The country or national environment.

(c)

The wider socioeconomic or macro-environment.

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

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

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

Building and sustaining a competitive advantage requires a company to achieve superior efficiency, quality, innovation and responsiveness to its customers. The company's

strengths lead to superior performance in these areas and company's weaknesses translate to inferior performance.

This is carried out in order to determine the available opportunities and the prevailing threats in the external environment in relation to the company's operations.

Available opportunities in the external environment can involve considerations such as the following:

i) Developing markets (internet);

ii) Mergers, joint ventures;

iii) Moving into new attractive market segment;

iv) A new international market;

v) Removal of international trade barriers; and

vi) A market that is led by a weak competitors.

The prevailing threats can involve considerations such as the following:

i) A new competitors in your home market;

ii) Price war;

iii) Competitor has a new, innovative substitute production service;

iv) New regulations;

v) Increased trade barriers; and

vi) A potential new taxation on your product or service.

The above scenario may not be applicable to corporate bodies. Furthermore, the so-called threats in the external environment can indeed hold the best of business opportunities for a given company.

3.2.5 Strategy Formulation

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

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

Strategy allows a company to position itself effectively within its environment to reach its maximum potential, while constantly monitoring the environment for changes that can affect it so as to make changes in its strategic plan accordingly. Strategy allows the

company to define where you are, where you are going, and how you are going to get their.

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

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

In very large corporate bodies, there are several levels of management. Strategic management however is the highest of these levels of management in the sense that it is the widest, torching all parts of the firm.

Strategic management in hierarchy gives direction to corporate values, corporate cultures, corporate goals, and corporate missions. Under the broad corporate strategy are:

i) Corporate Strategy

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

Also, it is marshalling the resources for definite missions and planning alternative

strategies in anticipation of changing contingencies and creating flexible conditions in structure and employee attitudes favourable towards achieving the corporate goal.

ii) Business Strategy

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

iii) Functional Strategies

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

iv) Operational Strategy

This was encouraged by Peter Drucker in his theory of management by objectives (MBO). This has to do with the day-to-day activities in the organisation. It must operate within the budget and cannot create a budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.

There are some steps that should be followed when making strategic choice. Strategic choice is one step in strategic decision making. Glueck et. al. (1984), defines strategic choice as “the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise objectives”. Strategic choice decision could also be viewed as consisting of some steps which require elaboration. The steps are:

· Focusing Alternatives

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

· Consider Selection Factors

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

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

(e.g. producibility of the product), risk assessment etc.
Subjective factors involved may be management value and support, environmental opportunities or threats, designers' factors, needs, tastes and preferences of consumers over a long time, related product design steps etc.

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

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

· Evaluation of Strategic Alternatives/Portfolio
Evaluation requires the appraisal or analysis of selected or available factors. This involves the use of mathematical or non-mathematical tools based on the strategists

environment which may be one of certainty, risk or uncertainty. The strategists' of company's environment would suggest methods of analysis.

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

Evaluation of strategic alternatives under risk or stochastic environment assumes that the strategist has a partial knowledge of outcomes of decision alternatives. The common techniques of analysis in this consideration include: the calculation of expected maximum value (EMV), the Boston Consulting Group (BCG) matrix, the General-Electric Nine-cell matrix Hofer's product-market 15-cell Evolution matrix, Directional Policy Matrix (DPM), Strategic Position and Action Evaluation (SPACE) etc. The alternatives or Portfolio with the expected maximum values (EMV) are usually considered the best.

Evaluation of strategic alternatives or portfolio under the environment of uncertainty requires that the probabilities associated with the states of nature are known. Evaluation is very difficult for absolute lack of knowledge of information. Each action here will lead to one outcome or known set outcomes, each with known probabilities.

Examples of strategic alternatives here include, introduction of a new product to a new market (diversification), new business establishment in foreign environment etc. Evaluation here will require objective or hand data but will also involve subjective judgement such as the experience or skill of the strategist.

The choice of evaluation technique must always fit the environmental situation of a

company, but the strategist must never loose sight and consideration of subjective factors.

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

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

A strategic blueprint is the strategic plan which discusses how the strategic will operate, states the conditions required and also states the contingency strategies associated with the chosen strategies.

Choice must be based on evaluation, weighing and comparison of strategic alternatives. The point at which choice or selection of strategy is concluded represents the point at which strategic decision is formulated. What immediately follows it is implementation and follow-up.

3.2.6 Strategy Implementation

This involves allocation and management of sufficient resources (financial, personnel, operational support, times and technology support). Strategic implementation involves establishing a chain of command or some alternative structure (such as cross-functional teams). Strategic implementation requires assigning responsibility of specific tasks or processes to specific individuals or groups. It equally involves managing the process. This includes monitoring results, evaluating the efficacy and efficiency of the process, controlling for variances and making adjustments to the process as necessary.

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

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

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

Having chosen a set of strategies to achieve a competitive advantage and increasing performance, managers must put that strategy into action. Strategy has to be implemented. Therefore, strategy implementation involves the activities and decisions

that are made to install new strategies or support the existing strategies. Some refer to it as operational management. Strategy implementation is often called the action stage of strategic management which is made up of so many activities that are primarily administrative.

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

(a) corporate performance, governance and ethics;

(b) implementing strategy in a single industry;

(c) implementing strategy across industries and across countries.

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

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

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

The purpose of organisational structure is to coordinate and integrate the efforts of employees at all levels so that they work together in the way that will allow it to achieve goals. A diagram showing an example of strategy implementation in a single industry is shown below:

Figure 5.1: Strategy Implementation in a Single Industry

Organisational

To achieve superior

Structure

advantage:

Coordinate

· Efficiency;

and

Strategic

· Quality;

Motivate

Control

· Innovation;

Employees

· Responsiveness

Organisational

to customers.

Culture

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.421.

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

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

3.3 STRATEGY EVALUATION AND CONTROL

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

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

Strategic control systems are developed to measure performance at four levels in a company, namely: (a) corporate; (b) divisional; (c) functional; and (d) individual managers at all levels must develop the most appropriate sets of measures to evaluate corporate, business and functional level performance.

Balanced score card model guides managers through the process of creating the right kind of strategy control system to enhance organisation performance. According to the model, managers used primarily financial measures of performance as role to measure and evaluate organisational performance.

Also, it is important that managers should use the four building blocks of competitive advantage: efficiency, quality, innovation and responsiveness to customers to measure organisation performance.

Balanced score card operates basically on organisational mission and goals. Strategic managers develop a set of strategies to build competitive advantage to achieve these goals. They can establish an organisational structure to use resources to obtain a competitive advantage to evaluate how well the strategy and structure are working.

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

competitive advantages are as follows:

- Efficiency – measured by the level of productivity costs, the productivity of labour, the productivity of capital;
- Quality – can be measured by number of rejects, number of defective products returned from the customer, and also the level of product reliability over time.
- Innovation – this can be measured by the number of new products introduced. And the percentage of revenue generated from t he new products.
- Responsiveness to customers – can be measured by the number of repeat customers, customers' defection rates, level of on-time delivery to customers and level of customer service.

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

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

Figure 10.3: Steps of an Effective Strategic Control System

Evaluate results and
take action if
necessary

Establish standards
and targets
Create measuring and
monitoring system
Compare actual
performance against
established targets
Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.407.

It is noted earlier that strategic control system helps managers to obtain superior efficiency, quality, innovation and responsiveness to customers. These advantages to the managers are as follows:

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

Today, competition often revolves around increasing the quality of goods and services. Therefore, strategic control is important in determining the quality of each company's product or goods and services as it gives managers feedback on product quality.

Strategic control helps the managers to raise the level of innovation in an organisation. Successful innovation comes when managers create an organisational setting in which employees feel empowered to create and authority decentralised to employees so that they feel free to experiment and take risks.

Furthermore, strategic managers can help make their organisations more responsive to customers if they develop a control system that allows them to evaluate how well employees with customer contact are performing their jobs. Monitoring employees' behaviour can also help managers to find ways to help increase employees performance level.

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

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

Other strategic options are evaluated in the corporate strategy, according to Johnson and Scholes in areas such as: suitability with the question, would it work?, feasibility with the question, can it be made to work?, and acceptability with the question, will they work it?

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

Certain questions are however asked and answer to confirm suitability of such strategy. They are:

i) Does it make economic sense?

ii) Would the organisation obtain economies of scale?

iii) Would it be suitable in terms of environment and capabilities?

Tools that can be used to evaluate suitability include ranking strategic options, decision trees, and what if analysis.

- Feasibility:-This is concerned with the resources required to implement the strategy are available, can be developed or obtained. Resources include: funding, people, time, and information.

Tools that can be used to evaluate feasibility include cash-flow analysis and forecasting, breakeven analysis, and resource deployment analysis.

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

ii) Return – has to deal with the benefits expected by the stakeholders.

iii) Risk – deals with the probability and consequences of failure of a strategy.

iv) Stakeholders' reactions – deals with anticipating the likely reactions of

stakeholders. Stakeholders could oppose the issuing of new shares.

Tools that can be used to evaluate acceptability include what if analysis, and stakeholder napping.

The purpose of strategy evaluation and control is to examine the effectiveness and efficiency of organisational strategy in achieving set goals and objectives (Kazmi, 1995).

Therefore, organisational strategy evaluation and control may be seen as the process of determining the effectiveness and efficiency of a given organisational strategy in

achieving set organisational goals and objectives and taking corrective action whenever necessary.

The final stage in strategic management process is to evaluate and control an organisation's performance. Organisational management should ensure that the set strategies generate the performance necessary to achieve set goals and objectives.

Strategic evaluation and control therefore involve the activities and decisions that keep the process on track. Evaluation and control include the follow-up on goal accomplishment and giving feedback to the decision-makers on the result achieved so far.

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

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

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

-Are the objectives of the business appropriate?

-Are the major policies and plans appropriate?

-Do the results obtained to-date confirm or refute critical assumptions on which the strategy rests?

The following are steps of strategic evaluation and control process:

- Determine what to control and evaluate;
- Setting control and evaluation standards;
- Measure performance;
- Comparing standards and performance;
- Determining the reason for variations between performance and taking corrective action.

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

- Helps to achieve objectives and goals;
- Provides clear guidelines with respect to expected performance from personnel;

•

They direct energy because of employee performance towards expectation.

Figure 10.4: Strategic Evaluation Process

Setting

plan

objectives

Setting

standards of

organisation’s

performance

Actual

Measurement of

organisational

organisational

performance

performance

Analysing variances

between set

standards and

actual performance

Source: Yavitz and Newman (1982). Strategy in Action, p. 305.

3.4 IMPORTANCE AND LIMITATION OF STRATEGIC MANAGEMENT

The importance of strategic management include the following:

i) Strategic management is needed to cope with and manage uncertainty in decision making process.

ii) Strategic management provides a way to anticipate future problems and opportunities.

iii) Strategic management provides employees with clear objectives and directions for future of the organisation.

iv) Application of strategic management gives better performance.

v) It increases employees' satisfaction and motivation.

vi) It gives faster and better decision making process.

vii) It allows for identification and exploitation of opportunities.

viii)

It allows more effective allocation of time and resources to all identified opportunities.

The limitations of strategic management include the following:

i) When a strategy becomes internalized into a corporate culture, it can lead to group

think;

ii) It can also cause an organisation to define itself too narrowly;

iii) Many theories tend either to be too narrow in focus to build a complete corporate

strategy on, or too general and abstract to be applicable to specific situations.

4.0 CONCLUSION

We have discussed in this unit that strategic management involves the process of determination of detailed action plans to achieve an organisational goals and objectives, taking cognisance of the available resources and deploying appropriate strategies to pursue and achieve such goals and objectives. We have also discussed the necessary steps that are involved in strategic management. Lastly, the discussion highlighted the benefits which accrued from strategic management to an organization as well as its limitation.

5.0 SUMMARY

The topics covered in this unit include the following:

· Nature of Strategic Planning;

· Components of the Strategic Planning Process;

· Assessing the Mission of the Organization;

· Establishing Relevant Goals and Objectives;

· Analyzing the Internal Environment of the Company;

- Engaging in External Diagnosis;
- Strategy Formulation;
- Strategy Implementation;
- Strategy Evaluation and Control; and
- Importance and Limitation of Strategic Management.

In the next study unit, the discussion is on corporate strategic posture.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss the stages involved in strategic management.

Answer to Self-Assessment questions

1. The considerations to be taken into account in the formulation of corporate goals and objectives are as follows:

- management's fundamental assumptions about the future political economic, socio-cultural technological and competitive environments;
- setting of goals and objectives to be pursued and achieved within a specified time frame;
- engaging in both internal and external analysis;

- formulating and selecting main organizational strategies to achieve these goals and objectives;
- instituting, implementing and monitoring the operational or tactical plans to achieve the objectives; and
- engaging in evaluation and control of the operational strategies designed and being implemented for achievement of desired goals and objectives.

2. The strategic considerations in strategic management are as follows

i) Strategic management involves adapting the organisation to its business environment;

ii) Strategicy management affects the entire organisaation by providing direction;

iii) Strategic management involves both strategy formation (she called it content) and

iv) strategy implementation called it process; and

v) Strategic management is done at several levels: overall corporate strategy and individual business strategy.

7.0 REFERENCES

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UNIT 10: CORPORATE STRATEGIC POSTURE

CONTENTS

1.0 Introduction

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3.0 Main Content

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1.0 INTRODUCTION

Strategy is imperative as a weapon fashioned against competitive attacks from competitors in the corporate world. Strategy represents the best weapon against competition in terms of the preparation of relevant arsenal to ward off competitors' actions in the company's line of business. Companies never believe that the competitors will never attack in terms of their actions in the marketing of their products and services. Hence, companies are always prepared for such an action, as it amounts to sheer business suicide to believe that a corporate entity will sit idle while engaging in business competition.

Therefore, an explicit strategy for the business organisation is necessary to ensure that

organizational members cooperate and work together in order to achieve the benefits of mutual reinforcement, and to checkmate the effects of changing environmental conditions.

In this unit of the study material, therefore, you will be exposed to the discussion on corporate strategic posture of companies in business operations.

2.0 OBJECTIVES

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

· explain the nature of functional strategy.

· identify and discuss forms of functional strategy

· explain the nature of grand strategy.

· mention and discuss the various types of grand strategy.

3.0 MAIN CONTENT

3.1 NATURE OF FUNCTIONAL STRATEGY

Perarce II and Robinson Jr., (1998) posit that functional strategies constitue the core-centres of activities in the organisation. Functional strategies are normally formulated for the various functional operations of a corporate entity. Therefore, there are marketing strategies, legal strategies and supply-chain strategies, among others. These strategies emphasise the short and medium term plans and is limited to their functional responsibility. Each department attempts to do its part in meeting overall corporate objectives.

A functional strategy involves the short-term game plan for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future. Thus, functional strategies clarify the business strategy, giving specific, short-term guidance to operating managers.

Functional strategies must be developed in the key areas of marketing, finance, production, operations, research and development, and personnel. They must be consistent with long-term objectives and grand strategy. Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company (e.g., marketing, finance, production, etc.) to pursue the business strategy in daily activities. In a sense, functional strategies translate the grand strategy into action designed to accomplish specific annual objectives. For every major subunit of a company, functional strategies identify and coordinate actions that support the grand strategy and improve the likelihood of accomplishing annual objectives.

In order to appreciate the role of functional strategies within the operational management process, they must be differentiated from grand strategies. Three basic characteristics

differentiate functional and grand strategies such as time horizon covered, specificity, and participation in the development.

3.2 FORMS OF FUNCTIONAL STRATEGY

The various forms of functional strategies in operational activities of a business entity, according to Perarce II and Robinson Jr., (1998), are as identified and discussed below.

1. Marketing Functional Strategies

The role of the marketing function is to profitably bring about the sale of products/services in target markets for the purpose of achieving the business's goals. Functional strategies in the marketing area should guide this endeavour in a manner consistent with the grand strategy and other functional strategies. Effective marketing strategies guide marketing managers in determining who will sell what, where, when, to

whom, in what quantity, and how. Marketing strategies must therefore entail four components: product, price, place, and promotion.

i) Functional Strategy for Product

A functional strategy for the product component of the marketing function is meant to clearly identify the customer needs the firm seeks to meet with its product and/or service. An effective functional strategy for this component should guide marketing managers in decisions regarding features, product lines, packaging, accessories, warranty, quality, and new product development. This strategy provides a comprehensive statement of the product/service concept and the target market(s) the firm is seeking to serve. This, in turn, fosters consistency and continuity in the daily activity of the marketing area.

ii) Functional Strategy for Distribution

A product or service is not much good to a customer if it is not available when and where it is wanted. So, the functional strategy for the place component identifies where, when, and by whom the product/services are to be offered for sale. The primary concern here is the channel(s) of distribution – the combination of marketing institutions through which the products/services flow to the final user. This component of marketing strategy guides decisions regarding channel; for example, single versus multiple channels) to ensure consistency with the total marketing effort.

iii) Functional Strategy for Promotion

The promotion component of marketing strategy defines how the firm will communicate with the target market. Functional strategy for the promotion component should provide

marketing managers with basic guides for the use and mix of advertising, personal selling, sales promotion, and media selection. It must be consistent with other marketing strategy components and, due to cost requirements, closely integrated with financial strategy.

iv) Functional Strategy for Price

Functional strategy regarding the price component is perhaps the single most important consideration in marketing. It directly influences demand and supply, profitability, consumer perception, and regulatory response. The approach to pricing strategy may be cost oriented, market oriented, or competition (industry) oriented. With a cost-oriented approach, pricing decisions centre on total cost and usually involve an acceptable markup or target price ranges. Pricing is based on consumer demand (e.g., petroleum products pricing in a deregulated oil industry) when the approach is market oriented. With the third approach, pricing decisions centre on those of the firm's competitors.

2. Finance Functional Strategies

While most operating strategies guide implementation in the immediate future, the time frame for financial functional strategies varies because strategies in this area direct the use of financial resources in support of the business strategy, long-term goals, and annual objectives.

Financial operating strategies with longer time perspectives are meant to guide financial managers in long-term capital investment, use of debt financing, dividend allocation, and the firm's leveraging posture. Operating strategies designed to manage working capital and short-term assets have a more immediate focus.

i) Capital Acquisition

Long-term financial strategies usually guide capital acquisition in the sense that priorities change infrequently over time. The desired level of debt versus equity versus internal long-term financing of business activities is a common issue in capital acquisition strategy.

ii) Capital Allocation

Another financial strategy of major importance is capital allocation. Growth-oriented grand strategies generally require numerous major investments in facilities, projects, acquisitions, and/ or people. These investments cannot generally be made immediately, nor are they desired to be. Rather, a capital allocation strategy sets priorities and timing for these investments. This also helps to manage conflicting priorities among operating managers competing for capital resources.

iii) Re-allocation

The retrenchment or stability often requires a financial strategy that focuses on the reallocation of existing capital resources. This could necessitate pruning product lines, production facilities, or personnel to be reallocated elsewhere in the firm. The overlapping careers and aspirations of key operating mangers clearly create an emotional

setting. Even with retrenchment (perhaps even more so!), a clear operating strategy that delineates capital allocation priorities is important for effective implementation in a politically charged organisational setting.

iv) Level of Capital Expenditure

Capital allocation strategy frequently includes on additional dimension; level of capital expenditure delegated to operating managers. If a business is pursuing rapid growth, flexibility in making capital expenditures at the operating level may enable timely responses to an evolving market. On the other hand, capital expenditures may be carefully controlled if retrenchment is the strategy.

v) Dividend Policy

Dividend management is an integral part of a firm's internal financing. Due to the fact that dividends are paid on earnings, lower dividends increase the internal funds available for growth, and internal financing reduces the need for external, often debt, financing. However, stability of earnings and dividends often makes a positive contribution to the market price of a firm's stock. Therefore, a strategy guiding dividend management must support the business's posture toward equity markets.

vi) Working Capital

Working capital is critical to the daily operation of the firm, and capital requirements are directly influenced by seasonal and cyclical fluctuations, firm size, and the pattern of

receipts and disbursements. The working capital component of financial strategy is built on an accurate projection of cash flow and must provide cash management guidelines for conserving and rebuilding the cash balances required for daily operation.

SELF-ASSESSMENT EXERCISE 1

Identify and explain the various aspects of finance functional strategy.

3. Research and Development Functional Strategies

With the increasing rate of technological change in most competitive industries, research and development (R&D) has assumed a key functional role in many organisations. In the technology-intense computer and pharmaceutical industries, for example, firms typically spend between five and ten percent of their sales on research and development. Rresearch and development may be a vital function, a key instrument of business strategy. Nevertheless, in stable, less innovative industries, research and development is less critical as a functional strategy than is marketing or finance.

i) Type of Research to Undertake

First, research and development strategy should clarify whether basic research or product development research will be emphasised. Several multinational oil companies, for instance, have solar energy subsidiaries with research and development strategy emphasis on basic research, while smaller competitors emphasise product development research.

ii) Time Orientation

Directly related to the choice of emphasis between basic research and product

development is the time orientation for these efforts mandated by research and development strategy. The solar subsidiaries of the major oil companies have long-term perspectives, while their smaller competitors appear to be focusing on the immediate future. These orientations are consistent with each business's strategy if the major oil companies want to ensure their long-term position in the energy field, while the smaller companies want to establish a competitive niche in the growing solar industry.

iii) Guide to Research Efforts

Research and development strategy should also guide organisation of the R&D function. The company should decide whether research and development efforts be conducted solely within the firm or should portions of the work be contracted outside. A closely related issue is whether research and development should be a centralized or decentralized function.

iv) Technological Skill Requirement

The basic research and development posture of the firm influences each of these decisions because strategy in this area can be offensive, defensive, or a combination of these. In the event that the research and development strategy is offensive, technological innovation and new product development are emphasised as the basis for the firm's future success, as is true for small, high-technology firms. However, this orientation entails high risk (and high payoff) and demands considerable technological skill,

forecasting expertise, and the ability to quickly transform basic innovations into commercial products.

4. Production Functional Strategies

Production and operations management is the core function in the business firm. Production and operations management is the process of converting inputs (raw material, suppliers, people, and machines) into value-enhanced output. This function is mostly easily associated with manufacturing firms. Nevertheless, it applies equally to all other types of businesses including service and retail firms.

