NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: MBA 898

COURSE TITLE: BUSINESS POLICY

COURSE MATERIAL DEVELOPMENT

Course Code	MBA 898
Code Title	Business Policy (3 credits units)

Course Team: Mr. E. U. Abianga (Writer/Developer) NOUN

(Content Editor) NOUN

(Programme Leader) NOUN

Mrs. C. Aturu-Agedo (Coordinator) NOUN

COURSE GUIDE

1.0 INTRODUCTION

MBA 898 Business Policy is a one semester, course of three credit units for students of Masters' in Business Administration which serves as compulsory course for the MBA programme of the School of Management Sciences. This course consists of sixteen units. The material has been developed to suit students for their learning process and prepare them as potential or active entrepreneurs. This course guide tells you briefly what the course is about, what course materials you will be using and how you are to use them. It provides some general guidelines for the amount of time you might be spending in order to successfully

completed each unit of the course.

2.0 COURSE AIMS

The aim of this course is to explain business and identify it as the basis for guiding the

management and organization of an enterprise

3.0 COURSE OBJECTIVES

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

. Understand the basic considerations in business policies

. Understand the functions and responsibilities of an enterprises general management unit

. Identify problems associated with the management of an enterprise

. Understand the design and implementation of corporate strategies

4.0 WORKING THROUGH THE COURSE

This course, MBA 898- Business Policy expects you to do a lot of reading in order to cover the materials in the course material. It implies that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals in research. The course material has been made easy to read and user-friendly.

To complete this course you are required to read the study units in each module, read also the suggested full books and other materials that will help you achieve the objectives. Each unit contains self-assessment exercises and at intervals in the course you are required to submit assignment for assessment. There will be a final examination at the end of the course.

5.0 COURSE MATERIALS

The National Open University of Nigeria provides you with the following items:

. Course Guide

. Study Units

In addition, at the end of every unit is a list of texts for your references and for further reading. It is not compulsory for you to read all of them. They are only essential supplements to this course material.

6.0 STUDY UNITS

The study units in this course are located under Modules as follows:

MODULE 1 BASICS ABOUT BUSINESS POLICY

Unit 1 Business Policy – Definition and Discussion of Concepts

Unit 2 Evolution of Business Policy as a Discipline

Unit 3 Characteristics of Policy

Unit 4 Kinds/Types of Policies

Unit 5 Nature, Objectives and Purposes of Business Policy

Unit 6 Organizational Policies

Unit 7 Functions and Responsibilities of Business Policy in management

MODULE 2 CONCEPT OF CORPORATE STRATEGY

Unit 1 The concept of corporate strategy

Unit 2 Concept of strategy in relation to business and corporation

Unit 3 Management linkages between organization and their environments

Unit 4 Introducing a formal strategic planning system in a business

MODULE 3 CONCEPTS OF POLICIES

Unit 1 Concepts of policies

Unit 2 Business Objectives

Unit 3 Performance criteria

Unit 4 Structure and managerial behaviours

MODULE 4 BUSINESS SYSTEM

Unit 1 Calculating simple financial and economic indices from business data

Unit 2 Other accounting information

Unit 3 Learning opportunities and threats of business system

Unit 4 Learning strengths and weakness of business system

The modules and units are self explanatory as they summarize Business Policy for 400 level students of Bachelors' degree of Entrepreneurial and Business Management. You will need to work in groups with other students in this course and program in order to discuss, compare notes and thoughts in order to exchange and share ideas.

7.0 ASSESSMENTS

There are two aspects to the assessment of the course: first are the tutor-marked assignments (TMA); and the end of course examination. Within each unit are self assessment exercises which are aimed at helping you check your assimilation as you proceed. Try to attempt each of the exercises before finding out the expected answer from lecture.

8.0 TUTOR-MARKED ASSIGNMENT (TMA)

This is your continuous assessment and accounts for 30% of your total score. You are expected to answer at least four TMA's, three of which must be answered and submitted before you sit for the end of course examination. Your Facilitator will give you the TMA's and you must submit to your Centre your responses.

9.0 FINAL EXAMINATION AND GRADING

With this examination written successfully, you have completed your course in Basic Research and one believes you would apply your knowledge (new or up-graded) in your project. The 'end of course examinations' would earn you 70% which would be added to your TMA score (30%). The time for this examination would be communicated to you.

Table 1: Course Marking Scheme

ASSESSMENT MARKS

Assignment (TMAs) 1 – 4 Four (4) assignments, best three (3)

marks of the four account at 10%

each = = 10 x 3 = 30%

End of course examination 70% of overall course marks

Total 100% of course marks

10.0 HOW TO GET THE MOST FROM THIS COURSE

In distance learning, the study units are specially developed and designed to replace the conventional lectures. Hence, you can work through these materials at your own pace, and at a time and place that suits you best. Visualize it as reading the lecture.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your set books or from a Reading Section.

Activities are interspersed throughout the units, and answers are given at the end of the units.

Practice these self-assessment exercises to help you to achieve the objectives of the units and prepare you for the assignments and the examinations. Keep tap with your facilitator for assistance.

In summary:

(1) Try to read this course guide.

(2) Organize a study schedule.

(3) Do everything you can to stick to the schedule.

(4) Assemble the study materials.

(5) Work through the unit.

The content of the unit itself has been arranged to provide a sequence

for you to follow. As you work through this unit, you will be instructed to read sections from your set books or other further readings.

(6) Review the objectives for each study unit confirms that you have achieved them.

If you feel

unsure about any of the objectives, review the study material or consult.

(7) When you are sure of having achieved a unit's objectives, you can then start on the next unit.

(8) After

completing the last unit, review the course and prepare yourself for the final

examination. Check that you have achieved the unit objectives and the course objectives.

To gain the maximum benefit from course tutorials, prepare a question list before attempting them.

11.0 SUMMARY

This course ENT 428 is designed to give you some knowledge which would help you to understand Analysis of Financial Statement of business enterprise Endeavour to go through this course successfully and you would be in a good position to pass your examination at the end of the semester

We wish you success in this life-long and interesting course. GOOD LUCK.

COURSE DESCRIPTION AS IN THE OPP/DPP

Type of business policies; business policy as a field of study; functions and responsibilities of general management; the concept of corporate strategy; concept of strategy in relation to business, corporations and management; linkages between organization and their environments; introducing a formal strategic planning system in a business firm; concepts of policies, decision making, business objectives, performance, criteria, structure and managerial behaviours; practice in calculating simple financial and economic indices from business data and other accounting information; learning opportunities and threats, strength s and weaknesses of business system

COURSE MATERIAL DEVELOPMENT

Course Code ENT 428

Code Title Business Policy (2 credits units)

Course Team: Mr. E. U. Abianga (Developer/Writer) NOUN

(Editor) NOUN

(Programme Leader) NOUN

Mrs. C. Aturu-Aghedo (Coordinator) NOUN

MODULE 1 BASICS ABOUT BUSINESS POLICY

Unit 1 Business Policy – Definition and Discussion of Concepts

Unit 2 Evolution of Business Policy as a Discipline

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MODULE 1 BASICS ABOUT BUSINESS POLICY

UNIT 1 BUSINESS POLICY – DEFINITION AND DISCUSSION OF CONCEPT

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1.0 INTRODUCTION

You are welcomed to this course ENT 428 and in the first unit of the first module of this course.

Every organisation has a purpose for which it was established – either for profit making or nonprofit making, closely allied to the purpose of an organisation are the principles on which it is to be conducted. These principles in business parlance are commonly called "Policy". Policy, according to Kalejaye (1998), denotes a future course of action of intent towards the activities of an organisation.

He opined that there is more to the meaning of policy than an expression of intent. To him, there is usually the connotation that policies should express the beliefs of the organisation, the things that are right to do and the courses of action which it ought to take in the organisation. This explains why policies on the same subject can be so different from one organisation to another.

Every business requires guidelines which are to be embedded in policy. Policy is a decision rule, not a decision (Ackoff 1993). Principles in business parlance are commonly known as policy. Policy denotes a future course of action of intent towards the activities of an organization.

In this unit, you will be introduced to the meaning of business policy in order to prepare you for all the associated ideas about the concept in business management. We shall also highlight the reasons why business policy is necessary. Finally, we shall explain business policy implementation in an organisation.

I believe you have read the course guide and have a general understanding of this course unit and how it fits into the course as a whole. You will see the objectives below specify what you are expected to learn after reading this unit.

2.0 OBJECTIVES

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

. Define business policy

. State the need for business policy

. Explain business policy implementation in organization

3.0 MAIN CONTENT

The introductory unit is intended to familiarize you with business policy. It starts with a description of business policy. It starts with a description into the development process that evolved before learners like you got the opportunity to study this course.

Next, we shall introduce you to the nature of business policy where its definition is also provided. You should be convinced of the importance of the business policy course to be motivated to learn it better. Hence, we have to be clear about the purpose and objectives of the course that we are learning. The objectives of the course have been described in terms of knowledge, skills and attitudes. It is essential to know what to expect from this course and in which direction the learning objectives are likely to take the students.

3.1 Definition of Policy

What comes to your mind when the word policy is mentioned? As stated in the introduction earlier, policy is defined as a decision rule not a decision. For example, of a policy- Hire only professionally qualified accountants for senior accounting positions. When such a person is hired it is a decision.

A policy is considered the general guideline for decision making. Kalejaye, A. (1998) defined policy as the objectives, the mode of thought and the body of principle underlying the activities of an organization

According to Fagbemi (2006) a policy refers to what an organization or a person intends to do or does. Business policy therefore is what business organization intends to do. It aims at assisting the organization to deliver services to meet the needs and expectations of the goals of the organization.

Policies are plans in that they are general statements or understandings that guide or channel thinking in decision making. In actual business situation, not all policies are “statements”; they are often merely implied from the action of managers. The president of a company (organization), for example may strictly follow-perhaps for convenience rather than as policy-the practice of promoting from within; the practice may be interpreted as policy and carefully followed by subordinates. Weighrich & Koontz (2005)

To be candid, it is incumbent upon the managers to ensure that subordinates do not interpret as minor managerial decisions that are not intended to serve as patterns.

Business policy is a guide and roadmap to create awareness and direction to the management of any organization. It publicizes the rights and obligations of different rung of the ladder-horizontal and vertical-of the different capital be human resource engagement, finance utilization etc. It ensures that organizations deliver better end product within a framework. It encourages, promotes and improves performance attainment in an organization.

Policy provides the bedrock for vision and mission statement of the business organization along the corporate objectives and goal. Policy enables the business to be assessed and given an image by the way the carry out their responsibility along with their relationship with their clients/customers. It is the ‘barometer’ of playing by the rule and gives purpose to the strategy thrust of the organization.

Self-Assessment Exercise 1.1

Define a policy.

3.2 Definition of Business

Wikipedia (2012) states that a business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers.[1] Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning.

The etymology of "business" relates to the state of being busy either as an individual or society as a whole, doing commercially viable and profitable work. The term "business" has at least three usages, depending on the scope — the singular usage to mean a particular organization; the generalized usage to refer to a particular market sector, "the music business" and compound forms such as agribusiness; and the broadest meaning, which encompasses all activity by the community of suppliers of goods and services. However, the exact definition of business, like much else in the philosophy of business, is a matter of debate and complexity of meanings.

Although forms of business ownership vary by jurisdiction, there are several common forms:

. Sole proprietorship: A sole proprietorship is a business owned by one person for-profit. The owner may operate the business alone or may employ others. The owner of the business has unlimited liability for the debts incurred by the business.

. Partnership: A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of for-profit partnerships are general partnerships, limited partnerships, and limited liability partnerships.

. Corporation: A corporation is a limited liability business that has a separate legal personality from its members. Corporations can be either government-owned or privatelyowned, and corporations can organize either for-profit or not-for-profit. A privately-owned, for-profit corporation is owned by shareholders who elect a board of directors to direct the corporation and hire its managerial staff. A privately-owned, for-profit corporation can be either privately held or publicly held.

. Cooperative: Often referred to as a "co-op", a cooperative is a limited liability business that can organize for-profit or not-for-profit. A cooperative differs from a for-profit corporation in that it has members, as opposed to shareholders, who share decision-making authority. Cooperatives are typically classified as either consumer cooperatives or worker cooperatives. Cooperatives are fundamental to the ideology of economic democracy.

Self Assessment Exercise 1.2

What is a business?

3.3 Definition of Business Policy

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization (Wikipedia, 2012). It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions. Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved.

Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run.

1. Specific- Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.

2. Clear- Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.

3.

Reliable/Uniform-Policy must be uniform enough so that it can be efficiently followed by the subordinates.

4.

Appropriate-Policy should be appropriate to the present organizational goal.

5.

Simple-A policy should be simple and easily understood by all in the organization.

6.

Inclusive/Comprehensive-In order to have a wide scope, a policy must be comprehensive.

7.

Flexible-Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.

8.

Stable-Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

Rama Rao (2010) gave some useful definitions of Business Policy as follows:

(1) A business policy is an implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.

(2) A business policy is
one, which focuses attention on the strategic allocation of scarce
resources. Conceptually speaking strategy is the direction of such resource allocation while planning is the limit of allocation.

(3) A business policy represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions.

(4) A business policy is the study of the nature and process of choice about the future of

independent enterprises by those responsible for decisions and their implementation.

(5) The

purpose of a business policy is to enable the management to relate properly the organization's work to its environment. Business policies are guides to action or channels to thinking.

3.3.1 Difference between Policy and Strategy

The term "policy" should not be considered as synonymous to the term "strategy". The difference between policy and strategy can be summarized as follows:

1.

Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.

2.

Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.

3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.

4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action.

A policy is what is, or what is not done. While a strategy is the methodology used to achieve a target as prescribed by a policy.

Self Assessment Exercise 1.3

1. Define, in your own words, the concept 'Business Policy'.

2. State the major differences between a policy and a strategy.

3.4 Objectives of Business Policy

The main objective of business policy is performance driven which ensures delivery of service or product depending on purpose of which the business was set up-service or product oriented.

Business policy specific objectives ensure:

. Efficiency and effectives in performance of duties

. Equal provision of services and treatment of customers

. Better management and provision of better quality services

. The utilization and application of resources

. The formulation mission statement

. The establishment of vision of the organization

Policies are always aligned with the objectives of the enterprise if it is to be effective. All policies follow parallel courses and directly related to objectives. If they cross or oppose objectives, collective effect is lost and disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy (Kalejaye, 1998).

The major reasons for having policies are as follows:

3.4.1 Why Create Business Policies?

No matter what the size of the business, business policies can be simple to write and implement, while adding structure to the great things you are already doing.

Specifically, business policies:

. drive strategic planning, and help set expectations and performance objectives.

. lead to more efficient internal operations.

. engage and align the values of stakeholders; and build mutual understanding of expectations and challenges.

. ensure accountability and create transparency.

. promote ethical and responsible decision-making.

. assess and mitigate risk.

. streamline new staff orientation; having established written policies that staff can refer to creates consistency, clarity, and provides an understanding of the goals and culture of the company.

. result in time savings: proactively thinking about how specific situations and issues will be handled eliminates having to discuss and debate how to handle issues every time they come to the forefront.

. meet legal requirements; some laws require employers to adopt certain policies to guide the actions of their staff and management. Example: Discrimination/Harassment Policy.

Self-assessment exercise 1.4

What are the objectives of Business Policy?

4.0 CONCLUSION

In conclusion, it is deduced that every organization including business requires a policy as a decision rule to guides the activities and performance of the business to eventually achieve goals and objective of the organization.

5.0 SUMMARY

In this unit, we have made an overview of the concept 'business policy'. The concepts policy, business and business policy had also been respectively defined. We have also identified the reasons for business policy. Finally, we listed and briefly explained the objectives of a business policy.

In the next unit, we shall trace the evolution of business policy as a discipline.

6.0 TUTOR MARKED ASSIGNMENT

1) Define a Business Policy.

2) What are main objectives of Business Policy?

3) Why does a business create policy?

7.0 REFERENCES/FURTHER READING

Ackoff, R. L (1993). The Role of Business in a Democratic Society A Portable MBA Edited by

Collins, EGC & Devanna, M. A. Ibadan Spectrum Books Limited.

Fagbemi, A. O (2006). Customer Service Delivery in Public Sector Management Lagos, Concept Publications Limited.

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Rama Rao, V. S. (2010). Business Policy. downloaded on November 3, 2010 from

http://www.citeman.com/11809-nature-of-business-policy.html#ixzz1naSwscRY

Weighrich, H & Koontz, H (2005) Management – A Global Perspective Eleventh Edition New Delhi Tata McGraw-Hill Publishing Company Limited.

UNIT 2 EVOLUTION OF BUSINESS POLICY AS A DISCIPLINE

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we gave an overview of the concept 'business policy'. We defined the concepts policy, business and business policy. We also identified the reasons for business policy. Finally, we listed and briefly explained.

In this unit, we shall trace the evolution of business policy as a discipline.

2.0 OBJECTIVES

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

(i) trace the evolution of business policy as a discipline;

(ii) discuss the genesis of business policy;

(iii) trace the evolution of business policy based on managerial practices;

(iv) discuss the historical perspective of the evolution of business policy;

(v) predict the future business policy in regard to managerial practices.

3.0 MAIN CONTENT

3.1 Evolution of Business Policy as a Discipline

Kazmi (2006) states that business policy is a mandatory course which is usually included in a typical management studies curriculum. According to him, almost all management education programmes offered by the universities and management institutes in Nigeria include business policy course (by whatever nomenclature it may be addressed) normally in the latter part of a degree or diploma programme.

3.2 The Genesis of Business Policy

Tracing the history of business policy, Kazmi (2006) stated that its can be traced back to 1911, when the Harvard Business School introduced an integrative course in management aimed providing general management capability. This course was based on case studies which had been in use at the School for instructional purposes since 1908 (Christensen, et. al., 1982 cited in Kazmi, 2006). However, the real impetus for introducing business policy in the curriculum of business schools (as management institutes or departments are known in the United States) came with the publication of two reports in 1959. The Gordon and Howell report, sponsored by the Ford Foundation, had recommended a capstone course of business policy which would "…….give students an opportunity to pull together what they have learned in the separate business fields and utilize this knowledge in analysis of complex business problems" (Gordo and Howell, 1959, quoted in Kazmi, 2006). The Pierson report, sponsored by the Carnegie Foundation, and published simultaneously, had made a similar recommendation.

In 1969, the American Assembly of Collegiate Schools of Business), a regulatory body for business schools, made the course of business policy a mandatory requirement for the purpose of recognition. In the last two decades, business policy has become an integral part of management education curriculum. The practice of including business policy in the management curriculum has spread from the United States to other parts of the world. The contents of the course, teaching methodology and so on vary from institution to institution. But basically, business policy is considered a capstone integrative course offered to students who have already been through a set of core functional area courses. The term "business policy" has been used traditionally though new titles such as strategic management, corporate strategy and policy and so on are now used extensively for the course. The discussion has so far been related to the academic status of the business policy course. In practice, however, the development has been along different lines.

3.3 Evolution based on Managerial Practices

Glueck and Jauch (1984 cited in Kazmi, 2006) have viewed the development in business policy as arising from the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers, till recently, tried to anticipate the future through the preparation of budgets and by using control systems like capital budgeting and management by objectives. However, as these techniques were unable to emphasise the role of the future adequately, long-range planning came into use. But, soon, long-range planning was replaced by strategic planning, and later, by strategic planning – a term that is currently being used to describe "the process of strategic decision-making". Strategic management forms the theoretical framework for business policy courses today.

3.4 Historical Perspective of the Evolution of Business Policy

Hofer et. al., (1984) have viewed the evolution of business policy in terms of four paradigm shifts. For the sake of convenience, these shifts may be considered as four overlapping phases in the development of the subject, business policy. It is interesting to note that the development of business policy, as a field of study, has closely followed the demands of real-life business.

According to Hofer et. al. (1984) (referred to above), the first phase which can be traced to the mid-1930s, rested on the paradigm of ad-hoc policy-making. The need for policy-making arose due to the nature of the American business firms of that period. The first, which had originally commenced operations in a single product line catering to a unique set of customers in a limited geographical area, expanded in one or all of these three dimensions. Informal control and coordination became partially irrelevant as expansion took place and the need to integrate functional areas arose. This integration was brought about by framing policies to guide managerial action. Policy-making became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management. Due to the increasing environmental changes in the 1930s and 40s in the United States, planned policy formulation replaced ad-hoc policy-making. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.

Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the needs of a business could no longer be served by policy-making and functional area integration only. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship to the environment. The concept of strategy satisfied this requirement and the third phase, based on a strategy paradigm, emerged in the early sixties. The current thinking – which emerged in the eighties – is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the strategic process of business firms and the responsibilities of general management.

The story is far from over. As Thompson and Strickland (1984) say, the approaches and methods of analysis of strategic management "have not yet coalesced into a 'theory' of how to manage an enterprise, but "they very definitely do represent a powerful way of thinking to resolve strategic issues".

3.5 Pointers to the Future

The resolution of strategic issues that affect the future of a business firm has been a continual endeavour in the subject of business policy. The endeavour is based on the development of strategic thinking. As Whitefield says "really useful training (in strategic management should yield) …. a comprehension of a few general principles with a thorough grounding in the way they apply to a variety of concrete details" (Whitefield, 1963, quoted in Kazmi, 2006). Most likely, the students will forget the details and principles but "remember (usually unconsciously) new, non-obvious ways of thinking strategically" (Kazmi, 2006). The general principles undergirding strategic thinking have been the focus of the efforts of researchers and academicians in the field of business policy. What, then, are these general principles? As a first step, the model of strategic management that has developed so far, and is under constant review, incorporates these general principles.

The direction in which strategic management is moving can be anticipated from what Ansoff calls an emerging comprehensive approach of "management of discontinuous change, which takes account of psychological, sociological, political, and systemic characteristics of complex organizations" (Ansoff, 1984).

With the emergence of futuristic organizations, which, in the words of Toffler, are no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual, and social problems," (Toffler, 1980) the demands on business policy are expected to rise tremendously. The general managers of tomorrow may be called upon to shoulder a set of entirely new responsibilities necessitating a drastic review of the emerging concepts and techniques in business policy. Responding to the need for evolving new approaches to the teaching of business policy, the AACSB no longer insists on the provision of just one course in this area. Now there is an emerging trend to have several courses, such as, the theory of strategic competitive strategy, industry dynamics, hyper-competition, and global strategy in the curriculum (Kazmi, 2006).

While reviewing the development of strategy and theory, Rumelt, Schendel and Teece (1994) posed four fundamental questions which, in their view, characterize the major concerns of strategic management. These four fundamental questions are (Rumelt et. al., 1994):

1. How do firms behave? Or, do firms really behave like rational actors, and, if not, what models of their behavior should be used by researchers and policy-makers?
2. Why are firms different? Or, what sustains the heterogeneity in resources and performance among close competitors despite competition and imitative attempts?
3. What is the function of or the value added by the headquarters unit in a diversified firm? Or, what limits the scope of a firm?
4. What determines success or failure in international competition? Or, what are the origins of success and what are their particular manifestations in international settings or global competition?

In dealing with most of the issues raised by these fundamental questions, we would need to look at what has been happening in Nigerian business scene.

4.0 CONCLUSION

We have gained familiarity with the course of business policy and strategic management by learning about its history and its present status. We have also learnt what to aim for in this course. The main points covered in this unit are as follows:

. It is interesting to know about the evolution of any course that you learn. We learn from different perspectives that business policy has had an interesting history. We have seen the genesis of business policy from the perspective of the administrative steps that were taken to make this course a part of the management curriculum, the evolution of managerial practices in the area of planning, and in historical terms we saw four paradigm shifts in the development of the business policy course.

. The paradigm shifts that denote the development of the strategic management discipline are those of ad-hoc policy-making, planned policy formulation, a concept of strategy, and the emergence of strategic management. We also noticed that the discipline of strategic management is still in a state of development as a firm basis for its theorization is yet to emerge.

. There are pointers to its future development as we note the advances in the refinement of the strategic management process and models. New courses, specialties, and functional questions have emerged to guide the development.

. The significant issues that confront the theory and practice of strategic management revolve around the questions of how firms behave. Why are firms different? What is the function of or the value added by the headquarters unit in a diversified firm? And what determines success or failure in the face of international competition?

5.0 SUMMARY

In this unit, we have

. traced the evolution of business policy as a discipline;

. discussed the genesis of business policy;

. traced the evolution of business policy based on managerial practices;

. discussed the historical perspective of the evolution of business policy;

. predicted the future business policy in regard to managerial practices.

In the next unit, we shall examine the nature, objective and purpose of business policy.

6.0 TUTOR-MARKED ASSIGNMENT

Questions

1. Business policy is a capstone, integrative course. Explain.

2. In what direction is strategic management likely to move in the future?

3. Around what questions does strategic management revolve?

4. Who are the persons constituting the senior or top management in an organization?

Application:

1. Trace the origins of the business policy course.

2. Charles Hofer and others have described the evolution of business policy in terms of four paradigm shifts. Explain their viewpoint.

3. Discuss the significant pointers to the development of business policy in the foreseeable

future.

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UNIT 3 NATURE, OBJECTIVE AND PURPOSE OF BUSINESS POLICY

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we gave an overview of the concept ‘business policy’. We defined the concepts policy, business and business policy. We also identified the reasons for business policy. Finally, we listed and briefly explained.

In this unit, we shall trace the evolution of business policy as a discipline.

2.0 OBJECTIVES

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

(i) state the nature of business policy;

(ii) highlight the importance of business policy;

(iii) enumerate the purposes of business policy

(iv) list the objectives of business policy.

3.0 MAIN CONTENT

3.1 The Nature of Business Policy

Before we proceed to understand the nature of business policy, let us witness these situations, as reported in an issue of a reputed business magazine in India: (Business India, 1999, cited in Kazmi, 2006).

. Exide reaps the benefits of its strategies, which include modernization, expansion, and acquisitions, to become the integrated leader in the battery sector.

. Costly expansions and poor demand have forced JK Corp to rework its strategies. It is now banking its future on its core paper business. This will come through the divestment of its cement division, Laxmi Cements, and the acquisition of the Central Pulp Mills.

. Tisco is using divestments and mergers to restructure its core businesses of steel, allied industries, refractory, and engineering.

. Exim Bank (the Export and Import Bank of India), established in the early eighties with the objective of extending support to Indian exporters and importers, still remains small given the Indian economy's requirements. As it faces tough competition from the scheduled commercial banks it needs a strategic vision to cope with the increasing competition in the new millennium.

From the above reports, we can see that when a company either promotes a joint venture, divests a part of its business, embarks upon an expansion programme, undertakes mergers and acquisitions or takes other similar actions which have a long-term impact on its future operations and status, those are a result of senior management decision-making. The senior management in any organization is primarily responsible for guiding the future course of action and for providing a sense of direction. Business policy attempts to inculcate the capability for senior management in one toward these ends.

As defined by Christensen et. al. (1982 quoted in Kazmi, 2006), business policy is "the study of the function and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identify and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstances" (Christensen, et. al., 1982).

This comprehensive definition covers many aspects of business policy. Firstly, it is considered as the study of the functions and responsibilities of the senior management related to those organizational problems which affect the success of the total enterprise. Secondly, it deals with the determination of the future course of action that an organization has to adopt. Thirdly, it involves a choosing the purpose and defining what needs to be done in order to mould the character and identity of an organization. Lastly, it is also concerned with the mobilization of resources, which will help the organization to achieve its goals.

The senior management consists of those managers who are primarily responsible for long-term decisions, and who carry designations, such as, Chief Executive Officer, President, General Manager, or Executive Director. These are persons who are not concerned with the day-to-day problems but are expected to devote their time and energy to thinking and deciding about the future course of action. With its concern for the determination of the future course of action, business policy lays down a long-term plan, which the organization then follows. While determining the future course of action, the senior management has a mental picture of the type of organization they want their company to become.

While deciding about a future course of action, the senior management are confronted with a wide array of decisions and actions that could possibly be taken. The senior management exercises a choice, on the basis of given circumstances, and which, in their opinion, would lead the organization in a specific direction. By moving in a predetermined direction, an organization can attain its planned identity and character.

Organizational decisions are not made in isolation and managerial actions cannot be taken without providing the resources necessary for them. While deciding about the future course of action, the senior management concern themselves with the financial, material and human resources that would be required for the implementation of the long-term plans.

3.2 The Importance of Business Policy

Kazmi (2006) opined that business policy is important as a course in the management curriculum and as a component of executive development programmes for middle-level managers who are preparing to move up to the senior management level. A study of business policy fulfills the needs of management students as well as those of middle-level managers. To highlight the importance of business policy, we shall consider four areas where this course proves to be beneficial.

3.2.1 Learning the Course

Business policy seeks to integrate the knowledge and experience gained in various functional areas of management. It enables the learner to understand and make sense of the complex interaction that takes place between different functional areas.

Business policy deals with the constraints and complexities of real-life businesses. In contrast, the functional area courses are based on a structured, specialized and well-developed body of knowledge, resulting from a simplification of the complex overall tasks and responsibilities of the management.

To develop a theoretical structure of its own, business policy cuts across the narrow functional boundaries and draws upon a variety of sources – other courses in the management curriculum and a wide variety of disciplines, like economics, sociology, psychology, political science, and so on. In so doing, business policy offers a very broad perspective to its students.

Business policy makes the study and practice of management more meaningful as one can view business decision-making in its proper perspective. For instance, in the context of business policy, a short-term gain for a department or a sub-unit is willingly sacrificed in the interest of the long-term benefit that may accrue to the organization as a whole.

3.2.2 Understanding the Business Environment

Regardless of the level of management a person belongs to, business policy helps to create an understanding of how policies are formulated. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation.

By gaining an understanding of the business environment, managers become more receptive to the ideas and suggestions of the senior management. Such an attitude on the part of the management makes the task of policy implementation simpler.

When they become capable of relating environmental changes to policy changes within an organization managers feel themselves to be a part of a greater design. This helps to reduce their feeling of isolation.

3.2.3 Understanding the Organisation

Business policy presents a basic framework for understanding strategic decision-making while a person is at the middle level of management. Such a framework, combined with the experience gained while working in a specialized functional area, enables a person to make preparations for handling general management responsibilities. This benefits the organization in a variety of ways.

Business policy, like most other areas of management, brings the benefit of years of distilled experience in strategic decision-making to the organization and also to its managers. Case study

– which is the most common pedagogical tool in business policy – provides illustrations of real-life business strategy formulation and implementation.

An understanding of business policy may also lead to an improvement in job performance. Asa middle-level manager, a person is enabled to understand the linkage between the different subunits of an organization and how a particular sub-unit fits into the overall picture. This has far-reaching implications for managerial functions like coordination and communication, and also for the avoidance of inter-departmental conflicts.

3.2.4 Personal Development

A study of business policy offers considerable scope for personal development. It is a fact of organizational life that the different sub-units within an organization have a varying value and importance at different times. It often happens that a company which has followed a production-orientation as a matter of policy gradually shifts emphasis to marketing may be due to increasing competition. In the changed situation, executives within the production departments have fewer opportunities for career advancement as compared to their colleagues in marketing. In this case,

it is beneficial for an executive to understand the impact of policy shifts on the status of one's department and on the position one occupies. In extreme cases, many positions may become redundant due to policy shifts and retrenchment is inevitable. Business India cautions executives, especially those who work for multinationals. It says "….. persons who have devoted their lives working for one company suddenly find bewildering changes at head offices in the UK and US", and adds that reorganization and changes at the top level can have a dramatic impact on individuals. "It is only too common for divisions of a company to be shut down worldwide, or to be sold off to another company". 22 An understanding of business policy enables executives to avail an opportunity or avoid a risk with regard to career planning and development.

While making a career choice, a study of business policy provides an adequate grounding for understanding the macro factors and their impact at the micro level. By gaining an understanding of such an impact, an executive is better placed to identify the growth areas. For instance, in the current business situation in India, a career in the computer industry, especially in software, would offer better personal growth opportunities than, say, the steel industry.

Business policy offers a unique perspective to executives to understand the senior management's viewpoint. With such an understanding the chances that a proposal made by or an action taken by an executive will be appreciated by senior managers is decidedly better.

An interesting by-product of the business policy course is the theoretical framework provided in the form of the strategic management model. The applicability of this model is not limited to businesses alone. It can be applied to organizations like, services, educational institutions, family, government, public administration, and to many other areas. In fact, the model provides powerful insights for dealing with policy-making at the macro level as well as at an individual level through self-analysis.

The importance of business policy stems from the fact that it offers advantages to an executive from multiple sources. Apart from the intangible benefits, an executive gains an understanding of the business environment and the organization he or she works in. such an understanding can help considerably in career planning and development.

Having studied the importance of business policy, we now move ahead to understand the purpose it can serve for its learners.

3.3 The Purpose of Business Policy

'Business policy' is a term associated with the integrated management course, which is generally studied in the latter part of the degree or diploma, and is preceded by the study of functional area courses in finance, marketing, operations and personnel (Kazmi, 2006). A business policy course seeks to integrate the knowledge gained in various functional areas so as to develop a generalist approach in management students. Such an approach is helpful in viewing organizational problems in their totality. It can also create an awareness about the repercussions that an action taken in one area of management can have on other areas individually, and on the organization as a whole.

The viewpoint adopted in business policy is different from that adopted in the functional area courses. For instance, a marketing problem is not viewed purely as a problem of ‘marketing’ but as an organizational problem. A course in business policy helps in understanding a business as a system consisting of a number of sub-systems. Any action taken in one sub-system has an impact on other sub-systems, and on the system as a whole. It is of vital importance for the top management in any organization to adopt such a systems approach to decision-making. Business policy helps a manager to become a generalist by avoiding the narrow perspective generally adopted by the specialists, and to deal with business problems from the viewpoint of the senior management.

The problem of declining sales volume is apparently a marketing problem. However, an analysis of the problem will show that its roots may probably lie anywhere in the organization. Declining sales volume may be due to a rising level of competition, inefficient distribution, faulty sales promotion, inappropriate recruitment policies, misdirected training, inadequate sales promotion, limited commission to sales personnel, falling quality standards, a decrease in the variety of products offered, outdated design, underutilization of capacity, demotivating credit policies and so on. a problem, which apparently seems to be a marketing problem, may be due to factors not necessarily within the control of the marketing department. A solution to the problem would necessitate transgressing the artificial boundaries between the functional areas, each of which is looked after by a team of specialists. These specialists, due to their background, training and, possibly, loyalty to their disciplines are unaware and ill-equipped to deal with all the problems in entirety. They may come up with short-term solutions but these are only like first-aid to a victim when a thorough diagnosis and treatment is required to mitigate the misery. A generalist, on the other hand, is better qualified to deal with organizational problems and can come up with solutions that will have a lasting effect. On the basis of the above discussion, we can say that the purpose of business policy is three-fold:

1. to integrate the knowledge gained in various functional areas of management;
2. to adopt a generalist approach to problem-solving, and
3. to understand the complex interlinkages operating within an organization through the use of a systems approach to decision-making and relating these to the changes taking place in the external environment.

In order to make the study of business policy purposeful, specific objectives need to be defined, which we shall do in the next section.

3.4 The Objectives of Business Policy

It is essential that we should first state the objectives of business policy and only then proceed further. The objectives of business policy have been stated by authors such as Christensen et. al. (1982) and Steiner, Miner and Gray, 1982) in terms of knowledge, skills and attitudes. These objectives could be derived from the purpose of business policy.

3.4.1 Knowledge

1.

The learners of business policy have to understand the various concepts involved. Many of these concepts, like, strategy, policies, plans, and programmes are encountered in the functional area courses too. It is imperative to understand these concepts specifically in the context of business policy.

2.

A knowledge of the external and internal environment and how it affects the functioning of an organization is vital to an understanding of business policy. Through the tools of analysis and diagnosis, a learner can understand the environment in which a firm operates.

3.

Information about the environment helps in the determination of the mission, objectives, and strategies of a firm. The learner appreciates the manner in which strategy is formulated.

4.

The implementation of strategy is a complex issue and is invariably the most difficult part of strategic management. Through the knowledge gained from business policy, the learner will be able to visualize how the implementation of strategic management can take place.

5.

To learn that the problems in real-life business are unique and so are the solutions is an enlightening experience for the learners. The knowledge component of such an experience stresses the general approach to be adopted in problem-solving and decision-making. With a generalized approach, it is possible to deal with a wide variety of situations. The development of this approach is an important objective to be achieved in terms of knowledge.

6.

To survey the literature and learn about the research taking place in the field of business policy is also an important knowledge objective.

3.4.2 Skills

1.

The attainment of knowledge should lead to the development of skills so as to be able to apply that which has been learnt. Such an application can take place by an analysis of case studies and their interpretation, and by an analysis of the business events taking place around us.

2.

The study of business policy should enable a student to develop analytical ability and use it to understand the situation in a given case or incident.

3.

Further, the study of business policy should lead to the skill of identifying the factors relevant in decision-making. The analysis of the strengths and weaknesses of an organization, the threats and opportunities present in the environment, and the suggestion of appropriate strategies and policies form the core content of general management decision-making.

4.

The above objectives, in terms of skills, increase the mental ability of the learners and enable them to link theory with practice. Such an ability is important in managerial decision-making where a large number of factors have to be considered at once to suggest appropriate action.

5.

As a part of business policy study, case analysis leads to the development of oral as well as written communication skills.

3.4.3 Attitude

1.

The attainment of the knowledge and skill objectives should lead to the inculcation of an appropriate attitude among the learners. The most important attitude developed through this course is that of a generalist. The generalist attitude enables the learners to approach and assess a situation from all possible angles.

2.

By acting in a comprehensive manner, a generalist is able to function under conditions of partial ignorance by using his or her judgement and intuition. Typically, case studies provide only a glimpse of the overall situation and a case analyst frequently faces the frustrating situation of working with less than the required information. Experience has shown that managers, specially in the area of long-range planning, have to work with incomplete information. A specialist would tend to postpone or avoid a decision under such conditions but a generalist would go ahead with whatever information was available. In this way, he or she acts more like a practitioners rather than a perfectionist.

3.

For a general manager information and suggestions are important to possess a liberal attitude and be receptive to new ideas. Dogmatism with regard to techniques should be replaced with a practical approach to decision-making for problem-solving. In this way, a general manager can act like a professional manager.

4.

It is important to have the attitude to 'go beyond and think' when faced with a problematic situation. Developing a creative and innovative attitude is the hallmark of a general manager who refuses to be bound by precedents and stereotyped decisions.

3.4.4 An Alternative Viewpoint on the Objectives of Business Policy Course

Anisya S. Thomas of Florida International University says that the fundamental objectives of the capstone business policy course have remained relatively stable over a long period of time. There is broad agreement among textbook writers and instructors that these objectives encompass content as well as process dimensions, that is, they deal with the core concepts and theories and also seek to teach an analytical process that incorporates multiple perspectives. More specifically, these objectives are as below:

1.

Integration of functionally specific knowledge. Business policy acts as an integrative, capstone course demonstrating the interdependence between separate functional areas, such as marketing, finance, and so on.

2.

Understanding the 'big picture'. Communicating the appreciation of the synergy created by managing the interdependence among the functional areas is a critical objective of business policy. A general management perspective aids in exposing the student to the tradeoffs involved in achieving superior performance by balancing the internal competencies with the external requirements.

3.

Working in, managing, and leading a team. Working with and managing a diverse and flexible team is a critical priority with the corporate recruiters. (Interestingly, a similar view is expressed on the basis of surveys conducted by the Indian business magazines too.) Business policy tries to build up the teamwork spirit by illustrating the finer aspects of group dynamics and by bringing together students from different specialization areas.

4.

