



NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: BHM 739

COURSE TITLE: STRATEGIC MANAGEMENT

COURSE DEVELOPMENT

BHM 739

STRATEGIC MANAGEMENT

COURSE GUIDE

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BHM 739; STRATEGIC MANAGEMENT

1.0 INTRODUCTION

BHM 739; Strategic Management is a two credit course for students offering PGD programmes in the School of Business and Human Resources Management Programme.

The course will consist of fifteen (15) units i.e. Four (4) modules , The material has been developed to suit Postgraduate students in Management at the National Open University of Nigeria (NOUN) by adopting an approach that highlights the key areas of Management in private and public enterprises.

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

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

2.0 COURSE AIMS

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

- Foundations of Strategic Management
- Strategic Management Process
- SWOT Analysis
- Opportunity Analysis and Market Targeting
- Total Quality Management (TQM)

3.0 COURSE OBJECTIVES

On Completion of the requirements of this course , You should be able to :

Know the latest management strategies

Play a key role in the strategic development of a business

Do a SWOT analysis for any business

Familiarize yourself with strategic management decisions

4.0 WORKING THROUGH THIS COURSE

To complete this course, you are required to read the study units, read set books and read other materials provided by the National Open University of Nigeria (NOUN). You will also need to undertake practical exercises for which you need access to a personal computer running Windows 95. Each unit contains self-assessment exercises, and at certain points during the course, you will be expected to submit assignments. At the end of the course is a

final examination. The course should take you about a total 17 weeks to complete. Below are the components of the course, what you have to do, and how you should allocate your time to each unit in order to complete the course successfully on time.

5.0 COURSE MATERIALS

Major components of the course are:

- The Course Guide
- The Study Units
- Self –Assessment Exercises
- Tutor –Marked Assignments
- References

6.0 STUDY UNITS

The study units in this course are as follows:

MODULE 1: INTRODUCTION TO STRATEGIC MANAGEMENT

Unit 1: Overview of Strategic Management Process

Unit 2: Strategic Management Concept and Psychology

Unit 3: Historical Development of Strategic Management

Unit 4: Management Principles

Unit 5: Basic Models of Strategic Management

MODULE 2: CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Unit 1: Corporate Governance :Role of the Board of Directors

Unit 2: Corporate Governance : Role of the Top Management

Unit 3: Social Responsibilities of Strategic Decision Makers

Unit 4: Ethical Decision Making

MODULE 3: STRATEGIC ISSUES IN ENTREPRENEURIAL VENTURES AND SMALL BUSINESSES

Unit 1: Strategic Choice

Unit 3: Activating Strategy

Unit 4 : Structural Implementation

MODULE 4: INTRODUCTION TO CASE STUDIES / ANALYSIS

Unit 1: Methodologies for Case Studies

Unit 2: Case Studies

7.0 ASSIGNMENT FILE

In this course, you will find all the details of the work you must submit to your tutor for marking. The marks you obtain for these assignments will count towards the final mark you obtain for this course. Further information on assignments will be found in the assignment file itself and later in the section on assessment in this course guide. There are 15 tutor-marked assignments in this course; the student should attempt all the 15.

8.0 PRESENTATION SCHEDULE

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

9.0 ASSESSMENTS

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

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

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

10.0 TUTOR-MARKED ASSIGNMENT (TMAs)

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

11.0 FINAL EXAMINATION AND GRADING

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

Utilize the time between the conclusion of the last study unit and sitting for the examination to revise the entire course. You may find it useful to review your self-assessment tests, tutor-marked assignments and comments on them before the examination.

12.0 COURSE MARKING SCHEME

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

Table 1: Course Marking Scheme

ASSESSMENT	MARKS
Assignment 6 (TMAs)	4 assignments, best 3 will be used for C.A $= 10 \times 3 = 30\%$

Final Examination	70% of overall course marks
Total	100% of course marks

13.0 HOW TO GET THE MOST FROM THIS COURSE

In distance learning, the study units are specially developed and designed to replace the university lecturer. 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 instead listening to a lecturer.

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

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**. You will be directed when you need to use a computer and guided through the tasks you must do. The purpose of the computing work is two-fold. First, it will enhance your understanding of the material in the unit. Second, it will give you practical experiences of using programmes which you could well encounter in your work outside your studies. In any event, most of the techniques you will study are applicable on computers in normal working practice, so it is important you encounter them during your studies.