Functional strategies in production and operations management must guide decisions regarding:

•

the basic nature of the firm's production and operations management system, seeking an optimum balance between investment input and production and operations output, and

•

location, facilities design, and process planning on a short-term basis.

i) Facilities and Equipment

The facilities and equipment component of production and operations management strategy involves decisions regarding plant location, size, equipment replacement, and facilities utilization that should be consistent with grand strategy and other operating strategies.

ii) Purchasing Function

The purchasing function is another area that should be addressed in the production and operations management strategy. From a cost perspective, are a few suppliers an advantage or risky because of overdependence? Relevant criteria should be used in selection vendors, and volume and delivery requirements to support operations should be established. All this is meant to serve as guidelines for improving implementation.

iii) Planning and Control of Production

Functional strategies for the planning and control component of production and operations management provide guidelines for ongoing production operations. They are meant to encourage efficient organisation of production/operations resources to match long-range, overall demand. Often this component dictates whether production/operations will be demand oriented, inventory oriented, or subcontracting oriented.

iv) Pattern of Production and Operations

If demand is cyclical or seasonal, then production and operations management strategy must ensure that production/operations processes are efficiently geared to this pattern. A bathing suit manufacturer would prefer inventories to be at their highest in the early spring, for example, not the early fall. If demand is less cyclical, a firm might emphasise producing to inventory, wanting a steady level of production and inventories. When

demand fluctuations are less predictable, many firms subcontract to handle sudden increases in demand while avoiding idle capacity and excess capital investment.

v) Coordination of Production and operations Strategies

Production and operations management strategies must be coordinated with marketing strategy if the firm is to succeed. Careful integration with financial strategy components (such as capital budgeting and investment decisions) and the personnel function are also necessary.

Figure 6.1 illustrates the importance of such coordination by showing the different production and operations management concerns that arise when different marketing/financial/personnel strategies are required as elements of the grand strategy.

SELF-ASSESSMENT EXERCISE 2

Enumerate and explain the various aspects of the production and operations management strategy.

5. Personnel Functional Strategies

The strategic importance of functional strategies in the personnel area has become more widely accepted in recent years. Personnel management aids in accomplishing grand strategy by ensuring the development of managerial talent, the presence of systems to manage compensation and regulatory concerns, and the development of competent, well-motivated employees. Functional strategies in personnel should guide the effective utilization of human resources to achieve both the annual objectives of the firm and the satisfaction and development of employees.

Operating strategy for recruitment, selection, and orientation guides personnel management decisions for attracting and retaining motivated, productive employees. The recruitment, selection, and orientation component of personnel strategy are to provide basic parameters for tackling issues such as:

· the key human resources needs to support a chosen strategy;
· recruit for key human resources needs;
· level of sophistication of the selection process; and
· introduction and orientation of new employees.

The development and training component should guide personnel actions taken to meet future human resource needs of the grand strategy. Functional strategies in the personnel area are needed to guide decisions regarding compensation, labour relations, government requirements, discipline, and control to enhance the productivity and motivation of the workforce.

The relevant concerns are: the standards for promotion; interpretation of payment, incentive plans, benefits, and seniority policies; hiring preference; and appropriate disciplinary steps. These are specific personnel decisions that operating managers frequently encounter. Functional strategies in the personnel area should guide such

decisions in a way that is compatible with business strategy, strategies for other functional areas, and the achievement of annual objectives.

Basically, therefore, functional strategies are important because they provide specifics on how each major sub-activity contributes to the implementation of the grand strategy. This specificity, and the involvement of operating managers in its development, helps ensure understanding of and commitment to the chosen strategy.

The annual objectives, which are linked to both long-term objectives and functional strategies, reinforce this understanding and commitment by providing measurable targets that operating managers have agreed on. The next step in implementing a strategy involves the identification of policies that guide and control decisions by operating managers and their subordinates.

3.3 GRAND STRATEGY

Grand strategies, according to Perarce II and Robinson Jr., (1998), are also known and called master business strategies are intended to provide basic direction for strategic actions. Therefore, they are seen as the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. More often that not, grand strategies indicate how long-range objectives will be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides major actions.

A principal grand strategy could serve as the basis for achieving major long-term objectives such as single business concentration, market development, product development, innovation, horizontal integration, vertical integration, joint venture, concentric diversification, conglomerate diversification, retrenchment/turnaround, divestiture and liquidation. A company which is involved with multiple industries,

businesses, product lines, or customer groups uses several grand strategies.

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

(1) Internal/External Di mension

Internalization is the extent to which the strategy adopted by an organisation is independent of any other entity.

Externalization is the extent to which the strategy adopted by an organisation is dependent or in association with another entity.

2) Relatedness/Unrelatedness Dimension

Relatedness is the extent to which the strategy adopted by an organisation is related to current business definition (customer groups, customer functions, product group or alternative technologies).

Unrelatedness is the extent to which the strategy adopted by an organisation is at variance and unrelated to its current business definition. Relatedness is also called concentration (concentric) while unrelatedness is also called conglomerate.

3) Horizontal/Vertical Dimension

Horizontalization is the extent to which a newly adopted strategy enlarges or complements the' current business definition of an organisation (customer groups, customer function, product class or technological alternative).

Verticalization on the other hand is the extent to which a newly adopted strategy enriches the current business definition ora company. Enrichment could be backward or forward or both from the current organisational position.

4) Active/Passive Dimension

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

Passive dimension is the extent to which a newly adopted strategy is defensive (protective) in anticipation or peaction to environmental threats and opportunities.

(5) Basic/Derived Dimension

A basic dimension (also called grand, generic, systemic or holistic) is the extent to which a newly adopted strategy affects the entirety or totality of the organisation (corporate).

A derived dimension is the extent to which a newly adopted strategy is restricted to a specific organisation's function e.g. production strategies such as choice of plant layout or 'plant maintenance strategy.

(6) Local/Multiria.tional Dimension

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

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

(7) Diversity/Integratedness Dimension

Diversity is the manyness of the adopted strategies or the extent to which adopted strategies are heterogeneous (diversification), or extent to which a newly adopted strategy can be differentiated from the existing strategies in the organisation.

Integration as a dimension is the extent to which a newly adopted strategy collaborates or coordinates, or is in harmony with existing strategies of the organisation.

(8) Intensiveness/Extensiveness Dimension

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

Extensiveness is 'the extent to which a nevyly adopted strategy expands the current or potential product-market definition of a company.

(9) Cooperation/Competitive Dimension

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

Competitive dimension is the extent to which a newly adopted strategy rivals other entity's strategies.

(10) Complete/Facial Dimension

Full or complete dimension is the extent to which a newly adopted strategy has permanent, interminable or durable existence (e.g. complete merger, full integration) or the extent to which an adopted strategy allows an organisation to participate in all stages of the process of getting products into the hand of final users. Partial dimension is the extent to which a newly adopted strategy is nondurable, terminable or having temporary existence or limited in participating in all stages of production (e.g. cartels, syndicates, pools, price rings, corners partial

integration).

The former may be long term and sometimes compulsory or binding, but the latter is short term and voluntary.

(11) Current/Potential Dimension

Current dimension is the extent to which a strategy is put to existing or actual use or is actualized with reference to the present time.

Potential dimension is the extent to which a strategy is put to latent use with reference to a future time.

3.4 TYPES OF GRAND STRATEGY

Perarce II and Robinson Jr., (1998) identify several grand strategies which are discussed below.

1. Concentration Grand Strategy

The most common grand strategy is concentration on the current business. The firm directs its resources to profitable growth of a single product, in a single market, and with a single technology.

The reasons for selecting a concentration grand strategy are easy to understand. Concentration is typically lowest in risk and in additional resources required. It is also based on the known competencies of the firm.

Further, because of their narrow base of competition, concentrated firms are especially susceptible to performance variations resulting from industry trends.

Concentration strategies succeed for so many businesses – including the vast majority of smaller firms – because of the advantages of business-level, specialization. By concentrating on one product, in one market, and with one technology, a firm can gain competitive advantages over its more diversified competitors in production skill, marketing know-how, customer sensitivity, and reputation in the marketplace.

A grand strategy of concentration allows for a considerable range of action. Broadly speaking, the business can attempt to capture a larger market share by increasing present customers' rate of usage, by attracting competitors' customers, or by interesting nonusers in the product or service. In turn, each of these actions suggests a more specific set of alternatives.

When strategic managers forecast that the combination of their current products and their markets will not provide the basis for achieving the company mission, they have two options that involve moderate cost and risk: market development and product development.

2. Market Development Grand Strategy

Market development commonly ranks second only to concentration as the least costly and least risky of all grand strategies. It consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media. Several specific approaches are listed under this heading in Figure 11-1. Thus, as suggested by the figure, businesses that open branch offices in new cities, states, or countries are practicing market development. Likewise, companies that switch from advertising in trade publications to newspapers or add jobbers to supplement their mail-order sales efforts are using a market development approach.

Figure 11.1: Specific options under the grand strategies of concentration, market development and product development

Concentration (increasing use of present products In present markets):

1.

Increasing present customers' rate of usage.

a.

Increasing the size of purchase.

b.

Increasing the rate of product obsolescence.

c.

Advertising other uses.

d.

Giving price incentives for increased use.

2.

Attracting competitors' customers.

a.

Establishing sharper brand differentiation.

b.

Increasing promotional effort.

c.

Initiating price cuts.

3.

Attracting nonusers to buy the product.

a.

Inducing trial use through sampling, price incentives, and so on.

b.

Pricing up or down.

c.

Advertising new uses.

Market development (selling present products in new markets):

1 .

Opening additional geographical markets.

a.

Regional expansion.

b.

National expansion.

c.

International expansion.

2.

Attracting other market segments.

a.

Developing product versions to appeal to other segments.

b.

Entering other channels of distribution.

c.

Advertising in other media.

Product development (developing new products for present markets):

1.

Developing new product features.

a.

Adapt (to other ideas, developments).

b.

Modify (change color, motion, sound, odor, form, shape).

c.

Magnify (stronger, longer, thicker, extra value).

d.

Magnify (smaller, shorter, lighter).

e.

Substitute (other ingredients, process, power).

f.

Rearrange (other patterns, layout, sequence, components).

g.

Reverse (inside out).

h.

Combine (blend, alloy, assortment, ensemble; combine units, purposes,

appeals, ideas).

2.

Developing quality variations.

3.

Developing additional models and sizes (product proliferation).

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy

Formulation and Implementation, Third Edition, p.254.

3. Product Development Grand Strategy

Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through established channels. The product development strategy is often adopted either to prolong the life cycle of current products or to take advantage of favourable reputation and brand name. the idea is to attract satisfied customers to new products as a result of their positive experience with the company's initial offering. The bottom section of figure 11-1 lists some of the many specific options available to businesses undertaking product development. Thus, a revised edition of a textbook, a new car style, and a second formula of shampoo for oily hair each represents a product development strategy.

4. Innovation Grand Strategy

In many industries, it is increasingly risky not to innovate. Consumer as well as industrial markets have come to expect periodic changes and improvements in the products offered. As a result, some businesses find it profitable to base their grand strategy on innovation. They seek to reap the initially high profits associated with customer acceptance of a new or greatly improved product.

Then, rather than face stiffening competition as the basis of profitable shifts from innovation to production or marketing competence, they move on to search for other original or novel ideas. The underlying philosophy of a grand strategy of innovation is creating a new product life cycle, thereby making any similar existing products obsolete. Thus, this approach differs from the product development strategy of extending an existing product's life cycle.

While most growth-oriented firms appreciate the need to be innovative; occasionally, a few companies use it as their fundamental way of relating to their markets.

5. Horizontal Integration

When the long-term strategy of a firm is based on growth through the acquisition of one or more similar businesses operating at the same stage of the production-marketing chain, its grand strategy is called horizontal integration. Such acquisitions provide access to new markets for the acquiring firm and eliminate competitors.

6. Vertical Integration

When the grand strategy of a involves the acquisition of businesses that either supply the firm with inputs (such as raw materials) or serve as a customer for the firm’s outputs (such as warehouse users for finished products), vertical integration is involved. For example, if a textile manufacturer acquires a cotton producer, the strategy is a vertical integration. In this example, it is a backward vertical integration since the business acquired operates at an earlier stage of operation process. If the firm acquires is into textile merchandising, it is forward vertical integration.

7. Joint Venture

Occasionally, two or more capable companies lack a necessary component for success in a particular competitive environment. These cooperative arrangements could provide both the necessary funds to build the joint facilities for the processing and marketing capacity to profitably handle the oil production. This also applies to the joint ventures in upstream set – sector of the petroleum industry generally.

In recent years, it has become increasingly appealing for domestic firms to join foreign businesses through this form. The stimulus for this joint ownership venture was grand strategy, but such is not always the case. Certain countries virtually mandate that foreign companies entering their markets do so on a joint ownership basis. India and Mexico are good examples. The rationale of these countries is that joint ventures minimize the threat of foreign domination and enhance the skills, employment, growth, and profits of local businesses.

Strategic managers in the typical firm rarely seek joint ventures. This approach admittedly presents new opportunities with risks that can be shared. On the other hand, joint ventures often limit partner discretion, control, and profit potential while demanding managerial attention and other resources that might otherwise be directed toward the mainstream activities of the firm. Nevertheless, increasing nationalism in many foreign markets may require greater consideration of the joint venture approach if a firm intends to diversify internationally.

8. Concentric Diversification

Grand strategies involving diversification represent distinctive departures from a firm's existing base of operations, typically the acquisition or internal generation (spin-off) of a separate business with synergistic possibilities counterbalancing the two businesses'

strengths and weaknesses. However, diversifications are occasionally undertaken as unrelated investments because of their otherwise minimal resource demands and high profit potential.

Regardless of the approach taken, the motivations of the acquiring firms are the same such as highlighted below:

- Increase the firm's stock value. Often in the past, mergers have led to increases in the stock price and/or price-earnings ratio.
- Increase the growth rate of the firm.
- Make an investment that represents better use of funds the plowing them into internal growth.
- Improve the stability of earnings and sales by acquiring finds whose earnings and sales complement the firm's peaks and valleys.

- Balance or fill out the product line.
- Diversify the product line when the life cycle of current products has peaked.
- Acquire a needed resource quickly; for example, high-quality technology or highly innovative management.
- Tax reasons, purchasing a firm with tax losses that will offset current or future earnings.
- Increase efficiency and profitability, especially if there is synergy between the two companies.

When diversification involves the addition of a business related to the firm in terms of technology, markets, or products, it is a concentric diversification. With this type of grand strategy, the new businesses selected possess a high degree of compatibility with the current businesses. The ideal concentric diversification occurs when the combined company profits increase strengths and opportunities, as well as decrease weaknesses and exposure to risk. Thus, the acquiring company searches for new businesses with products, markets, distribution channels, technologies, and resource requirements that are familiar but not identical, synergistic but not wholly interdependent.

9. Conglomerate Diversification

Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. This type of grand strategy is commonly known as conglomerate diversification. The principal and often sole concern of the acquiring firm is the profit pattern of the venture. There is little

concern given to creating product/market synergy with existing businesses, unlike the approach taken in concentric diversification. Financial synergy is what is sought by some conglomerate diversifiers. For example, they may seek a balance in their portfolio between current businesses with cyclical sales and acquired businesses with countercyclical sales, between high-cash/low-opportunity and low-cash/low-opportunity businesses, or between debt-free and highly leveraged businesses.

The principal difference between the two types of diversification is that concentric acquisitions emphasize some commonality in markets, products, or technology, whereas conglomerate acquisitions are based principally on profit considerations.

10. Retrenchment/Turnaround

For any of a large number of reasons a business can find itself with declining profits. Economic recessions, production inefficiencies, and innovation break-throughs by competitors are only three causes. In many cases strategic managers believe the firm can survive and eventually recover if a concerted effort is made over a period of a few years

to fortify basic distinctive competencies. This type of grand strategy is known as retrenchment. It is typically accomplished in one of two ways, employed singly or in combination:

1.

Cost reduction. Examples include decreasing the work force through employee attrition, leasing rather than purchasing equipment; extending the life of machinery, and eliminating elaborate promotional activities.

2.

Asset reduction. Examples include the sale of land, buildings, and equipment not essential to the basic activities of the business and elimination of "perks" like the company airplane and executive cars.

If these initial approaches fail to achieve the required reductions, more drastic action may be necessary. It is sometimes essential to lay off employees, drop items from a production line, and even eliminate low-margin customers.

Since the underlying purpose of retrenchment is to reverse current negative trends, the method is often referred to as a turnaround strategy. Interestingly, the turnaround most commonly associated with this approach is in management positions. Bringing in new managers was believed to introduce needed new perspectives of the firm's situation, to raise employee morale, and to facilitate drastic actions, such as deep budgetary cuts in establishment programs.

11. Divestiture

A divestiture strategy involves the sale of a business or a major business component. When retrenchment fails to accomplish the desired turnaround, strategic managers often decide to sell the business. However, because the intent is to find a buyer willing to pay a

premium above the value of fixed assets for a going concern, the term marketing for sale is more appropriate. Prospective buyers must be convinced that because of their skills and resources, or the synergy with their existing businesses, they will be able to profit from the acquisition.

The reasons for divestiture vary. Often they arise because of partial mismatches between the acquired business and the parent corporation. Some of the mismatched parts cannot be integrated into the corporation's mainstream and thus must be spun off. A second reason is corporation financial needs. Sometimes the cash flow or financial stability of the corporation as a whole can be greatly improved if businesses with high market value can be sacrificed. A third, less frequent reason for divestiture is government antitrust action when a corporation is believed to monopolize or unfairly dominate a particular market.

12. Liquidation

When the grand strategy is that of liquidation, the business is typically sold in parts, only occasionally as a whole, but for its tangible asset value and not as a going concern. In

selection liquidation, owners and strategic managers of a business are admitting failure and recognize that this action is likely to result in great hardships to themselves and their employees. For these reasons, liquidation is usually seen as the least attractive of all grand strategies. However, as a long-term strategy, it minimizes the loss to all stakeholders of the firm. Usually faced with bankruptcy, the liquidating business tries to develop a planned and orderly system that will result in the greatest possible return and cash conversion as the business slowly relinquishes its market share.

3.5 DIFFERENCES BETWEEN FUNCTIONAL AND GRAND STRATEGIES

According to Perarce II and Robinson Jr., (1998), the differences between Functional and Grand Strategies are discussed as follows:

i) Time Horizon

The time horizon of a functional strategy is usually comparatively short. Functional strategies identify and coordinate short-term actions, usually undertaken in a year or less. A merchandise stores, for example, might implement a marketing strategy of increasing price discounts and sales bonuses in its appliance division to reduce excess appliance inventory over the next year. This functional strategy would be designed to achieve a short-range (annual) objective that ultimately contributes to the goal of the company's grand strategy in its retail division over the next five years.

This shorter time horizon is critical to successfully implementing a grand strategy for two reasons. First, it focuses functional managers' attention on what needs to be done now to make the grand strategy work. Second, the shorter time horizon allows functional managers to recognize current conditions and adjust to changing conditions in developing functional strategies.

ii) Specificity

A functional strategy is more specific than a grand strategy. Functional strategies guide functional actions taken in key parts of the company to implement grand strategy. The grand strategy provides general direction. Functional strategies give specific guidance to managers responsible for accomplishing annual objectives. Such strategies are meant to ensure that managers know how to meet annual objectives. It is not enough to identify a general grand strategy at the business level. There must also be strategies outlining what should be done in each functional area if the annual (and ultimately long-term) objectives of the company are to be achieved. Specific functional strategies improve the willingness (and ability) of operating managers to implement strategic decisions, particularly when those decisions represent major changes in the current strategy of the firm.

Specificity in functional strategies contributes to successful implementation for several reasons. First, it adds substance, completeness, and meaning to what a specific subunit of the business must do the existence of numerous functional strategies helps ensure that managers know what needs to be done and can focus on accomplishing results. Second, specific functional strategies clarify for top management's confidence in and sense of

control over the grand strategy. Third, specific functional strategies facilitate coordination between operating units within the company by clarifying areas of interdependence and potential conflict.

iii) Participation

Different people participate in strategy development at the functional and business levels. Business strategy is the responsibility of the general manager of a business unit. Development of functional strategy is typically delegated by the business-level manager to principal subordinates charged with running the operating areas of the business. The business manager must establish long-term objectives and a strategy that corporate management feels contributes to corporate-level goals. Key operating managers similarly establish annual objectives and operating strategies and objectives are approved through negotiation between corporate managers and business managers, the business manager typically ratifies the annual objectives and functional strategies developed by operating managers.

The involvement of operating managers in developing functional strategies contributes to successful implementation because understanding of what needs to be done to achieve annual objectives is thereby approved. And perhaps most critical, active involvement increases commitment to the strategies developed.

It is difficult to generalize about the development of strategies across functional areas. For example, key variables in marketing, finance and production are different. Furthermore, within each functional area, the importance of key variables varies across business situations. Thus, in the next several sections, we will not exhaustively treat each functional area but will attempt to indicate the key decision variables that should receive

attention in the functional strategies of typical areas.

4.0 CONCLUSION

We have discussed that there are some options that are available for strategic posture which a company can adopt towards ensuring strategic advantage in the competitive business environment. You have observed that such strategic options include functional and grand strategies as discussed in the course of the analysis of this unit. We have also discussed that there are differences between the functional strategies and the strategies.

5.0 SUMMARY

In this study unit, we have discussed the following topics:

· Nature of Functional Strategy

· Forms of Functional Strategy

· Grand strategy

· Types of Grand Strategy, and

· Differences between Functional and Grand Strategies

In the next study unit, the discussion is on strategic typologies.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss various types of grand strategy that can be adopted by a corporate entity.

Answer to Self-Assessment Exercise

1. The various aspects of finance functional strategy are as identified and discussed below.

i) Capital Acquisition:-Long-term financial strategies usually guide capital acquisition in the sense that priorities change infrequently over time.

ii) Capital Allocation:-Another financial strategy of major importance is capital allocation. Growth-oriented grand strategies generally require numerous major investments in facilities, projects, acquisitions, and/ or people.

iii) Re-allocation:-The retrenchment or stability often requires a financial strategy that focuses on the re-allocation of existing capital resources.

iv) Level of Capital Expenditure:-Capital allocation strategy frequently includes on additional dimension; level of capital expenditure delegated to operating managers.

v) Dividend Policy:-Dividend management is an integral part of a firm's internal financing. A strategy guiding dividend management must support the business's posture toward equity markets.

vi) Working Capital:-The working capital component of financial strategy is built on an accurate projection of cash flow and must provide cash management guidelines for conserving and rebuilding the cash balances required for daily operation.