Enhancement of comprehension and communication skills. Business policy lays great emphasis on allowing students to be active participants in the learning process. In contrast to

the functional courses, there is a stress on using methodologies, such as case discussions, and oral and written presentations and reports.
5. Ability to assess the applicability and relevance of strategic management research (theory to practice). Theoretical advances in the field of business policy are taking place rapidly. It is necessary for the students to evaluate the relative merit and applicability of theoretical advances to deal with the rapid environmental and strategic changes that characterize the business arena. So it is imperative that the students not just learn but also learn how to learn (Kazmi, 2006).
Having looked at the above alternative view of the objectives of business policy course, you will be in a position to gain further insight into the issue. The objective business policy, in terms of knowledge, skills and attitude could be further extended to the areas of behavior and performance.
After having attained a knowledge of the objectives in the classroom, or in an executive development programme, the learner is expected to exhibit appropriate behavior and good performance on the job. The structure of business policy, built through the accumulation of experience as one moves up the managerial ladder. The richness and variety of experience gained as one moves up the managerial ladder in business offers opportunities of testing, validating, and replicating the mental images and models learnt in the business policy course. Such an approach imparts an added impetus to the development of general management capability which is the sine qua non for a manager who wishes to succeed in his or her job and make a meaningful contribution to the organization he or she works for.
In the next unit, we shall take up an overview of strategic management that will familiarize you with the several terms and concepts used in this course.
4.0 CONCLUSION
. An attempt has been made to understand the nature of business policy through a definition and its explanation. The nature of business policy deals with studying the functions and

responsibilities of the senior management. These involve setting the future course of action by defining the purpose of an organization and the likely shape that it should take in the future. The senior management is also concerned with the resources necessary to help the organization achieve its goals.

. The importance of business policy can be viewed in the context of four areas where it proves to be helpful: for learning the course, for understanding the business environment, for understanding the organization, and for personal development.

. The purpose of the business policy course is to integrate the knowledge gained in functional areas, to adopt a generalist approach, and to comprehend the complex interaction taking place within the organization – between its subunits and between the organization and its external environment.

. We have seen that the objectives of business policy can be set in terms of the knowledge gained, the skills acquired, and the attitude inculcated through the study of this course. The study offers a basis for building up a mental structure which can help in a systematic aggregation of experiences when an executive is working at the middle level. Such a structure helps in the creation of general management capability.

5.0 SUMMARY

In this unit, we have

. stated the nature of business policy;

. highlighted the importance of business policy;

. enumerated the purposes of business policy

. listed the objectives of business policy.

In the next unit, we shall examine the characteristics of business policy.

6.0 TUTOR-MARKED ASSIGNMENT

Questions:

1. What are the different aspects of the nature of business policy? Discuss each one of them with the help of suitable examples.
2. How does a course in business policy serve the needs of (a) management students (b) middlelevel executives?
3. How does a course in business policy help in understanding an organisation and the business environment in which it exists?
4. In what ways can learners like you reasonably expect to benefit in your personal life by studying the business policy course?
5. How is a generalist approach' different from a 'specialist approach'? Why is it necessary to adopt a generalist approach at the senior level of management? What is likely to happen if someone persists in adopting a specialist approach even at the senior management level?
6. What are the objectives set for a business policy course in terms of knowledge, skills and

attitudes?

Application:

1. What are the basic functions and responsibilities of the senior management?

2. How does business policy make the study and practice of management more meaningful?

3. What is meant by relating the micro and macro aspects of organisations?

4. How can an understanding of business policy help in a career choice?

5. What are the drawbacks of being a specialist? What are the advantages of being a generalist?

6. What are the objectives behind the inclusion of case studies in a business policy course?

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The Strategic Management Forum of India was formed in 1996 and is now actively engaged in promoting the cause of strategic management in India. It has its registered office at B-203, Shreenath Ji Vihar, Sitapur Road, Lucknow – 226 020, India. Its website is: http:www.smfi.org.

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UNIT 4 CHARACTERISTIC OF BUSINESS POLICY

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we made an overview of the concept 'business policy'. We defined the concepts policy, business and business policy. We identified the reasons for business policy and listed the objectives of a business policy.

In this unit, we shall continue with the discussion on overview of business policy. This discussion will centre on the nature and characteristics of policy, reasons for formulating policies, and formulation of policy.

The policy thrust of an organisation solely depends on the type of business offered – whether it is for production or services; the intensity of needs of operation and quality of human resources to be employed. It provides guidance to achieving objectives and goals of organizations.

In the last unit, we examined the nature, objectives and purpose of business policy while in this unit you will be introduced to the characteristics of business policy.

2.0 OBJECTIVES

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

. explain the characteristics of policy;

. list and discuss the sources of a policy;

. state the features that make a good policy.

3.0 MAIN CONTENT

Most organisations produce statements and explanations on what they are trying to achieve in particular areas. Policies are subdivided and stated in terms of procedures i.e. series of related steps or tasks expressed in a chronological order, and rules i.e. prescribed course of actions that explicitly state what are to be done under a given sets of circumstances. Many organisations provide parameters within which decisions must be made. Some of these will be written by specialists in different operational areas, like employment matters which may focus on hiring and firing, sales and marketing departments may provide guidelines of pricing and credit facilities; purchasing department policies may prohibit gifts from suppliers. Some policies focus on materials/stock and others on capital and equipments. Some describe objectives and others means.

In general, policies may be classified in relation to personnel, capital, objectives, means and specific organisational areas. This is an arbitrary but convenient way to classify policies. It should be noted that these categories are not mutually exclusive but frequently overlap.

3.1 Characteristics of Policy

Sound policies usually contain a combination of the following characteristics:

(1) Destiny

(2) Top Management Approval and Commitment

(3) Intellectual Input

(4) Consistency and Long-term in Nature

(5) Acceptability

(6) Communicated to Staff

(7) Genuine Intention and Application

(8) Balanced Interpretation

(9) Alignment with Objective

. Destiny – A common characteristic of policy is that it denotes future action and intent. It usually describes a goal or destiny which is there to be achieved. In addition, it implies a conviction in a set of beliefs which is considered “right” for the people in the organisation. The manner a policy is expressed and the detailed procedures which stem from it all point in the same direction and do not allow individual actions to follow a different direction. If the actual procedures and wording do not imply belief in a course of action, then it is probably a wrongly formulated policy.

. Top Management Approval and Commitment – In practice, making contributions and recommendations on policy issues may be the function at the lower levels of management in the organisation, but it is the hallmark of policy that it is approved and endorsed by the top management. This may be Board of Directors and Managing Director or the responsibility may be delegated to a top executive committee. Directors and top managers are primarily responsible for policy making and setting long-term objectives. Once the series of policies are approved at the top, there is every possibility that all segments of the organisation will move to the same direction toward the set objectives.

. Intellectual Input – Policy requires a high level of intellectual and intelligent inputs because policies are concerned about the future activities deemed to be just and right for the organisation. Policies must be able to withstand pressures, opposition and challenges from all parts of the organisation and its environment which may see and treat the policies differently.

Without a high degree of thorough analysis and deep thought of reasoning during formation, a policy may be less effective and may even fail to provide the framework for enduring decision making.

. Consistency and Long-term in Nature – Usually, policy makers have thought through all aspects of a particular policy culminating into consistent and enduring policy thereby making frequent amendments difficult. Constant changes in the course of action and direction of an organisation will surely bring about confusion, resenting and even generally derail all things that sound policies are trying to achieve. Practically, almost all policies are long-term in nature, although for practical purposes; long-term policies are sub-divided into short-term. It is worthy of note that there could be circumstances in which refinement and revision might be required; in essence, they are intended to create a continuum against which day-to-day standards and decisions can be made.

. Acceptability – The degree of acceptance of organisation policy to everyone is marked by the persistence and understanding of employees who want to know why the policy is made or changed. Genuine reasons must be forthcoming and management needs to provide supervisors with sufficient information to satisfy queries regarding a policy. There is danger in withholding information which often leads to gossip and speculation in an organisation as this can be disorganizing, cause increased friction between management and employees, upset and strain relationships through general suspicion and mistrust.

. Communicated to Staff – As soon as policies are formulated and ratified, they should be communicated to members of the organisation. Everybody must be aware about the mission and objectives of the organisation; hence, there should be no exception in communicating policies to the members of the organisation. Appropriate channels must be used in channeling policies throughout the organisation, so that nobody is left out. This, of course, will cement relationship in the organisation and motivate the staff to reach higher heights.

. Genuine Intention and Application – It is not uncommon for management to declare policy for prestige purposes, such as publicity and then fail to put the policy into practice. Management's intention, in these circumstances, is to ignore and dump the declared policies. In some cases, some managers apply policies in wrong and negative ways, hiding under one excuse or the other for not carrying out some course of action. These types of policies are rarely put into writing and where it is in written form; they are usually wrongly worded in such vague manners that will distort to fit in with any course of genuine action at the line. These types of policies must be avoided; every policy of the management must be treated with all the seriousness it deserves and must be genuinely applied to the intended course of action.

. Balanced Interpretation – While correctly interpreting policies, managers do rigidly conform to principles and procedures without due regard for the human elements of the organisation and emerging pressing issues. Something more than correctness is required in human society and ever changing complex environment; all these factors, when weighed carefully, might well provide a more balanced interpretation which would relegate to the background the narrow correct ones. A little of flexibility to accommodate the emerging factors and balanced interpretation of policies are the real art of managing and supervising which cannot be attributable to abuse of policy.

. Alignment with Objective – All policies must follow parallel courses of action which are directly related to objectives. If they cross or oppose objectives, collective effect is lost and disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy. these identified dangers highlight the need for careful checking of ambiguity in policy so as to avoid misunderstanding especially at the lower level of management hierarchy.

Self Assessment Exercise 2.1

What are the characteristics of a policy? List some of them and explain them briefly.

3.2 Sources of Policy

Kalejaye (1998) examined the major sources of policies and classified them as originated, appealed, implied and externally-imposed. These are explained as follows:

(1) Originated Source – The most acclaimed source of policies is the one from top management which originates for the express purpose of guiding the company's operations. Originated policies flow basically from the objectives of the enterprise, as they are defined by top executive authority. These types of policies may be broad in scope, allowing key subordinates to give them clearer definition or they might be promulgated so completely and comprehensively as to leave little room for definition or interpretation.

(2) Appealed Source – In practice, in most cases, policies stem from appeal through the hierarchical level of management authority. If occasion for decision arises for executives who do not know whether they have sufficient authority or how such matters should be handled, they appeal to their supervisors for the necessary support and action. As appeals are taken upward and decisions are made on them, a kind of rules and procedures are established.

Precedent, therefore, develops and becomes guides for future managerial action and serves as reference point.

(3) Implied Source – Useful policies are developed from the actions which employees see about them and believe to constitute them. Employees will readily understand what real policy is if they work for a company that operate policies that produce high quality goals, or sound labour policy, for instance, though the real policy is implied.

(4) Externally-imposed Source – To a large extent, policies are externally-imposed by such agencies as the government, trade unions, professional associations and others like trade association. This might come in form of direct regulation or one of the many conditions of accepting government aid or contract; it could also be to maintain industrial peace. Besides,

local and state governments, professional associations, social and charitable organisations do influence the policies of organisations.

Self Assessment Exercise 2.2

Briefly explain the four major sources of policies that you know of.

3.3 What Makes a Good Policy

Wikipedia (2012) states that company policies are most effective as official written documents. While policies often differ in form depending on company size, industry, and length of time in business, policy documents generally contain certain standard components including:

. Purpose Statement, outlining why the organization is issuing the policy, and what the desired effect or outcome of the policy is.

. Specifications, including statements indicating the specific regulations, requirements, and organizational behavior that the policy is creating.

. Implementation section, indicating which parties is responsible for carrying out individual policy statements and how policy adherence will be ensured.

. Effective Date, which indicates when the policy is considered in force (an executive signature or endorsement can be useful to legitimize the policy).

. Applicability and Scope Statement, describing whom the policy affects and which actions are impacted by the policy.

. Background, indicating any reasons, history, and intent that led to the creation of the policy, which may be listed as motivating factors.

. Definitions, providing clear definitions for terms and concepts found in the policy document.

4.0 CONCLUSION

You will note from the discussion in this unit that policies are subdivided and stated in terms of procedures. For instance, it contains series of related steps or tasks expressed in a chronological order, and rules.

5.0 SUMMARY

In this unit, we describe the nature and characteristics of a policy and the sources of a policy. We also listed the attributes of a good policy.

In the next unit, we shall discuss the third part of overview on business policy which would extensively dwell on the types of policies, uses of policies for management effectiveness, integration and relationship of policies to objectives, reasons for formulating policies and the role of workers in policy formulation.

6.0 TUTOR-MARKED ASSIGNMENT

1.

What makes a good policy? List them and briefly explain.

2.

Sound policies usually contain some features or characteristics. List these features and briefly explain them.

3.

Briefly explain the nature of a policy.

7.0 REFERENCES/FURTHER READINGS

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UNIT 5 TYPES/KINDS OF POLICIES

TABLE OF CONTENTS

1.0 INTRODUCTION

In this unit, we describe the characteristics of a policy and the sources of a policy. We also listed the attributes of a good policy.

In the next unit, we shall discuss the third and final part of the overview on business policy which would extensively dwell on the types of policies, uses of policies for management effectiveness, integration and relationship of policies to objectives, reasons for formulating policies and the role of workers in policy formulation.

2.0 OBJECTIVES

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

. describe how policies are formulated;

. list the types of Policy

. enumerate the reasons for formulating policies;

. highlight the uses of polices for management effectiveness;

. explain how policies are integrated in relation to objectives;

. itemize management policy areas;

. state the role of workers in policy formulation.

3.0 MAIN CONTENT

Business policy basically deals with decisions regarding the future of an ongoing enterprise.

Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in terms of product price, quality, leadership position, resources etc., in relation to its environment. Once established the policy decisions shape the future of a company channel the available resources along desired lines and direct the energies of people working at various levels toward predetermined goals. In a way, business policy implies the choice of purposes, the shaping of organizational identity and character the continuous definition of what is to be achieved and the deployment of resources for achieving corporate goals.

Business policies generally have a long life. They are established after a careful evaluation of various internal and external factors having an impact on the firm's market standing as and when circumstances change in a major way the firm is naturally forced to shift gears, rethink and reorient its policies. The World Oil crisis during the 70s has forced many manufacturers all over the globe tom reverse the existing practices and pursue a policy of manufacturing fuel efficient cars Therefore, policies should be changed in response to changing environmental and internal system conditions.

3.1 Formulation of Policy

The studies or theories in which purposeful organisations formulate policies represent a scholarly pursuit which has been carried on for years by management theorists. These scholars have observed and analysed the decision making action of managers of business and other organisations as they determined the direction and course of their respective organisations.

To influence policy thinking in an organisation is one of the important goals of an executive as he develops his career. The greater an executive's influence on policy, the greater is his contribution and the higher his status among fellow executives. This, in part, is what contributes to the difference and respect generally accorded a company's chief executive. His thinking is all centred on policy issues and as you will note all policies are crucial to the survival, health and success of an enterprise.

Policy decisions rest fundamentally on human judgement and intuition. Some policies evolve informally over a long period of time without conscious or selective formulation. They have their origin in slowly developing customs, traditions and attitudes. Others are formulated quickly, because the situation requires rapid implementation. Both types may originate at the top levels in the organisation and work their way down; they may also arise in a given area and remain in that area; or they may start at lower levels and permeate upward. In general, policies should be formulated by those in organisation who have the responsibility for accomplishing the particular objectives to which the policies relate.

3.2.1 Policies from Top to Bottom

Some policies cut across all functional areas of the organisation. Many are so interrelated with all area of operations that their significance can best be understood by the top level management. Policies that originate from the top arise out of broad, basic needs perceived and defined by the top managers. In large corporations today, for instance, the Chief Accountant is an important contributor to advance planning and policy formulation. Complex taxes, new accounting procedures, mergers, computerization, insurance, pensions, investment options and appraisal, profit sharing, and depreciation of assets and other many cost implication corporate issues cause the Chief Accountant to become involved in areas that are broad than strictly finance.

General policies or corporate policies affecting all areas of operation usually originate from the top management. Descending levels in the organisation structure will be guided by these policies when formulating more limited policies at their own levels.

3.2.2 Policies within Functional Areas of Departments

Those in charge of functional areas, and/or departments are generally involved in establishing policies for those areas. Marketing executives formulate marketing policies, purchasing executive formulate purchasing policies; personnel managers formulate personnel policies, etc. These are operational policies proposed and formulated at functional areas and departmental levels. Managers must be consistent and operate within corporate policy guidelines while formulating policies at these levels. Policy established within functional areas may influence the formulation of policy in other functional areas as well as the strategies developed to pursue those policies.

3.2.3 Policies from Bottom to the Top

There are lots of advantages and wisdom in inviting supervisors and other operating personnel to participate in developing and implementing policies. Whenever possible, non-management employees should have a voice in policy matters that will directly affect them or their work. This kind of “Participative Management” engenders good human relations. It gives the managers a chance to hear from the workers reactions to subject policies and to accommodate them, but also to give the workers the opportunity to gratify deep seated needs for recognition and influence on the group’s functioning. Also, by participating in policy making, a worker develops a managerial perspective and a tendency to consider the enterprise as a whole, thereby contributing to its success.

One important thing to note in the above arrangement is that policies and suggestions which may originate at or near the bottom of an organisation and which may be useful never get to the top except through strong influential pressures. If the higher level management is receptive to ideas, feelings and attitudes of those below, they will derive valuable policy inputs from them. The openness of upward communication and the use of participative management method can do much to generate upward policy formulation process.

In general, it is advisable that managers review all policies periodically, as some might have outgrown their original purpose or usefulness. They should not be glorified and perpetuated merely because they are policies, rather, they should be modified or replaced when circumstances call for such a change. Once a policy has been adopted or modified, it should be communicated to all affected by it. It is advisable to communicate policy statements at all levels in writing and to maintain a policy file that is accessible to everyone. Persons expected to conform to a policy have a right to know that such a policy exists, the purpose of that policy and why it was formulated.

Since policy formulation is not a guess work, certain definite steps are stipulated to be followed by decision makers when formulating new policies or modifying the existing ones. These are (Kalejaye, 1998):

(i) Carefully study the organisation's objectives.

(ii) Identify the need for a policy in a given area.

(iii) Source for and collect all possible and relevant information for the policy formulation.

(iv) Consideration must be given to all alternatives especially as they relate to the policy.

(v) Analyse all possible available outcomes.

(vi) Select the best policy statement so far made taking into consideration its possible outcome.

(vii) Review the policy statement with the employees and others who will be affected by its application.

(viii) Ensure the policy is in line with the other existing policies of the organisation.

(ix) Draw out the final policy statement including the effective dates of such a policy.

Self Assessment Exercise 3.1

List the steps required for formulating a new policy or review an existing policy.

3.2 Types of Policies

The type of organization influences the type of policies muted out for compliance. The regulations which guide decisions which guide decisions and actions vary considerably and cut across the hierarchical structure of the organization depending on the nature and magnitude of objective. There are many types of policies – marketing policies, financial policies, production policies, personnel policies to name a few in every organization. Within each of these areas more specific policies are developed. For example, personnel policies may cover recruitment training promotion and retirement policies. Viewed from a systems angle, policies form a hierarchy of guides to managerial thinking. At the top of level policy statements are broad. The management is responsible for developing and approving major comprehensive company policies. Middle managers usually establish less critical policies relating to the operation of their sub units. Policies tend to be more specific at lower levels. The manager's job is to ensure the consonance of these policies, each must contribute to the objectives of the firms and there should be no conflict between sub system policies.

Although it is customary to think of policies as written statements it is not necessarily the case. For example a firm may simply decline to consider handicapped employees in the selection of new personnel. In effect, this becomes an effective policy even though the company has never verbalized its position.

There are many types of policies. Examples include:

. hiring university-trained engineers;

. encouraging employees suggestions for improved cooperation;

. promoting from within, conforming strictly to a high standards of business ethics;

. setting competitive prices; and

. insisting on fixed, rather than cost-plus, pricing.

Hicks and Gullett (1985) expressed the opinion that every operating areas ranging from sales, procurement, manufacturing, personnel (human resources) and finance need a hierarchy of supporting policies to drive the business. This move enhances policies as guide to decision define the boundaries within the organization and they direct decisions toward accomplishing objectives thereof. In the progression from objectives to policies to procedures to rules, the limits become increasingly narrow.

Steiner (1969) stated that the regulations which guide decisions and actions very considerably and cut across the hierarchical structure of the organisation depend on the nature and magnitude of mission to be accomplished. He therefore developed a pyramid to demonstrate the relationship among various types of business policies will be used as a model as discussed below:

Figure 3.1 Steiner's Pyramid of Business Policies

Source: Steiner, G. (1969 quoted in Kalejaye, A., 1998). Top Management

Planning, Macmillan, New York.

PROCEDURE

Handing income orders, servicing customers' complaints,

shipping, smoking, etc.