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

The following is a practical strategy for working through the course. If you run into any trouble, telephone your facilitator or post the questions on the Web CT OLE's discussion

board. Remember that your facilitator's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it. In summary,

- Read this course guide.
- Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the unit. Important information e.g. details of your tutorials, and the date of the first day of the semester is available from the Web CT OLE. You need to gather together all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.
- Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your facilitator know before it is too late for help.
- Turn to unit 1 and read the introduction and the objectives for the unit.
- Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your set books, on your desk at the same time.
- 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 articles. Use the unit to guide your reading.
- Keep an eye on the Web CT OLE. Up-to-date course information will be continuously posted there.
- Well before the relevant due dates (about 4 weeks before the dates) access the Assignment file on the Web CT OLE and download your next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the examination. Submit all assignments not later than the due dates.
- Review the objectives for each study unit confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
- When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.

- When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your facilitator's comments. Consult your tutor as soon as possible if you have any questions or problems.
- 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.

14.0 TUTORS AND TUTORIALS

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

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

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

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

15.0 SUMMARY

BHM 739: Strategic Management intends to expose the graduate student to the nitty-gritty of managing enterprises, be it a private or public, corporate or small business enterprises, government or non-governmental organizations. Upon completing the course, you will be equipped with the knowledge required to produce a good research work. You will be able to answer questions such as:

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

COURSE DEVELOPMENT

BHM 739

STRATEGIC MANAGEMENT

MAIN COURSE CONTENT

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MODULE 1 INTRODUCTION TO STRATEGIC MANAGEMENT

Unit 1	Overview of Strategic Management Process
Unit 2	Strategic Management Concept and Psychology
Unit 3	Historical Development of Strategic Management
Unit 4	Management Principles
Unit 5	Basic Models of Strategic Management

UNIT 1: OVERVIEW OF STRATEGIC MANAGEMENT PROCESS

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3.4	Who Executes the Five Tasks of Strategic Management?
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7.0	References and Further Readings

1.0 INTRODUCTION

This unit is the first in the module on this course. It is known as overview of strategic management process. The course is all about the managerial tasks of crafting, implementing and executing company strategies. Thompson and Strickland (1998) aver that a company’s strategy is the “game plan” management has for positioning the organisation in its chosen market arena, competing successfully, pleasing customers, and achieving good business performance. Strategy consists of the whole array of competitive moves and business approaches that managers employ in running an organisation. In crafting a strategic course, management is saying that “among all the paths and actions we could have chosen, we have decided to go in this direction and rely upon these particular ways of doing business”. A strategy thus entails management choices among alternatives and signals organizational commitment to specific markets, competitive approaches, and ways of operating.

You are welcome to this new course and it is hoped you will enjoy your learning experience.

2.0 OBJECTIVES

3.0 MAIN CONTENT

3.1 Overview of Strategic Management Process

According to Thompson and Strickland (1998), managers devise business strategies because of two very compelling needs. One is the need to proactively shape how a business will be conducted. Passively allowing strategy to drift along as the by-product of ongoing business approaches, occasional proposals for improvement, and periodic adjustments to unfolding events is a surefire ticket for inconsistent strategic actions, competitive mediocrity, and lackluster business results. Rather, it is management's responsibility to exert entrepreneurial leadership and commit the enterprise to conducting business in a fashion shrewdly calculated to produce good performance. A strategy provides a roadmap to operate by, a prescription for doing business, a game plan for building customer loyalty and winning a sustainable competitive advantage over rivals. The second need is that of molding the independent decisions and actions initiated by departments, managers, and employees across the company into a coordinated, companywide game plan. Absent a strategy, managers have no framework for weaving many different action initiatives into a cohesive whole, no plan for uniting cross-department operations into a team effort.

Crafting, implementing and executing strategy are thus core management functions. Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team charts the company's long-term direction, develops competitively effective strategy moves and business approaches, and implements what needs to be done internally to produce good day-in/day-out strategy execution. Indeed, good strategy and good strategy execution are the most trustworthy signs of good management. Managers don't deserve a gold star for designing a potentially brilliant strategy, but failing to put the organizational means in place to carry it out in high-calibre fashion – weak implementation and execution – undermines the strategy's potential and paves the way for shortfalls in customer satisfaction and company performance. Competent execution of a mediocre strategy scarcely merits enthusiastic applause for management's efforts either. To truly qualify as excellently managed, a company must exhibit excellent execution of an excellent strategy. Otherwise, any claim of talented management is suspect.

Given that good strategy combined with good strategy execution doesn't guarantee that a company will avoid periods of so-so or even sub-par performance. Sometimes it takes several years for management's strategy-making/strategy-implementing efforts to show good results. Sometimes blue-chip organisations with showcase practices and reputable managers have performance problems because of surprisingly abrupt shifts in market conditions or internal miscues. But neither the "we need more time" reason nor the bad luck of unforeseeable events excuses mediocre performance year after year. It is the responsibility of a business management team to adjust to unexpectedly tough conditions by undertaking strategic defenses and business approaches that can overcome adversity. Indeed, the essence of good strategy making is to build a market position strong enough and an organisation capable enough to produce successful performance despite unforeseeable events, potent competition, and internal difficulties. The rationale for using the twin standards of good strategy making and good strategy execution to determine whether a business is well managed: The better conceived a business strategy and the more competently it is executed, the more likely the business will be a solid performer and a competitive success in the marketplace.