2. The various aspects of the production strategy are as follows:

i) Facilities and Equipment:- The facilities and equipment component of production and operations management strategy involves decisions regarding plant location, size, equipment replacement, and facilities utilization.

ii) Purchasing Function:-The purchasing function is another area that should be addressed in the production and operations management strategy.

iii) Planning and Control of Production:-Functional strategies for the planning and control component of production and operations management provide guidelines for ongoing production operations.

iv) Pattern of Production and Operations:-production and operations management strategy must ensure that production/operations processes are efficiently geared to the nature of demand pattern.

v) Coordination of Production and operations Strategies:-Production and operations management strategies must be coordinated with marketing strategy if the firm is to succeed.

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· FURTHER READING

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UNIT 11: STRATEGIC TYPOLOGIES

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Nature of Strategic Analysis

3.2 Methods of Strategic Analysis at Corporate Level

3.2.1 Business Portfolio Approach

3.2.2 The BCG Matrix

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3.5 Corporate Strategic Choice Making

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5.0 Summary

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1.0 INTRODUCTION

In the previous unit, we discussed the essence of strategic posture in terms of the available types of strategy that firms can adopt to cope with the competitive nature of the external environment. Strategy therefore, is imperative as a weapon against competitive attacks from competitors in the industry. The pertinent consideration is to identify the various strategic weapons that can be adopted by firms in order to create strategic advantage or leverage over the competitors.

The knowledge and use of appropriate strategies is necessary for the business organisation so as to ensure that it remains competitive and enhance its chances of survival. Furthermore, such appropriate choice of strategic posture is necessary towards enhancing the fortunes of the business enterprise. Therefore, in this unit of the study material, you will be exposed to the discussion on strategic typologies available to a firm.

2.0 OBJECTIVES

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

· explain the nature of strategic analysis

· identifiy and explain various methods of strategic analysis at corporate level

· discuss business portfolio approach to strategic analysis

· analyzing the BCNG matrix

· discuss the GE Nine-Cell Grid

· explain the portfolio analysis

· discuss the corporate strategic choice making

· list and explain the behavioural considerations in strategic choice.

3.0 MAIN CONTENT

3.1 NATURE OF STRATEGIC ANALYSIS

According to Pearce II and Robinson Jr. (1998), the search for alternative strategies is both incremental and creative in that strategists begin by considering alternatives they are familiar with and think will work. These are usually incremental alterations of past strategies. Systematic comparison of external and internal factors is often used to search for alternative strategies. Creativity can be important in this internal/ external comparison.

The search for multiple alternatives depends on systematic comparison of the strengths, weaknesses, risks and trade-offs of each alternative. Several alternatives are generated and systematically evaluated in a comparative framework. The quality of the ultimate choice is thereby logically enhanced. Evaluation of alternative strategies is much the same whether new alternatives or the old strategy is considered. The focus is the future. Both old and new strategies must be subjected to the same systematic evaluation if a logical choice is to be made.

3.2 METHODS OF STRATEGIC ANALYSIS AT CORPORATE LEVEL

3.2.1 Business Portfolio Approach

According to Pearce II and Robinson Jr. (1998), a fundamental method of corporate strategic analysis in diversified, multi-industry companies is the business portfolio approach. For instance, a company with many business subsidiaries must decide how this portfolio of businesses should be managed to achieve corporate objectives. A corporate strategy is sought that sets the basic “strategic thrust” for each business unit in a manner consistent with the resource capabilities of the overall company.

Business portfolio approach involves examining each business as a separate entity and as a contributor to the corporation's total portfolio of businesses. The portfolio approach,

with analysis of corporate-level strategy distinct from business-level strategy, is adaptable to multiproduct market firms in which each product/market is "managed as a separate business or profit center, provided that the firm is not dominated by one product/ market. In dominant product/market companies and single product/market firms, corporate strategy considerations are not separate and distinct from business-level considerations.

In a broad sense, corporate strategy is concerned with generation and allocation of corporate resources. The firm's portfolios of businesses are, to varying degrees, the generators and recipients of these resources. The portfolio approach provides a simple, visual way of identifying and evaluating alternative strategies for the generation and allocation of corporate resources.

3.2.2 The BCG Matrix

A most widely used portfolio approaches to corporate strategic analysis is the BCG matrix. It is the growth/shared matrix pioneered by the Boston Consulting Group, hence, the name BCG matrix. According to Pearce II and Robinson Jr. (1998), this matrix facilitates corporate strategic analysis of likely generators and optimum users of corporate resources.

The use of the BCG matrix involves plotting each of the company's businesses according to market growth rate (percentage growth in sales) and relative competitive position (market share). Market growth rate is the projected rate of sales growth for the market to be served by a particular business. It is usually measured as the percentage increase in a market’s sales or unit volume over the two most recent years.

Market growth rate provides an indicator of the relative attractiveness of the markets served by each of the businesses in the corporation’s portfolio of businesses. Relative competitive position is usually expressed as the ratio of a business’s market share divided by the market share of the largest competitor in that market.

Relative competitive position thus provides a basis for comparing the relative strengths of the different businesses in the business portfolio in terms of the “strengths” of their position in each business’s respective markets.

Businesses are plotted on the matrix once their market growth rate and relative competitive positions have been computed. The figure below represents the BCG matrix for a company with nine businesses. Each circle represents a business unit. The size of the circle represents the proportion of corporate revenue generated by that business unit. This provides visualization of the current importance of each business as a revenue

generator.

Market growth rate is frequently separated into "high" and "low" areas by an arbitrary 10 percent growth line. Relative competitive position is usually divided at a relative market share between 1.0 and 1.5, so that a “high” matrix signifies market leadership. Once plotted, businesses in the BCG matrix will be in one of four cells with differing implications for their role in an overall corporate-level strategy (Pearce II and Robinson Jr., 1998).

1) High-Growth/High Competitive Position (The Stars)

The stars are in the high-growth/high competitive position, and as the BCG matrix labeled them, are businesses in rapidly growing markets with large market shares. Stars represent the best long-run opportunities (growth and profitability) in the firm's portfolio. These businesses require substantial investment to maintain (and expand) their dominant position in a growing market. This investment requirement is often in excess of what can be generated internally. Therefore, these businesses are short-term, priority consumers of corporate resources within the overall business portfolio.

2) Low-Growth/High Competitive Position (Cash Cows)

Cash cows as represented by low-growth/high competitive position are high-market-share businesses in maturing, low-growth markets or industries. Because of their strong position and minimal reinvestment requirements for growth these businesses often generate cash in excess of their needs. Therefore, these businesses are selectively "milked" as a source of corporate resources for deployment elsewhere (to stars and question marks).

Cash cows are yesterday's stars and remain the current foundation of their corporate portfolios. They provide the cash to pay corporate overhead and dividends and also provide debt capacity. They are managed to maintain their strong market share while efficiently generating excess resources for corporate-wide use.

3) Low-Growth/Low Competitive Position (The Dogs)

These occupy the low-growth/low competitive position. The BCG matrix calls businesses with low market share and low market growth the dogs in the firm's portfolio. These businesses are in saturated, mature markets with intense competition and low profit margins. Because of their weak position, these businesses are managed for short-term cash flow (through ruthless cost cutting, for example).to supplement corporate-level resource needs. According to the original BCG prescription, they are eventually divested or liquidated once the short-term harvesting is maximized.

Recent research has questioned the notion that all dogs should be destined for divestiture/ liquidation." The thrust of this research suggests that well-managed dogs turn out to be positive, highly reliable resource generators (although. still far less resource rich than

cows). The well-managed dogs, according to these studies, combine a narrow business focus, emphasis on high product quality and moderate prices, strenuous cost cutting and cost control, and limited advertising. While suggesting that well-managed dogs can be a useful component of a business portfolio, these studies warn that ineffective dogs should still be considered prime candidates for harvesting, divestiture, or liquidation.

4) High-Growth/Low Competitive Position (Question Marks)

These occupy the high-growth/low competitive position. Question mark businesses have considerable appeal because of their high growth rate yet present questionable profit potential because of low market share. Question mark businesses are known as cash guzzlers because their cash needs are high as a result of rapid growth, while their cash generation is low due to a small market share.

Due to the fact that market growth rate is high, a favorable market share (competitive position) should be easier to obtain than with the dogs in the portfolio. At the corporate level the concern is identifying the question marks that would most benefit from extra corporate resources resulting in increased market share and movement into the star group. When this long-run shift in a business's position from question mark to star is unlikely, the BCG matrix suggests divesting the business to reposition the resources more effectively m the remaining portfolio.

The BCG matrix is a valuable initial development in the portfolio approach to corporate-level strategy evaluation. The goal of the BCG approach is to determine corporate strategy that best provides a balanced portfolio of business units. BCG's ideal, balanced portfolio would have the largest sales in cash cows and stars, with only a few question marks and very few dogs (the latter with favorable cash flow).

The BCG matrix makes two major contributions to corporate strategic choice:

- the assignment of a specific role or mission for each business unit and the integration of multiple business units into a total corporate strategy.
- by focusing simultaneously on comparative growth/share positions, the underlying premise of corporate strategy becomes exploitation of competitive advantage.

While the BCG matrix is an important visual tool with which to analyze corporate (business portfolio) strategy, strategists must recognize six limitations:

i) Clearly defining a market is often difficult. As a result, accurately measuring share and growth rate can be a problem, This, in turn, creates the potential for distortion or manipulation;

ii) Dividing the matrix into four cells based on a high/low) classification scheme is somewhat simplistic. It does not recognize the markets with average growth rates or the businesses with average market shares.

iii) The relationship between market share and profitability underlying the BCG matrix-

the experience curve effect-varies across industries and market segments. In some industries a large market share creates major advantages in unit costs; in others it does not. Furthermore, some companies with low market share can generate superior profitability and cash flow with careful strategies based on differentiation, innovation, or market segmentation. Mercedes-Benz and Polaroid are two examples.

iv) The BCG matrix is not .particularly helpful in comparing relative investment opportunities across different business units in the corporate portfolio. For example, is every star better than a cash cow? How should one question mark be compared to another in terms of whether it should be built into a star or divested.

v)

Strategic evaluation of a set of businesses requires examination of more than relative market shares and market growth. The attractiveness of an industry may increase based on technological, seasonal, competitive, or other considerations as much as on growth rate. Likewise, the value of a business within a corporate portfolio is often linked to considerations other than market share.

vi) The four colourful classification in the BCG matrix somewhat oversimplify the types of businesses in a corporate portfolio. Likewise the simple strategic missions recommended by the BCG matrix often don’t reflect the diversity of options available as how earlier in discussing dogs.

SELF-ASSESSMENT EXERCISE 1

Identify and discuss the various forms of business that are represented in BCG Matrix.

Figure 12.1: BCG Growth/Share Matrix

Market Growth

Rate

HIGH

LOW

STARS QUESTION MARKS

CASH COWS DOGS

HIGH LOW

(Relative Market Share)

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.280.

3.2.3 GE Nine-Cell Grid

Pearce II and Robinson Jr. (1998) posit that the General Electric Nine-Cell Grid is popularized by an adaptation of the BCG approach that attempts to overcome some of the

matrix limitations mentioned above. First, the GE grid uses multiple factors to assess industry attractiveness and business strength, rather than the single measures (market share and market growth, respectively) employed in the BCG matrix.

Second, GE expanded the matrix from four cells to nine-replacing the high/low axes with high/medium/low low axes to make finer distinction between business portfolio positions. To use the GE planning grid, each of the company's business units is rated on multiple sets of strategic factors within each axis of the grid.

The business strength factors include the following:

· Market share,

· profit margin,

· ability to compete,

· customer and market knowledge,

· competitive position,

· technology, and

· management caliber

Such factors are the factors contributing to business strength.

The industry attractiveness factors include the following:

· Market growth,

· size and industry profitability,

· competition,

· seasonality and cyclical qualities,

· economies of scale,

· technology, and

· socia1/environmental/legal/human factors

The above factors are identified as enhancing industry attractiveness. A business's position within the planning grid is then calculated by "subjectively" quantifying the two dimensions of the grid.

To measure industry attractiveness, the strategist first selects those factors contributing to this aspect. The procedure then involves assigning each industry attractiveness factor a weight that reflects its perceived importance relative to the other attractiveness factors.

Favorable to unfavorable future conditions for those factors are forecast and rated based on some scale (a 0-to-l scale is illustrated below). A weighted composite score is then obtained for a business's overall industry attractiveness as show below.

Figure 12.2: Business Overall's Industry Attractiveness

Industry attractiveness factor Weight Rating * Score

Market size

Project market growth

Technological requirements

Concentration (a few large competitors)

Political and regulatory factors

20

35

15

30

Must be nonrestrictive

0.5

1.0

0.5

0.0

-

10.0

35.0

7.5

0.0

-

Total 100 -52.5

* High = 1.0; Medium = 0.5; Low = 0.0

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and

Implementation, Third Edition, p.288.

In order to assess business strength, a similar procedure is followed in selecting factors, assigning weights to them, and then rating the business on these dimensions, as illustrated below.

Figure 12.3: Business Rating Dimensions

Business strength factor Weight Rating * Score

Relative market share

Production

Capacity

Efficiency

Location

Technological capability

Marketing

Sales organisation

Promotion advantage

20

10

10

20

20

15

5

0.5

1.0

1.0

0.0

0.5

1.0

0.0

10

10

10

10

15

-

Total 100 -55

· High = 1.0; Medium = 0.5; Low = 0.0

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and

Implementation, Third Edition, p.289.

These examples illustrate how one business within a corporate portfolio might be

assessed using the GE planning grid. It is important to remember that what should be

included or excluded as a factor, as well as how it should be rated and weighted, is

primarily a matter of managerial judgement; and of such ratings is a high, medium, or

low classification in terms of both the projected strength of the business and the projected

attractiveness of the industry.

Three basic strategic approaches are suggested for any business in the corporate portfolio

depending on its location within the grid:

(1) invest to grow;

(2) invest selectively and manage for earnings, or

(3) harvest or divest for resources.

The resource allocation decisions remain quite similar to those in the BCG approach. Businesses classified as invest to grow would be treated like the stars in the BCG matrix. These businesses would be accorded resources to pursue growth-oriented strategies.

While the strategic recommendations generated by the GE planning grid are similar to those from the BCG matrix, the GE nine-cell grid improves on the BCG matrix in three fundamental ways. First, as research discussed earlier pointed out, the terminology associated with the GE grid is preferable because it is less offensive and more universally understood. Second, the multiple measures associated with each dimension of the GE grid tap more factors relevant to business strength and market attractiveness than simply market share and market growth. This provides (or even forces) broader assessment during the planning process; considerations of strategic importance both in strategy formulation and in strategy implementation are brought to light.

Finally, the nine-cell format obviously allows finer distinction between portfolio positions (most notably for "average" businesses) than .does the four-cell BCG format.

The portfolio approach is useful for examining alternative corporate-level strategies in multi-industry companies. Portfolio planning offers three potential benefits. First, it aids in generating good strategies by promoting competitive .analysis at the business level and substantive, comparative discussion across the company's business units, resulting in a strategy that capitalizes on the benefits of corporate diversity.

Second, it promotes selective resource allocation trade-off's by providing a visualization

of the corporate-wide strategic issues and a standardized, "neutral" basis for resource negotiation. Thus, power struggles within the company can be more objectively focused and channeled. Third, some users feel portfolio approaches help ill implementation of corporate strategy because increased focus and objectivity enhance commitment.

Its visual appeal notwithstanding, the portfolio approach is useful in evaluation because it allows a thorough and comparative analysis of market share, market growth, industry attractiveness, competitive position, and/or product/market evolution of each business unit. This portfolio evaluation must be conducted routinely and repeatedly. In this way, the effectiveness of resource generation and allocation decisions in achieving corporate objectives can be monitored, updated, and altered.

Once portfolio strategies have been identified, business strategies must be determined. Portfolio approaches help clarify and determine broad strategic intent. But this is not enough. Basic decisions involving allocation of corporate resources and the general manner in which a business unit will be managed (invest to grow, for example) do not complete the process of strategic analysis and choice. Each business unit must examine and select a specific grand strategy to guide its pursuit of long-term objectives.

Figure 12.4: GE Nine-Cell Matrix

Industry

Attractiveness

High

Medium

Low

Strong Average Weak

(Business Strength)

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.280.

3.3 GRAND STRATEGY SELECTION AT BUSINESS LEVEL

In the opinion of Pearce II and Robinson Jr. (1998), once business units in a multi-industry firm have been identified in terms of invest, hold, or harvest, each business unit must identify and evaluate its grand strategy options. If a unit has been identified as a resource generator within the corporate portfolio strategy, for example, several alternative grand strategies are available for fulfilling this role.

The pertinent question, according to What factors should a single business consider in selecting its grand strategy? What is the relative attractiveness of each of the 12 grand strategy options discussed in Unit 9 for a single business'? Three approaches to answering these questions are the focus of this section.

3.3.1 SWOT Analysis

SWOT is an acronym for the internal Strengths and Weaknesses of a business and environmental Opportunities and Threats facing that business. SWOT analysis is a systematic identification of these factors and the strategy that reflects the best match between them. It is based on the logic that an effective strategy maximizes a business's strengths and opportunities but at the same time minimizes its weaknesses and threats. This simple assumption, if accurately applied, has powerful implications for successfully choosing and designing an effective strategy.

Environmental/industry analysis provides the information to identify key opportunities and threats in the firm's environment. These can be defined as follows:

Opportunities. An opportunity is a major favourable situation in the firm's environment. Key trends represent one source of opportunity. Identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technological changes, and improved buyer or supplier relationships could represent opportunities for the firm.

Threats. A threat is a major unfavourable situation in the firm's environment. It is a key impediment to the firm's current and/or desired future position. The entrance of a new competitor, slow market growth, increased bargaining power of key buyers or suppliers, major technological change, and changing regulations could represent major threats to firm's future success.

Understanding the key opportunities and threats facing a firm helps managers to identify realistic options from which to choose an appropriate strategy. Such understanding clarifies the most effective niche for the firm.

The second fundamental focus in SWOT analysis is identifying key strengths and weaknesses based on examination of the company profile (Unit 8) Strengths and weaknesses can be defined as follows:

Strengths:-A strength is a resource, skill, or other advantage relative to competitors and the needs of markets of a firm serves or anticipates serving. A strength is a distinctive competence that gives the firm a comparative advantage in the marketplace. Financial resources, image, market leadership, and buyer/supplier relations are examples.

Weaknesses:-A weakness is a limitation or deficiency in resources, skills, and capabilities that seriously impedes effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image could be sources of weaknesses.

The understanding the key strengths and weaknesses of the firm further aids in narrowing the choice of alternatives and selecting a strategy. Distinct competence and critical

weakness are identified in relation to key determinants of success for different market segments; this provides a useful framework for making the best strategic choice.

SWOT analysis can be used in at least three ways in strategic choice decisions. The most common application provides a logical framework guiding systematic discussions of the business's situation, alternative strategies, and, ultimately, the choice of strategy. What one manager sees as an opportunity, another may see as a potential threat? Likewise, strength to one manager may be a weakness from another perspective. Different assessments may reflect underlying power considerations within the organisation, as well as differing factual perspectives. The key point is that systematic SWOT analysis ranges across all aspects of a firm's situation. As a result, it provides a dynamic and useful framework for choosing a strategy.

A second application of SWOT analysis is hereby analyzed. Key external opportunities and threats are systematically compared to internal strengths and weaknesses in a structured approach. The objective is identification of one of four distinct patterns in the match between the firm's internal and external situations. These patterns are represented by the four cells in Figure 12.5.

Cell 1 is the most favourable situation; the firm faces several environmental opportunities and has numerous strengths that encourage pursuit of such opportunities. This condition suggests growth-oriented strategies to exploit the favourable match. IBM's intensive market development strategy in the personal computer market was the result of a favourable match between strengths in reputation and resources and the opportunity for impressive market growth. Cell 4 is the least favourable situation, with the firm facing major environmental threats from a position of relative weakness. This condition clearly calls for strategies that reduce or redirect involvement in the products/markets examined

using SWOT analysis.

Figure 12.5: SWOT Analysis Diagram

Numerous

environmental

opportunities

Cell 3: Supports a

Cell 1: Supports an

Critical turnaround-oriented

aggressive strategy

Substantial

internal

internal

weaknesses Cell 4: Supports

Cell 2: Supports a

strengths

defensive strategy diversification strategy

Major

environmental

threats

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.294.

In Cell 2, a firm with key strengths faces an unfavourable environment. In this situation, strategies would use current strengths to build long-term opportunities in other products/ markets. A business in Cell 3 faces impressive market opportunity but is constrained by several internal weaknesses. Businesses in this predicament are like the question marks in the BCG matrix. The focus of strategy for such firms is eliminating internal weaknesses to more effective pursue market opportunity.

A major challenge in using SWOT analysis is in identifying the position the business is actually in. a business that faces major opportunities may likewise face some key threats in its environment. It may have numerous internal weaknesses but also have one or two major strengths relative to key competitors.

The value of SWOT analysis does not rest solely on careful placement of a firm in one particular cell. Rather, it lets the strategist visualize the overall position of the firm in terms of the product/market conditions for which a strategy is being considered.

Relevant question in SWOT analysis are thus: does the SWOT analysis suggest that the firm is dealing from a position of major strength? Or must the firm overcome numerous weaknesses in the match of external and internal conditions? In answering these

questions, SWOT analysis helps to resolve one fundamental concern in selecting a strategy in relation to the principal purpose of the grand strategy.

Another critical issue is this: is it to take advantage of a strong position or to overcome a weak one? SWOT analysis provides a means of answering this fundamental question. And this answer is input to one dimension in a second, more specific tool for selecting grand strategies: the grand strategy selection matrix, which is portrayed below by various considerations.

First Consideration:

The following SWOT matrix suggests the type of strategies that a company may adopt considering internalanalysis factors and external analysis factors.

Figure 12.6: SPACE

Numerous Opportunities

Critical

Substantial

Weaknesses

Strength

Turnaround Strategy Aggressive Strategy

Cell 3 Cell 1

Cell 4 Cell 2

Defensive strategy Diversification

Major Threats

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.296.