MINOR POLICIES

Merchandise display, Plant layout, maintenance,

absenteeism, etc.

FUNCTIONAL POLICIES

Marketing, Production, Research, Finance

MAJOR POLICIES

Lines of business, code of conduct

SECONDARY POLICIES

Selecting of geographical area, major

customers, major customers

RULES

Delivery of paychecks, loitering around, plant, security,

smoking, etc.

. Major policies

. Secondary (corporate) policies

. Functional policies

. Minor policies

. Procedure

. Rules

3.2.1 Major Policies

Major policies are formulated at the top of the organization and relate to the company's main purpose. They provide guide line pertaining to such things as the line of business and ethical conduct of organization.

3.2.2 Secondary or Corporate Policies

These policies are broad and general policies formulated at the upper levels of management of the organization. These policies apply to the entire organization and deal with business facets such as the selection of major products and services and the selection of marketing areas. Much of the information generated in the proper formulation of major policies can be used in determining secondary policies, which are more specific than major policies.

3.2.3 Functional Policies

These deal with specific functional areas of the organization. They involve policies that specifically related to marketing production, finance, and other functional areas. For instance, the ABC Transport Company will accept customer exchanges or returns made within one month after purchase is an example of functional policy related to marketing.

3.2.4 Minor Policies

They are subordinate to functional policies and define in details such matters as maintenance of equipments, schedules, plant layout, absenteeism etc.

3.2.5 Procedure

This is a series of related steps or related steps or tasks expressed in chronological order to achieve a specified purpose. Procedure defines in step-by-step fashions the method by which policies are achieved. They outline precisely the manner in which an activity must be accomplished. Procedure generally permits little flexibility and deviation.

3.2.6 Rules

This is a statement of what may, must or must not be done in a particular situation or when playing a game. It explains in a lucid manner what an employee should do or is advised to do in a particular situation. You can also describe rules as the habits, the normal state of things, or what is true in most cases. Finally, a rule is a statement of what is possible according to a particular system.

Rules permit the use of discretion in performing a particular task.

Self-Assessment Exercise 3.2

What is the main characteristic of functional policy?

3.3 Business policies

Business policies are sets of rules followed by a store or group of stores that define business processes, industry practices, and the scope and characteristics of a store's or group of stores' offerings. They are the central source and reference template for all allowed and supported practices within a store or group of stores.

In WebSphere Commerce, business policies are enforced with a combination of one or more business policy commands that implement the rules of the business policy. Each business policy command is a Java class. A business policy command can be shared by multiple business policies. The behavior of the business policy command is determined by the parameters passed to the command.

Parameters affecting the function of a business policy command can be introduced in three places:

. the contract term and condition referencing the business policy

. the business policy definition

. the business policy command itself.

The business policy definition may specify a set of parameters that are automatically fed into each invocation of any of commands associated with the policy. A business policy command may specify additional parameters when it is invoked. Finally, a contract term and condition may prove extra parameters for a business command unique to the term and condition.

Business policy commands for the same type of business policy must have the same interface.

The following categories of business policies are provided in WebSphere Commerce:

3.3.1 Catalog business policies

Catalog business policies define the scope and characte ristics of the catalog of products for sale in a store including prices and the categorization of products in a store's catalog.

3.3.2 Payment business policies

Invoicing, payment, and refund business policies define how a store accepts payments, pays refunds, and the format of a store's invoices.

3.3.3 Returns business policies

Returns business policies define if refunds are accepted, the time period they are accepted for, and any re-stocking fees applied to returns.

3.3.4 Shipping business policies

Shipping business policies define the shipping providers a store can use and the charges associated with each type.

3.3.5 Referral interface business policies

Referral interface business policies define the relationship between a proxy store and a remote store. Many contract terms and conditions reference business policies. This provides a measure of control over the nature of contracts a store enters into while still providing flexibility in creating the contract terms and conditions.

There are several types of Business policies being followed in the Business Environment.

Business policies may be of the following types:

1. External Policies:

Policies framed to give effect to the decisions of the Government, judiciary, trade associations and such other external forces are what are called external policies. For example, under the Income-Tax Act, every employer is bound to deduct tax from the salary payable to the employees every month. Similarly, the Government requires certain number of jobs to be reserved for the backward sections of the society. To give effect to such orders, policies may be formulated at the enterprise level.

2. Internal Policies:

Policies formulated to give effect to certain decisions taken by the owners of a business establishment are what are called internal policies. For example, it may be the policy of a certain private sector organization to appoint certain categories of workers purely on contract basis. Similarly, a business organization may adopt a policy to produce only for the foreign market.

3. Appealed Policies:

Such policies are formulated to give effect to the suggestions of the staff of an organization. For example, the employees may make an appeal to the top management to give employment to an eligible member of an employee’s family after the latter’s retirement. If such a proposal is acceptable to the management, the same may be announced as a policy.

4.

Explicit Policies:

Those policies of an organization that are stated outwardly are called explicit policies. Such policies form part of the organization manual. Most of the policies of an organization are explicit in nature. The sales policy, credit policy, etc., may be cited as examples.

5.

Implicit Policies:

These policies are not stated outwardly. For Example, every organization follows certain policy for the recruitment of employees. Such a policy is not usually stated explicitly. Even the existing employees may not be aware of it.

3.4

Reasons for Formulating Policies

Many professionally managed businesses acknowledged that it is necessary to have policies in all the major functional areas of management. The focus areas will thus include production policy, purchasing policy, marketing policy, selling and promotional policy, etc. All these policies are expected to give support to the overall objectives of the organisation as defined by the top management and they complement each other. The major reasons for having policies are as follows:

(1)

It is impossible and wrong to rely on expediency or precedents to solve problems which arise intervally or regularly. To that extent, decision-making is more consistent and detailed when policy is defined and known.

(2)

Policy provides continuity for the organisation. They are more permanent than the individuals who are employed and later leave for greener pastures or are sacked; thereby providing an enduring foundation for continuity.

(3)

They help to facilitate expansion and integration of new businesses into the company so that when growth occurs, there is already a firm foundation policy to apply in the new situation.

(4)

They provide a yardstick with which to measure progress in the organisation. For example, policy on issue of stock items – stipulating that no condition on which stock should be issued on verbal instruction. This may not be achievable instantly, but it sets a standard against which progress can be measured as the policy is implemented.

(5)

They stimulate action, because managers and supervisors have the knowledge and confidence to make decisions and take actions knowing fully well that they are following the laid down policies.

(6)

Policies also save management time because the information is available and the procedures for carrying them out are known. This, of course, assumes that the policies are made freely available to those who require them.

(7)

They promote fairness in treating employee matters; provided the policies take account of the needs of the entire organisation and are interpreted consistently.

(8)

Policies serve as bases for the defence of the various organisation actions and activities in the event of challenges and litigation in the court of law.

Self Assessment Exercise 3.3

Itemize the reasons why policies are formulated.

3.4

Uses of Policies for Management Effectiveness

Policies are of great importance to every organisation as they are used to establish stable institution, create identity, shape planning and boost the organisation's image and acceptability by the public. Kalejaye (1998) itemised the various uses of policies as follows:

1.

Policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organisational units thus facilitating the delegation process.

2.

Policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to further action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things. As long as managers are conforming to the organisation's policies, they can safely proceed and use their own initiatives.

3.

Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organisation.

4.

Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that their actions are consistent with organisational policies, they are more likely to take actions than do nothing.

5.

Definiteness and flexibility are both desirable to goals attainment, but calculating the trade-off lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.

6.

To the subordinates, policies will not only serve as means of exercising authorities, it also lay down the guidelines that define and limit the exercise of the subordinates authorities and responsibilities.

7.

Policies under-guide the planning of a future course of actions. They show the way the future plans and activities of an organisation are formulated and implemented.

8.

Policies define and clarify the objectives and goals of an organisation. They give a further definition on how the objectives of the organisation can be accomplished.

9.

Policies are particularly necessary at lower levels where relationship between actions and objectives are most of the time vaguely articulated. Policies are used to bridge the gap – ensuring that staff actions are consistent with the broad policies and actions of others in the organisation. If this were not done by policies, every action will have to be approved, putting an impossible communications burden on coordinating supervisors.

10. Policies are used to mould and project the image of the organisation before the interest groups such as shareholders, suppliers, customers, employees and the public in general. The reputation that a company enjoys, whether favourable or otherwise, is frequently linked to the way the outsider perceives the company through its policy structure. It is common to hear people making statement such as "the firm is known to be liberal in its credit policy or the policy dictates positive attitude towards employees".

3.5 Integration and Relationship of Policies to Objectives

Policies are general statements specifying how objectives are to be accomplished; they stem directly from organisation's objectives and can be no better than the objectives set. Organisational objectives and policies are not mutually exclusive components of the management process. Rather, the relationship between policy and objective is that they are highly interdependent and inseparable. The two are interlocked and interrelated; and while objective defines standard of what the organisation should accomplish, policy directs action towards the attainment of the standard set by the objective.

It is not possible to attain objectives without knowing the policy guidelines that must be followed. Similarly, strategies cannot be determined without first knowing the objectives to be pursued and the policies to be followed. Rogers (1973) provided the basis for the above analogy which demonstrates the interdependence among objectives, policies and strategies.

Figure 3.2 Relationships between Objectives, Policies and Strategies

Source:

Rogers, D.C.D. (1973). Corporate Strategy and Long Range Planning, Ann Arbor
Mich, The Landis Press, p. 18.

The above sketch indicates a situation where the boat is going up a river. The surrounding terrains represent the organisational purpose, and the surroundings terrains that influence the general flow and direction of the river. The primary objective is the harbour or stopping point of some distance up the river to be reached by a certain time. Organisational objectives and other subordinate goals and plans can be represented by other milestones between the boat's present position and the harbour. Policies are the river bank that directs and guides the boat towards the harbour.

Like the river bank, policies remain the effect, after the primary objectives had been reached. They are independent of time and must be reviewed as to acceptability and consistency whenever objectives are set. By all indications, it has been established that policies and objectives are related and that one leads to another. Policies serve as guide that provide direction and vision to managers in decision making. With articulated and purposive policies, managers can make decisions with some assurance that the decisions are likely to make the organisation's corporate objective realizable within the stipulated time.

Self Assessment Exercise 3.4

1. What is the relationship between objectives, policies and strategies?
2. State the uses of policies and explain them.

3.6

Management Policy Areas

Management policy areas are very extensive; some of the specified principal areas are as discussed below:

Organisation: The organisation has to develop policies for itself. Such policies have to do with defining the appropriate departments, jobs, ranks within the organisation and interrelationships in line with the corporate objectives of the organisation.

Administration: Administrative policies of the organisation are formulated with a view to ensuring that there is effective leadership, direction and supervision at all levels and divisions of the organisation.

Unions: The policy statements are set out to maintain appropriate relationships with management. Between the organisation and unions/labour movement, they also space out the procedure for negotiating conditions of service and settling of industrial disputes.

Control: Policies on control are essential in organisation because they facilitate and pave way for the attainment of organisational goals by maintaining appropriate standards of tasks, personal and group performance.

Training and Development: This category of policies are formulated to guide the top management in providing programmes designed to meet organisation needs, individual needs an career requirements of managers and employees.

Incentive: This involves developing appropriate incentives to motivate employees and managers alike in order to ensure efficient performance.

Public Relations: The policy here guides in providing adequate and appropriate attention to public attitudes and reactions to policies and practices of the organisation.

Political Action: This policy expresses the position or attitude of the organisation on political issues and events. Policy statement in this regard may restrain employees from talking to the press on political issues or even discuss political matters within the organisation.

3.7 The Role of Workers in Policy Formulation

The concept of workers participation in management policy formulation has always been controversial. The principal perspectives in which workers participation in management policy may be seen as:

(i) Workers participation is viewed as a means of advancing the interest of workers;

(ii) Workers participation is a way of distributing power within the enterprise more equally and in handling conflicts of interest by democratic procedure otherwise known as industrial democracy.

(iii) By involving workers in policy formulation, this will bring about effective utilization of the human resources of the enterprise.

(iv) Workers participation in management policy is in effect seen as the antidote towards uncooperative attitudes and increase in industrial conflicts.

4.0 CONCLUSION

From the discussions in this unit, it can be deduced that every organization, whether business or non-business, requires a policy as a decision rule to guide the activities and performance of the business to eventually achieve goals and objective of the organization.

5.0 SUMMARY

In this unit, we have,

. described how policies are formulated;

. listed the types of Policy

. enumerated the reasons for formulating policies;

. highlighted the uses of polices for management effectiveness;

. explained how policies are integrated in relation to objectives;

. itemized management policy areas;

. stated the role of workers in policy formulation.

In the next unit, you will be introduced to yet another topic known as organisational policies.

6.0 TUTOR MARKED ASSIGNMENT

(1) Sound and creative policies are essential for a company to survive the competitive business terrain. Explain the necessary actors that will ensure that a policy is sound and creative.

(2) Write short notes on the following:

(3) Discuss extensively the relationship between policy and objectives.

(a) Major policy

(b) Functional policy

(c) Procedure

(d) Worker’s input in policy formulation.

(4) Identify the various areas in which policies can be directed or addressed in an organisation.

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UNIT 6 ORGANIZATIONAL POLICIES

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we described how policies are formulated; listed the types of Policy; enumerated the reasons for formulating policies; highlighted the uses of polices for management effectiveness; explained how policies are integrated in relation to objectives; itemized management policy areas; stated the role of workers in policy formulation.

In the next unit, you will be introduced to yet another topic known as organisational policies.

2.0 OBJECTIVES

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

. explain the meaning of organization;

. discuss the purpose of organizational policies;

. differentiate between objectives and policies.

3.0 MAIN CONTENT

Abdullahi (2009) stated that 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.

3.1 Meaning of Organisational Policy

According to Pearce II and Robinson Jr. (1998, cited in Abdullahi, 2009), 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, quoted in Abdullahi, 2009), 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 cited in Abdullahi, 2009), 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

. distinctions 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 7 FUNCTIONS AND RESPONSIBILITIES OF BUSINESS POLICY IN MANAGEMENT

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we defined organizational policy; described the nature of organizational policy; state the purpose of policies, and distinguished between objectives and policy.

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

2.0 OBJECTIVES

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

. Discuss business policy as they relate to different organisations;

. Enumerate the function of Business policy in management;

. Discuss the responsibility of Business policy in management.

3.1 Business Policy in different Organizations

Hicks & Gullett (1985) stated that once goals have been established, a top-level manager consider the numerous ways in which this goal could be accomplished. In the progression from objectives to policies to procedures to rules, the limits become increasingly narrow. Rules are specific statements what should and what should not be done.

Dividend policy is another area in which management can affect the financing structure of the company and examine whether changing dividend policy could perhaps add value.

In Unit 1 it was stated that policies are general statements that guide decision making. Thus, a business organization requires policy as an added out-standing plan of organization. There are policies in different organizations depending if it is service or product oriented.

Policies in each of these operational areas will be formulated. For example, in personnel numerous policies would be established to provide consistent guides to action. Areas might include securing, selecting, training and compensating employees. Working conditions, employee services and industrial relations also might be considered.

Business policies generally have a long life. They are established after a careful evaluation of various internal and external factors having an impact on the firm's market standing. As and when circumstances change in a major way the firm is naturally forced to shift gears, rethink and reorient its policies. The World Oil crisis during the 70s has forced many manufacturers all over the globe to reverse the existing practices and pursue a policy of manufacturing fuel efficient cars. Therefore, policies should be changed in response to changing environmental and internal system conditions.

In the example of Ethical policy, sometimes a credo is not specific enough for a large company that faces complex ethical challenges in many different markets and cultures. In such situations, more concrete guidelines (in form of statements) on ethical conduct are needed (Gomez-Mejia, Balkin & Cardy, 2005).

There are many types of policies – marketing policies, financial policies, production policies, personnel policies to name a few in every organization. Within each of these areas more specific policies are developed. For example, personnel policies may cover recruitment training promotion and retirement policies. Viewed from a systems angle, policies form a hierarchy of guides to managerial thinking (Rama Rao, 2010). At the top of level policy statements are broad. The management is responsible for developing and approving major comprehensive company policies. Middle managers usually establish less critical policies relating to the operation of their sub units. Policies tend to be more specific at lower levels. The manager's job is to ensure the consonance of these policies, each must contribute to the objectives of the firms and there should be no conflict between sub system policies.

Many professionally managed companies acknowledge the fact that it is necessary to have policies in all the major functional areas of management Kalejaye (1998).

The focus areas will thus include:

. Production policy -

. Purchasing policy -

. Financial policy -

. Marketing policy -

. Credit policy -

. Selling and promotion policy - etc.

All these policies are expected to give support to overall objectives of the organization as defined by the top management and they complement each other.

Although it is customary to think of policies as written statements it is not necessarily the case. For example a firm may simply decline to consider handicapped employees in the selection of new personnel. In effect, this becomes an effective policy even though the company has never verbalized its position.

Self-Assessment Exercise

Give examples of business policy.

3.1.1 Business Policy and Implementation in Organization

Business policies define areas within which decisions are made and ensure that decision will be consistent with and contribute to an objective. For visionary management, policies help decide issues before they become problems, make it unnecessary to analyze the same situation every time it occurs and unify other plan thus permitting managers to delegate authority and still maintain control over what their subordinate do (Weighrich & Koontz, 2005). The fabric of our lives is held together by organizations. Managers and organization go together hand in hand, hence establishing the need for managers in organization. They are there to make wise decisions through dependable standing plans leading to the development of policies, procedures and rules.

3.2 Managerial Functions and Policy Implementation

The basic management functions are planning, organization, motivation and controlling.

Planning develops objectives for each level of organization and how to achieve those objectives. Strategies, policies, procedures, methods and budgets are examples of plans that help to accomplish objectives

Organizing is also necessary as it takes place when work is divided among departments and among individuals.

Motivating is in working with people in order to create conditions that encourage employees to do good job.

Controlling measures the results of activities, compares them against predetermined objectives and takes corrective action if necessary.

These functions are made workable by established policy depending on the business thrust of the organization

3.3 Business Policy – Issues, Challenges and Solutions

Business policy issues are basically that of decision making to achieve set goals and objectives. The challenges gyrate around overcoming obstacles and giving solutions. The role of Business policy in providing solution in a going concern matters so much in an organization.

The implementation policy depends on the type of organization and the service rendered. Policy comes to form one of the structure of organization. It follows procedures, rules, programmes, budgets etc. All these gear to give policy reliable focus. Every organization including business requires a policy as a decision rule to guide the activities and performance of the business to eventually achieve goals and objective of the organization.

Policy Implementation

• Set up a committee/working group. Setting up and engaging the correct people to devise (and oversee) the policy is essential to the success of the planning and implementation.
• Consult stakeholders. Consult employees, board, and other stakeholders who will be affected by the policy about policy inclusions, how the policy will be implemented, and assistance offered etc. throughout the development and implementation stages. This can be done via surveys/questionnaires, emails and team meetings.
• Devise draft policy (see recommended policy content above). Circulate. Revise.
• Have policies reviewed for legal accuracy. You may want to have policies reviewed to make sure they are not requiring or prohibiting something that would violate the law.
• If a board of directors or advisory board exists, do a board vote.
• Set policy implementation date. Once the policy has been amended and agreed upon, designate an implementation date, sign, and then promote.
• Monitor and review. The staff responsible for monitoring the policy must ensure adherence to the policy. It is good practice to review the policy at two yearly intervals.
• Consider creating & distributing a Policy Manual. Keeping all of your policies in one place makes them easy to refer to and review. Copies should be provided to all members of an organization, along with applicable stakeholders.

Further Resources

B Resources -These free downloadable guides were created to help companies improve their social and environmental performance.

4.0 CONCLUSION

We discussed business policy in different organisations. We noted that a business organization requires policy as an added out-standing plan of organization. We also noted that there are policies in different organizations depending if it is service or product oriented and that policies in each of these operational areas will be formulated.

We discussed the various functions of management and how they relate to implementation of business policy in an organisation. Finally, we discussed issues, challenges as solutions as they affect business policy.

5.0 SUMMARY

In this unit, we have

. discussed business policy as they relate to different organisations;

. Enumerated the function of Business policy in management;

. Discussed the responsibility of Business policy in management.

This brings us to the end of the first module of this course.