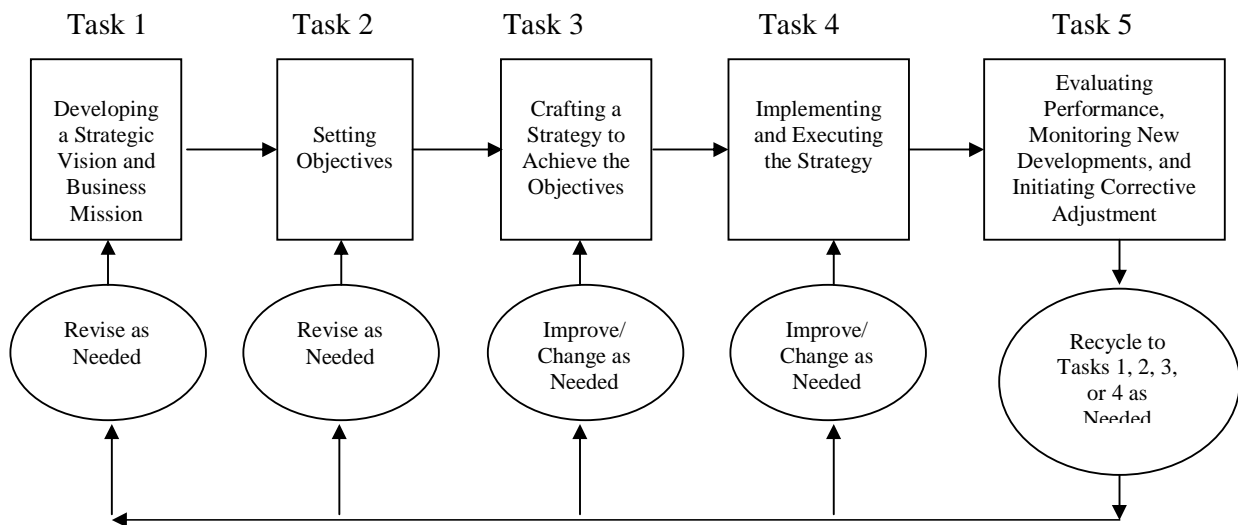
3.2 The Five Tasks of Strategic Management

The strategy-making, strategy-implementing process consists of five interrelated managerial tasks, namely:

1. *Forming a strategic vision of what the company's future business makeup will be and where the organisation is headed – so as to provide long-term direction, delineate what kind of enterprise the business is trying to become, and infuse the organisation with a sense of purposeful action.*
2. *Setting objectives – converting the strategic vision into specific performance outcomes for the business to achieve.*
3. *Crafting a strategy to achieve the desired outcomes.*
4. *Implementing and executing the chosen strategy efficiently and effectively.*
5. *Evaluating performance and initiating corrective adjustments in vision, long-term direction, objectives, strategy, or implementation in the light of actual experience, changing conditions, new ideas, and new opportunities.*

Figure 1 below displays this process. Together, these five components define what we mean by the term *strategic management*. Let's examine this five-task framework in enough detail to set the stage for all that follows in subsequent units.

Figure 1: The Five Tasks of Strategic Management



3.2.1 Developing a Strategic Vision and Business Mission

Early in the strategy-making process, managers need to pose the issue of “What is our vision for the organisation – where should the organisation be headed, what kind of enterprise are we trying to build, what should the organisation’s future business make up be?” Drawing a carefully reasoned conclusion about what the organisation’s long-term direction should be pushes managers to take a hard look at the present business and form a clearer sense of whether and how it needs to change over the next 5 to 10 years. Management’s views about “where we plan to go from here – what businesses we want to be in, what customer needs we want to satisfy, what capabilities we are going to develop” charts a course for the organisation to pursue and creates organizational purpose and identity.