The analysis of the various cells as identified above are analysed as follows.

Cell 1

This is the most favourable situation. The firm confronts lots of opportunities and also possesses strength to pursue the opportunities.

This suggests that growth oriented strategies should be pursued in an aggressive manner

e.g. market development.

Cell 2

The firm confronts lots of threats but has lot of strengths. Develop strategies that would use current strengths to build long term opportunities in other products and markets. This calls for diversification of portfolio.

Cell 3

The firm faces lot of opportunities that has little or no strength to tap them. Business here is analogous to the question mark of the BCG matrix.

The firm should adopt strategies that will eliminate weaknesses and divert resources to pursue market opportunities. This call for turnaround strategy.

Cell 4

This is the least favourable situation. The firm faces major threats from a position of

relative weakness. This calls for strategies that would reduce or redirect involvement in the product/markets. This calls for contraction strategies.

On the whole, SWOT analysis helps a firm to select a grand strategy either to take advantage of a strong position or to overcome some weaknesses (Pearce et. al., 1988). This is the first guide to strategy selection.

Second Consideration:

This requires that the analysis adopts the above two objectives of SWOT concept as one variable along a continuum, and call it the principal purpose of a grand strategy, then we can add to it a second variable, which is the choice of an internal or external emphasis for growth and/or profitability.

A grand strategy selection matrix can be produced from the two new variables as shown below.

Figure 12.7: Grand Strategy Selection Matrix

Overcome Weaknesses

-Turnaround retrenchment

-Divesture

-

Liquidation

II

Internal Growth

III

(Redirecting resources

merger

wthin the firm)

-Concentration

Integration

-Market Development

Diversification

-Product Development

-Innovation

- Vertical Integration

-Conglomerate

Diversification

II

IV

External Growth

(Acquisition or

to gain resources)

-Horizontal

-Concentric

-Joint Venture

Maximise Strengths

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.296.

The analysis is indicative of the second guide to grand strategy selection, which is necessary for the understanding of the discussion.

Quadrant I

The firm here concerns itself with limited growth opportunities or having high risks. The business must adopt vertical integration to reduce risks by reducing uncertainty either about inputs or about access to customers.

Alternatively, the firm may choose conglomerate diversification to provide a profitable alternative for investment without diverting management attention from the original business.

Quadrant II

The firm here takes a conservative approach to overcome weaknesses. The firm chooses to redirect resources internally. The company adopts retrenchment, divestment or liquidation in successive stages.

Quadrant III

A firm that wants to maximize its strengths by redirecting resources internally has four options to select from. They are concentration, market development, product development and innovation.

Quadrant IV

A firm that wants to build its strength through external emphasis on grand strategy may select any of horizontal integration, concentric diversification and joint venture.

Third Consideration:

A third guide to selecting grand strategy is furnished by Thompson and Strickland (1987) modifications of the BCG Portfolio matrix.

They viewed market growth as either rapid or slow; they also viewed company's competitive position as either strong or weak.

From these two variables of market growth and competitive position, they were able to generate four clusters of strategies that are adoptable.

The figure below shows the model of grand strategy cluster for illustration purpose:

Figure 12.8: Model of Grand Strategy Cluster

Rapid market growth

1. Concentration

1. Reformation of

concentration

2. Vertical Integration

2. Horizontal Integration

3. Concentric diversification

3. Divestiture

4. Liquidation

I

II

Strong Competitive

Weak Competitive

IV

III

Position

Position

1. Concentric diversification

1. Turnaround or

retrenchment

2. Conglomerate diversification

2. Concentric diversification

3. Joint Ventures

3. Conglomerate

diversification

4. Divestiture

5. Liquidation

Slow market growth

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.299.

The various clusters involved in the analysis are as identified and explained below.

Quadrant I

Firms here have strong competitive position in a rapidly growing market. Firms here can select continued concentration, backward or forward integration and concentric

diversification to diminish risks associated with narrow product of service line.

Quadrant II

Firms here have very weak positions in rapidly growing market. Firmst here must consider how to maintain their present approach to marketplace. They may reformulate concentration strategy adopt horizontal integration, divestiture or liquidation.

Quadrant III

Firms here have weak positions in a slow growth-market. It must give considerations to the selection of any of contraction strategies (retrenchment, divesture or liquidation). It may also consider concentric or conglomerate diversification.

Quadrant IV

Firms in this category have strong position in a slow-growth market. It must give consideration to either\concentric or conglomerate diversification, or joint ventures.

The above considerations are very useful in the SWOT analysis regarding its relevance in analyzing business environment before decisions on strategic choice are taken.

3.3.2 Grand Strategy Selection Matrix

A second valuable guide to the selection of a promising grand strategy is the matrix shown in figure below. The basic idea underlying the matrix is that two variables are of central concern in the selection process: (1) the principal purpose of the grand strategy, and (2) the choice of internal or external emphasis for growth and/or profitability.

In the 1950's and 1960's, planners were advised to follow certain rules or prescriptions in

their choice of strategies. Most experts now agree that strategy selection is better guided by the unique set of conditions that exist for the planning period and by company strengths and weaknesses. It is valuable to note, however, that even early approaches to strategy selection were based on matching a concern for internal versus external growth with principal desire to either overcome weakness or maximize strength.

The same concerns led to the development of the grand strategy selection matrix. A firm in such situation often views itself as overly committed to a particular business with limited growth opportunities or involving high risks because the company has “all its eggs in one basket”. One reasonable solution is vertical integration, which enables the firm to reduce risk by reducing uncertainty either about inputs or about access to customers.

In alternative terms, a firm may choose conglomerate diversification, which provides a profitable alternative for investment without diverting management attention from the original business. Nevertheless, the external orientation to overcoming weaknesses usually results in the most costly grand strategies. The decision to acquire a second business demands both large initial time investments and sizeable financial resources.

Thus, strategic managers considering these approaches must guard against exchanging one set of weaknesses for another.

A more conservative approach to overcoming weakness is found in the analysis. Firms often choose to redirect resources from one business activity to another within the company. While this approach does not reduce the company's commitment to its basic mission, it does reward success and enables further development of proven competitive advantages.

The least disruptive of the strategies is retrenchment, the pruning of a current business's activities. If weaknesses arose from inefficiencies, retrenchment can actually serve as a turnaround strategy, meaning the business gains new strength by streamlining its operations and eliminating waste. When the weaknesses are considered in operations wastes eliminated.

Nevertheless, when the weaknesses are a major obstruction to success in the industry, and when the costs of overcoming the weaknesses are unaffordable or are not justified by a cost-benefit analysis, then the business must be considered. Divestiture offers the best possibility for recouping a company's investment, but even liquidation can be an attractive option when the alternatives are an unwarranted rain on organisational resources or bankruptcy.

A common business cliché holds that a company should build from strength. The premise is that growth and survival depend on an ability to capture a market share that is large enough for essential economies of scale. If a firm believes profitability will derive from this approach and prefers an internal emphasis for maximizing strengths, four alternative grand strategies hold considerable promise.

The most common approach is concentration on the business, that is, market penetration. The business that selects this strategy is strongly committed to its current products and markets. It will strive to solidify its position by reinvesting resources to fortify its strength.

Two alternative approaches are market and product development. With either of these strategies the business attempts to broaden its operations. Market development is chosen if strategic managers feel that existing products would be well received by new customer groups. Product development is preferred when existing customers are believed to have an interest in products related to the firm's current lines.

This approach may also be based on special technological or other competitive advantages. A final alternative for firms is innovation. When the business's strengths are in creative product design or unique production technologies, sales can be stimulated by accelerating perceived obsolescence. This is the principle underlying an innovative grand strategy.

Maximizing a business's strength by aggressively expanding its basis of operations usually requires an external emphasis in selecting a grand strategy. Preferred options here are shown in Quadrant IV. Horizontal integration is attractive because it enables a firm to quickly increase output capability. The skills of the original business's managers are often critical in converting new facilities into profitable contributors to the parent company; this expands a fundamental competitive advantage of the firm – management.

Concentric diversification is a good second choice for similar reasons. Because the original and newly acquired businesses are related, the distinctive competencies of the diversifying firm are likely to facilitate a smooth, synergistic, and profitable expansion.

The final option for increasing resource capability through external emphasis is a joint venture. This alterative allows a business to extend its strengths into competitive arenas that it would be hesitant to enter alone. A partner's production, technological, financial, or marketing capabilities can significantly reduce financial investment and increase the profitability of success to the point that formidable ventures become attractive growth alternatives.

3.3.3 Model of Grand Strategy Clusters

A third guide to selecting a promising grand strategy involves Thompson and Strickland's modifications of the BCG growth share portfolio matrix. A business's situation is defined in terms of the growth rate of the general market and the company's competitive position in that market. When these factors are considered simultaneously, a business can be broadly categorized in one of four quadrants:

(I) strong competitive position in a rapidly growing market;

(II) weak position in a rapidly growing market;

(III) weak position in a slow-growth market; or

(IV) strong position in a slow-growth market.

Each of these quadrants suggests a set of promising possibilities for selection of a grand strategy.

One obvious grand strategy for firms in an excellent strategic position is continued concentration on their current business as it is presently defined. Because consumers seem satisfied with the firm's current strategy, it would be dangerous to shift notably from the established competitive advantages. However, if the business has resources that exceed the demands of a concentration strategy, it should consider vertical integration. Either forward or backward integration helps a business protect its profit margins and market share by ensuring better access to either consumers or material inputs. Finally, a Quadrant I firm might be wise to consider concentric diversification to diminish the risks associated with a narrow product or service line; with this strategy, heavy investment in the company's basic area of proven ability continues.

Firms in Quadrant II must seriously evaluate maintaining their present approach to the marketplace. If a firm has completed long enough to accurately assess the merits of its current grand strategy, it must determine:

(1) the reasons its approach is ineffectual, and

(2) whether the company has the capability to compete effectively.

Depending on the answers to these questions, the firm should choose one of four grand strategy options: formulation or reformulation of a concentration strategy, horizontal integration, or liquidation.

In a rapidly growing market, even a small or relatively weak business is often able to find a profitable niche. Thus, formulation or reformulation of a concentration strategy is usually the first option to consider. However, if the firm lacks either a critical competitive element or sufficient economies of scale to achieve competitive cost efficiencies, then a grand strategy that directs company efforts toward horizontal integration is often a desirable alternative. A final pair of options involves deciding to stop competing in the market or product area. A multiproduct firm may conclude that the goals of its mission are most likely to be achieved if this one business is dropped through divestiture. Not only does this grand strategy eliminate a drain on resources, it may also provide additional funds to promote other business activities. In practical terms this means that the business cannot be sold as a going concern and is at best worth only the value of its tangible assets. The decision to liquidate is an undeniable admission of failure by a firm's strategic management and is thus often delayed – to the further detriment of the company.

Strategic managers tend to resist divestiture because it is likely to jeopardize their control of the firm and perhaps even their jobs. By the time the desirability of divestiture is

acknowledged, the business has often deteriorated to the point of ailing to attract potential buyers as a business. The consequences of such delays are financially disastrous for the owners of the firm, because the value of a going concern is many times greater than simple asset value.

Strategic managers who have a business in the position of Quadrant III and feel that continued slow market growth and a relatively weak competitive position are going to continue will usually attempt to decrease their resource commitment to that business. Minimal withdrawal is accomplished through retrenchment; this strategy has the side benefits of making resources available for other investments and of motivating employees to increase their operating efficiency. An alternative strategy is to divert resources for expansion through investment in other businesses. This approach typically involves either concentric or conglomerate diversification, because the firm usually wants to enter more promising arenas of competition than forms of integration or development would allow. The final options for Quadrant III businesses are divestiture, if an optimistic buyer can be found, and liquidation.

Quadrant IV businesses (strong competitive position in a slow-growth market) have a basis of strength from which to diversify into more promising growth areas. These businesses have characteristically high cash flow levels and limited internal growth needs. Thus, they are in an excellent position for concentric diversification into ventures that utilize their proven business acumen. A second choice is conglomerate diversification, which spreads investment risk and does not divert managerial attention from the present business. The final option is joint ventures a domestic business can gain competitive advantages in promising new fields while exposing itself to limited risks.

3.4 STRATEGIC PORTFOLIO ANALYSIS

There are a number of ways through which strategic alternatives can be evaluated for selection. Some of the available techniques for assessing the choice of a company are identified and discussed below.

1. Experience Curve

The experience curve helps the strategist to gain insight into how to apply a portfolio approach. As opined by Pearce II and Robinson Jr. (1998), in this concept, unit costs in many manufacturing industries and in some service industries, decline with experience or a particular company's cumulative volume of production. The experience curve is broader than the learning curve which refers to the efficiency achieved over a period of time by workers through much repetition.

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

The decline in costs creates a barrier to entry because new competitors with no

“experience” face higher costs than established ones (particularly, the producer with the largest market share) and also have difficulties catching up with the entrenched competitors.

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

(i) Improving product quality and adding new features models;

(ii) Entering new market segment (market development);

(iii) Using new distribution channels to gain additional product exposure;

(iv) Shifting promotion strategy form building product awareness to building product acceptance and purchase;

(v) Lowering product prices at the right time to attract the next layer of price sensitive buyers into the market.

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

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

2. Product Life Cycle

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

The product life cycle can be used to diagnose the stages of product or business Portfolio with a view to prescribing necessary strategic choice. For instance, businesses or products at the introduction or growth stages may require expansionary growth strategies, products or businesses at maturity stages may be used as sources of cash for investment in other

businesses which need resources, and retrenchment strategies may be selected for businesses or products at decline stage.

Hence, the product life cycle stage may reveal relevant strategic choice for the firm to make in terms of the necessary strategy to adopt for moving the company forward.

3. Trade Cycle Analysis

Just like the product life cycle analysis, a trade cycle for an organisation or a country may also be divided into boom, recovery, recession and depression. A business within the boom or recovery stages may suggest the use of expansionary growth strategies, while business at depression stage may indicate the use of retrenchment strategies.

Furthermore, the businesses or products at recessionary stage may warrant the choice of competitive strategies based on focus, differentiation or overall cost leadership to outwit rivals.

4. Directional Policy Matrix

According to Hussey (1978), the directional policy matrix as developed by Shell Chemicals of U.K., uses two variables of “business sector prospects” along the abscissa and “Company’s competitive abilities” along the ordinate. Based on factors such as market growth, market quality, market supply and other factors, business sector prospects could be rated on three point semantic scales as unattractive, average or attractive.

According to Rowe et al (1982), company’s competitive abilities based on capability analysis could also be rated on a three point semantic scales as weak, average or strong. This engenders a 3 x 3 matrix which can be used to prescribe baseline strategies

An extension of directional policy matrix into “risk matrix” furnishes an alternative way to analyse environmental risk. In a risk matrix, environmental risk is taken as a third variable and is divided into four categories from low risk to very high risk. Each risk position is determined on the basis of environmental threats and probability of their occurrence.

Figure 12.9: The Directional Policy Matrix (DPM)

Company’s competitive abilities

Weak

Average

Strong

Divestment Imitation/Phased

withdrawal

Phased withdrawal

/cash generation

Phased withdrawal/

Merger

Maintenance of position/

market Penetration

Expansion/Product

differentiation

Diversification/cash

generation

Growth/Market

segmentation

Market

Leadership

Unattractive Average

Attractive

(Business sector prospects)

Source: Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p. 296.

5. Strategic Position and Action Evaluation

According to Rowe et al (1982), strategic position and action evaluation is a technique that considers the firm's strategic position in tandem with the industry's strategic position. The firm's strategic position is viewed from the perspectives of both financial strength (e.g. leverage, return on investment, liquidity etc) and competitive advantage

(e.g. product quality, market share etc).

The industry's strategic position is also viewed from the perspectives of both industry's strength (e.g. growth, profit potential etc) and environmental stability (e.g. technological changes, competitive pressures etc). When these two dimensions of two variables are combined, it will suggest or pinpoint likely strategic choice such as aggressive, defensive, conservative and competitive strategies based on simple rating system of the four variables put together (see figure 12.10).

Figure 12.10: Strategic Position and Action Evaluation

Firm's competitive

Industry's

Advantage

Strength

Firm's financial StrengthConservative Aggressive

Defensive Competitive

Environmental Stability

Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p. 307.

The suggested strategies, in this consideration, for each of the corners are:

(i) Aggressive Posture

Firms with this outlook may select either concentric diversification or vertical integration strategies.

(ii)

Defensive Posture

Firms in this situation will select from divestment, liquidation or retrenchment strategies, all contraction strategies.

(iii)

Conservative Posture

Firms in this situation will select from concentration (stability) and conglomerate diversification strategies.

(iv)

Competitive Posture

Firms having this posture will select from any of concentric merger, conglomerate merger or turnaround strategies.

It is instructive to note that the conservative posture may also suggest a no-growth strategy. Two related forms of no-growth strategies are redeployment and redeployment with concentration. Redeployment involves selling existing assets while purchasing and deploying assets in a different area such that the total assets of the firm remains essentially constant.

The strategy of redeployment with concentration involves redeploying existing assets, but in manner that makes one existing business unit a greater percentage of total corporate assets without increasing the total assets of the firm.

6. Hofer’s Product-Market Evolution Matrix

Hofer and Schendel (1978) offer a 15-cell life cycle Portfolio matrix. The matrix utilises two variables.

- The stage of the development of the product or market. This factor is divided into five stages include: development, growth, competitive shake-out, maturity-saturation and decline – along the ordinate.
- The competitive position of different business units in a firm's corporate Portfolio. This factor is also divided into strong, average and weak competitive positions along the abscissa.

Appropriately, in any of the 15 cells, circles are used to represent the sizes of the industries involved while pie wedges or segments are used within the circle to denote business market share.

Business could therefore be represented according to their industrial size and market shares. As can be shown in the figure below, business 'A' represents a product/market with high growth potential and deserves expansion strategies.

Business 'B' has a strong competitive position but has a product that is entering the shake out stage; it requires a cautious expansion strategy. Business 'C' is a potential looser and probably a dog while 'D' represents a business which can be used for cash generation that could be siphoned to A and B. Business 'E' is a looser and may be considered for divestment.

In this way, the product-market evolution matrix tells stories about the distribution of the firm's businesses across the stages of industry evolution. What is required is analytical accuracy and completeness in describing the firm's current Portfolio position. The ultimate purpose, of course, is to discern how to management corporate Portfolio and get the performance from the allocation of corporate resources.

Figure 12.11: Product/Market Evolution Matrix

Product Market

Evolution Stage

Strong Average Weak

Development

Growth

Shake out

Maturity-

Saturation

Decline

A

B

C

D

E

(Competitive Position)

Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p. 280.

3.5 CORPORATE STRATEGIC CHOICE MAKING

The corporate strategic making is a crucial step in strategic management. According to Glueck et. al. (1984), strategic choice is the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise objectives. In the process of analyzing and making strategic choice, as opined by Glueck et. al. (1984), some steps are to be followed. Such steps are as identified and discussed as follows:

1. Focusing Alternatives

The alternative strategies generated must be ranked according to their scale of preference. Alternatives that are high on this scale can be focused and targeted for proper analysis. The alternative focused on or under consideration must be those that are germane to realizing the strategic objectives of the organisation. The alternatives must be limited to a reasonable number for effective consideration and proper management. Crucial factors to consider include:

· the dimensions of the company mission,

· the resources available to the company,

· company’s distinctive competence,

· the history of the organization,

· the attributes of the environment in which the business is operating,

· analysis of current performance.

All the above factors would suggest the ideal strategic alternatives to accept for consideration.

2. Consider Selection Factors

The alternative strategies generated must be assessed in terms of certain criteria. Criteria for assessing them must be gathered. These criteria are called selection factors.

Selection factors may be objective (quantitative) or subjective (behavioural or qualitative). Objective factors which make use of hard data, are based on rationality (optimization) and; are normative or prescriptive.

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

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

For instance, the selection of a plant site could also be on the basis of factors such as cost, profit, proximity to sources of raw materials, power, social facilities, human resources and market. Other factors are preference of owners and top management, patriotism, politics, and communal tolerance, among others.

Basically, therefore, the selection of a particular strategy is not usually based on exclusive objective and subjective factors. It is rather always based on consideration of both the objective as well as subjective factors.

3. Evaluation of Strategic Alternatives

Evaluation requires the appraisal or analysis of selected or available factors. This involves the use of mathematical or non-mathematical tools based on the strategists environment which may be one of certainty, risk or uncertainty.

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

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

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

4. Making Strategic Choice

The next step after careful evaluation of strategic alternatives is the strategic choice making. This requires that one or two or more than two strategic alternatives may be selected for adoption, implementation, modification or continuation. The act of strategic choice is a simplex step that is not usually simple. In the case of the evaluation step, for instance, it is also based on the skill and competence of the strategist.

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

3.6 BEHAVIOURAL CONSIDERATIONS IN STRATEGIC CHOICE

The art of strategic choice is a decision-making process. From above analysis, at the corporate and the business levels, such decisions determine the future strategy of the firm.

Strategic choice is a decision to adopt one of the alternatives scrutinized. An identified alternative choice must clearly be a superior strategy or the current strategy can be strictly adhered to if it will clearly meet future company objectives. Such simple approach is the exception, because making such decision can be difficult. Strategic decision makers, after comprehensive strategic examination, are often confronted with several viable alternatives rather than the luxury of a clear-cut, obvious choice. Under these circumstances, several factors influence the strategic choice decision. Some of the more important are discussed below.

i) Role of Past Strategy

A review of past strategy is the point at which the process of strategic choice begins. As such, past strategy exerts considerable influence on the final strategic choice.

Current strategists are often the architects of past strategies. Because they have invested substantial time, resources, and interest in these strategies, the strategists would logically be more comfortable with a choice that closely parallels past strategy or represents only incremental alterations.

This familiarity and commitment to past strategy permeate the organisation. Thus, lower-level management reinforces the top manager’s inclination toward continuity with past strategy during the choice process. In one study, during the planning process, lower-level

managers suggested strategic choices that were consistent with current strategy and likely to be accepted while withholding suggestions with less probability of approval.

Research by Henry Mintzberg suggests that the past strategy strongly influences current strategic choice. The older and more successful a strategy has been, the harder it is to replace. Similarly, a strategy, once initiated, is very difficult to change because organisational momentum keeps it going.