6.0 TUTOR MARKED ASSIGNMENT

1. In what way(s) does the function of management relate to implementation of business policy in an organisation?

2. Policy comes to form one of the structures of organization. Discuss

7.0 REFERENCES/FURTHER READING

Rama Rao, V.S. (2010). Business Policy http://www.citeman.com/11809-nature-of-businesspolicy.html#ixzz1naSwscRY

http://en.wikipedia.org/wiki/Policy

Gomez-Mejia, Balkin & Cardy (2005)

MODULE 2 CONCEPT OF CORPORATE STRATEGY AND MANAGEMENT

UNIT 1: THE CONCEPT OF CORPORATE STRATEGY

TABLE OF CONTENTS

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References and Further Reading

1.0 INTRODUCTION

You are welcome to the second module of this course.

Business policy, as we have seen in Unit 2, is the name given to an integrative course in management (Kazimi, 2006). It is an emerging discipline and is a study of the functions and responsibilities of the senior management. In this unit, our prime objective is to understand the concept of strategy and the process of strategic management. We shall also see the roles that different strategies play in strategic management.

We would start with a discussion on the concept of strategy, which is undoubtedly the most significant concept in business policy and strategic management. Then, we present a set of definitions of strategy given by the authorities in the field and derive the main characteristics of strategy.

The next section is about the levels at which strategy operates. Here, we shall tell you how strategies can be formulated at different levels in an organisation. We explore the nature of strategic decision-making by pointing out how it is similar to conventional decision-making and yet how it differs in its coverage, reach and depth.

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 Corporate Strategy

The concept of strategy is central to understanding the process of strategic management. The term ‘strategy’ is derived from the Greek word strategos, which means generalship – the actual direction of military force, as distinct from the policy governing its deployment. Therefore, the word ‘strategy’ literally means the art of the general. In business parlance, there is no definite meaning assigned to strategy. It is often used loosely to mean a number of things.

The following sections shall present some representative definitions and different perspectives on strategy. Here, you will get an overview of the complex terrain that the debate on strategy has traversed in the course of its development as a concept. Kazmi (2006) gave the following illustrations/examples of strategy in action:

. Rollatainers, after divesting a major stake in ITC, is contemplating an expansion strategy.

The combined turnover of Rollatainers and ITC’s packaging division, which is Rs 500 crore at present, is likely to touch Rs 1000 crore in the next five years.

. TTK Prestige is part of the diversified TTK Group. It is focusing on its core strength of manufacturing and marketing of kitchenware. It has a US-based subsidiary Mantra Inc which markets multicooking systems.

. Singer India, which has been associated with sewing machines, is entering the white goods and colour television market as part of its diversification strategy.

. Birla TransAsia Carpets is a sick unit from the Yash Birla group. As it is faced with excessive manpower and high interest costs, it is attempting a turnaround strategy by retrenching three-fourth of its employees, importing synthetic carpets and tiles, and exporting to the US carpet markets.

. Kotak Mahindra Finance Limited is a major non-banking finance company (NBFC) that has experienced low profitability owing to the various problems faced by the NBFCs in India. It is planning to adopt a divestment strategy in wholesale corporate lending and focusing on new growth areas, such as wealth management, retail, insurance, and information services.

The above illustrations show how different companies reacted to their environment. In so doing, they adopted a course of action which seemed to be appropriate to them. Such a course of action may involve actions like expansion, diversification, focus, turnaround, stability or divestment. When an old established company which has been profitable in the past starts facing new threats in the environment – like the emergence of competitors – it has to rethink the course of action it had been following. With such rethinking, new ways are devised to counter the threats. Alternatively, some new opportunities may emerge in the environment which had not been there in the past. In order to take advantage of these opportunities the company reassesses the approaches it had been following and changes its courses of action. These courses of action are what we may call strategies.

No doubt, strategy is one of the most significant concepts to emerge in the subject of management studies in the recent past. Its applicability, relevance, potential and viability have been put to severe tests. It has emerged as a critical input to organizational success and has come in handy as a tool to deal with the uncertainties that organisations face. It has helped to reduce ambiguity and provide a solid foundation as a theory to conduct business – a convenient way to structure the many variables that operate in the organizational context, and to understand their interrelationship. It has aided thinkers and practitioners to formulate their thoughts in an ordered manner and to apply them in practice. There have been several such benefits, yet there are some pitfalls too.

It would be prudent on our part to realize that one should not blindly adhere to the postulations of strategy. This is likely to elicit a mature response so that the full potential of this powerful concept can be realized. It is also intended to provide a balanced understanding of the concept of strategy. Here are two points for our consideration to help temper our enthusiasm while embracing the concept of strategy.

. The application of the concept of strategy to real-life situations may tend to oversimplify things. Actual situations are complex and contain several variables that are not amenable to structuring. The concept of strategy tends to distort reality and, as an abstraction of reality, it is anything but a true reflection of the actual situation. Of course, this limitation is not unique to strategy. It is present in any situation where modelling has to be resorted to in order to provide a structured understanding of reality. Just as several mathematical formulations start with a phrase that indicates that a certain number of variables are assumed to be constant.

. The application of the concept of strategy commits an organisation to a predetermined course of action. While this is essential to chart out the path ahead, it can often blind an organisation to emergent situations as it goes along the path. Rigidity can lead to an attitude of finality with regard to those situations that are actually not known at the time of starting the journey. It might be better, thus, to move slowly, one step at a time, and keep in mind the maxim: look before you leap. One might say that this may already be known to perspective managers. Yet there is no harm in being cautious. ‘Discretion is certainly the better part of valour’.

Since strategy is the most important concept in the business policy course, next we shall study a few definitions of strategy given by different authors and derive certain conclusions from them.

3.2 Defining and Explaining Strategy

Management is an art as well as science (Kazmi, 20060. Many of the concepts used in building management theory have been derived from practice. Unlike the pure sciences which have their foundation in experimental research, management studies draw upon the practical experiences of managers in defining concepts. Business policy is rooted in the practice of management and has passed through different phases before taking its shape in the present form of strategic management. One of the earliest contributors to this young subject was Alfred D. Chandler.

3.2.1 Alfred D. Chandler (1962)

Chandler made a comprehensive analysis of interrelationships among environment, strategy, and organizational structure. He analysed the history of organizational change in 70 manufacturing firms in the United States. While doing so, Chandler defined strategy as: “The determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, 1962 cited in Kazmi, 2006). Note that Chandler refers to three aspects:

. Determination of basic long-term goals and objectives;

. Adoption of courses of action to achieve these objectives; and

. Allocation of resources necessary for adopting the courses of action.

3.2.2 Kenneth Andrews (1965)

Andrews belong to the group of professors at Harvard Business School who were responsible for developing the subject of business policy and its dissemination through the case study method. Andrew defines strategy as: “The pattern of objectives, purposes, goals, and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be" (cited in Kazmi, 2006).

This definition refers to the 'business definition', which is a way of stating the current and desired future position of a company, and the objectives, purposes, goals, major policies and plans required to take the company from where it is to where it wants to be.

3.2.3 Igor Ansoff (1965)

Professor Ansoff is a well-known authority in the field of strategic management and has been a prolific writer for the last three decades. In one of his earlier books, Corporate Strategy (1965), he explained the concept of strategy as: "The common thread among the organisation's activities and product-markets ….that defines the essential nature of business that the organisation was or planned to be in future" ( ).

Ansoff has stressed on the commonality of approach that exists in diverse organizational activities including the products and markets that define the current and planned nature of business.

3.2.4 William F. Glueck (1972)

Another well-known author in the area of strategic management was Glueck, who was a Distinguished Professor of Management at the University of Georgia till his death in 1980. He defined strategy precisely as: “A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved” ( ). The three adjectives which Glueck has used to define a plan make the definition quite adequate. ‘Unified’ means that the plan joins all the parts of an enterprise together; ‘comprehensive’ means it covers all the major aspects of the enterprise, and ‘integrated’ means that all parts of the plan are compatible with each other.

3.2.5 Henry Mintzberg (1987)

Mintzberg of McGill University is a noted management thinker and prolific writer on strategy. He advocates the idea that strategies are not always the outcome of rational planning. They can emerge from what an organisation does without any formal plan. He defines strategy as: “a pattern in a stream of decisions and actions” ( ). Mintzberg distinguishes between intended strategies and emergent strategies. Intended strategies refer to the plans that managers develop, while emergent strategies are the actions that actually take place over a period of time. In this manner, an organisation may start with a deliberate design of strategy and end up with another form of strategy that is actually realized.

3.2.6 Michael E. Porter (1996)

Michael Porter of the Harvard Business School has made invaluable contributions to the development of the concept of strategy. His ideas on competitive advantage, the five-forces model, generic strategies, and value chain are quite popular. He opines that the core of general management is strategy, which he elaborates as: "….developing and communicating the company's unique position, making trade-offs, and forging fit among activities" ( ).

Strategic position is based on customers' needs, customers' accessibility, or the variety of a company's products and services. A company's unique position relates to choosing activities that are different from those of the rivals, or to performing similar activities in different ways. However, a sustainable strategic position requires a trade-off when the activities that a firm performs are incompatible. Creation of it fit among the different activities is done to ensure that they relate to each other.

It must be noted that the different approaches referred to above to define strategy cover nearly a quarter of a century. This is an indication of what a complex concept strategy is and how various authors have attempted to define it. To put it in another way, there are as many definitions as there are experts. The same authors may change the approach they had earlier adopted. Witness what Ansoff said 19 years later in 1984 (his earlier definition is of 1965): “Basically, a strategy is a set of decision –making rules for the guidance of organizational behavior” ( ).

We have tried to give you an assortment of definitions out of the many available. Rather than an assortment, it may be more appropriate to call this section a bouquet of definitions and explanations of strategy. Each flower (definition) is resplendent by itself yet contributes synergistically to the overall beauty of the bouquet. The field of strategy is indeed fascinating, prompting an author to give the title – “What is Strategy and does it matter?” – to his thoughtprovoking book ( ). Drucker goes to the extent of terming the strategy of an organisation as its “theory of the business” ( ).

By means of the deeper insight that the authors have developed through years of experience and thinking, they have attempted to define the concept of strategy with greater clarity and precision. This comment is valid for most of the concepts in strategic management since this discipline is in the process of evolution and a uniform terminology is still evolving.

By combining the above definitions we do not attempt to define strategy in a novel way but we shall try to analyse all the elements that we have come across. We note that strategy is:

- a plan or course of action or a set of decision rules forming a pattern or creating a common thread;
- the pattern or common thread related to the organisation’s activities which are derived from its policies, objectives and goals;
- related to pursuing those activities which move an organisation from its current position to a desired future state;
- concerned with the resources necessary for implementing a plan or following a course of action; and
- connected to the strategic positioning of a firm, making trade-offs between its different activities, and creating a fit among these activities.

We have looked at a few practical illustrations in the previous section which were aimed at developing an understanding of strategy and at some representative definitions of strategy, in this section. We now go ahead to learn about the various levels at which strategy operates.

3.3 Levels at which Strategy Operates

The definitions of strategy, varied in nature, depth and coverage, offer us a glimpse of the complexity involved in understanding this daunting, yet interesting and challenging, concept. In this section we shall learn about the different levels at which strategy can be formulated.

It is not uncommon to find many companies, or a group of companies, working in different business lines with regard to either products/services, markets or technology. Here are a few illustrations (Kazmi, 2006):

. Hindustan Levers, the venerable multinational subsidiary, is in several businesses, such as animal feeds, beverages, oils and dairy fat, soaps and detergents, and specialty chemicals.

. Sundaram Clayton and its associate companies – Harita Grammar, Sundaram Fasteners, TVS Suzuki, TVS Electronics and TVS Whirlpool – operate in technology areas as diverse as brake and signal systems for railways, two-wheelers, computer peripherals, and electrical appliances.

. Balmer Lawrie, a public sector company, has a diversified portfolio of businesses in the fields of cargo, chemicals, containerization, lubricants, packaging, project consultancy, tea exports, and international business.

. The Flowmore group of companies manufactures pumps for irrigation, a range of engineering products, turbines, castings, specialized conversion equipments, and has recently started the manufacture of polyester films. It also offers engineering consultancy services for power projects and environmental engineering.

For many companies, such as those illustrated above, a single strategy is not only inadequate but also inappropriate. The need is for multiple strategies at different levels. In order to segregate different units or segments, each performing a common set of activities, many companies are organized on the basis of operating divisions or, simply, divisions. These divisions may also be known as profit centres or strategic business units (SBUs). An SBU as defined by Sharplin (quoted in Kazmi, 2006), is “any part of a business organisation which is treated separately for strategic management purpose” ( ).

Different Levels of Strategy

LEVELS STRUCTURE STRATEGY

CORPORATE CORPORATE-LEVEL

SBU BUSINESS-LEVEL

FUNCTIONAL FUNCTIONALLEVEL

Source: Kazmi, C. (2006). Business Policy and Strategic Management, 15th Edition, (New Delhi: Tata McGraw-Hill Publishing Company Limited), ISBN: 0-07-044470-6, pp. 1 – 23.

Generally, SBUs are involved in a single line of business. A complementary concept to the SBU, valid for the external environment of a company, is a strategic business area (SBA). It is defined as “a distinctive segment of the environment in which the firms does (or may want to do) business” ( ).

Corporate

Office

Corporate

Office

Corporate

Office

Corporate

Office

Finance Marketing Operations Personnel Information

A number of SBUs, relevant for different SBAs, form a cluster of units under a corporate umbrella. Each one of the SBUs has its own functional departments, or a few major functional departments, while common functions are grouped under the corporate level. These different levels are illustrated in the figure stated above. Two types of levels are depicted in this figure. One relates to the organizational levels and the other to the strategic levels. The organizational levels are those of the corporate, SBU and functional levels. The strategic levels are those of the corporate, SBU and functional level strategies.

Corporate level strategy is an overarching plan of action covering the various functions performed by different SBUs. The plan deals with the objectives of the company, allocation of resources and coordination of the SBUs for optimal performance.

SBU level (or business) strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas, and coordination between them for making an optimal contribution to the achievement of corporate level objectives.

Functional strategy deals with a relatively restricted plan providing objectives for a specific function, allocation of resources among different operations within that functional area, and coordination between them for optimal contribution to the achievement of SBU and corporate-level objectives.

Apart from the three levels at which strategic plans are made, occasionally companies plan at some other levels too. Firms often set strategies at a level higher than the corporate level. These are called the societal strategies. Based on a mission statement, a societal strategy is a generalized view of how the corporation relates itself to society in terms of a particular need or a set of needs that it strives to fulfill. Suppose a corporation decides to provide alternative sources of energy for society at an optimum price and based on the latest available technology. On the basis of its societal strategy, the corporation has a number of alternatives with regard to the businesses it can take up. It can either be a manufacturer of nuclear power reactors, a maker of equipments used for tapping solar energy, or a builder of windmills, among other alternatives. The choice is wide and being in one of these diverse fields would still keep the corporation within the limits set by its societal strategy. Corporate-and business-level strategies derive their rationale from the societal strategy.

Some strategies are also required to be set at lower levels. One step down the functional level, a company could set its operations-level strategies. Each functional area could have a number of operational strategies. These would deal with a highly specific and narrowly defined area. For instance, a functional strategy at the marketing level could be subdivided into sales, distribution, pricing, product and advertising strategies. Activities in each of the operational areas of marketing, whether sales or advertising, could be performed in such a way that they contribute to the functional objectives of the marketing department. The functional strategy of marketing is interlinked with those of the finance, production and personnel departments. All these functional strategies operate under the SBU-level. Different SBU-level strategies are put into action under the corporate-level strategy which, in turn, is derived from the societal-level strategy of a corporation. Ideally, a perfect match is envisaged among all strategies at different levels so that a corporation, its constituent companies, their different SBUs, the functions in each SBU, and various operational areas in every functional area are synchronized. Perceived in this manner, an organisation moves ahead towards its objectives and mission like a well-oiled piece of machinery. Such an ideal, though extremely difficult – if not impossible of attainment – is the intent of strategic management.

A note of caution to readers here: when we refer to strategy in business policy texts, it is generally meant to be a corporate-level strategy or a business-or SBU-level strategy. Societal strategies are manifest in the form of vision and mission statements, while functional and operational strategies take the shape of functional and operational implementation, respectively.

A reading of this section will give the impression that an organisation could have a number of strategies at different levels and that would solve its strategic problems or lay down the groundwork for its strategic success. Mark the words we have used – 'the organisation moves ahead…like a well-oiled machinery/. In reality, however, rarely does an organisation move ahead so smoothly. We have viewed strategy from several perspectives. In some cases it is seen as something which arises systematically due to conscious decision-making. Yet in other cases it may seem to be the product of a messy and complicated series of maneuvers. The next section provides an overview of the strategic decision-making process.

3.4 Forms of Organizational Strategy

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

3.4.1 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.

3.4.2 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.

3.4.3 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.

3.4.4 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.

3.4.5 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 unit, we have discussed the following topics:

. Corporate Strategy

. Defining and explaining strategy

. Levels of Strategy in Organisations

. Forms of Organizational Strategy.

In the next study unit, you will be taken through discussion on strategy decision-making.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss the various forms of organizational strategy

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UNIT 2: STRATEGIC DECISION MAKING

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we discussed the following topics:

. Corporate Strategy

. Defining and explaining strategy

. Levels of Strategy in Organisations

. Forms of Organizational Strategy.

In this unit, you will be taken through discussion on strategy decision-making.

2.0 OBJECTIVES

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

(i) define and explain strategic decision making;

(ii) discuss issues in strategic decision-making; and

(iii) enumerate and discuss the various schools of thought on strategic formation.

3.0 MAIN CONTENT

3.1 Strategic Decision-Making

Decision-making is the most important function of any manager. Strategic decision-making is the prominent task of the senior management. Both kinds of decision-making are essentially the same. The difference lies in the levels at which they operate. While decision-making pertains to all managerial functions, strategic decision-making largely relates to responsibilities of the senior management.

3.1.1 Conventional Decision-making

Most people agree that decision-making is the process of selecting a course of action from among many alternatives. The process works somewhat like this:

. objectives to be achieved are determined;

. alternative ways of achieving the objectives are identified;

. each alternative is evaluated in terms of its objective-achieving ability; and

. the best alternative is chosen.

The end result of the above process is a decision or a set of decisions to be implemented. Such a process of decision-making is deceptively simple. In practice decision-making is a highly complex phenomenon. The first set of problems encountered in decision-making is related to objective-setting. Second, the identification of alternatives is a difficult task. How to test the objective-achieving ability of each alternative is easier said than done, and, lastly, choosing the best alternative is a formidable task too.

3.1.2 Strategic Decision-making

As indicated above, the problems encountered in decision-making are experienced by all managers in the course of their day-to-day activities. On the other hand, strategic tasks are by their very nature complex and varied. Decision-making in performing strategic tasks is, therefore, an extremely difficult, complicated and, at times, intriguing and enigmatic process. Kazmi (2006) provides an illustration of a company's managing director revealing his thoughts with regard to the strategic decisions related to growth objectives and the intended strategy. This illustration is indicative of the complexity of strategic decision-making.

Strategic Decision-making at Zodiac Clothing:

Source: Adapted from "We expect to grow at 20 percent", An interview, Business Standard (The Smart Investor),

September 13, 1999, p. 16 (quoted in Kazmi, 2006)

In the process of strategic management the basic thrust of strategic decision-making is to make a choice regarding the courses of action to adopt. Thus, most aspects of strategy formulation rest

Zodiac, with its ‘classic business statement’, is one of the strongest brands in shirts and ties in India. Anees

Noorani, the managing Director of Zodiac Clothing Company, answered an interviewer’s queries on the

prospects for his company and the intended strategy.

Zodiac is aiming at a growth of 20 percent in the topline (premium) segment and 35 percent in the bottomline

segment of branded garments. The reason for the strategic decision to set these objectives is that the Indian

markets are now ready for branded garments. Foreign brands have made an entry into the market and retailing is

on the rise. The company is perceived to have the necessary infrastructure in terms of manufacturing,

distribution and logistics to take advantage of the emerging opportunities. From a dominant position in the

export market it is now focusing on the domestic market.

Another significant strategic decision has been the company’s reverse backward integration. This means that

Zodiac no longer wants to produce fabric for its garments. It wishes to have the flexibility of outsourcing for a

changing product mix dictated by fashion. Motivate by this logic, it has abandoned its plans for manufacturing

cloth for its garments. Rather, it would like to extend its product range to producing branded trousers.

on strategic decision-making. The fundamental strategic decision relates to the choice of a mission. In other words, the answers to questions – ‘what is our business? what will it be?, and what should it be?’ – are the basic concerns in strategic management. With regard to objectivesetting,
the senior management is faced with alternatives regarding the different yardsticks to measure performance. Finally, at the level of choosing a strategy, the senior management chooses from among a number strategic alternatives in order to adopt one specific course of action which would make the company achieve its objectives and realize its mission.

Apart from the fundamental decisional choice, as pointed above, there are numerous occasions when the senior management has to make important strategic decisions. Environmental threats and opportunities are abundant; that the senior management focuses its attention on only a few of those. Likewise, there are many company strengths and weaknesses; the senior management considers only a limited number at any given time. With regard to resource allocation, the management faces a strategic choice from among a number of alternatives that it could allocate resources to. Thus, strategic decision-making forms the core of strategic management.

3.2 Issues in Strategic Decision-making

As strategic decision-making is a complex process, it is difficult to perform. It is incomprehensible; it cannot be analysed and explained easily. Decision-makers are unable to describe the exact manner in which strategic decisions are made. Like the working of the human mind, strategic decision-making is fathomless. And rightly so, for it is based on complex mental processes which are not exposed to the view. While commenting on the nature of strategic decision-making Henry Mintzberg says that “the key managerial processes are enormously complex and mysterious, drawing on the vaguest of information and using the least articulated of mental processes. These processes seem to be more relational and holistic than ordered and sequential, and more intuitive than intellectual ….” ( ).

For these reasons, no theoretical model, however painstakingly formulated, can adequately represent the different dimensions of the process of strategic decision-making. Despite these limitations, we can still attempt to understand strategic decision-making by considering some important issues related to it. We shall deal with six such issues below:

1.

Criteria for decision-making. The process of decision-making requires objective-setting. These objectives serve as yardsticks to measure the efficiency and effectiveness of the decision-making process. In this way, objectives serve as the criteria for decision-making. There are three major viewpoints regarding setting criteria for decision-making:

(a) The first is the concept of maximization.

It is based on the thinking of economists who consider objectives as those attributes which are set at the highest point. The behavior of the firm is oriented towards achieving these objectives and, in the process, maxismising its returns.

(b) The second view is based on the concept of satisficing. This envisages setting objectives in such a manner that the firm can achieve them realistically through a process of optimization.

(c) The third viewpoint is that of the concept of incrementalism.

According to this view, the

behavior of a firm is complex and the process of decision-making, which includes objective-setting, is essentially a continually-evolving political consensus-building. Through such an approach, the firm moves towards its objectives in small, logical and incremental steps.

2.

Rationality in decision-making. In the context of strategic decision-making, rationality means exercising a choice from among various alternative courses of action in such a way that it may lead to the achievement of the objectives in the best possible manner. Those economists who support the maximizing criterion consider a decision to be rational if it leads to profit maximization. Behaviourists, who are proponents of the satisfying concept, believe that rationality takes into account the constraints under which a decision-maker operates. Incrementalists are of the opinion that the achievement of objectives depends on the bargaining process between different interested coalition groups existing in an organisation, and therefore a rational decision-making process should take all these interest into consideration.

3.

Creativity in decision-making. To be creative, a decision must be original and different. A creative strategic decision-making process may considerably affect the search for alternatives where novel and untried means may be looked for and adopted to achieve objectives in an exceptional manner. Creativity as a trait is normally associated with individuals and is sought to be developed through techniques such as brainstorming. You may recall that one of the attitudinal objectives of a business policy course is to develop the ability to go beyond and think, which, in other words, is using creativity in strategic decision-making.

4.

Variability in decision-making. It is a common observation that given an identical set of conditions two decision-makers may reach totally different conclusions. This often happens during case discussions too. a case may be analysed differently by individuals in a group of learners, and, depending on the differing perceptions of the problem and its solutions, they may arrive at different conclusions. This happens due to variability in decision-making. It also suggests that every situation is unique and there are no set formulas that can be applied in strategic decision-making.

5.

Person-related factors in decision-making. There are a host of person-related factors that play a role in decision-making. Some of these are age, education, intelligence, personal values, cognitive styles, risk-taking, and creativity. Attributes like age, knowledge, intelligence, risk-taking ability, and creativity are generally supposed to play a positive role in strategic decision-making. A cognitive style which enables a person to assimilate a lot of information, interrelate complex variables, and develop an integrated view of the situation is specially helpful in strategic decision-making. Values, as enduring prescriptive beliefs, are culture-specific and important in matters of social responsibility and business ethics – issues that are important to strategic management.

6.

Individual versus group decision-making. Owing to person-related factors, there are individual differences among decision-makers. These differences matter in strategic decision-making. An organisation, as it possesses special characteristics, operates in a unique environment. Decision-makers who understand an organisation's characteristics and its environment are in a vantage position to undertake strategic decision-making. Individuals such as chief executives or entrepreneurs play the most important role as strategic decision-makers. But as organisations become bigger and more complex, and face an increasingly turbulent environment, individuals come together in groups for the purpose of strategic decision-making. We will be referring to many such groups when we deal with the role of strategists in the last section of this unit.

Strategic decision-making leads to the formation of strategies. On the basis of an understanding of the nature of strategic decision-making and the issues related to it, let us now move ahead to study the different perspectives on strategy.

3.3 Schools of Thought on Strategy Formation

The subject of strategic management is in the midst of an evolutionary process. In the course of its development, several strands of thinking are emerging which are gradually leading to a convergence of views. This is a subtle indication of the maturing of this subject. We now have a wealth of insight into the complexities of strategic behavior – the observable characteristics of the manner in which an organisation performs decision-making and planning functions with regard to the issues that are of strategic importance to its survival, growth and profitability. Strategic decision-making is the core of managerial activity; strategic behavior is its manifestation, while the outcome is the formation of strategy.

Here, in this section, we dwell upon the compendium of various perspectives to strategic formation that have evolved over a period of time. Several persons, among whom are the doyens in the field of strategy, have contributed to the formulation of these perspectives. These offer the reader, a meaningful insight into the development of the concept of strategy. Indeed, Mintzberg and his associates, from whose writings these perspectives have been adopted here, call them the ten (10) schools of thought on strategy formation ( ).

The schools of thought can be classified under three groups as below:

The Prescriptive Schools

1. Design school where strategy formation is a process of conception
2. Planning school where strategy formation is a formal process
3. Positioning school where strategy formation is an analytical process.

The Descriptive Schools

4. Entrepreneurial school where strategy formation is a visionary process
5. Cognitive school where strategy formation is a mental process
6. Learning school where strategy formation is an emergent process
7. Power school where strategy formation is a negotiation process
8. Cultural school where strategy formation is a collective process
9. Environmental school where strategy formation is a reactive process

The Integrative School

10. Configuration school where strategy formation is a process of transformation.

Given below is a description and explanation of each school of thought.

1.

The design school, which perceives strategy formation as a process of conception developed mainly in the late 1950s and 60s. Under this school, strategy is seen as something unique which is in the form of a planned perspective. The CEO as the main architect guides the process of strategy formation. The process of strategy formation is simple and informal and based on judgement and thinking. The major contributors to the design school are Selznick (1957) and Andrews (1965).

2.

The planning school, which perceives strategy formation as a formal process developed mainly in the 1960s. Under this school, strategy is seen as a plan divided into substrategies and programmes. The lead role in strategy formation is played by the planners. The process of strategy formation is formal and deliberate. The major contributor to the planning school is Ansoff (1965).

3.

The positioning school, which perceives strategy formation as an analytical process developed mainly in the 1970s and 80s. Under this school, strategy is seen as a set of planned generic positions chosen by a firm on the basis of an analysis of the competition and the industry in which they operate. The lead role in strategy formation is played by the analysts. The process of strategy formation is analytical, systematic and deliberate. The major contributors to the positioning school are Schendel and Hatten (1970s), Porter (1980s).

4.

The entrepreneurial school, which perceives strategy formation as a visionary process developed mainly in the 1950s. Under this school, strategy is seen as the outcome of a personal and unique perspective often aimed at the creation of a niche. The lead role in strategy formation is played by the entrepreneur/leader. The process of strategy formation is intuitive, visionary, and largely deliberate. The major contributors to the entrepreneurial school are Schumpeter (1950s), Cole (1959) and several others, most of whom are economists.

5.

The cognitive school, which perceives strategy formation as a mental process, developed mainly in the 1940s and 50s. Under this school strategy is seen as an individual concept that is the outcome of a mental perspective. The lead role in strategy formation is played by the thinker-philosopher. The process of strategy formation is mental and emergent. The major contributors to the cognitive school are Simon (1947 and 1957), and March and Simon (1958).

6.

The learning school, which perceives strategy formation as an emergent process has had a legacy from the 1950s through the 1990s. Under this school, strategy is seen as a pattern that is unique. The lead role is played by the learner within the organisation whoever that might be. The process of strategy formation is emergent, informal and messy. The major contributors to the learning school are Lindblom (1959, 1960), Cyert and March (1963), Weick (1969), Quinn (1980), Senge (1990), and Prahalad and Hamel (early 1990s).

7.

The power school, which perceives strategy formation as a negotiation process, developed mainly during the 1970s and 80s. Under this school, strategy is seen as a political and cooperative process or pattern. The lead role in strategy formation is played by any person in power (at the micro level) and the whole organization (at the macro level). The process of strategy formation is messy, consisting of conflict, aggression and cooperation. At the micro level the process of strategy formation is emergent while at the macro level it is deliberate. The major contributors to the power school are Allison (1971), Pfeffer and Salancik (1978), and Astley (1984).

8.

The cultural school, which perceives strategy formation as a collective process developed mainly in the 1960s. Under this school, strategy is seen as a unique and collective perspective. The lead role in strategy formation is played by the collectivity displayed within the organisation. The process of strategy formation is ideological, constrained, collective and deliberate. The major contributors to the cultural school are Rhenman and Normann (late 1960s).

9.

The environmental school, which perceives strategy formation as a reactive process, developed mainly in the late 190s and 70s. Under this school, strategy is seen as something generic occupying a specific position or niche in relation to the environment. The lead role in strategy formation is played by the environment as an entity. The process of strategy formation is passive and imposed, and hence, emergent. The major contributions to the environmental school are Hannan and Freeman (1977) and contingency theorists like Pugh et. al. (late 1970s).

10. The configuration school, which perceives strategy formation as a transformation process developed during the 1960s and 70s. Under this school, strategy is viewed in relation to a specific context and thus could be in a form that corresponds to any process visualized under

any of the other nine schools. The lead role may be played by any actor identified in the other nine schools. The process of strategy formation is integrative, episodic and sequential. In addition, the process could incorporate the elements pointed out under the other nine schools of thought. The major contributors to the configuration school are Chandler (1962), Mintzberg and Miller (late 1970s), and Miles and Snow (1978).

4.0 CONCLUSION

The unit discussed all about the levels at which strategy operates. Here, you were told how strategies can be formulated at different levels in an organisation. We explored the nature of strategic decision-making by pointing out how it is similar to conventional decision-making and yet how it differs in its coverage, reach and depth.

A review section on the school of thought on strategy formulation shall bring to you the several interpretations that the thinkers in strategic management have ascribed to strategy. This is an interesting account of how a management concept can raise a lot of heat and dust. It is also an indication of the importance of strategy as a concept in contemporary management.

5.0 SUMMARY

In this unit, we have

. defined and explained strategic decision making;

. discussed issues in strategic decision-making; and

. enumerated and discussed the various schools of thought on strategic formation.

In the next unit, you will learn strategic management, which is a newer and broader concept of managing organizations strategically. It takes into account all the aspects of managerial problems, the processes of solving them, and the many variables that operate in a problemsolving environment. We take up the topic of strategic management for discussion in the next section.

6.0 TUTOR MARKED ASSIGNMENT

1. In your own words, define strategic decision-making.
2. List the various schools of thought on strategic formation that you know and explain any four of them.

7.0 REFERENCES/FURTHER READING

Kazmi, C. (2006). Business Policy and Strategic Management, 15th Edition, (New Delhi: Tata McGraw-Hill Publishing Company Limited), ISBN: 0-07-044470-6, pp. 1 – 23.

UNIT 3 STRATEGIC MANAGEMENT AND LINKAGES BETWEEN ORGANIZATION AND THEIR ENVIRONMENTS

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we

. defined and explained strategic decision making;

. discussed issues in strategic decision-making; and

. enumerated and discussed the various schools of thought on strategic formation.

In this unit, you will learn strategic management, which is a newer and broader concept of managing organizations strategically. It takes into account all the aspects of managerial problems, the processes of solving them, and the many variables that operate in a problemsolving environment. We take up the topic of strategic management for discussion in the next section.

2.0 OBJECTIVES

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

3.0 MAIN CONTENT

3.1 The Process of Strategic Management

In Unit 2, we had described the historical evolution of business policy as a course of study and said that strategic management is the emerging discipline that forms the theoretical framework for business policy. Strategic decision-making is carried out through the process of strategic management. Like the other terms in business policy, strategic management has also been defined and interpreted differently by various authors. There are also differences of opinion regarding the phases of the strategic management process and the elements they contain. In this section, we shall deal with four aspects: the way strategic management is defined, the different phases in the process of strategic management, the elements that this process contains; and lastly, the model of strategic management adopted.

3.2 Definitions of Strategic Management

Glueck (1984) defines strategic management as “a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives” ( ). As visualized by Glueck (cited in Kazmi, 2006), the end result of strategic management is a strategy or a set of strategies for the organisation.

Hofer and others (1984) consider strategic management as “the process which deals with the fundamental organizational renewal and growth with the development of strategies, structures, and systems necessary to achieve such renewal and growth, and with the organizational systems needed to effectively manage the strategy formulation and implementation processes” ( ). Firstly, these authors include two subprocesses within the overall strategic management process. Through the formulation and implementation subprocesses strategies, structures, and systems are developed to achieve the objectives of organizational renewal and growth. Secondly, the strategic management process is also considered as the managing of the organizational systems which are required for strategic management. For instance, the administrative arrangements necessary for the formulation and implementation of strategies would also be included in the process of strategic management.

Ansoff (1984) states that strategic management is “a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way that will assure its continued success and make it secure from surprises” ( ). In this definition the emphasis is on the environment-organisation relationship for the purpose of achieving the objective of continued success and remaining protected from environmental surprises through the adoption of a systematic approach to general management.

Sharplin (1985) defines strategic management as “the formulation and implementation of plans and carrying out of activities relating to the matters which are of vital, pervasive or continuing importance to the total organisation” ( ). This is an all-encompassing view of strategic management and considers all plans and activities which are important for an organisation.

Note that all the four definitions that we have quoted above are from the early 1980s – the period when strategic management was being recognized as a separate discipline which deals with the fundamental issues related to the existence, growth and profitability of organisations.

The last definition, that we quote next, is of a recent origin and emphasizes the elements in the process of strategic management. It states that the main end is the satisfaction of stakeholders of the organisation. The stakeholders are groups or individuals who can significantly affect or be affected by an organisation’s activities. Harrison and St. John (1998) define strategic management as “the process through which organisations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to help achieve established goals, and execute these strategies, all in an effort to satisfy key organizational stakeholders” ( ).

We observe that different authors have defined strategic management differently. Yet there are several common elements in the way it is defined and understood. Strategic management is considered as either decision-making and planning, or a set of activities related to the formulation and implementation of strategies to achieve organizational objective. In strategic management the emphasis is on those general management responsibilities which are essential to relate the organisation to the environment in such a way that its objectives may be achieved.

3.3 Phases in Strategic Management

The definitions quoted above give us the idea that strategic management as a process consists of different phases which are sequential in nature. Most authors agree that there are four essential phases in the strategic management process, though they may differ with regard to its sequence, emphasis, or nomenclature. These four phases could be encapsulated as follows:

1. Establishing the hierarchy of strategic intent;
2. Formulation of strategies;
3. Implementation of strategies; and
4. Performing strategic evaluation and control.

These four phases are considered as sequentially linked to each other and each successive phase provides a feedback to the previous phases. the phases in strategic management are depicted in the figure below:

Figure showing phases in the Strategic Management Process

Establishment of

strategic intent

Formulation of

strategies

Implementation

of strategies

Formulation of

strategies

Strategic

control

3.4 Elements in Strategic Management Process

3.5 Models in Strategic Management Process

3.6 Strategists and Their Role in Strategic Management

Self-assessment exercise 1

Self-assessment exercise 2

4.0 CONCLUSION

The sixth section is on the process of strategic management. Here, we provide you some representative definitions, describe the phases and elements, and bring to you the model of strategic management that we have adopted in this material. You would be referring to this section frequently as you read further.

The last section is on the role that different strategists play in strategic management. Here, we consider nine strategists – individuals and groups – who have had a role to play in strategic management.

5.0 SUMMARY

In this unit,

In the next unit, you will learn

6.0 TUTOR MARKED ASSIGNMENT

7.0 REFERENCES/FURTHER READING

Kazmi, C. (2006). Business Policy and Strategic Management, 15th Edition, (New Delhi: Tata McGraw-Hill Publishing Company Limited), ISBN: 0-07-044470-6, pp. 1 – 23.

UNIT 4:

INTRODUCING FORMAL STRATEGIC PLANNING SYSTEM IN A

BUSINESS

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2.0 INTRODUCTION

2.0 OBJECTIVES

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

3.0 MAIN CONTENT

STRATEGIC PLANNING EMPHASIS AND PLANNING SATISFACTION IN SMALL FIRMS: AN

EMPIRICAL INVESTIGATION

Javad Kargar

John A. Parnell

North Carolina Central University

Durham, NC

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Abstract

Most empirical studies examining strategic planning effectiveness have focused on its impact on financial

performance. However, solid empirically-based conclusions concerning the usefulness of strategic planning have

not yet emerged. The present study takes an alternative perspective, examining two dimensions of executive

satisfaction with strategic planning. Results support a link between seven strategic planning characteristics and

planning satisfaction among small firms.

Introduction

According to a recent Business Week (1992:60) special edition, "change can [no longer] be an occasional episode in the life of a corporation. Companies with rigid structures will be swept away. Corporate cultures that can adapt will

survive and thrive..." Flexibility--as well as the related constructs of speed, adaptability, and change--has been

touted as a key tenet of the "paradigm for the postmodern manager" (Byrne, 1992:62). To yield positive results,

change and flexibility necessitate prior effective strategic planning. However, researchers have not yet conclusively

determined why some planning efforts are more successful than others in meeting this challenge.

The present study examines the relationship between various facets of strategic planning and performance in small

community banks. Drawing on the planning literature, this article suggests that planning-performance research on

small firms can produce meaningful results.

Strategic Planning and Performance

Over the past decade, researchers have investigated the effects of formal strategic planning on financial performance

in small firms. Many have concluded that there is no consistent association between the strategic planning process

and performance (Cappel, 1990; Greenley, 1986; Leontiades & Tezel, 1980; Orpen, 1985; Robinson & Pearce,

1983). In response to studies highlighting the impact of strategic planning on firm performance (Karger & Malik,

1975; Rhyne, 1986; Sapp & Seiler, 1981; Welch, 1984), recent research has seen a greater emphasis on the strategic

process rather than only on the strategy content that Hofer (1975) proposed in his early study.

Steiner (1979) provided a thorough conceptualization of strategic planning. According to Steiner, planning is an attitude and a process concerned with the future consequences of current decisions. Formal strategic planning links

short, intermediate, and long-range plans. Strategic planning does not attempt to make future decisions or even

forecast future events. It need not replace managerial intuition and judgment with massive, detailed sets of plans.

Steiner argued for the importance of strategic planning, providing keen insight into overcoming the barriers and

biases associated with planning failures. However, research by Steiner and others is founded in the critical

assumption that planning is important. But the debates rages on in the literature. The key question remains: Is there

really a link between planning and performance?

The literature is inundated with the apparent advantages of planning, most notably its ability to improve the fit

between the organization and its external environment (Godiwalla, Meinhart, & Warde, 1981). Others have argued

that planning aids in the identification of future marketing threats and opportunities, elicits an objective view of

managerial problems, creates a framework for internal communication, promotes forward thinking, and encourages

a favorable attitude to change (Hausler, 1968; Loasby, 1967; Stern, 1966; Wilson, 1979). Further, there are intrinsic

benefits that accrue as a result of the planning process, including the positive effects of planning on local

employment and the economy (Greenley, 1986).