Mintzberg's work and research by Barry Staw found that even as the strategy begins to fail due to changing conditions, strategists often increase their commitment to the past strategy. Firms may thus replace key executives when performance has been inadequate for an extended period because replacing top executive lessens the influence of unsuccessful past strategy on future strategic choice.

ii) Degree of the Firm's External Dependence

A comprehensive strategy is meant to effectively guide a firm's performance in the larger external environment. Owners, suppliers, customers, government, competitors, and unions are a few of the elements in a firm's external environment. A major constraint on strategic choice is the power of environmental elements in supporting this decision. If a

firm is highly dependent on one or more environmental factors, its strategic alternatives and ultimate choice must accommodate this dependence. The greater a firm's external dependence, the lower its range and flexibility in strategic choice.

iii) Attitude toward Risk

Attitudes toward risk exert considerable influence on strategic choice. These attitudes may vary from eager risk taking to strong aversion to risk, and they influence the range of available strategic choices. Where attitudes favour risk, the range and diversity of strategic choices expand. High-risk strategies are acceptable and desirable. Where management is risk averse, the diversity of choices is limited, and risky alternatives are eliminated before strategic choices are made. Risk-oriented managers prefer offensive, opportunistic strategies.

Risk-averse managers prefer defensive, safe strategies. Past strategy is quite influential in the strategic choices made by risk-averse managers, but it is less of a factor for risk-oriented managers. Figure 12.12 illustrates the relationship between attitudes toward risk and strategic choice.

Industrial volatility influences managerial propensity toward risk. In highly volatile industries, top managers must absorb and operate with greater amounts of risk than their counterparts in the stable industries. Therefore, managers in volatile industries consider a broader, more diverse range of strategies in the strategic choice process.

Product/market evolution is another determinant of managerial risk propensity. If a firm is in the early stages of product/market evolution, it must operate with considerably greater risk than a firm later in the product/market evolution cycle.

Figure 12.12: Managerial risk propensity and strategic choices

Risk Averse Risk Prone

Decrease choices Expand choices

Defensive strategies Offensive strategies

Stability Growth

Incremental Innovation

Minimize company weaknesses Maximize company strengths

Strong ties to past strategy Few ties to past strategy

Stable industry Volatile industry

Maturing product/market evolution Early product/market evolution

Pearce II, J. A. and Robinson Jr., R. B. (1998). Strategic Management: Strategy Formulation and Implementation, Third Edition, p.305.

In making a strategic choice, risk-oriented managers lean toward opportunistic strategies with higher payoffs. They are drawn to offensive strategies based on innovation, company strengths, and operating potential. Risk-averse managers lean toward safe, conservative strategies with reasonable, highly probable returns. The latter are drawn to defensive strategies to minimize a firm's weaknesses and external threats, as well as the uncertainty associated with innovation-based strategies.

A recent study examined the relationship between the willingness of strategic business unit (SBU) managers to take risks and SBU performance. The study found a link between risk taking and strategic choice. Looking first at SBUs assigned build or star strategic missions within a corporate portfolio, researchers found that the general managers of higher-performing SBUs had greater willingness to take risks than did their counterparts in lower-performing build or star SBUs. Looking next at SBUs assigned harvest strategies, successful units had general managers less willing to take risks than general managers in lower-performing harvest SBUs.

This study supports the idea that managers make different decisions depending on their willingness to take risks. Perhaps most important, the study suggests that being either risk prone or risk averse is not inherently good or bad. Rather, SBU performance is more effective when the risk orientation of the general manager is consistent with the SBU's strategic mission (build or harvest). While this is only one study and not a final determination of the influence of risk orientation on strategic choice, it helps illustrate the importance of risk orientation on the process of making and implementing strategic decisions.

iv) Internal Political Considerations

Power/political factors influence strategic choice. The existence and use of power to further individual or group interests is common organisational life. An early study by Ross Stagner found that strategic decisions in business organisations were frequently settled by power rather than by analytical maximization procedures.

A major source of power in most organisations is the chief executive officer (CEO). In smaller enterprises, the CEO is consistently the dominant force in strategic choice, and this is also often true in large firms, particularly those with a strong or dominant CEO. When the CEO begins to favour a particular choice, it is often unanimously selected.

Cyert and March identified another power source that influences strategic choice, particularly in larger firms. They called this the coalition phenomenon. In large organisations, subunits and individuals (particularly key managers) have reason to support some alternatives and oppose others. Mutual interest often draws certain groups together in coalitions to enhance their position on major strategic issues. These coalitions, particularly the more powerful ones (often called dominant coalitions), exert considerable influence in the strategic choice process. Numerous studies confirm the use of power and coalitions on a frequent basis in strategic decision making. Interestingly,

one study found that managers occasionally try to hide the fact that they prefer judgemental/political bargaining over systematic analysis and that when politics was a factor, it slowed decision-making.

Each phase in the process of strategic choice presents a real opportunity for political action intended to influence the outcome. The challenge to strategists is in recognizing and managing this political influence. If such processes are not carefully overseen, various managers can bias the content of strategic decisions in the direction of their own interests. For example, selecting the criteria used to compare alternative strategies or collecting and appraising information regarding these criteria may be particularly susceptible to political influence. This must be recognized and, where critical, “managed” to avoid dysfunctional political bias. Reliance on different sources for obtaining and appraising information might be effective in this context.

Rather than simply being denoted as “bad” or inefficient, organisational politics must be viewed as an inevitable dimension of organisational decision making that must be accommodated in strategic management. Some authors argue that politics are a key ingredient in the “glue” that holds an organisation together. Formal and informal negotiating and bargaining between individuals, subunits, and coalitions are indispensable mechanisms for organisational coordination. Recognizing and accommodating this in choosing future strategy will result in greater commitment and more realistic strategy. The costs are likely to be increased time spent on decision making and incremental (as opposed to drastic) change.

v) Timing Considerations

The time element can have considerable influence on strategic choice. A final aspect of

the time dimension involves the lead time required for alternative choices and the time horizon management is contemplating. Management's primary attention may be on the short or long run, depending on current circumstances. Logically, strategic choice will be strongly influenced by the match between management's current time horizon and the lead time (or payoff time) associated with different choices.

vi) Competitive Reaction

In weighing strategic choices, top management frequently incorporates perceptions of likely competitor reactions to different options. For example, if management chooses an aggressive strategy that directly challenges a key competitor, that competitor can be expected to mount an aggressive counterstrategy. Management of the initiating firm must consider such reactions, the capacity of the competitor to react, and the probable impact on the chosen strategy's success.

4.0 CONCLUSION

We have discussed in this unit that strategic analysis involves the search for alternative strategies, and it calls for systematic comparison of external and internal factors. You have observed that there are many and varied methods of assessing and making choie of strategies by strategists in organizations. Such methods, from our discussion in this unit, include BCG matrix, GE Nine-Cell Matrix, and Strategic Portfolio Analysis, among several others. Lastly, we also discussed that strategic choice making by corporate entities involves consideration of many variables and such managerial decisions are affected by behavioral issues.

5.0 SUMMARY

The topics discussed in this study unit include the following:

· Nature of Strategic Analysis;

· Methods of Strategic Analysis at Corporate Level

· Business Portfolio Approach;

· The BCG Matrix;

· GE Nine-Cell Grid;

· Strategic Portfolio Analysis;

· Corporate Strategic Choice Making; and

· Behavioural Considerations in Strategic Choice.

In the next study unit, the discussion is on organizational structure.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss various ways through which strategic alternatives can be evaluated for selection by a firm.

Answer to Self-Assessment Exercise

1. The various forms business that are represented in BCG Matrix are as identified and discussed below:

i) The Star

The stars are in the high-growth/high competitive position, and as the BCG matrix labeled them, are businesses in rapidly growing markets with large market shares. Stars represent the best long-run opportunities (growth and profitability) in the firm's portfolio. These businesses require substantial investment to maintain (and expand) their dominant position in a growing market. This investment requirement is often in excess of what can be generated internally. Therefore, these businesses are short-term, priority consumers of corporate resources within the overall business portfolio.

ii) Cash Cow

Cash cows as represented by low-growth/high competitive position are high-market-share businesses in maturing, low-growth markets or industries. Because of their strong

position and minimal reinvestment requirements for growth these businesses often generate cash in excess of their needs. Therefore, these businesses are selectively "milked" as a source of corporate resources for deployment elsewhere (to stars and question marks).

Cash cows are yesterday's stars and remain the current foundation of their corporate portfolios. They provide the cash to pay corporate overhead and dividends and also provide debt capacity. They are managed to maintain their strong market share while efficiently generating excess resources for corporate-wide use.

iii) The Dog

These occupy the low-growth/low competitive position. The BCG matrix calls businesses with low market share and low market growth the dogs in the firm's portfolio. These businesses are in saturated, mature markets with intense competition and low profit margins. Because of their weak position, these businesses are managed for short-term cash flow (through ruthless cost cutting, for example).to supplement corporate-level resource needs. According to the original BCG prescription, they are eventually divested or liquidated once the short-term harvesting is maximized.

Recent research has questioned the notion that all dogs should be destined for divestiture/ liquidation." The thrust of this research suggests that well-managed dogs turn out to be positive, highly reliable resource generators (although. still far less resource rich than cows). The well-managed dogs, according to these studies, combine a narrow business focus, emphasis on high product quality and moderate prices, strenuous cost cutting and cost control, and limited advertising. While suggesting that well-managed dogs can be a useful component of a business portfolio, these studies warn that ineffective dogs should

still be considered prime candidates for harvesting, divestiture, or liquidation.

iv) Question Mark

These occupy the high-growth/low competitive position. Question mark businesses have considerable appeal because of their high growth rate yet present questionable profit potential because of low market share. Question mark businesses are known as cash guzzlers because their cash needs are high as a result of rapid growth, while their cash generation is low due to a small market share.

2. The various techniques involved in strategic portfolio for assessing the choice of strategic alternatives are identified and discussed below:

i. Experience Curve

The experience curve helps the strategist to gain insight into how to apply a portfolio approach. As opined by Pearce II and Robinson Jr. (1998), in this concept, unit costs in many manufacturing industries and in some service industries, decline with experience or a particular company's cumulative volume of production. The experience curve is broader than the learning curve which refers to the efficiency achieved over a period of time by workers through much repetition.

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

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

ii. Product Life Cycle

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

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

Hence, the product life cycle stage may reveal relevant strategic choice for the firm to make in terms of the necessary strategy to adopt for moving the company forward.

iii. Trade Cycle Analysis

Just like the product life cycle analysis, a trade cycle for an organisation or a country may also be divided into boom, recovery, recession and depression. A business within the boom or recovery stages may suggest the use of expansionary growth strategies, while business at depression stage may indicate the use of retrenchment strategies.

Furthermore, the businesses or products at recessionary stage may warrant the choice of competitive strategies based on focus, differentiation or overall cost leadership to outwit rivals.

iv. Directional Policy Matrix

According to Hussey (1978), the directional policy matrix as developed by Shell Chemicals of U.K., uses two variables of “business sector prospects” along the abscissa and “Company’s competitive abilities” along the ordinate. Based on factors such as market growth, market quality, market supply and other factors, business sector prospects could be rated on three point semantic scales as unattractive, average or attractive.

According to Rowe et al (1982), company’s competitive abilities based on capability analysis could also be rated on a three point semantic scales as weak, average or strong. This engenders a 3 x 3 matrix which can be used to prescribe baseline strategies

v. Strategic Position and Action Evaluation

According to Rowe et al (1982), strategic position and action evaluation is a technique that considers the firm's strategic position in tandem with the industry's strategic position. The firm's strategic position is viewed from the perspectives of both financial strength (e.g. leverage, return on investment, liquidity etc) and competitive advantage

(e.g. product quality, market share etc).

The industry's strategic position is also viewed from the perspectives of both industry's strength (e.g. growth, profit potential etc) and environmental stability (e.g. technological changes, competitive pressures etc). When these two dimensions of two variables are combined, it will suggest or pinpoint likely strategic choice such as aggressive, defensive, conservative and competitive strategies based on simple rating system of the four variables put together.

vi. Hofer's Product-Market Evolution Matrix

Hofer and Schendel (1978) offer a 15-cell life cycle Portfolio matrix. The matrix utilises two variables.

The stage of the development of the product or market. This factor is divided into five stages include: development, growth, competitive shake-out, maturity-saturation and decline – along the ordinate. The competitive position of different business units in a firm's corporate Portfolio. This factor is also divided into strong, average and weak competitive positions along the abscissa.

Appropriately, in any of the 15 cells, circles are used to represent the sizes of the industries involved while pie wedges or segments are used within the circle to denote business market share.

Business could therefore be represented according to their industrial size and market shares. As can be shown in the figure below, business ‘A’ represents a product/market with high growth potential and deserves expansion strategies.

Business ‘B’ has a strong competitive position but has a product that is entering the shake out stage; it requires a cautious expansion strategy. Business ‘C’ is a potential looser and probably a dog while ‘D’ represents a business which can be used for cash generation that could be siphoned to A and B. Business ‘E’ is a looser and may be considered for divestment.

In this way, the product-market evolution matrix tells stories about the distribution of the firm’s businesses across the stages of industry evolution.

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UNIT 12: ORGANISATIONAL STRUCTURE

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1.0 INTRODUCTION

An organization is necessary if strategic purpose is to be accomplished. Thus, organizational structure is a major priority in implementing a carefully formulated strategy. If activities, responsibilities, and interrelationships are not organized in a manner that is consistent with the strategy chosen, the structure is left to evolve on its

own. If structure and strategy are not coordinated, the result will probably be inefficiencies, misdirection, and fragmented efforts.

The need for structure becomes apparent as a business evolves. In a small firm where one person manages current operations and plans for the future, organizational structure is relatively simple. Owner-managers have no organizational problem. As the magnitude of business activity increases, the need to subdivide activities, assign responsibilities, and provide for the integration and coordination of the new organizational parts becomes imperative. Thus, how to structure the organization to effectively execute the business's strategy has become a major concern.

In this study unit, therefore, you will be taken through the general overview on the field of organizational behaviour.

2.0 OBJECTIVES

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

· explain the meaning of organizational structure

· identify and explain levels of organization structure

· mention and discuss dimensions of people-organization relationship

· identify and explain forms of relationship in organization

· mention and discuss types of organizational structure

· identify and explain common features of work organizations

· identify and analyze problems inherent in work organization.

3.0 MAIN CONTENT

3.1 STRATEGIC CONSIDERATIONS IN ORGANISATIONAL STRUCTURE

The division of tasks for efficiency and clarity of purpose, arid coordination between the interdependent parts of the organization to ensure organizational effectiveness calls for the use of structure. Structure balances the need for specialization with the need for integration. It provides a formal means of decentralizing and centralizing consistent with the organizational and control needs of the strategy.

Structure is not the only means for getting "organized" to implement the strategy. Reward systems, planning procedures, and information and budgetary systems are other examples that should be employed. In the day-to-day implementation of strategy, these elements operate interdependently with the formal organizational structure to shape how things are done. These other means may also be important, but it is through structure that strategists attempt to balance internal efficiency and overall effectiveness within a broader environment.

In terms of structural choices, five basic types are currently used by most business firms. These are structures classified as Simple, Functional, Divisional, Strategic business unit,

and Matrix. These are considered ion subsequent sections of this study unit.

Diversity and size create unique structural needs for each firm, but these five structural choices involve basic underlying features common to most business organizations making requirements resulting from increased diversity and size.

A divisional structure allows corporate management to delegate authority for the strategic management of a distinct business entity. This can expedite critical decision making within each division in response to varied competitive environments, and it forces corporate management to concentrate on corporate-level strategic decisions. The semi-autonomous divisions are usually given profit responsibility. The divisional structure thus seeks to facilitate accurate assessment of profit and loss.

3.2 THE MEANING AND NATURE OF ORGANSATION STRUCTURE

3.2.1 Meaning of Organsation Structure

According to Mullins (2000), structure is the pattern of relationships along positions in the organisation and among members of the organisation. The purpose of structure is the division of work among members of the organisation, and the coordination of their activities so they are directed towards achieving the goals and objectives of the organisation. The structure defines tasks and responsibilities, work roles and relationships and channels of communication.

Structure makes possible the application of the process of management and creates a framework of order and command through which the activities of the organisation can be planned, organised, directed and controlled.

According to Drucker (1989) suggests the organisation structure should satisfy three requirements. These requirements are as follows:

•

It must be organised for business performance.
The more direct and simple the structure the more efficient it is because there is less change needed in the individual activities directed to business performance and results. Structure should not rest on past achievements but be geared to future demands and growth of the organisation.

•

The structure should contain the least possible number of management levels.
The chain of command should be as short as possible. Every additional level makes for difficulties in direction and mutual understanding, distorts objectives, sets up additional stresses, creates inertia and slack, and increases the difficulties of the development of future managers moving up through the chain. The number of levels

will tend to grow by themselves without the application of proper principles of organisation.

- Organisation structure must make possible the training and testing of future top management.

In addition to their training, future managers should be tested before they reach the top. They should be given autonomy in positions of actual managerial responsibility while still young enough to benefit from the new experience. They should also have the opportunity of at least observing the operation of the business as a whole, and not be narrowed by too long an experience in the position of a functional specialist.

Drucker suggests that, in order to satisfy these three requirements, the organisation structure must be based preferably on the principle of regional decentralisation, with activities integrated into autonomous product businesses with their own product and market, and with responsibility for their profit and loss. According to Drucker, if regional decentralisation is not possible then the organisation structure should be based

on the principle of functional decentralisation with integrated units having the maximum responsibility for major and distinct stages of the business process.

The objectives of organizational Structure, according to Knight (1977), are as follows:
i) the economic and efficient performance of the organisation and the level of resource

utilisation;
ii) monitoring the activities of the organisation;
iii) accountability for areas of work undertaken by groups and individual members of the

organisation;
iv)coordination of different parts of the organisation and different areas of work;
v)flexibility in order to respond to future demands and developments, and adapt to

changing environmental influences; and
vi)the social satisfaction of members working in the organisation.

According to Knight, these objectives provide the criteria for structural effectiveness. Structure, though, is not an end in itself but a means of improving organisational performance.

3.2.2 Dimensions of Structure

According to Mullins (2000), the variables which determine the dimensions of organisation structure can be identified in a number of ways but are usually taken to include the grouping of activities, the responsibilities of individuals, levels of hierarchical authority (the scalar chain), span of control and formal organisational relationships. The dimensions of structure can, however, be identified in a number of ways.

Child (1988) suggests six major dimensions as components of an organisation structure which are as follows:

- allocation of individual tasks and responsibilities, job specialisation and definition;
- formal reporting relationships, levels of authority and spans of control;
- grouping together of sections, departments, divisions and larger units;
- systems for communication of information, integration of effort and participation;
- delegation of authority and procedures for monitoring and evaluating the use of discretion;
- motivation of employees through systems for appraisal of performance and reward.

Mintzberg (1979) suggests another approach to the identification of dimensions of structure; gives a set of nine essential design parameters which form the basic components of organisation structure.

- How many tasks should a given position in the organisation contain and how specialised should each task be?
- To what extent should the work content of each position be standardised?

- What skills and knowledge should be required for each position?
- On what basis should positions be grouped into units and units into larger units?
- How large should each unit be; how many individuals should report to a given manager?
- To what extent should the output of each position or unit be standardised;
- What mechanisms should be established to facilitate mutual adjustment among positions and units?
- How much decision-making power should be delegated to the managers of the units down the chain of authority?
- How much decision-making power should pass from the line managers to the staff specialists and operators?

These nine design parameters, according to Mullins (2000), can be grouped under four broad headings: design of position; design of superstructure; design of lateral linkages; and design of decision-making systems.

Information technology is an additional dimension of structural design. The computer-based information and decision-support systems influence choices in design of production or service activities, hierarchical structures and organisation of support staffs. Information technology may influence the centralization/decentralisation of decision-making and control systems (Mullins, 2000).

According to Mullins (2000), the impact of information technology will have significant effects on the structure, management and functioning of most organisations. The introduction of new technology will demand new patterns of work organisation. It will affect individual jobs, the formation and structure of groups, the nature of supervision and managerial roles. Information technology results in changes to lines of command and authority, and influences the need for restructuring the organisation and attention to the job design.

Mullins maintains that new technology has typically resulted in a 'flatter' organisational pyramid with fewer levels of management required. In the case of new office technology, it allows the potential for staff at clerical/operator level to carry out a wider range of functions and to check their own work. The result is a change in the traditional supervisory function and a demand for fewer supervisors.

Structure provides the framework for the activities of the organisation and must harmonise with its goals and objectives. The first step, therefore, is to examine the objectives of the organisation. Only when objectives have been clearly defined that alternative forms of structure be analysed and compared.

3.3 LEVELS OF ORGANISATION STRUCTURE

According to Parsons (1980), organisations are structured in layers. This implies that the determination of policy and decision-making, the execution of work, and the exercise of authority and responsibility are carried out by different people at varying levels of seniority throughout the organisation structure. Therefore, it is possible to look at organisations in terms of interrelated levels in the hierarchical structure such as the technical level, the managerial level and the community level. These are discussed below.

1. The Technical Level

The technical level is concerned with specific operations and discrete tasks, with the actual job or tasks to be done, and with performance of the technical function. Examples are: the physical production of goods in a manufacturing firm; administrative processes giving direct service to the public in government departments; the actual process of teaching in an educational establishment.

2. The Managerial Level

The technical level interrelates with the managerial level, or organisational level, which is concerned with the coordination and integration of work at the technical level. decisions at the managerial level relate to the resources necessary for performance of the technical function, and to the beneficiaries of the products or services provided. Decisions will be concerned with:

•

mediating between the organisation and its external environment, such as the users of the organisation's products or services, and the procurement of resources; and

•

the 'administration' of the internal affairs of the organisation including the control

of the operations of the technical function.

3. The Community Level

In turn, the managerial level interrelates with the community level or institutional level, concerned with broad objectives and the work of the organisation as a whole. Decisions at the community level will be concerned with the selection of operations, and the development of the organisation in relation to external agencies and the wider social environment.

Examples of the community level within organisations are:

- the board of directors of joint stock companies;
- governing bodies of educational establishments which include external representatives; and
- trustees of non-profit organisations.