Langley (1988) also provided support for the benefits of planning, identifying four roles of formal strategic

planning. In the public relations role, formal strategic planning is intended to impress or influence outsiders. The information role provides input for management decisions. The group therapy role is intended to increase

organizational commitment through the involvement of people at all levels of the organization in strategic planning.

Finally, the direction and control role is fulfilled when plans serve to guide future decisions and activities toward

some consistent ends.

According to Roach and Allen (1983), the strategic planning process is the product of the best minds inside and

outside the corporation. The process considers future implications of current decisions, adjusts plans to the emerging business environment, manages the business analytically, and links, directs, and controls complex

enterprises through a practical, working management system. This process plays a vital role in firm performance

(Roach & Allen, 1983).

Cartwright (1987) suggested that effective planning is not as rational and analytical as it has been portrayed in the

literature. He argues for the lost art (rather than science) of planning. He contends that planning is both (1) a generic

activity whose success determinants are partially independent of the area in which it is applied, and (2) an area

where judgment, intuition, and creativity are still important.

Robinson and Pearce (1984) argued that formal strategic planning is a conceptual activity suited solely to larger

firms and therefore has no effect on the financial performance of small firms. Wortman (1986) reviewed a set of

small business planning-performance studies in the context of a broad survey of the methodologies employed in the

small business literature. Wortman developed typologies but did not focus on the particular issue of the effect of

formal strategic planning on small firm performance. However, he clearly addressed the need for continued

refinement in planning-performance relationships and recommended the use of sophisticated statistical techniques

for addressing such substantive research questions.

Greenley (1986) agreed with Robinson and Pearce and others to follow (Cartwright, 1987; Langley, 1988;

Ramanujam & Venkatraman, 1987), but provided an alternative perspective, suggesting that there may not even be a positive relationship between planning and performance. Specifically, Greenley noted the face validity of the

planning-performance linkage, but reports that existing empirical data has not yet substantiated the relationship.

Ramanujam and Venkatraman (1987) provided limited support for Greenley's contention. However, their empirical

analysis of high and low performing firms elicited significant differences between the groups that relate to the

planning process. Specifically, their research examined the quality of the planning. For example, high performing

firms tend to commit resources to planning and promote line-staff cooperation substantially more than low

performing firms. Low performers may plan; they just may not plan effectively.

Pearce, Freeman, and Robinson (1987) examined the perceived substantive contributions of each of eighteen

existing studies, concluding that empirical support for the normative suggestions that all small firms should engage

in formal strategic planning has been inconsistent and often contradictory. In a similar vein, Schwenk and Shrader

(1993) recently meta-analyzed fourteen studies on formal strategic planning and performance in small firms. While

they did not find that planning necessarily improves performance, they argued against the assertion that strategic

planning is only appropriate for large firms. As such, they concluded that strategic planning promotes long-range

thinking, reduces the focus on operational details, and provides a structured means for identifying and evaluating

strategic alternatives. Since this was the first review that clearly demonstrated the planning-performance link across

studies, it strengthened the case for recommending the use of strategic planning in all firms, regardless of size.

Sinha (1990) appears to have empirically established some kind of a planning-performance linkage. Sinha examined 1087 decisions made by 129 Fortune 500 firms between 1982 and 1986. He concluded that characteristics of the decisions accounted for 15 percent of the variance in data and therefore should be regarded as important determinants of the contribution planning makes to decision making. However, Sinha concedes that the quality of planning is critical to the relationship.

There are three frequently cited reasons why top managers pursue changes in strategy (Parnell, 1994). First, a

change in strategy may appear attractive is that desired performance levels are not being attained by the

organization. In many cases, top managers may believe that a change in strategy will improve the ability of the

business to generate revenues or profits, increase market share, and/or improve return on assets or investment. Many

studies have concluded that declining profitability is the most common catalyst for strategic change (Boeker, 1989;

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Second, an environmental shift may necessitate strategic change to maintain alignment. Such shifts may result from

changes in either the macroenvironment (e.g., new regulations, social forces, demographic changes, etc.) or the

industry environment (e.g., new competitors, changes in competitor strategies, etc.). Changes in competition and

technology necessitate a change in the knowledge base within the organization if it is to survive (Whipp, Rosenfeld,

& Pettigrew, 1989). According to the population ecology perspective (Hannan & Freeman, 1977; Ulrich, 1987), the

environment determines which organizations will survive and which ones will not. New firms better suited to the

changing environment constantly replace existing ones. Competitors constantly struggle for existence by seeking to

procure additional resources. As such, strategic change can be seen as a means to access additional resources and

survive in a turbulent environment (Aldrich, McKelvey, & Ulrich, 1984).

Third, strategic change can enhance effective resource utilization (Barney, 1991; Lado, Boyd, & Wright, 1992).

Proponents of the resource-based perspective have noted that competitive advantage often occurs from such

organizational attributes as informational asymmetries (Barney, 1986b), culture (Barney, 1986a; Fiol, 1991),

resource accumulation (Dierickx & Cool, 1989), and the minimization of transaction costs (Camerer & Vepsalainen,

1988). Hence, as organizational human and capital resources evolve, changes in strategy become necessary to fully

utilize the resources available to the organization.

Resource shifts necessitating strategic change are more prevalent in some organizations than in others. Researchers

have found that organizational performance, age, and length of tenure of the founding entrepreneur influence the

degree to which a founding strategy endures and thus, the prospects for strategic change (Boeker, 1989). In fact,

new CEOs are often recruited to attempt strategic changes upon entering the organization (Greiner & Bhambri,

1989).

Benefits and Costs of Strategic Change

There are three potential benefits of strategic change that are commonly cited in the literature. First, strategic change

can enhance the strategy-environment fit. For example, Calingo (1989) found that the low cost leadership strategy

was most successful in price sensitive markets, whereas the differentiation strategy was most successful when

consumers perceived great differences among product offerings.

Second, strategic change can open new dimensions of competitive advantage previously untapped by competitors.

These first mover advantages result from the willingness of an organization to enter a new market or develop a new

product or service prior to the competition (Gannon, Smith & Grimm, 1992; Lieberman & Montgomery, 1988;

Mascarenhas, 1992; Wernerfelt & Karnani, 1989).

Finally, strategic change can improve an organization's ability to adapt by forcing healthy changes within the

business. The initial pain associated with change may be offset by the emergence of a lean, rejuvenated organization

with a fresh focus on its goals and objectives. On the contrary, organizations that maintain strategic consistency

over time may become stagnant, limiting the creativity and potential contributions of its members (Grimm & Smith, 1991; Wiersema & Bantel, 1992).

Regardless of the potential benefits, four potential costs that may be incurred as a result of strategic change have

received considerable attention in the literature. First, strategic change increases perceived risks; a change in any

key strategic, environmental, or organizational factor requires that the business develop a new "formula" for success

suited to the change (Gaertner, 1989; Yoshihara, 1990). Second, change can disrupt the strategy-culture alignment

(Green, 1988; Scholz, 1987; Schwartz & Davis, 1981). Although the organizational culture may be changed

(Saffold, 1988; Schein, 1990) to reflect and support the change in strategy, the period of time required to do so is

likely to take several years (Lorenz, 1988; Saffold, 1988; Schein, 1985; Scholes, 1991). Third, measures required to

implement a change in strategy may necessitate the outlays of capital (Miles & Snow, 1978). Finally, strategic

change may result in consumer confusion as they begin to alter their perceptions of the organization's products and

services.

Even when strategic change results in a successful new product or service, there is no assurance that this success can

be maintained. Indeed, competitors may distort consumer perceptions and reap the benefits of the initial strategic

change. For example, many consumer goods companies implement an "imitation strategy" (Foxman, Muehling &

Berger, 1990). As a result, many consumers purchase the imitation product thinking it is the original. If the

consumer dislikes the product, this dissatisfaction can be transferred to the original. If the consumer likes the product, the consumer may realize that the product is an imitator and transfer the positive associations with the

original product to that of the imitator. Either scenario can prove costly to the originator (Loken, Ross & Hinkle,

1986).

Constructs and Propositions

Empirical studies in small firms have generally employed a single dimension measures such as the presence or

absence of planning or its degree of formality to explain variations in organizational performance. Such

conceptualizations are inconsistent with the multidimensional view of planning systems that is being viewed as

more important in the recent literature (e.g. Dyson & Foster, 1982; King, 1983; Kukalis, 1991; Lorange, 1979,

1980; Rhyne, 1987; Veliyath & Shortell, 1993).

Although many strategic planning system characteristics have been suggested in the literature, no consensus has yet

emerged. For example, Ramanujam and Venkatraman (1987) proposed six dimensions of planning systems: use of

techniques, attention to internal facets, attention to external facets, functional coverage, resources provided for

planning, and resistance to planning. In another attempt to categorize strategic planning, Veliyath and Shortell

(1993) identified five dimensions for strategic planning systems: planning implementation, market research

competence, key personnel involvement, staff planning assistance, and innovativeness of strategies. Further, these

studies focused on large firms. Thus, an expanded conceptualization of the notion of small-firm strategic planning is

germane.

Following recent work (Ramanujam & Venkatraman, 1987; Veliyath & Shortell, 1993), the strategic planning system characteristics in the present study includes: (1) the degree of internal orientation of the system, (2) the degree of external orientation of the system, (3) the level of integration achieved within functional departments, (4) the extent of key personnel involvement in the planning process, and (5) the extent of use of analytical techniques in addressing strategic issues. These planning system attributes, in addition to being well-grounded in the existing literature (see Table 1), also appear to be problem areas in strategic planning within the banking industry.

Table 1

Characteristics of Strategic Planning Systems

Characteristic Description Supporting Literature

Internal

Orientation

The extent of attention devoted to an

organizations organization's recent history and

current situation, past performance, and

analysis of strengths and weaknesses

Camillus & Venkatraman (1984); Grant & King

(1982); King & Clevland (1978); Lorange and

Vancil (1977); Steiner (1979); Stevenson

(1976)

External

Orientation

Ability to obtain reliable and timely research

information in order to learn about external

environmental opportunities and threats.

Andrews (1971); McDaniel & Kolari (1987);

Ramanjam et al. (1986); Snow & Hrebiniak

(1980); Veliyath & Shortell (1993)

Functional

Integration

The extent of coverage given to different

functional areas with a view to integrating different functional requirements into a general

management perspective.

Hitt, Ireland, & Palia (1982); Hitt, Ireland, &

Stadler (1982); Lorange (1980); Snow &

Hrebiniak (1980); Ramanujam et al. (1986);

Ramanujam & Venkatraman (1987)

Key Personnel

Involvement

The degree of involvement of top management,

board members, line and staff managers in

planning process.

Govindrajan (1986); Mowday et al. (1982);

Ramanujam & Venkatraman (1987); Steers

(1977); Veliyath & Shortell (1993)

Use of Analytical

Techniques

The extent of reliance on appropriate planning

techniques in order to solve ill-structured

strategic problems.

Fredrickson (1984); Grant & King (1982); Hax

& Majluf (1984); Ramanujam & Venkatraman

(1987)

Creatively in

Planning

The degree to which planning efforts

emphasize new modes of thinking.

Cartwright (1987); Greenley (1986);

Ramanujam et al. (1986); Roach & Allen

(1983); Shank, Niblock & Sandal (1973)

Focus on Control The degree of emphasis placed on planning as

a means of organizational control.

Andrews (1971); Camillius (1975); King &

Cleland (1978); Langley (1988)

Two Dimensions of Planning Satisfaction

Most researchers who have investigated small-firm strategic planning have used financial and marketing measures

as indicators of performance. These performance measures are based on how a business has performed in the past,

implicitly assuming that such success can be extrapolated into the future. However, financial superiority is only one

element of organization performance. Perhaps more attention should be attached to an organization's ability to adapt

to changes that are occurring and will occur in its environment. A realistic model of organization performance must

reflect a highly complex paradigm and requires more than a single criterion (Brown & Laverick, 1994). As such, the present study adopts a broader perspective, examining satisfaction with planning.

Specifically, two dimensions are examined: satisfaction with the concrete and financial outcomes believed to be associated with the planning process, and satisfaction with the contribution of strategic planning efforts to overall organizational effectiveness. The first dimension follows the tradition of earlier studies that sought to examine the impact of planning on financial performance. Although performance objectives were included in the goal attainment dimension, there is a clear distinction between achieving performance goals and being a high-performance organization. The second dimension reflects a goal-centered approach to assessing organizational effectiveness (Cameron & Whetten, 1983; Ramanujam, Venkatraman & Camillus, 1986). The goal attainment measure is primarily concerned with the specific end results normally anticipated from a planning system. This view reflects King's (1983) suggested approach to the evaluation of planning and Steiner's (1979) notion of measurement against purpose.

Propositions

Almost all previous small-firm research has examined relationships between strategic planning and organization performance with unidimensional treatments. However, the issue becomes more complicated when both sets of variables are conceptualized in multidimensional terms, as some authors have recently argued (e.g. Ramanujam et al., 1986; Ramanujam & Venkatraman, 1987). Hence, a positive relationship between strategic planning and performance dimensions among small firms is expected. Specifically, the present study posits two propositions:

1.

Increased emphasis placed on each of the seven planning characteristics will be positively associated with each of

the two dimensions of planning satisfaction.

2.

Top executives of firms that place the greatest emphasis on all seven planning characteristics will report the greatest

satisfaction with planning along the two dimensions. Likewise, top executives of firms that place the least emphasis

on all seven planning characteristics will report the lowest satisfaction with planning along the two dimensions.

Methodology, Analysis, and Findings

Sample

Sixty-nine U.S. commercial banks in the state of North Carolina were examined, representing the entire population

with fewer than $500 million in total deposits. All 69 banks are considered small banks by banking industry

standards (Robinson and Pearce, 1983).

Surveys were sent to the senior executives (presidents and/or CEOs) of all the 69 banks. To improve the response

rate, the North Carolina Commissioner of Banks asked that each bank president and/or CEO cooperate by

completing a questionnaire that would be sent to them. Forty-seven of the 69 banks completed and returned the

research questionnaire for a response rate of 68 percent. Forty-one of these banks were chosen for further analysis to eliminate banks less than five years old as well as those that did not provide complete information. These criteria

ensured that sample would not be biased toward banks with inadequately developed strategic planning systems,

reducing the effective response rate to 59 percent.

North Carolina's small community banks provide an excellent opportunity to apply evaluation processes that are

normally employed to study strategic planning in small businesses because they historically have had broad powers

to engage in various businesses traditionally not associated with commercial lending (North Carolina Banking

Commission, 1991). Challenges requiring strategic management by small community banks go beyond establishing

new branches and typically include introducing new products/services, offering competitive personalized services,

meeting the needs of small businesses, and altering racial lending patterns. The relative stability of the North

Carolina commercial banks in an industry under turmoil also provided for a strong population from which to draw

the sample. Further, there was only one bank failure each in 1991 and in 1993 in North Carolina.

Strategic Planning Characteristics

The specific strategic planning system characteristics are summarized in Table 2 and based on five-point Likert

scales ranging from no emphasis (1) to great emphasis (5). Internal orientation was measured through the perceived

degree of attention devoted to customer services, efficiency of operations process, attracting and retaining high-

quality employees, and analysis of financial strengths and weaknesses. External orientation was measured by four

items relating to the analysis of investment and deposits opportunities, competition and market analysis. Functional

coverage was measured by Ramanujam and Venkatraman's (1987) four-item scale relating to the perceived degree

of emphasis accorded to functional involvement, coordination, and integration in planning activity. Key personnel

involvement was measured by the degree of CEO, board member, and line manager involvement in the strategic

planning process. Creativity in planning is assessed by Ramanujam et al.'s nine-item scale addressing the firm's

ability to anticipate surprises and crises, to adapt to unanticipated changes, and so forth. The control aspect was measured by Ramanujam et al.'s (1986) ten-item scale which addressed the degree of emphasis given to managerial

motivation, upward and downward communication in the hierarchy, integration of operational areas, and the like.

Finally, the use of planning techniques was measured by the degree of emphasis devoted to the application of

financial models, portfolio analysis, and forecasting analysis techniques.

Table 2

Planning System Characteristics and their Factor Loadings*

Factor

Loading

Internal Orientation (INTNLX 1: alpha = 0.79)

-Customer Services 0.57

-Efficiency of operating process 0.91

-Attracting and retaining high-quality employees 0.86

-Analysis of financial strengths and weakness 0.80

External orientation (EXTNLX1; alpha = 0.66)

-Analysis of investment opportunities 0.75

-Analysis of deposits opportunities 0.87

-Analysis of competition 0.73

-Performing market research 0.71

Functional coverage (FUNTNX1; alpha = 0.75)

-Marketing function 0.77

-Finance function 0.86

-Personnel function 0.77

-Operations function 0.72

Involvement of key personnel (RESRSX1; alpha = 0.51)

-Time spent by the CEO in strategic planning 0.93

-Involvement of line managers in strategic planning 0.54

-Involvement of board members in strategic planning 0.77

Use of planning techniques (TECHKX1; alpha = 0.63)

-Financial models 0.90

-Forecasting and trend analysis 0.86

-Portfolio analysis techniques 0.71

Creativity in Planning (CREATX1; alpha = 0.85)

-Ability to anticipate surprises, threats and crises 0.74

-Flexibility to adapt to unanticipated changes 0.70

-Value of a mechanism for identifying new business opportunities 0.53

-Role of identifying key problems 0.78

-Value as a basis for enhancing innovation 0.69

-Capacity to generate new ideas 0.68

-Formulating goals to be achieved in the bank's competitive environment 0.50

-Capacity to generate and evaluate a number of strategic alternatives 0.72

-Anticipating, avoiding, and removing barriers to strategy implementation 0.73

Focus on Control (CONTRX1; alpha = 0.94)

-Value as a tool for management control 0.66

-Ability to communicate top management's expectations down the line 0.81

-Value as a tool for managerial motivation 0.79

-Capacity to foster organizational learning 0.78

-Ability to communicate line management's concern to top management 0.84

-Value as a mechanism for integrating diverse functions and operations 0.60

-Monitoring & controlling the implementation of the bank's strategy 0.90

-Using multiple financial & non-financial control measures 0.83

-Using control techniques for monitoring performance 0.89

-Having control systems to revise current plans 0.83

*All scales were (1-5) Likert scales: no emphasis (1) to great emphasis (5)

Strategic Planning Satisfaction

Planning satisfaction was measured via the two aforementioned dimensions, hereafter abbreviated as financial performance (FINANCE) and organizational effectiveness (ORGEFF). These dimensions were measured by an eight-item, two-factor scale (see Table 3) based on prior work by Ramanujam and Venkatraman (1987), including items addressing areas such as the prediction of future trends, improving short-term performance, improving long-term performance, evaluating alternatives, and enhancing management development. Respondents were asked to indicate their views via a 5-point scale, ranging from much deterioration (1) to much important (5), on eight criteria

as a primary goal.

Table 3

Satisfaction with Planning and their Factor Loadings

Factor Loadings

Dependent Variables FINANCE ORGEFF

Financial Performance Items:

Predictions of future trends .73 .41

Enhancing management development .59 .37

Improving short-term performance .82 .18

Improving long-term performance .84 .15

Direct impact on financial performance .83 .36

Organizational Effectiveness Items:

Improving ability to evaluate alternatives .15 .85

Improving ability to avoid mistakes .27 .79

Improvement of budget process .38 .68

*All scales were (1-5) Likert scales: no emphasis to great emphasis

Factor loadings (see Tables 2 and 3) indicate that all the factors tapped characteristics measuring states of planning

system and organization performance. Factor loadings in each scale were above 0.50 and eigenvalues for each factor were well above 1.0. Internal consistency of each scale was also assessed and judged strong using Cronbach's alpha

(Cronbach, 1951; Van de Ven & Ferry, 1980). These assessments provide adequate support for the reliability of the

measures employed. Factor scores were computed for each planning system characteristic and planning satisfaction

dimension to serve as composite measures for hypothesis testing.