Such bodies provide a mediating link between the managerial organisation and coordination of work of the technical organisation, and the wider community interests. Control at the institutional level of the organisation may be exercised, for example, by

legislation, codes of standards or good practice, trade or professional associations, political or governmental actions, and public interest.

In practice, all these levels are interrelated, and there is there is not a clear division between determination of policy and decision-making, coordination of activities and the actual execution of work. Most decisions are taken with reference to the execution of wider decisions, and most execution of work involves decision.

Decisions taken at the institutional level determine objectives for the managerial level, and decisions at the managerial level set objectives for the technical level. therefore if the oragnisation as a whole is to perform effectively, there must be clear objectives; a soundly designed structure; and good communication, both upwards and downwards, among the different levels of the organization (Mullins, 2000).

The managerial level, for example, would be unable to plan and supervise the execution of work of the technical function without the knowledge, expertise, practical know-how and enthusiasm of people who are closest to the actual tasks to be undertaken. People operating at the technical level should, therefore, make known to higher levels the practical difficulties and operational problems concerning their work. It is the duty of the managerial level to take appropriate action on this information, and to consult with people at the community or institutional level (Mullins, 2000).

3.4 PEOPLE – ORGANISATION RELATIONSHIP

3.4.1 Clarification of Objectives

A clarity of objectives is necessary in order to provide a basis for the division of work and grouping of duties into sub-units. The objectives for these sub-units must be related to the objectives of the organisation as a whole in order that an appropriate pattern of

structure can be established.

According to Mullins (2000), clearly stated and agreed objectives will provide a framework for the design of structure, and a suitable pattern of organisaiton to achieve those objectives. The nature of the organisation and its strategy will indicate the most appropriate organisational levels for different functions and activities, and the formal relationships between them. Clearly defined objectives will help facilitate systems of communication between different parts of the organisation and extent of decentralisation and delegation. The formal structure should help make possible the attainment of objectives. It should assist in the performance of the essential functions of the organisation and the major activities which it needs to undertake.

3.4.2 Clarification of Tasks

According to Woodward (1980), tasks are the basic activities of the organisation which are related to the actual completion of the productive process and directed towards

specific and definable end-results. To ensure the efficient achievement of overall objectives of the organisation, the results of the task functions must be coordinated.

There are four essential functions that the organisation must perform such as follows:

(i)

The good or service must be developed.

(ii)

Something of value must be created. In the case of the business organisation, this might be the production or manufacture of a product; in the case of the public sector organisation, the provision of a service.

(iii)

The product or services must be marketed. They must be distributed or made available to those who are to use them.

(iv)

Finance is needed in order to make available the resources used in the development, creation and distribution of the products or services provided.

There are other activities of the organisation, called element functions, which are not directed towards specific and definable ends but are supportive of the task functions and an intrinsic part of the management process. These include personnel, planning, management services, public relations, quality control and maintenance. In other organisations, noticeably in service industries, personnel can be seen as closely associated with a task function. But in the majority of organisations, the personnel function does not normally have any direct accountability for the performance of a specific end-task.

These two kinds of functions, task and element, differ in a number of ways and these

differences have important implications for organisation. Failure to distinguish between the two types of functions can lead to confusion in the planning of structure and in the relationship between members of the organisation.

According to Woodward, for example, activities concerned with raising funds for the business, keeping accounts and determination of financial policy are task functions. But management accounting, concerned with prediction and control of production administration, is an element function, and is primarily a servicing and supportive one.

Relationships between the accountants and other managers seemed better when the two functions were organizationally separate. This is the case especially in divisionalised organisation when each product division has its own accounting staff providing line managers with the necessary information to control their own departments.

3.4.3 The Division of Work

According to Mullins (2000), work has to be divided among its members and different jobs related to each other within the formal structure of an organisation,. The division of work and the grouping together of people should, wherever possible, should be organised by reference to some common characteristic which forms a logical link between the activities involved. It is necessary to maintain a balance between an emphasis on subject matter or function at higher levels of the organisation, and specialisation and concern for staff at the operational level.

Work can be divided, and activities linked together in a variety of different ways such as follows:

i) Major Purpose or Function

The most commonly used basis for grouping activities is according to specialisation, the use of the same set of resources, or the shared expertise of members of staff. It is a matter for decision in each organisation as to which activities are important enough to be organised into separate functions, departments or sections. Work may be departmentalized and based, for example, on differentiation between task and element functions, discussed above. See Fig. 11.1 below.

ii) Product or Service

In division by product or service, as shown in Fig. 11.2, the contributions of different specialists are integrated into separate, semi-autonomous units with collective responsibility for a major part of the business process or for a complete cycle of work. This form of grouping is more common in the larger diversified organisations and may be used as a means of sub-dividing departments into sections.

A good example is the bringing together of all activities concerned with a particular production line, product or service. A different is in a hospital where medical and support staff are grouped together in different units dealing with particular treatments such as accidents and emergency, medical and surgery. The danger is that with grouping by product or service, there is a danger that the divisions may attempt to become too autonomous, presenting management with a problem of coordination and control.

iii) Location

In division by location, as shown in Fig. 11. 3, different services are provided by area or geographical boundaries according to particular needs or demands, the convenience of consumers, or for ease of administration.

Examples are the provision of local authority services for people living in a particular locality; the siting of hospitals or post offices; the provision of technical or agricultural further education in industrial or rural areas; sales territories for business firms; or the grouping of a number of retail shops under an area manager. Another example is

provided by organisations with multi-site working and the grouping of a range of similar activities or functions located together on one site.

One problem with grouping by location is difficulty in the definition of the geographical boundaries and the most appropriate size for a given area. The improvement in communications, particularly telecommunications, tends, however, to reduce the importance of location. For example, administrative staff may no longer need to be located within the main production unit.

Figure 12.1: Division of work by major Purpose or Function

Managing Director

Research and

development

(R&D)

Production (P) Marketing (M) Finance (F)

Personnel

Product 1 Product 2 Product 3

Figure 12.2: Division of work by Product or Service

Managing Director

Personnel

Product 1 Product 2 Product 3

R&D P M F R&D P M F R&D P M F

Figure 12.3: Division of Work by Location

Managing Director

Personnel

Area A Area B Area C

R&D P M F R&D P M F R&D P M F

Legend:

R&D:- Research and Development

P :- Product

M :- Marketing

F :- Finance

iv) Nature of the Work Performed

Division may be according to the nature of the work performed where there is some special common feature of the work, such as: the need for speedy decisions, accuracy, confidentiality/security, or where local conditions require first-hand knowledge not immediately available elsewhere. Another example may be the grouping together of equipment or machinery which is noisy or which produces dust, fumes or unpleasant odours.

v) Common Time Scales

Division may be according to time scales, for example, shift working and the extent to which different tasks should be undertaken by different shifts. In a further education college, there may be separate departments or groupings to deal with the different needs of full-time day students and part-time evening students. Another example of activities grouped according to time is in a hotel.

Activities in the kitchen tend to be short term, especially when guests in the restaurant are waiting to be served, and a range of different tasks have to be coordinated very quickly. Other activities, for example, market research and forecasting future room occupancy, are

longer-term decisions, and subject to different organisational requirements.

vi) Common Processes

When common processes are used in a range of different activities, this may be used as the basis of division. This method of grouping is similar to the division by nature of the work, but includes, for example, the decision whether to establish a centralised resource centre for all departments of the organisation, or to allow each department to have its own service.

In the manufacturing industries, a range of products may pass through a common production facility or configuration of machines which may be grouped together in a sinlge unit: for example, a batch productin engineering firm having departments based on like skills or methods of operation. Services using expensive equipment such as mainframe computers may need to be grouped together in this way for reasons of efficiency and economy.

vii) Staff Employed

The allocation of duties and responsibilities may be according to experience, or where a particular technical skill or special qualification is required: for example, the division of work between surgeons, doctors and nurses; or between barristers, solicitors and legal executives. Another good example is the sharing of routine work processes among members of a supervised group. In smaller organisations, the allocation of work may be on an ad hoc, personal basis according to the knowledge and skills contributed by individuals. Work may also be planned deliberately to give a variety of tasks and responsibilities to provide improved job satisfaction or to assist in the training of staff.

viii) Customer to be Served

Separate groups may be established to deal with different consumer requirements: for example, the division between trade or retail customers, or between home or export sales. In hospitals, there are different groupings dealing with, for example, patients in the gynaecology, paediatric and children's wards. In large clothes shops, there may be separate departments for men's, women's and children's clothing.

Another example is the provision of canteen services which may be grouped by customer demand according to price; range or standard of meals available, speed of service; or type of customer. This gives rise to separate facilities; for instance, directors' dining room, staff dinning room, and separation of students' dining room from lecturers' dining room in educational establishments.

These different ways of dividing work can be combined in various forms most suitable for organisations in terms of their scope of operations. Some activities might be grouped

according to one method and the other according to operational activities.

Decisions on the methods of grouping will include considerations of:

- the need for coordination;
- the identification of clearly defined divisions of work;
- economy;
- the process of managing the activities;
- avoiding conflict; and
- the design of work organisation which takes account of the nature of staff employed, their interests and job satisfaction.

The management team must decide upon the most significant factors which will determine the methods for division of work and linking of activities appropriate to the changing circumstances within the particular organisation.

SELF ASSESSMENT EXERCISE 1

Mention and explain the various ways through which operations of an organization can be organized.

3.5 FORMS OF RELATIONSHIP IN WORK ORGANIZATION

Some formal relationships between individual positions will arise from the defined pattern of responsibilities in any organisation structure. These individual authority relationships may be identified as line, functional, staff or lateral.

The design of organisation structure in terms of the principle of line, functional, staff or lateral, determines the pattern of role relationships and interactions with other roles, discussed in the next unit.

(i) Line Relationships

In line relationships, authority flows vertically down through the structure, for example, from the managing director to managers, section leaders, supervisors and other staff. There is a direct relationship between superior and subordinate, with each subordinate responsible to only one person. Line relationships are associated with functional or departmental division of work and organisational control. Line managers have authority and responsibility for all matters and activities within their own department.

(ii) Functional Relationships

Functional relationships apply to the relationship between people in specialist or advisory positions, and line managers and their subordinates. The specialist offers a common service throughout all departments of the organisation, but has no direct authority over those who make use of the service. There is only an indirect relationship.

For example, the personnel manager has no authority over staff in other departments – this is the responsibility of the line manager. But, as the position

and role of the personnel manager would have been sanctioned by top management, other staff might be expected to accept the advice which is given. The personnel manager, however, could be assigned some direct, executive authority for certain specified responsibilities such as, for example, health and safety matters throughout the whole organisation. Note, however, that specialist in a functional relationship with other managers still have a line relationship with both their own superior and their own departmental subordinate staff.

(iii) Staff Relationships

Staff relationships arise from the appointment of personal assistants to senior members of staff. Persons in a staff position normally have little or no direct authority in their own right but act as an extension of their superior and exercise only ‘representative’ authority. They often act in a ‘gatekeeper’ role. There is no direct relationship between the personal assistant and other staff except where delegated authority and responsibility have been given for some specific activity.

In practice, however, personal assistants often do have some influence over other staff, especially those in the same department or grouping. This may be partially because of the close relationship between the personal assistant and the superior, and partially dependent upon the knowledge and experience of the assistant, and the strength of the assistant's own personality.

(iv) Lateral Relationships

Lateral relationships exist between individuals in different departments or sections, especially individuals on the same level. these lateral relationships are based on contact and consultation and are necessary to maintain coordination and effective organisational performance. Lateral relationships may be specified formally, but in practice, they depend upon the cooperation of staff and in effect are a type of informal relationship.

SELF ASSESSMENT EXERCISE 2

Mention and explain different forms of relationship in organization.

3.6 TYPES OF ORGANIZATIONAL STRUCTURE

1. Line and Staff Organisation

An area of management which causes particular difficulty is the concept of line and staff. As organisations develop in size and work becomes more complex, the range of activities and functions undertaken are bound to increase. People with specialist knowledge have to be integrated into the managerial structure. Line and staff organisation is concerned with different functions which are to be undertaken. It provides a means of making full use of specialists while maintaining the concept of line authority. It creates a type of informal matrix structure (See Figure 12.4).

According to Mullins (2000), the concept of line and staff relationships presents a number of difficulties. With the increasing complexity of organisations and the rise of specialist services, it becomes harder to distinguish clearly between what is directly essential to the operation of the organisation, and what might be regarded only as an auxilliary function. The distinction between a line manager and a staff manager is not absolute. There may be a fine division between offering professional advice and the giving of instructions.

Friction inevitably seems to occur between line and staff managers. Neither side may fully understand nor appreciate the purpose and role of the other. Staff managers are often criticised for unnecessary interference in the work of the line manager and for being out of touch with practical realities. Line managers may feel that the staff managers have an easier and less demanding job because they have no direct responsibility for producing

a product or providing a service for the customer, and are free from day-to-day operational problems.

Furthermore, staff managers may feel that their own difficulties and work problems are not appreciated fully by the line manager. Staff managers often complain about resistance to their attempts to provide assistance and coordination, and the unnecessary demands for departmental independence by line managers. A major source of difficulty is to persuade line managers to accept, and act upon, the advice and recommendations which are offered.

Figure 12.4: Line and Staff Structure

Personal Secretary

Owner – Manager

Employees

2 Functional Organization

Under this structure, the division of work and the grouping together of people is organised by reference to some common characteristic which forms a logical link between the activities involved. This emphasizes functions of the organisational operations as well as specialization.

The most commonly used bases for grouping activities is according to function are: specialization; the use of the same set of resources; and the shared expertise of members of staff. It is a matter for decision in each organisation as to which activities are important enough to be organised into separate functions, departments or sections. Work may be departmentalized and based on differentiation between task and element functions. See Fig. 12.5 below.

The essential advantages of functional structure are as follows:

(i) Effective delegation of day-to-day operational functions;

(ii) Enables top management to focus on strategic decisions;

(iii)

Efficient allocation of work through specialization or organisational technology;

(iv)

Improved development of future managers' functional expertise, and distinctive competence;

(v)

Permits centralized control of strategic decisions and results;

(vi)

Maintains power and prestige of major functions, processes and equipment;

(vii)

Furnishes a logical reflection of organisational functions for implementing strategy;

(viii)

Very well suited for structuring a single business;

(ix)

Conducive to exploiting learning/experience curve effects associated with functional specialization;

(x)

Good for social, political and economic projects. For instance, in social ceremonies, people are grouped around the processes of food making, canopy arrangement, supply of music, videoing, servers, bottle collection, supply of light / electricity etc.

The obvious disadvantages of functional structure are as follows:

(i)

Functional walls create difficulty in coordination of different functions to

achieve overall results;

(ii)

Specialists with very narrow skills are created, often at the expense of the

overall benefit of the organisation. This is over-specialisation.

(iii)

It often generate inter-functional conflicts, rivalry and empire-building e.g.

functional line versus staff conflicts;

(iv)

Limits internal development of general managers;

(v)

Makes economic growth of company as a system difficult;

(vi)

Creates problems of communication and control within and across

functions, inter-functional decision-making is difficult;

(vii)

Forces responsibility for profit to the top only;

(viii)

May create uneconomical small units or underutilization of specialized

facilities, manpower and capacities;

(ix)

Functional experience often create resistance to change (Paradigm

paralysis);

(x)

Functional myopia and engrossment is always anti-entrepreneurship, anti-

creativity, anti-innovation and anti-restructuring of activity-cost chain;

(xi)

May lead to group sabotage, functional make-belief, eye-service,

dereliction of duty, functional promotion on the basis of seniority to a

level of incompetence, functional pomposity, functional subterfuge and

shameless profligacy.

Figure 12.5: Functional Structure

Chief Executive

Staffing functions e.g.

Auditing, Public relations

Staff functions e.g.

Legal

Personnel Production Marketing Finance

3. Project Organisation

The division of work and methods of grouping described earlier tend to be relatively permanent forms of structure. With the growth in newer, complex and technologically advanced systems, it has become necessary for organisations to adapt traditional structures in order to provide greater integration of a wide range of functional activities.

In recent years, greater attention has been given, therefore, to more flexible forms of structure and the creation of groupings based on project teams and matrix organisation.

Members of staff from different departments or sections are assigned to the team for the duration of a particular project.

Therefore, a project organization may be set up as a separate unit on a temporary basis for the attainment of a particular task. When this task is completed, the project team is disbanded or members of the unit are reassigned to a new task. Project teams may be used for people working together on a common task or to coordinate work on a specific project such as the design and development, production and testing of a new product; or the design and implementation of a new system or procedure.

For example, project teams have been used in many military systems, aeronautics and space programmes. A project team is more likely to be effective when it has a clear objective, a well-defined task, and a definite end-result to be achieve, and the composition of the team is chosen with care.

4. Matrix Organisation

The matrix organisation consists of the following combination of:

(i)

functional departments which provide a stable base for specialised activities and a permanent location for members of staff; and

(ii)

units that integrate various activities of different functional departments on a project team, product, programme, geographical or systems basis. For example, the university system is run on the basis of a matrix structure; where the academic staff do not restrict themselves to only their departments and faculties but lecture in many departments and faculties simultaneously.

A matrix structure might be adopted in a university or college with grouping both by common subject specialism, and by association with particular courses or programmes of study. See Figure 12.6 below.

Therefore, the matrix organisation establishes a grid, or matrix, with a two-way flow of authority and responsibility. On the basis of the functional departments, authority and responsibility flow vertically down the line, but the authority and responsibility of the project manager flow horizontally across the organisation structure.

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Figure 12.6: A Matrix Structure

:

Managing Director

Research and

Development

Purchasing Production Quality

Control

Project

Manager

Project

Manager

Project

Manager

Reasons for the use of a matrix structure include the following:

(i)

More than one critical orientation to the operations of the organisation

For example, an insurance company that has to respond simultaneously to both

functional differentiation such as life, fire, marine, motor, and to different

geographical areas;

(ii)

A need to process simultaneously large amounts of information

For example, a local authority social services department seeking help for an

individual will need to know where to go for help from outside agencies such as

police, priest, community relations officer; and at the same time whom to contact from internal resources within the organisation such as the appropriate social worker, health visitor or housing officer;

(iii)

The need for sharing of resources

This could only be justified on a total organisational basis such as the occasional or part-time use by individual departments of specialist staff or services.

Matrix organisation offers the advantages of flexibility; greater security and control of project information; and opportunities for staff development. Nevertheless, there are difficulties associated with matrix structure. Developing an effective matrix organisation,

however, takes time, and a willingness to learn new roles and behaviour which means that matrix structures are often difficult for management to implement effectively.

There may be a limited number of staff reporting directly to the project manager with extra staff assigned as required by departmental managers. This may result in a feeling of ambiguity. Staff may be reluctant to accept constant change and prefer the organisational stability from membership of their own functional grouping.

Matrix organisation can result in a more complex structure. By using two methods of grouping, it sacrifices the unity of command and can cause problems of coordination.

There may be a problem of defining the extent of the project manager's authority over staff from other departments and of gaining the support of the functional managers. Functional groups may tend to neglect their normal duties and responsibilities.

According to Bartlett and Ghoshal (1990), matrix structures have proved all but unmanageable. Dual reporting leads to conflict and confusion; the proliferation of channels of communication creates informational log-jams; and overlapping responsibilities result in a loss of accountability.

5. Strategic Business Units

Some firms encounter difficulty in controlling their divisional operations as the diversity, size, and number of these units continues to increase. And corporate management may encounter difficulty in evaluating and controlling its numerous, often multi-industry divisions. Under these conditions, it may become necessary to add another layer of management to improve strategy implementation, promote synergy, and gain greater control over the diverse business interests. This can be accomplished by grouping

various divisions (or parts of some divisions) in terms of common strategic elements. These groups, commonly called strategic business units (SBUs), are usually structured based on the independent product/market segments served by the firms. See Figure 12.7 below.

The advantages of strategic business unit structure are as follows:

1. Forces coordination and necessary authority down to the appropriate level for rapid response;
2. Places strategy development and implementation in closer proximity to the divisions' unique environment;
3. Frees chief executive officer for broader strategic decision making.
4. Retains functional specialization with each division;
5. Good training ground for strategic managers;
6. Furnishes a strategically relevant techniques of organizing large number of different business units;

7.

Permits strategic planning to take place at the most appropriate levels within the total enterprise (corporate and business levels);

8.

Allows the task of strategic evaluation by top managers to be more objective and more effective;

9.

Improves coordination between divisions with similar strategic concerns and product/market environments;

10. Permits efficient allocation of corporate resources to areas with greatest growth opportunities;

11. Facilitates the coordination of related activities within an strategic business unit, thereby helping to acquire the benefits of strategic fits in the strategic business unit;

12. Promotes

strong cohesiveness among the various divisions of the strategic business units; and

13. Focuses accountability to distinct business units.

The disadvantages of strategic business unit structure are as follows:

1.

Problem with the extent of authority given to division managers;

2.

Potential for policy inconsistencies between divisions;

3.

Problem of arriving at a method to distribute corporate overhead costs that is acceptable to different division managers with profit responsibility;

4.

Dysfunctional competition for corporate resources may increase;

5.

Adds another layer of management between the divisions and corporate management;

6.

The role of the group vice president can sometimes be difficult to define;

7.

Presents difficulty in defining the degree of autonomy for the group vice presidents and divisional managers;

8.

Strategic business units may grow to a large numbers that may compromise efficient and effective management;

9.

Strategic business units can still be myopic in charting their future direction;

10. Unless

the strategic business units head is strong-willed, very insignificant strategy coordination is likely to occur across business units in the strategic business unit;

11. Performance

recognition is blurred. Credit for strategic business unit's performance tends to go to corporate chief executive officer, then to divisional head and last to group vice president; and

12. When the basis of grouping a strategic business unit is based on factors other than the nitty-gritty of strategy coordination, then the groupings loose real strategic significance.

Figure 12.7: SBU Organisational Structure

Vice President

(Administrative Services)

Vice President

(Operating Services)

Group Vice

President, SBU 1

Group Vice

President, SBU 3

Chief Executive

Officer

Group Vice

President, SBU 2

1 2 3 4 5 6 7 8

The numbers above as shown on the diagram, such as 1, 2, etc represent divisions of the company.

3.7 COMMON FEATURES OF WORK ORGANISATIONS

A basic aim for the study of organisations is to indicate both the common features of organisations and the main distinguishing features between different types of organisations. It provides a useful framework for the comparative study of organisations. Some of these common features to organizations are as discussed below.

1. Organisational Sub-systems

The transformation or conversion of inputs into outputs is a common feature of all organisations. Within the organisation (system) as a whole, each of the different transformation or conversion activities may themselves be viewed as separate sub

systems with their own input-conversion-output process interrelated to, and interacting with, the other sub-systems. The analysis of an organisation could perhaps be based upon the departmental structure as sub-systems.

The important point is the interrelationships and coordination of sub-systems in terms of the effectiveness of the organisation as an integrated whole. The interrelationship and interdependence of the different parts of the system raise the question of the identification of these sub-systems.

The boundaries are drawn at the discretion of the observer and sub-systems are identified according to the area under study. These sub-systems may be identified, therefore, in a number of different ways, although there is a degree of similarity among the alternative models.

2. Socio-technical System

According to Mullins (2000), the socio-technical system is concerned with the transformation or conversion process itself, the relationships between technical efficiency and social considerations and the effect on people.

Researchers observed that new methods of work and changes in technology disrupted the social groupings of workers, and therefore, brought about undesirable changes to the psychological and sociological properties of the old method of working. As a result, the new method of work could be less efficient than it could have been despite the introduction of new technology.

The recommendation calls for a socio-technical approach in which an appropriate social system could be developed in keeping with the new technical system. It has been

observed that there are three sub-systems common to any organisation such as:

- the technological sub-system;
- the sub-system of formal role structure;
- the sub-system of individual members' feelings or sentiments.

Another form of analysis result in seeing the organisation as an open, socio-technical system with five major sub-systems such as follows:

- Goals and values – the accomplishment of certain goals determined by the broader system and conformity with social requirements.
- Technical – the knowledge required for the performance of tasks, and the techniques and technology involved.
- Psychological – the interactions of individuals and groups, and behaviour of people in the organisation.

- Structure – the division and coordination of tasks, and formal relationships between the technical and psychosocial sub-systems.
- Managerial – covering the whole organisation and its relationship to the environment, setting goals, planning, structure and control.

An alternative model is suggested by Hersey and Blanchard, who identify four main interrelated sub-systems.

- Human / social focuses on the needs and motivations of members of the organisation and styles of leadership.
- Administrative / structural focuses on authority and responsibility, and the structure within the organisation.
- Informational / decision-making focuses on key decisions and information needs necessary to keep the organisation operational.
- Economic / technological focuses on the work to be undertaken and its cost-effectiveness related to the goals of the organisation.

Another useful model is that of Leavitt who suggests the organisation consists of four main elements – task, structure, information and control, and people – which interact with each other and with the external environment.

- Task – involves problem-solving and improving organisational performance.

- Structure – refers to patterns of organisation, authority and responsibility, and communications.
- Information and control – techniques for controlling and processing information, such as accounting techniques.
- People – involves attitudes and interpersonal relations.

According to Mullins (2000), from the above analysis, therefore, five main interrelated sub-systems as a basis for the analysis of work organisations.

i) Task – the goals and objectives of the organisation. The nature of inputs and outputs, and the work activities to be carried out in the transformation or conversion process.

ii) Technology – the manner in which the tasks of the organisation are carried out and the nature of work performance. The materials, systems and procedures, and equipment used in the transformation or conversion process.

iii) Structure – patterns of organisation, lines of authority, formal relationships and channels of communication among members. The division of work and coordination of tasks by which the series of activities are carried out.

iv) People – the nature of the members undertaking the series of activities: such as their attitudes, skills and attributes; needs and expectations; interpersonal relations and patterns

of behaviour; group functioning and behaviour; informal organisation and styles of leadership.

v) Management – coordination of task, technology, structure and people, and policies and procedures for the execution of work. Corporate strategy dictates the direction of the activities of the organisation as a whole and its interactions with the external environment.

The attention given to organisational sub-systems can be related to developments in management thinking and organisational behaviour. The classical approach emphasised the structural and the managerial sub-systems and the development of general principles of organisation.

The human relations approach emphasised the psychological and sociological aspects and gave attention to the importance of people in the organisation and such factors as the social needs of individuals, motivation and group behaviour. The systems approach focuses attention on the organisation as a whole, as a socio-technical system, and considers the interrelationships between the different sub-systems and the importance of environmental influences. The contingency approach concentrates on situational factors as determinants of alternative forms of organisation and management.

3. Interaction between Organization and Environment

An open systems approach is an attempt to view the organisation as a purposeful, unified whole in continual interaction with its external environment. The organisation (system) is composed of a number of interrelated parts (sub-systems). Any one part of the organisation's activities affects other parts.

Managers cannot afford to take a narrow, blinkered view. They need to adopt a broader view of the organisation’s activities. Managers should recognise the interrelationships between various activities and the effects that their actions and decisions have on other activities.

Using the above framework of five main interrelated sub-systems – task, technology, structure, people, management – provides a useful basis for the analysis of organisational performance and effectiveness.

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Fig. 12.6: Organisational sub-systems

ENVIRONMENT ENVIRONMENT

Series of activities

Transformation or conversion process

Interrelated sub-systems

A socio-technical approach

Task

Management Technology Structure

People

Task -the nature of the work activities to be carried out

Technology -the manner in which activities are carried out

Structure -patterns of organisation and formal relationships within which

activities are carried out

People -the nature of members undertaking the activities

Management -effective coordination of the sub-systems and direction of activities

of the organisation as a unified whole.

The manager must realise that in order to improve organisational effectiveness, attention should be focused on the total work organisation and on the interrelationships between the range of variables which affect organisational performance. The organisation is best viewed as an open system and studied in terms of the interactions between technical and social considerations, and environmental influences. Changes in part of the system will

affect other parts and thus the whole organisation. The open systems approach provides a perspective in which to compare and contrast different types of organisations and their methods of operation.

4. Situational Organisation

The analysis of organisational effectiveness requires an understanding of relationships within the organisation's structure, the interrelated sub-systems and the nature of its external environment.

Irrespective of the identification of sub-systems, the nature and scale of the series of activities involved in converting inputs to outputs will differ from one organisation to another in terms of the interrelationships between technology, structure, methods of operation, and the nature of environmental influences. Contingency models of organisation highlight these interrelationships and provide a further possible means of differentiation between alternative forms of organisation and management.

The contingency approach takes the view that there is no one best, universal form of organisation. There are a large number of variables, or situational factors, that influence organisational performance. Contingency models can be seen as an 'if-then' form of relationship. If certain situational factors exist, then certain organisational and managerial variables are most appropriate. Managers can utilise these models to compare the structure and functioning of their own organisation (Mullins, 2000).

3.8 PROBLEMS OF WORK ORGANISATION

As observed by Mullins (2000), the important point is not so much whether competing sub-groups and conflict are seen as inevitable consequences of organisation structure, but how conflict, when found to exist within the structure, is handled and managed.

There are many potential sources of conflict arising from structure, which include the following:

1. Differences in perception.

Individuals see things in different ways. They all have our own, unique picture or image of how we see the ‘real’ world. Differences in perception result in different people attaching different meanings to the same stimuli. As perceptions become a person’s reality, value judgements can be a potential major source of conflict.

2. Limited resources.

Most organisational resources are limited, and individuals and groups have to fight for their share; for example, at the time of the allocation of the next year’s budget or when cutbacks have to be made. Usually, the greater the limitation of resources the greater the potential for conflict. In an organisation with reducing profits or revenues, the potential for conflict is likely to be intensified.

3. Departmentalisation and specialisation.

Most work organisations are divided into separate departments with specialised functions. Because of familiarity with the manner in which they undertake their activities, departments tend to turn inwards and to concentrate on the achievement of their own particular goals. When departments need to cooperate with each other this is a frequent source of conflict.

Differing goals and internal environments of departments are also a potential source of conflict. For example, a research and development department is more likely to be concerned with the long-run view and, confronted with pressures for new ideas and production innovation, the department is likely to operate in a dynamic environment and with an organic structure. A production department, however, is concerned more with short-term problems such as quality control and meeting delivery dates. The department tends to operate in a more stable environment and with a bureaucratic structure.

4. The nature of work activities.

Where the task of one person is dependent upon the work of others, there is potential for conflict; for example, if a worker is expected to complete the assembly of a given number of components in a week but the person forwarding the part-assembled components does not supply a sufficient number on time. If reward and punishment systems are perceived to be based on keeping up with performance levels, then the potential for conflict is even greater.

In sequential interdependence where the work of a department is dependent upon the output of another department, a crisis situation could arise, especially if this situation is coupled with limited resources; for example, where the activities of a department, whose budget has been reduced below what is believed necessary to run the department

efficiently, are interdependent with those of another department, who appear to have received a more generous budget allocation.

5. Role conflict.

A role is the expected pattern of behaviours associated with members occupying a particular position within the structure of the organisation. In practice, the manner in which people actually behave may not be consistent with their expected pattern of behaviour. Problems of role incompatibility and role ambiguity arise from inadequate or inappropriate role definition and can be a significant source of conflict.

6. Inequitable treatment.

A person’s perception of unjust treatment, such as in the operation of personnel policies and practices, or in reward and punishment systems, can lead to tension and conflict. For example, according to the equity theory of motivation, the perception of inequity will

motivate a person to take action to restore equity, including changes to inputs or outputs, or through acting on others.

7. Violation of territory.

People tend to become attached to their own 'territory' within work organisations; for example, to their own area of work, or kinds of clients to be dealt with; or to their own room, chair or packing space. Jealousy may arise over other people's territory; for example, size of room, company car, allocation of a secretary or other perks; through access to information, or through membership of groups. A stranger walking into a place of work can create an immediate feeling of suspicion or even resentment because people do not usually like 'their' territory entered by someone they do not know, and whose motives are probably unclear to them.

Mullins (2000) observes that ownership of territory may be conferred formally, for example, by organisation charts, job descriptions or management decisions. It may be established through procedures, for example, circulation lists or membership of committees. Or it may arise informally, for example through group norms, tradition or perceived status symbols. The place where people choose to meet can have a possible, significant symbolic value.

The relevant strategies for managing conflicts arising from work organization include the following:

i) Clarification of goals and objectives.

The clarification and continued refinement of goals and objectives, role definitions and performance standards will help to avoid misunderstandings and

conflict. Focusing attention on superordinate goals, that are shared by the parties in conflict, may help to diffuse hostility and lead to more cooperative behaviour.

ii) Resource distribution.

It may not always be possible for managers to increase their allocated share of resources, but they may be able to use imagination and initiative to help overcome conflict situations; for example, making a special case to higher management; flexibility in virement headings of the budget; delaying staff appointments in one area to provide more money to another area.

iii) Personnel policies and procedures.

Careful and detailed attention to just and equitable personnel policies and procedures may help to reduce areas of conflict. Examples are: job analysis, recruitment and selection, job evaluation; systems of reward and punishment; appeals, grievance and disciplinary procedures; arbitration and mediation; recognition of trade unions and their officials.

iv) Non-monetary rewards.

Where financial resources are limited, it may be possible to pay greater attention to non-monetary rewards. Examples are job design; more interesting, challenging or responsible work; increased delegation or empowerment; flexible working hours; attendance at courses or conferences; unofficial perks or more relaxed working conditions.

v) Development of interpersonal/group process skills.

This may help to encourage a better understanding of one's own behaviour, the other person's point of view, communication processes and problem-solving. It may also encourage people to work through conflict situations in a constructive manner.

vi) Group activities.

Attention to the composition of groups and to factors which affect group cohesiveness may reduce dysfunctional conflict. Overlapping group membership with a 'linking-pin' process, and the careful selection of project teams or task forces for problems affecting more than one group, may also be beneficial.

vii) Leadership and management.

A more participative and supportive style of leadership and managerial behaviour is likely to assist in conflict management; for example, showing an attitude of respect and trust; encouraging personal self-development; creating a work environment in which staff can work cooperatively together. A participative approach to leadership and management may also help to create greater employee commitment.

viii) Organisational processes.

Conflict situations may be reduced by attention to such features as: the nature of the authority structure; work organisation; patterns of communication and sharing of information; democratic functioning of the organisation; unnecessary adherence to bureaucratic procedures, and official rules and regulations.

ix) Socio-technical approach.

Viewing the organisation as a socio-technical system in which psychological and social factors are developed in keeping with structural and technical requirements, will help in reducing dysfunctional conflict.

4.0 CONCLUSION

The discussion has exposed you to the fact that organizational structure relates to pattern of relationships along positions in the organisation and among members of the organization, which defines tasks and responsibilities, work roles and relationships and channels of communication among organizational members.

You have understood that essential factors are normally taken into consideration in designing organization structure. There are different types of structure and relationship in organization.

5.0 SUMMARY

This study unit has been used to discuss:

- The Meaning and Nature of Organsation Structure; that structure defines positions and responsibilities, and it keeps on changing.
- Levels of Organisation Structure such as technical, management, and community levels.
- Dimensions of People – Organisation Relationship such as clarification of objectives, clarification of tasks, and division of work.
- Forms of Relationship in Organization in areas of line, staff, function and lateral relationships.
- Types of Organizational Structure like line and staff, functional, project and matrix organizations.
- Common Features of Organisations such as organizational sub-systems, sociotechnical system, interaction between the organization and the environment, and situation organization.
-

Influence of Technology on Organization in areas of behaviour of people, organizational climate, conditions of work, information technology, and work design.

•

Problems of Work Organisation such as differences in perception, limited resources, specialization, nature of work, role conflict, and violation of territory.

6.0 TUTOR MARKED ASSIGNMENT

Mention and discuss the forms of relationship in organization.

Answer to Self Assessment Exercise

1. The various ways through which operations of an organization can be organized are as follows:

i) Major Purpose or Function

ii) Product or Service

iii) Location

iv) Nature of the Work Performed

v) Common Time Scales

vi) Common Processes

vii) Staff Employed

viii) Customer to be Served

2. Forms of relationship in organisations are:

i).Line Relationships

ii) Functional Relationships

iii) Staff Relationships

iv) Lateral Relationships

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UNIT 13: STRUCTURE, TECHNOLOGY AND STRATEGY

CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main Content

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4.0 Summary

5.0 Tutor Marked Assignment

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1.0 INTRODUCTION

The advent of technology has great impact on the ways business organizations carry out their operations. The modern corporate entities cannot operate with a defined involvement of technology in one form or the other. This is because technology affects work setting, production methods, systems and procedures, and all other sundry operational activities in a given business organization. Therefore, technology does influence the structural disposition of a business enterprise.

The structure adopted by a business enterprise is affected by the chosen strategy of the enterprise. Hence, it is observed that the best organizational structure is dependent on the organizational strategy of the firm. The structural design normally intricately ties together key activities and resources of the firm. Therefore, such structural design must be closely aligned with the demands of the firm's strategy.

In this study unit, therefore, the discussion is on the influence of both technology and strategy on the organizational structure being adopted and used by a business enterprise.

2.0 OBJECTIVES

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

· explain the meaning of organizational structure

· identify and explain levels of organization structure

· mention and discuss dimensions of people-organization relationship

· identify and explain forms of relationship in organization

· mention and discuss types of organizational structure

· identify and explain common features of organizations

· discuss how technology impacts on organization

· identify and analyze problems inherent in work organization.

3.0 MAIN CONTENT

3.1 INFLUENCE OF TECHNOLOGY ON ORGANIZATION STRUCTURE

According to Mullins (2000), the systems and contingency approaches have drawn attention to the importance of technology in the structure, management and functioning of work organisations. It is important to note that the meaning of technology is interpreted broadly to include both:

- the physical aspects of machines, equipment, processes and work layout (machine technology) involved in the transformation or conversion process; and
- the actual methods, systems and procedures involved (knowledge technology) in carrying out the work of the organisation and transforming or converting inputs into outputs.

There is a close interrelationship between the machine side of technology and the specialist knowledge side of technology. The nature of technology can, therefore, be applied to the analysis of all organisations.

In a university, for example, the machine side of technology would include: blackboards or whiteboards; overhead projectors; computers; televisions and video recorders; closed circuit television; scientific and engineering equipment; library facilities. The knowledge side of technology would include: lectures, seminars and tutorials; case studies; role-playing; practical laboratory work; visiting lecturers; project and assignment work; examinations.

The work processes of a university, and other educational establishments, give rise to the specialist study of educational technology. A university will receive inputs of students

and, through the process of educational technology, 'transform' them and return them as outputs into the broader society.

1. Technology and the Behaviour of People

According to Mullins, the nature of technology can influence the behaviour of people in work organisations in many ways including, for example, the following:

- It influences the specific design of each member's pattern of work including the nature and variety of activities performed, and the extent of autonomy and freedom of action.
- It affects the nature of social interactions, for example, the size and nature of work groups, the extent of physical mobility and of contacts with other people. A person working continuously on a single, isolated machine in a mass production factory will have very limited social interactions compared with, say, a team of receptionists in a large conference hotel.

- It can affect role position and the nature of rewards. People with higher levels of specialist technical knowledge and expertise such as engineers or systems analysts tend to receive higher status and pay than machine operators on an assembly line.
- It can impose time dimensions on workers and may require set times for attending to operations and a set pace of work; for example, the mechanical pacing of work on a mass-production assembly line.
- It can result in distinguishing features of appearance; for example, the requirement to wear a standard uniform or protective clothing, compared with a personal choice of smart clothes.

SELF-ASSESSMENT EXERCISE 1

What are the various in which technology can influence the behaviour of people in work organizations?

2. Technology and General Climate of Organisation

Technology is a major influence on the general climate of the organisation and the behaviour of people at work.

The nature of technology is also a potential source of tension and stress and affects motivation and job satisfaction. The systems approach should serve to remind managers that activities managed on the basis of technical efficiency alone are unlikely to lead to optimum improvements in organisational performance. It is important to maintain the balance of the socio-technical system. Changes to the work organization as a result of new developments in technology must take account of human and social factors as well

as technical and economic factors.

3. Information Technology

The importance of the effective management of technical change has been highlighted by recent and continuing developments in information technology. The term ‘information technology’ originated in the computer industry, but it extends beyond computing to include telecommunications and office equipment. Advances in technical knowledge, the search for improved economic efficiency and government support for information technology have all prompted a growing movement towards more automated procedures of work.

The impact of information technology demands new patterns of work organisaiton, especially in relation to administrative procedures. It affects the nature of individual jobs, and the formation and structure of work groups. There is a movement away from

large-scale, centralised organisation to smaller working units. Processes of communication are increasingly linked to computer systems with the rapid transmission of information and immediate access to other national or international offices.

Improvements in telecommunications imply that support staff need no longer be located within the main 'production' unit. Modern methods of communication may reduce the need for head office clerical jobs.

Changes brought by information technology relate to the nature of the management task itself. Information technology bears heavily on the decision-making processes of the organisation and increasingly forms an essential part of management information and corporate strategy.

4. Technology and Conditions of Work

The growth of information technology implies that individuals may work more on their own, from their personal work stations or even from their own homes, or work more with machines than with other people. One person may be capable of carrying out a wider range of activities. There are changes in the nature of supervision and in the traditional hierarchical structure of jobs and responsibilities.

Computer-based information and decision support systems provide an additional dimension of structural design. They affect choices such as division of work, individual tasks and responsibilities. The introduction of information technology undoubtedly transforms, significantly, the nature of work and employment conditions for staff.

Advances in technical knowledge tend to develop at a faster rate with consideration for related human and social consequences. For example, fatigue and low morale are two

major obstacles to the efficiency of staff. Research is now being conducted into possible health hazards such as eye strain, backache, general fatigue and irritability for operators of visual display units. This concern has prompted proposals for recommended working practices for computer operators. There has been a call for regular health checks and eyesight tests for operators, and a 20-minute break every two hours.

5. Technical Change and Human Behaviour

Mullins (2000) observes that failure to match technical change to the concomitant human and social considerations means that staff may become resentful, suspicious and defensive. People’s cognitive limitations, and their uncertainties and fears, may result in a reluctance to accept change.

The psychological and social implications of technical change, such as information technology and increased automation, must not be underestimated. New ideas and innovations should not be seen by members of staff as threats.

The manager has to balance the need for adaptability in meeting opportunities presented by new technology with an atmosphere of stability and concern for the interests of staff. The manner in which technical change is introduced into the organisation will influence people's attitudes to work, the behaviour of individuals and groups, and their level of performance.

6. Technology and Work Design

According to Mullins (2000), continued technical change is inevitable and likely to develop at an even greater rate. Managers must be responsive to such change. Information technology and automation create a demanding challenge. The systems nature of organisations emphasises the interrelationships among the major variables or sub-systems of the organisation. The implementation and management of technological change needs to be related to its effect on the task, the structure and the people.

Managers need to develop working practices based on an accurate understanding of human behaviour and the integration of people's needs with organisational needs. It is important to avoid destructive conflict, alienating staff including managerial colleagues, or evoking the anger and opposition of unions. At the same time, it is important to avoid incurring increasing costs or a lower level of organisational performance caused by delays in the successful implementation of new technology.

What needs to be considered is the impact of technical change on the design of the work organisation, and the attitudes and behaviour of staff. It will be necessary for managers and supervisors to develop more agile skills in organisation. This calls for the effective management of human resources and a style of managerial behaviour which helps to minimise the problems of technical change. The management of conflict and organisational change is discussed in detail in other units.

3.2 LINKING STRUCTURE TO STRATEGY

According to Thompson Jr. and Strickland (1987), Empirical evidence reveals that the ideal or best organizational structure is dependent on the strategy of the firm. This is in view of the fact the structural design ties together key activities and resources of the firm. Therefore, it must be closely aligned with the needs or demands of the firm's strategy.

The work of Chandler (1962) represents a landmark study in understanding the choice of structure as a function of strategy. Chandler studied 70 large corporations over an extended time period and found a common strategy-structure sequence which reveals the following:

· Choice of a new strategy.

· Emergence of administrative problems; decline in performance.

· A shift to an organizational structure more in line with the strategy's needs.

· Improved profitability and strategy execution.

Thompson Jr. and Strickland (1987) posit that General Electric's recent history supports Chandler's thesis. Operating with a simple divisional structure in the late 1950s, GE embarked on a broad diversification strategy. In the 1960s, GE experienced impressive sales growth. However, GE also experienced administrative difficulties in trying to control and improve the corresponding lack of increase in profitability. In the early 1970s, GE executives redesigned its organizational structure to accommodate the administrative needs of strategy (ultimately choosing the strategic business unit structure), subsequently improving profitability of and control over the diversification strategy.