Table 4 presents correlations among the dimensions. Each planning system characteristic positively and

significantly correlates with only FINANCE and ORGEFF (at the .05 percent level). These results are consistent

with the conceptual literature from which dimensions were distilled. The presence of the expected bivariate

relationships between the planning system characteristics and these two satisfaction dimensions is encouraging, but

the main focus of this study is on the multivariate relationship between the planning characteristics and planning

satisfaction. Having established the existence of appropriate measurement scales, proposition testing can be

pursued.

Table 4

Descriptive Statistics and Correlations

Correlations: EMPLOYES INTNLX1 EXTNLX1 FUNTNX1 RESRSX1 TECHKX1 CREATX1 CONTRX1 FINANCE ORGEFF

EMPLOYES 1.0000

P=.

INTNLX1 .0041 1.0000

P=.490 P= .

EXTNLX1 -.1873 .6147 1.0000

P=.120 P= .000 P= .

FUNTNX1 -.1630 .4739 .7994 1.0000

P=.154 P= .001 P= .000 P= .

RESRSX1 .0914 .4594 .3731 .4411 1.0000

P=.285 P= .001 P= .008 P= .002 P= .

TECHKX1 .1252 .3292 .2641 .3041 .2812 1.0000

P=.218 P= .018 P= .048 P= .027 P= .037 P= .

CREATX1 -.2428 .5637 .5416 .4861 .4654 .5391 1.0000

P=.063 P= .000 P= .000 P= .001 P= .001 P= .000 P= .

CONTRX1 -.1430 .6026 .5054 .4061 .6053 .5296 .8590 1.0000

P=.186 P= .000 P= .000 P= .004 P= .000 P= .000 P= .000 P= .

FINANCE -.2057 .3478 .4393 .4872 .3529 .3952 .5863 .5768 1.0000

P=.099 P= .013 P= .002 P= .001 P= .012 P= .005 P= .000 P= .000 P= .

ORGEFF -.0716 .3056 .3125 .2700 .3360 .2702 .5901 .6272 .0000 1.0000

P=.328 P= .026 P= .023 P= .044 P= .016 P= .044 P= .000 P= .000 P= .500 P= .

The first proposition was strongly supported. Emphasis on each of the seven planning characteristics was positively

associated with both satisfaction dimensions. Further, firm size (EMPLOYES) was not significantly associated with

any of the seven characteristics.

The second proposition was partially supported. To examine which factors contributed to the greatest satisfaction in

planning along both dimensions, the forty-one businesses were clustered on the seven planning emphases into three

distinct groups (see Table 5). The purpose of the cluster analysis was to identify several groups of organizations,

each of which would contain businesses with similar emphases on the seven planning characteristics. Although a

variety of clustering methods could be applied, Ward's algorithm was selected because of its tendency to cluster

cases into groups of similar sizes, an aspect critical for small populations (Barney & Hoskisson, 1990; Hair,

Anderson & Tatham, 1987). The optimum solution contained three clusters of eight, eleven, and twenty-two

businesses.

Table 5

Planning System Satisfaction Means for each Cluster

Cluster Analysis

Variable	Cluster 1	Cluster 2	Cluster 3	Sig.
	(N=8, 19%)	(N=11, 27%)	(N=22, 54%)	Level
Employees	235.38	592.64	118.68	.178
INTNLX1	0.37	-0.32	0.02	.335
EXTNLX1	0.72	1.28	0.80	.035
FUNTNX1	0.87	-0.53	-0.05	.006
RESRSX1	0.43	-0.20	-0.06	.375
TECHKX1	0.38	-0.12	-0.08	.500
CREATX1	0.88	-0.47	-0.09	.009
CONTRX1	0.75	-0.46	-0.04	.028

FINANCE 0.73 -1.23 0.35 .000

ORGEFF 1.09 0.39 -0.59 .000

Firms in the first cluster placed the greatest emphasis on six of the seven planning characteristics and also reported

the greatest satisfaction with planning along both dimensions. Firms in the second cluster placed the least emphasis

on six of the seven characteristics, also reporting the least satisfaction with planning dimensions. Significant

differences among the clusters were found in four of the seven emphases and both planning satisfaction dimensions.

External emphasis did not associate with the other six planning characteristics, suggesting that heavy external

emphasis may be more associated with planning that does not lead to satisfaction with the process.

Conclusions and Future Directions

Taken together, it seems evident that the relationship between planning and performance in small firms bears

significantly on strategic management research and practice, and that strategy scholars should not abandon this line

of inquiry altogether. The planning literature appears to suggest two key themes: First, planning should be an

integral part of the strategic management process. The benefits of planning can outweigh the costs. And most

critically, one's competitors will likely enjoy the benefits of planning. Therefore, to ignore planning is to relegate a

source of competitive advantage to disadvantage.

The second theme is perhaps most critical. Effective planningnot just the process of planningappears to be positively

associated with performance. In other words, organizations that plan effectively are more likely to achieve higher

performance than those that do not. But the key here is effective planning; Ineffective planning appears to have no

predictable or consistent association with performance. Going through the motions of planning provides no great

insights or benefits; it may actually result in a depletion of resources and lower quality decisions. Thus, a strong

emphasis placed on planning is only justified when it is also focused on effective planning.

Future research may address five areas appropriate to this study. First, a longitudinal research design may improve

the reliability of strategy measures and examine the long-term (i.e., beyond five years) effects of strategic planning.

Golden (1992) found that 58 percent of organizations he surveyed did not agree with the previously validated

accounts of their organization's past strategies! Hence, retrospective accounts of strategy and planning emphases

may not always be valid. A longitudinal design would eliminate the reliance on CEOs' perceptions of past strategy-a

limitation of this exploratory study.

Second, future inquiries should expand the planning assessment process beyond the chief executive officer.

Although a high response may be more difficult when complete anonymity is not assured, a more accurate depiction

of planning activity may be gleaned from surveying several managers within each organization in addition to the

CEO. Further, the validation of self-reported financial results with archival data would improve the validity of the study.

Third, additional industries may be examined. This study addressed only the banking industry. Additional

investigations should include those industries experiencing major macroenvironmental changes. In such industries,

one may actually find a greater value in strategic planning activities.

Fourth, the identification of important planning characteristics should provide an impetus to further efforts at

reconceptualizing planning in more realistic terms than the unidimensional treatments common in the previous

small-firm empirical research. Similarly, the results support such a multidimensional treatment, which argues against the use of narrow conceptualizations of planning effectiveness in future studies. In general, these findings

suggest the need for future research to explore not only the degree of emphasis and perceived effectiveness of

various strategic planning dimensions but also the reasons for these choices. Such research will help to provide a

better understanding of why managers of small firms choose various strategic planning system approaches as well

as how these approaches give rise to possible changes in organization strategy.

Finally, the present study involved a relatively small number of banks in the study. Future investigations into

process and content dimensions unique to small firm strategic planning process could focus on larger industries.

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MODULE 3 CONCEPT OF POLICIES

UNIT 1: CONCEPT OF POLICIES

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UNIT 3: PERFORMANCE CRITERIA AND SIMPLE FINANCIAL AND

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1.0 INTRODUCTION

Performance indicator

From Wikipedia, the free encyclopedia

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"Key Performance Indicator" redirects here.

A performance indicator or key performance indicator (KPI) is an industry jargon for a type of performance measurement.[1] KPIs are commonly used by an organization to evaluate its success or the success of a particular activity in which it is engaged. Sometimes success is defined in terms of making progress toward strategic goals,[2] but often, success is simply the repeated achievement of some level of operational goal (for example, zero defects, 10/10 customer satisfaction, etc.). Accordingly, choosing the right KPIs is reliant upon having a good understanding of what is important to the organization. 'What is important' often depends on the department measuring the performance - the KPIs useful to finance will be quite different than the KPIs assigned to sales, for example. Because of the need to develop a good understanding of what is important, performance indicator selection is often closely associated with the use of various techniques to assess the present state of the business, and its key activities. These assessments often lead to the identification of potential improvements; and as a consequence, performance indicators are routinely associated with 'performance improvement' initiatives. A very common method for choosing KPIs is to apply a management framework such as the balanced scorecard.

[edit] Categorization of indicators

Key performance indicators define a set of values used to measure against. These raw sets of values, which are fed to systems in charge of summarizing the information, are called indicators. Indicators identifiable as possible candidates for KPIs can be summarized into the following sub-categories:

. Quantitative indicators which can be presented as a number.

. Practical indicators that interface with existing company processes.

. Directional indicators specifying whether an organization is getting better or not.

. Actionable indicators are sufficiently in an organization's control to effect change.

. Financial indicators used in performance measurement and when looking at an

operating index.

Key performance indicators, in practical terms and for strategic development, are objectives to be

targeted that will add the most value to the business.[citation needed] These are also referred to as key

success indicators.

[edit] Some important aspects

Key performance indicators (KPIs) are ways to periodically assess the performances of

organizations, business units, and their division, departments and employees. Accordingly, KPIs

are most commonly defined in a way that is understandable, meaningful, and measurable. They

are rarely defined in such a way such that their fulfillment would be hampered by factors seen as

non-controllable by the organizations or individuals responsible. Such KPIs are usually ignored

by organizations.[citation needed]

In order to be evaluated, KPIs are linked to target values, so that the value of the measure can be

assessed as meeting expectations or not.

[edit] Identifying indicators of organization

Performance indicators differ from business drivers and aims (or goals). A school might consider

the failure rate of its students as a key performance indicator which might help the school

understand its position in the educational community, whereas a business might consider the

percentage of income from returning customers as a potential KPI.

The key stages in identifying KPIs are:

. Having a pre-defined business process (BP).

. Having requirements for the BPs.

. Having a quantitative/qualitative measurement of the results and comparison with set

goals.

. Investigating variances and tweaking processes or resources to achieve short-term goals.

A KPI can follow the SMART criteria. This means the measure has a Specific purpose for the business, it is Measurable to really get a value of the KPI, the defined norms have to be Achievable, the improvement of a KPI has to be Relevant to the success of the organization, and finally it must be Time phased, which means the value or outcomes are shown for a predefined and relevant period.

[edit] KPI examples

[edit] Marketing

Some examples are:

1. New customers acquired

2. Demographic analysis of individuals (potential customers) applying to become customers, and the levels of approval, rejections, and pending numbers.

3. Status of existing customers

4. Customer attrition

5. Turnover (i.e., revenue) generated by segments of the customer population.

6. Outstanding balances held by segments of customers and terms of payment.

7. Collection of bad debts within customer relationships.

8. Profitability of customers by demographic segments and segmentation of customers by profitability.

Many of these customer KPIs are developed and managed with customer relationship management software.

Faster availability of data is a competitive issue for most organizations. For example, businesses which have higher operational/credit risk (involving for example credit cards or wealth management) may want weekly or even daily availability of KPI analysis, facilitated by appropriate IT systems and tools.

[edit] Manufacturing

Overall equipment effectiveness, is a set of broadly accepted non-financial metrics which reflect manufacturing success.

. Cycle Time – Cycle time is the total time from the beginning to the end of your process, as defined by you and your customer. Cycle time includes process time, during which a unit is acted upon to bring it closer to an output, and delay time, during which a unit of work is spent waiting to take the next action.

. Cycle Time Ratio –

. Utilization

. Rejection rate

[edit] IT

. Availability

. Mean time between failure

. Mean time to repair

. Unplanned availability

[edit] Supply Chain Management

Businesses can utilize KPIs to establish and monitor progress toward a variety of goals, including lean manufacturing objectives, minority business enterprise and diversity spending, environmental "green" initiatives, cost avoidance programs and low-cost country sourcing targets.

Any business, regardless of size, can better manage supplier performance with the help of KPIs robust capabilities, which include:

. Automated entry and approval functions

. On-demand, real-time scorecard measures

. Single data repository to eliminate inefficiencies and maintain consistency

. Advanced workflow approval process to ensure consistent procedures

. Flexible data-input modes and real-time graphical performance displays

. Customized cost savings documentation

. Simplified setup procedures to eliminate dependence upon IT resources.

Main SCM KPIs will detail the following processes:

. Sales forecasts

. Inventory

. Procurement and suppliers

. Warehousing

. Transportation

. Reverse logistics

Suppliers can implement KPIs to gain an advantage over the competition. Suppliers have instant access to a user-friendly portal for submitting standardized cost savings templates. Suppliers and their customers exchange vital supply chain performance data while gaining visibility to the exact status of cost improvement projects and cost savings documentation.

[edit] Government

The provincial government of Ontario, Canada has been using KPI since 1998 to measure the performance of higher education institutions in the province. All post secondary schools collect and report performance data in five areas – graduate satisfaction, student satisfaction, employer satisfaction, employment rate, and graduation rate.[3]

[edit] Further performance indicators

. Duration of a stockout situation

. Customer order waiting time

[edit] Problems

In practice, overseeing key performance indicators can prove expensive or difficult for organizations. Some indicators such as staff morale may be impossible to quantify. As such dubious KPIs can be adopted that can be used as a rough guide rather than a precise benchmark. Another serious issue in practice is that once a measure is created, it becomes difficult to adjust to changing needs as historical comparisons will be lost. As such measures are kept even if of dubious relevance, because history does exist.

Comparisons between different organizations are often difficult as they depend on different inhouse practices and policies so making it difficult for an organization to compare.

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2. ^ Key Performance Indicators – What Are Key Performance Indicators or KPI

3. ^ http://www.collegesontario.org/outcomes/key-performanceindicators/2011_kpi_results.pdf

[edit] Further reading

. David Parmenter, Key Performance Indicators. John Wiley & Sons 2007, ISBN 0-470-09588-1.

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MODULE 4 BUSINESS SYSTEM

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UNIT 3: SWOT ANALYSIS OF A BUSINESS SYSTEM

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1.0 INTRODUCTION

Having been equipped with relevant information through the processes of marketing plan and the best indications of developing trends through prognosis, the next task is to assess what the information means for marketing strategy and tactics.

Every business needs to define its specific mission within the broader company's mission. It must define its specific goals and policies. A framework for this assessment is contained in the traditional but still useful acronym SWOT.

SWOT stands for strength, weaknesses, opportunities and threats. In strategic planning, the company matches its capacities with available opportunities and takes action to minimize threats. Each business must evaluate its strengths and weaknesses periodically. It is equally important to attract opportunities in the environment and strive to develop competencies to succeed with the opportunities.

Marketing objectives must be realistic and aggressive in terms of market trends revealed by prognosis and SWOT.

2.0 OBJECTIVES

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

. describe the importance of SWOT in marketing;

. deduce the need to identify the company’s strengths and opportunities and minimize

weaknesses and threats.

3.0 MAIN CONTENT

3.1 Strengths

Strengths are normally expressed as inherent current advantage whether by earlier strategic decisions or historic good fortune (Babagbale, 2008). Strengths may exist in an organization's market /product portfolio and its operations in relation to competitors. Products with increasing shares of markets predicted to grow are strengths. Dominance of market shares among key market segments is strength while strategic alliances with other companies may have achieved competencies and value-added that customers are willing to pay for. For hotels and visitor attraction, location may be a major strength. Strength may lie in historic artifacts or architectural style and it may reflect a particularly favourable consumer image. Strength may also be the professional skills of marketing team or a distribution system or in the competencies of key staff or in customer service staff with a recognized reputation for being specially helpful and friendly.

Strengths are the basis of corporate position and can be promoted by potential customers, enhanced through product augmentation or developed within a strategic framework. One of the strengths of a hotel may be the incredible variety of activities the city offers such as: music performance, theatre, sports, museums, special events. Conventioneers and visitors enjoy the activities the city offers and spend the night in the hotel. However, a business can perform poorly not because the required strengths are lacking but because employees don't work together as a team.

3.2 Weaknesses

Strengths and weaknesses are often matters perception rather than fact. They may be identified only through consumer research (Babagbale, 2008). Weaknesses can range from ageing products in declining marketing to bad customer contact. Staff must be clearly identified. Once identified, they may be subject to management action designed to minimize their impact or to remove them where possible.

A historic hotel in a market town is perceived by many of its customers as an attractive building but old-fashioned, noisy and uncomfortable for its users. It may be possible to highlight its strength by repositioning the hotel to stress old-world charm, convenience of location and atmosphere. Such a repositioning may necessitate extensive refurbishment, including double glazing and refurnishing. It could provide a strategic route to turn a weakness into strength. If a modern competitor-hotel were to be built on the out of the market towns, the historic hotel would probably lose some of its non-leisure clients and might be forced to reposition its products and develop new leisure market segments in order to survive.

To enhance their own foresight and bring to bear an independent, fresh vision, it is common practices in large marketing-oriented businesses for managers to commission consultants to carry out regular audits of all aspects to their business, including SWOT analysis.

Self Assessment Exercise 1

How can the weaknesses of a hotel be turned to strength?

3.3 Opportunities

Opportunities can be listed and classified according to their attractiveness and success probability (Babagbale, 2008). Success probability depends on whether the business strengths match the key success requirements for operating in the target market and exceeding the competitors. The best performing company will generate the greatest customer value and sustain it overtime. Membership programs offer opportunities for increased revenue.

Opportunities in a marketing context may arise from elements of the business under direct control, such as a particular product or process, or a particular set of staff competencies. They may also arise from shifts in the external environment, which a firm may exploit. Club Mediterranean, for example, strongly exploited the consumer strengths of its concepts of freedom and activities in enclosed resort destinations.

It extended its operations throughout the world during the 1970s and 1980s. The external market trends were right, for it seized the opportunity to develop its particular holiday concepts with a powerful image in a way no other operation matched at that time. The Sydney Olympics of 2000 provided a stimulus for future tourism of even greater power. Throughout Europe in the 1990s, heritage and culture have represented opportunities that have been turned into strengths in cities such as Bruges in Belgium, Prague in the Czech Republic and Bilbao in Spain.

3.4 Threats

Some threats in the external environment represent marketing threats (Babagbale, 2008). External threats can be a challenge posed by unfavourable trends or developments that can lead to sales or profit deterioration. Threat can be classified according to their seriousness and probability of occurrence. Threats may be presented by internal elements within the business's control or by external events such as exchange rate changes e. g. rising oil prices or acts of international terrorism. In Britain, traditional seaside resorts offering beach-based summer holidays have been under heavy threat for three decades from seaside resorts along the Mediterranean coastline. They have also suffered from a form of management inertia implicit in the traditional public sector structures that are responsible for their futures.

Although, it is not easy to justify the point theoretically, practical experience of marketing proves that the time and effort spent in a systematic, wide-ranging and creative SWOT analysis is invariably productive. It is much more than routine analysis of market statistics. There is ample scope for creative interpretation, judgement and lateral thinking, both at the strategic and tactical levels of planning. There is also good reason and ample scope for marketing managers to bring other managers into this process and also to involve the staff of an organization in the process, to draw out their expertise and perceptions of a business and its customers.

Information is never perfect and the future is always unknown, there is never one right conclusion to be drawn from the evidence gathered in the SWOT process. Best guesses are, managers’ change and their memories are often faulty. So, whenever strategy and tactics are reviewed, it is essential for larger businesses to record the assumption made and conclusions drawn. Establishment of a formal record, however succinct, is equally valuable for small businesses.

4.0 CONCLUSION

Management should review the business's financial, marketing and organizational competencies. Each factor should be rated whether it is strength, weakness or a neutral factor. In reviewing the strengths and weaknesses, the company should neither correct all the weaknesses nor gloat over the strengths. The organisation must not be limited to the opportunities for which it possesses the strengths but better opportunities must be considered.

5.0 SUMMARY

From the foregoing, hospitality business can find itself in the four following situations as a result of threats and opportunities challenges viz:

An ideal business -Major opportunities and low threats;

A speculative business -High in opportunities and threats;

A major business -Low in opportunities and threats;

A troubled business -Low in opportunities and high in threats.

A well planned organisation would require competitive advantage, connectivity with computer reservation system (CRS) and global distribution system GDS to improve the international business and reservation through travel agents. This development is viewed as strength.

6.0 TUTOR-MARKED ASSIGNMENT

What situation can a company find itself in, due to opportunity and threats and what strategy can be adopted to manage the situation?

7.0 REFERENCES/FURTHER READING

Babagbale, E.I. (2008). Hospitality Sales and Marketing. HCM 237 Study Materials for Undergraduate Students of Hotel and Catering Management in the School of Management Sciences.

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Fraom J (1999). 4th edn 'Introduction to Marketing'. UK: Thomson.