- Chandler's research and the General Electric example lead to four important observations. All forms of organizational structure are not equally effective in implementing a strategy.
- structures seem to have a life of their own, particularly in larger organizations. As a result, the need for immediate and radical changes in structure is not immediately perceived. Once the need is perceived, lagging performance may be necessary before politically sensitive structure is changed or organizational power redistributed.
- sheer growth can make restructuring necessary.
- as firms diversify into numerous related or unrelated products and markets, structural change appears to be essential if the firm is .to perform effectively.

Research findings on corporate stages of development provide further understanding of the structure-strategy relationship. After studying numerous business firms, researchers

concluded that companies move through several stages as size and diversity increase. Figure 13-1 is a synthesis of these stage-of-development theories. The figure shows that a firm moves through each stage, size, diversity, and competitive environment change (Thompson Jr. and Strickland, 1987).

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Figure 13-1: Corporate Stages of Development

Stage Characteristics of the firm Typical structure

I.

II.

III.

IV.

Simple small businesses. Offering one product/service or one line of products/services to a small, distinct local or regionalized market.

Singular or closely related line of products/services but to a larger and sometimes more diverse market geography, channels, or customers).

Expanded but related lines of products/services to diverse, large markets.

Diverse, unrelated lines of products/services to large, diverse markets.

Simple to function

Functional to

divisional

Divisional to matrix

Divisional to SBUs

Source: Thompson, A.A. Jr. and Strickland, A.J. (1987). Strategic Management:

Concepts and Cases, p.137.

The figure above reveals that in order to compete effectively at different stages requires, among other things, different structures. Nevertheless, the choice of structure appears contingent on the strategy of the firm in terms of size, diversity of the products/services offered, and markets served.

Therefore, the choice of structure must be determined by the firm's strategy. Moreso, the structure must segment key activities and/or strategic operating units to improve efficiency through specialization, response to a competitive environment, and freedom to act. At the same time, the structure must effectively integrate and coordinate these activities and units to accommodate interdependence of activities and overall control. Hence, the choice of structure reflects strategy in terms of the firm's:

(1) size;

(2) product or service diversity;

(3) competitive environment and volatility;

(4) internal political considerations, and

(5) information or coordination needs for each component.

It has been argued that even a change in strategy, with its accompanying alteration of administrative needs, does not lead to an immediate change in structure. Basically, the research of Chandler and others suggests that commitment to a structure lingers even when it's become inappropriate for a current strategy. Regardless of the main reason responsible, such as inertia, organizational politics, or a realistic assessment of the relative costs of immediate structural change, historical evidence suggests that the existing structure will be maintained and not radically redesigned until a strategy's profitability is increasingly disproportionate with increasing sales.

3.3 ROLE OF ORGANIZATIONAL LEADERSHIP

According to Mullins (2000), while organizational structure provides the overall framework for strategy implementation, it is not in itself sufficient to ensure successful execution. Within the organizational structure, individuals, groups, and units are the mechanisms of organizational action. And the effectiveness of their actions is a major determinant of successful implementation.

In this context, two basic factors encourage or discourage effective action – leadership and culture. This section examines the leadership dimension as a key element in strategy implementation.

Leadership while seemingly vague and esoteric is an essential element in effective strategy implementation. And two leadership issues a fundamental importance here: the role of the chief executive officer (CEO); and the assignment of key managers.

1. Role of the Chief Executive Officer

Mullins (2000) observes that the chief executive officer is the catalyst in strategic management. This individual is most closely identified with and ultimately accountable for a strategy's success. In most firms, particularly larger ones, chief executive officers spend much of their time developing and guiding strategy.

The nature of the chief executive officer's role is both symbolic and substantive in strategy implementation. First, the chief executive officer is a symbol of the new strategy. This individual actions and the perceived seriousness of his or her commitment to a chosen strategy, particularly if the strategy represents a major change, exert a significant influence on the intensity of subordinate managers' commitment to implementation.

Second, the firm's mission, strategy, and key long-term objectives are strongly influenced by the personal goals and values of its chief executive officer. To the extent that the chief executive officer invests time and personal values in the chosen strategy, he or she represents an important source for clarification, guidance, and adjustment during implementation.

Major changes in strategy are often preceded or quickly followed by a change in chief executive officer. The timing suggests that different strategies require different chief executive officers if they are to succeed.

Research has concluded that a successful turnaround strategy "will require almost without exception either a change in top management or a substantial change in the behaviour of the existing management team". Clearly, successful strategy implementation is directly linked to the unique characteristics, orientation, and actions of the chief executive officer.

2. Assignment of Key Managers

A major concern of top management in implementing a strategy, particularly if it involves a major change, is that the right managers are in the right positions for the new strategy. Of all the tools for ensuring successful implementation, this is the one CEOs mention first. Confidence in the individuals occupying pivotal managerial positions is directly and positively correlated with top-management expectations that a strategy can be successfully executed (Mullins, 2000).

This confidence is based on the answers to two fundamental questions such as:

- Who holds the current leadership positions that are especially critical to strategy execution?
- Do they have the right characteristics to ensure that the strategy will be effectively implemented?

The relevant issue is in relation to the characteristics that are most important in this context. According to Mullins (2000), it would be impossible to specify this precisely, but probable characteristics include the following:

i) ability and education;

ii) previous track record and experience; and

iii) personality and temperament.

The above considerations, combined with gut feeling and top managers' confidence in the individual, provide the basis for this key decision.

Researches have been made to match "preferred" managerial characteristics with different grand strategies. These efforts are meant to capture, for example, the behavioral characteristics appropriate for a manager responsible for implementing an "invest to grow" strategy in contrast to those for a manager implementing a "harvest" strategy.

Widespread theoretical discussion of this idea notwithstanding, two recent studies covering a broad sample of companies did not find a single firm that matched managerial characteristics to strategic mission in a formal manner. Nevertheless, they did find several firms addressing such considerations in an informal, intuitive manner (Mullins, 2000).

The empirical evidence portrays that for effective implementation, different strategies require different skills. Nonetheless, many corporate executives still avoid too rigid an approach to matching managerial characteristics and strategy for reasons such as follows:

•

exposure to arid experience at managing different kinds of strategies and businesses is viewed as an essential component of managerial development;

- too rigid a differentiation is viewed as much more likely to result in some managers being typecast as "good builders" and some others as "good harvesters," thereby creating motivational problems for the latter; and

- a "perfect match" between managerial characteristics arid strategy is viewed as more likely to result in over-commitment (or) self-fulfilling prophecies, thus, a harvester becoming only a harvester as compared with a situation where there was some mismatch.

An important consideration in making key managerial assignments when implementing strategy is whether to emphasize current or -promotable -executives or bring in new personnel. This is obviously a difficult, sensitive, and strategic issue. Figure 13-2 highlights major advantages and disadvantages associated with either alternative.

While key advantages and disadvantages can be clearly outlined; actual assignment varies with the situation and the decision maker. Two fundamental aspects of the strategic situation strongly influence the managerial assignment decision: (1) the changes required to implement the new strategy and (2) the effectiveness of past organizational performance.

Advantages of using existing executives to implement new strategy are as follows:

- Already know key people, practices, and conditions.
- Personal qualities better known and understood by associates.
- Have established relationships with peers, subordinates, suppliers, buyers, etc.

· Symbolizes organisational commitment to individual careers.

The disadvantages of using existing executives to implement new strategy are as follows:

- Less adaptable to major strategic changes because of knowledge, attitudes, and values.
- Past commitments may hamper hard decisions required in executing a new strategy.
- Less ability to become inspired and credibly convey the need for change.

On comparable terms, advantages of using bringing in outsiders to implement a new strategy are as follows:

i) Outsider may already believe in and have "lived" the new strategy.

ii) Outsider is unencumbered by internal commitments to people.

iii) Outsider comes to the new assignment with heightened commitment and enthusiasm.

iv) Bringing in an outsider can send powerful signals throughout the organisation that change is expected.

2. The inherent disadvantages in bringing in outsiders to implement a new strategy are as follows:

i) Often costly, both in terms of compensation and “learning-to-work-together” time.

ii) Candidates suitable in all respects (i.e., exact experience) may not be available, leading to compromise choices.

iii) Uncertainty in selecting the right person.

iv) The “morale” costs when an outsider takes a job several insiders wanted.

v) There is likelihood of the outsiders performing poorly if not properly guided.

4.0 CONCLUSION

As we have discussed in this study unit, the advent of technology has great impact on the ways business organizations carry out their operations. Furthermore, the modern corporate entities cannot operate with a defined involvement of technology in one form or the other. We have discussed that the structure adopted by a business enterprise is affected by the chosen strategy of the enterprise. The choice of the best organizational structure is dependent on the organizational strategy of the firm.

In this unit, we also discussed that the use of technology is not sufficient to ensure successful execution of strategy even within best of organizational structure. Hence, the effectiveness of the actions of organizational subsystems is a function of leadership.

5.0 SUMMARY

This study unit has been used to discuss the following topics:

· Influence of Technology on Organization Structure

· Linking Structure to Strategy

· Role of Organizational Leadership

The next unit will be used to discuss case study.

6.0 TUTOR MARKED ASSIGNMENT

Mention and discuss the various ways through organizational operations can be affected by technology.

Answer to Self Assessment Exercise

1. The various in which technology can influence the behaviour of people in work

organizations are as follows:

i) It influences the specific design of each member's pattern of work including the nature and variety of activities performed, and the extent of autonomy and freedom of action.

ii) It affects the nature of social interactions, for example, the size and nature of work groups, the extent of physical mobility and of contacts with other people. A person working continuously on a single, isolated machine in a mass production factory will have very limited social interactions compared with, say, a team of receptionists in a large conference hotel.

iii) It can affect role position and the nature of rewards. People with higher levels of specialist technical knowledge and expertise such as engineers or systems analysts tend to receive higher status and pay than machine operators on an assembly line.

iv) It can impose time dimensions on workers and may require set times for attending to operations and a set pace of work; for example, the mechanical pacing of work on a mass-production assembly line.

v) It can result in distinguishing features of appearance; for example, the requirement to wear a standard uniform or protective clothing, compared with a personal choice of smart clothes.

2. The grave implications for using outsiders to implement a new strategy are as follows:

i) Often costly, both in terms of compensation and "learning-to-work-together" time.

ii) Candidates suitable in all respects (i.e., exact experience) may not be available, leading to compromise choices.

iii) Uncertainty in selecting the right person.

iv) The "morale" costs when an outsider takes a job several insiders wanted.

v) There is likelihood of the outsiders performing poorly if not properly guided.

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UNIT 14: CASE STUDY

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1.0 INTRODUCTION

Case studies constitute an integral aspect of the study of corporate strategic management. Case studies are in varied forms and may be presented in a number of different ways. Cases can be a brief account of events in organizational operations, which may be actual, contrived or a combination of both. Cases can also be formulated on hypothetical situations but portraying the normal business problems in respect of environmental upheavals such as changes in the internal operational methods, procedures, and processes.

There can be complex and multi-dimensional cases portraying the descriptive account of actual situations in the real organizational environment in areas of competitive postures of industry rivals and government policy measures. There are other external environmental variables such as technological changes, and changes in consumer tastes

and preferences. The present economic meltdown around the world also poses some operational rethink which calls for redesign of strategies with which to cope with its monumental impact.

The preceding study units have been utilized to discuss the theoretical underpinnings of corporate strategic management. In this study unit, therefore, case study is discussed necessarily to introduce you to the practical situations which will require you to make use of the concepts and ideas to which you have been exposed in this course material.

2.0 OBJECTIVES

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

· explain the concept of case study

· mention and discuss the objectives of case study

· identify and explain the necessary considerations in case analysis

· list and analyse the principles of case analysis

· analyse any given case about a corporate entity.

3.0 MAIN CONTENT

3.1 MEANING OF CASE STUDY

In the opinion of Hill and Jones (2004), case study presents an account of what happened to business over a number of years. Furthermore, it chronicles the events that managers have to deal with in the course of steering the affairs of the business organizations. To lay credence to this view, Mullins (2000) posits that case study is basically problem solving analysis and decision-making exercise.

The treatment of cases may require you to work on individual basis or it may involve group work with your classmates. In analyzing cases, you have to assume the position of either a manager in the company involved or a consultant. This is simply because you are required to solve the case as if you are a manager in the company or an outside consultant.

SELF ASSESSMENT EXERCISE 1

Explain the term ‘case study’.

3.2 OBJECTIVES OF CASE STUDY

Mullins (2000) and Hill and Jones (2004) outlines following objectives for a case study:

i)

It is meant to make you apply the theoretical knowledge to practical

situations;

ii) It is meant to provide you with an opportunity to demonstrate analytical ability, logical reasoning, judgement and persuasiveness and skills of communication in the presentation of answers;

iii)

It also provides a means of assessing your performance and ability to apply the knowledge you have gained from the theoretical background of corporate strategic management;

iv) If the case analysis is undertaken as a group, it provides a means of assessing both the performance of the group as a whole;

v) It provide you with experience of organizational problems that you probably have not had the opportunity to experience firsthand;

vi) Case analysis makes you have the opportunity to appreciate the problems faced by many business organizations;

vii) It also expose to the application of transfer learning which you should have gained from other areas such as your own organization;

viii) You will be able to evaluate the actions that some managers had taken which backfired that results in the case situation;

ix) By analyzing cases, you will be able to improve your skills of diagnostic investigation.

x) You will enjoy the thrill of testing your problem-solving ability in the real world.

SELF ASSESSMENT EXERCISE 1

Do you consider case analysis to be important to you? Give reasons for your answer.

3.3 PRELIMINARY CONSIDERATIONS IN CASE ANALYSIS

There are preliminary considerations which are imperative in an attempt to analyse a case. Such considerations are as given below:

i) Nature of the company's strategic posture (e.g., harvesting, divesting, downsizing, retrenchment, outsourcing, integration, etc);

ii) Nature company's organizational structure in relation to strategic posture;

iii) The leadership styles of the managers in the company;

iv) The company's strategic control system;

v) Composition of the staff strength of the company;

vi) The company's strategies for motivating the workers;

vii) Company's strategic business units;

viii) The company's choice of production technology or the level of technological innovation in operations;

ix) Nature of distribution strategy in relation to reaching out to the customers and

or usersof the company's products or services;

x) Franchising arrangement of the company, if any;

xi) Stregth of the labour union in the company; and

xii) Operational relationship among various departments, units or subsidiaries of

the company.

xiii) The identification of the company's internal strengths and weaknesses;

xiv) The nature of the external environment surrounding the company;

xv) An analysis of the company's opportunities and threats in its environment;

xvi) The kind of corporate-level strategy that the company is pursuing; and

xvii) The nature of the company's business-level strategy.

3.4 PRINCIPLES FOR ANALYSIS OF A CASE MATERIAL

The following principles, according to Mullins (2000), are important in the analysis of a case material:

i) Read the whole of the case study;

ii) Read the case study a second time;

iii)

Look the material carefully and try to identify with the situation;

iv) Check carefully on exactly what you are required to do and instructions to

present your answer;

v)

Apportion available time to different parts of the case, if any;

vi)

Approach the analysis of the case with an open mind;

vii)

Refrain from bias or prejudice to avoid any predisposition that may influence

your perception of the case material;

viii)

Adopt a brainstorming approach and take the case apart by exploring all

reasonably possible considerations;

ix)

Search for any hidden meanings and implicit issues and information;

x)

Study all the details provided in the case material to extract facts for relevant

deductions or inferences from the case material;

xi)

Concentrate on what you think to be he more important matters as opposed to irrelevant or any red herrings that may confuse you;

xii)

The use of margin notes, underlining, numbering, colours or highlighting pens

may all be useful;

xiii)

Do not make your analysis too complicated or confused

xiv)

Where necessary, relate your analysis of the case material to your theoretical

studies, general points of principle and the work of leading writers;

xv)

The use of diagrams, charts or tables may enhance the presentation of your answer, but make sure such displays are accurate and clear and relate directly to your analysis of the case material, and to the questions of the case;

xvi)

Bearing in mind the question, clearly identify existing or potential difficulties

or problem areas and indicate where you see the need for most urgent action;

xvii)

Draw up a plan of key points as the basis of your answer

xviii)

Where you have identified a number of possible courses of action, indicate

your recommendation priorities;

xix) Give reasons in support of your recommendations; and

xx) Allow time to read through and check your work.

SELF ASSESSMENT EXERCISE 2

Mention the important principles in the analysis of a case material.

4.0

CONCLUSION

The foregoing analysis has enabled you to understand the essence of case study. We discussed the objectives of a case study, which are the benefits you can derive from analyzing a case material. We also discussed the preliminary considerations for analysis of a case material. Lastly, the approach to case analysis was also considered in this study unit.

5.0 SUMMARY

This study unit has been used to discuss.

· Meaning of case study

· The objectives of a case study

· Preliminary considerations in the Analysis of a Case Material

· Principles for Analysis of a Case Material.

This being the last study unit of the course, it is expected that you have covered the preceding study units in a very meticulous manner. This is important because you need to study all the units towards gaining appropriate knowledge that will put you in good stead for surmounting challenges of dealing with human beings in your own organization.

6.0 TUTOR-MARKED ASSIGNMENT

Toyota Motor Corporation has adjusted its forecast and now estimates a loss equivalent to US $4.9 billion for the 2008 fiscal year, which ended March 31st, 2009. It is the company's first loss since 1950. Consolidate vehicle sales for the third quarter, which ended December 31st, 2008, were 1.84 million units, a decrease of 443,000 vehicles compared to the same period in 2007. In Japan, sales dropped by 76,000 vehicles to 465,000, while in the U.S., sales dropped by 235,000 vehicles to 521,000 units.

In other markets, sales fell by 73,000 vehicles in Europe,; by 19,000 in Asia; and by 40,000 In Central and South America, Oceania, Africa and the Middle East. "Both revenues and profits declined severally during this period," said vice-president Mitsuo Kinoshita. "The negative results are largely due to lower vehicle sales volume under difficult market conditions mainly in the U.S. and Europe, and the rapid appreciation of the yen against the U.S. dollar and the Euro."

Toyota estimated vehicle sales for the fiscal year will be 7.32 million units, a decrease of 220,000 vehicles from the forecast it announced in December 2008. Konishita said that the company has been operating under the 'Emergency Profit Improvement Committee" since November 2008.

… "There are a lot of rumours going around right now, but it does not look gooo," Lee Sperduti, a long-time Toyota worker has said. "A lot of workers here (at both plants) are very worried. They are fearing for their jobs … They used to say Toyota was recession-proof. Now, that has changed." The shop floor is rife with rumours Toyota may reduce the speed of its production line …"

… "We are just not selling cars, just drive by and look at the parking lots and they are full. No one is buying," said Sperduti.

(Source: Fadeyi, S. (2009, February 12). "Global financial crisis: Toyota forecasts US$5bn loss", Financial

Standard, Lagos, p.22.

Case Questions:

i) What are the reasons responsible for the situation in Toyota Motor Corporation?

ii) What type of marketing functional strategy being used by Toyota Motor Corporation?

iii) What are the strategic options available to Toyota Motor Corporation in tackling its

present predicament?

iv) What should Toyota Motor Corporation do to assuage the workers' fear in this circumstance?

v) What are the likely future marketing options available to Toyota Motor Corporation in

its international operations?

vi) What should Toyota Motor Corporation do to elicit buyers interest in its range of vehicles?

vii) What strategic action should Toyota Motor Corporation take in the case of the

Nigerian market?

viii) What are the options for cost control and cost reduction in the operations of the Company?

Answer to Self-Assessment Exercise

1. Reasons why case study is important to you are as follows:

i) Makes you apply the theoretical knowledge to practical situations;

ii) Provides you with an opportunity to demonstrate analytical ability and skills of communication;

iii) Provides you with a means of assessing your performance and ability to apply the knowledge you have gained from the theoretical background of organizational behaviour;

iv) Provides you with experience of organizational problems;

v) Makes you have the opportunity to appreciate the problems faced by many different companies;

vi) Exposes you to the application of transfer learning;

vii) Makes you to evaluate the actions managers had taken which backfired;

viii) Helps to improve your skills of diagnostic investigation.

ix) Affords you the opportunity of testing your problem-solving ability in the real world.

2. The important principles in the analysis of a case material are as follows:

i) Read the whole of the case study;

ii) Read the case study a second time;

iii) Look the material carefully and try to identify with the situation;

iv) Check carefully on exactly what you are required to do and instructions to present your answer;

v) Apportion available time to different parts of the case, if any;

vi) Approach the analysis of the case with an open mind;

vii) Refrain from bias or prejudice to avoid any predisposition that may influence your perception of the case material;

viii) Adopt a brainstorming approach and take the case apart by exploring all reasonably possible considerations;

ix) Search for any hidden meanings and implicit issues and information;

x) Study all the details provided in the case material to extract facts for relevant deductions or inferences from the case material;

xi) Concentrate on what you think to be he more important matters as opposed to irrelevant or any red herrings that may confuse you;

xii) The use of margin notes, underlining, numbering, colours or highlighting pens may all be useful;

xiii) Do not make your analysis too complicated or confused

xiv) Where necessary, relate your analysis of the case material to your theoretical studies, general points of principle and the work of leading writers;

xv) The use of diagrams, charts or tables may enhance the presentation of your

answer, but make sure such displays are accurate and clear and relate directly to your analysis of the case material, and to the questions of the case;

xvi) Bearing in mind the question, clearly identify existing or potential difficulties or problem areas and indicate where you see the need for most urgent action;

xvii) Draw up a plan of key points as the basis of your answer

xviii) Where you have identified a number of possible courses of action, indicate

your recommendation priorities;

xix) Give reasons in support of your recommendations; and

xx) Allow time to read through and check your work.

7.0 REFERENCES

Hill, W. L. and Jones, R. J. (2004). Strategic Management: An Integrated Approach, Sixth Edition, New Delhi: Biztantra.

Mullins, L. J. (2000). Management and Organizational Behaviour, 4th Edition, London: Pitman Publishing.

· FURTHER READING

Pearce II, J. A. (1998). Strategic Mnangement: Strategy Formulation and Implementation, Third Edition, Krishan Nagar Delhi: All India Traveller Book Seller.