What an organisation is currently seeking to do for its customers is often termed the organisation’s mission. A mission statement is useful for putting the spotlight on what business an organisation is presently in and the customer needs it is presently endeavouring to serve. But just clearly setting forth what an organisation is doing today doesn’t speak to the organisation’s future or incorporate a sense of needed change and long-term direction. There

is an even greater managerial imperative to consider what the organisation will have to do to meet its customers' needs tomorrow and whether and how the organisation's business makeup will have to evolve for the company to grow and prosper. Thus, managers are obligated to look beyond the present business mission and think strategically about the impact of new technologies on the horizon, changing customer needs and expectations, the emergence of new market and competitive conditions, and so on. They have to make some fundamental choices about where they want to take the company and form a vision of the kind of enterprise they believe the organisation needs to become. In other words, management's concept of the present organisation mission has to be supplemented with a concept of the organisation's future business makeup, product line, and customer base. The faster an organisation's business environment is changing, the more the coasting along with the status quo is an invitation to disaster and the greater the managerial imperative to consider what the enterprise's future strategic path should be in the light of changing conditions and emerging market opportunities.

Management's view of the kind of organisation it is trying to create and the kind of business position it wants to stake out in the years to come constitutes a strategic vision for the organisation. In the event an organisation's mission statement not only sets forth a clear definition of the present business but also indicates where the organisation is headed and what its business will become in the years ahead, then the concepts of organisation mission (or mission statement) and strategic vision merge into one and the same – in other words, a strategic vision and a future-oriented business mission amount to essentially the same thing. In practice, actual organisation mission statements tend to exhibit more concern with “what our business is now” than with “what our business will be later”, so the conceptual distinction between an organisation mission and strategic vision is relevant. Forming a strategic vision of an organisation's future is a prerequisite to effective strategic leadership. A manager cannot succeed as an organisation leader or a strategy maker without first having drawn some soundly reasoned conclusions about where the enterprise needs to head, the changes in business makeup that are called for, and the organizational capabilities it will take to meet future customer needs and compete successfully. With a clear, well-conceived strategic vision, a manager has a beacon to truly guide managerial decision making, a course for the organisation to follow, a basis for shaping the organisation's strategy and operating policies

3.2.2 Setting Objectives

The purpose of setting objectives is to convert managerial statements of strategic vision and business mission into specific performance targets, something the organisation's progress can be measured by. Successful managers set organisation performance targets that require stretch and disciplined effort. The challenge of trying to achieve bold, aggressive performance targets pushes an organisation to be more inventive, to exhibit some urgency in improving both its financial performance and its business position, and to be more intentional and focused in its actions. Setting objectives that require real organizational stretch helps build a firewall against complacent coasting and low-grade improvements in organizational performance.

Objective setting is required of all managers. Every unit in an organisation needs concrete, measurable performance targets that contribute meaningfully toward achieving the organisation objectives. When organisation-wide objectives are broken down into specific targets for each organizational unit and lower-level managers are held accountable for achieving them, a results-oriented climate builds throughout the enterprise. There's little, if any, internal confusion over what to accomplish. The ideal situation is a team effort where each organizational unit strives to produce results in its area of responsibility that contribute to the achievement of the organisation's performance targets and strategic vision.

From an organisation-wide perspective, two very distinct types of performance yardsticks are required: those relating to financial performance and those relating to strategic performance. Achieving acceptable financial results is crucial. Without adequate profitability, an organisation's pursuit of its vision, as well as its long-term health and ultimate survival, is jeopardized. Neither shareholders nor investors will continue to sink additional monies into an enterprise that cannot deliver satisfactory financial results. Even so, the achievement of satisfactory financial performance, by itself, is not enough. Attention also has to be paid to an organisation's strategic wellbeing – its competitiveness and overall long-term business position. Unless an organisation's performance reflects improving competitive strength and stronger long-term market position, its progress is less than inspiring and its ability to continue delivering good financial performance is suspect.

The need for both good financial performance and good strategic performance calls for management to set financial objectives and strategic objectives. **Financial objectives** signal commitment to such outcomes as earnings growth, an acceptable return on investment (or economic value added), dividend growth, stock price appreciation (or market value added), good cash flow, and creditworthiness (1). **Strategic objectives**, in contrast, direct efforts toward such outcomes as winning additional market share, overtaking key competitors on product quality or customer service or product innovation, achieving lower overall costs than rivals, boosting the organisation's reputation with customers, winning a stronger foothold in international markets, exercising technological leadership, gaining a sustainable competitive advantage, and capturing attractive growth opportunities. Strategic objectives serve notice that management not only intends to deliver good financial performance, but also intends to improve the organisation's competitive strength and long-range business prospects.

Both financial and strategic objectives ought to be time-based – that is, involve both near-term and longer-term performance targets. Short-range objectives focus organizational attention on the need for immediate performance improvements and outcomes. Long-range objectives serve the valuable purpose of prompting managers to consider what to do now to put the organisation in position to perform well over the longer term. As a rule, when trade-offs have to be made between achieving long-run objectives and achieving short-run objectives, long-run objectives should take precedence. Rarely does an organisation prosper from repeated management actions that put better short-term performance ahead of better long-run performance.

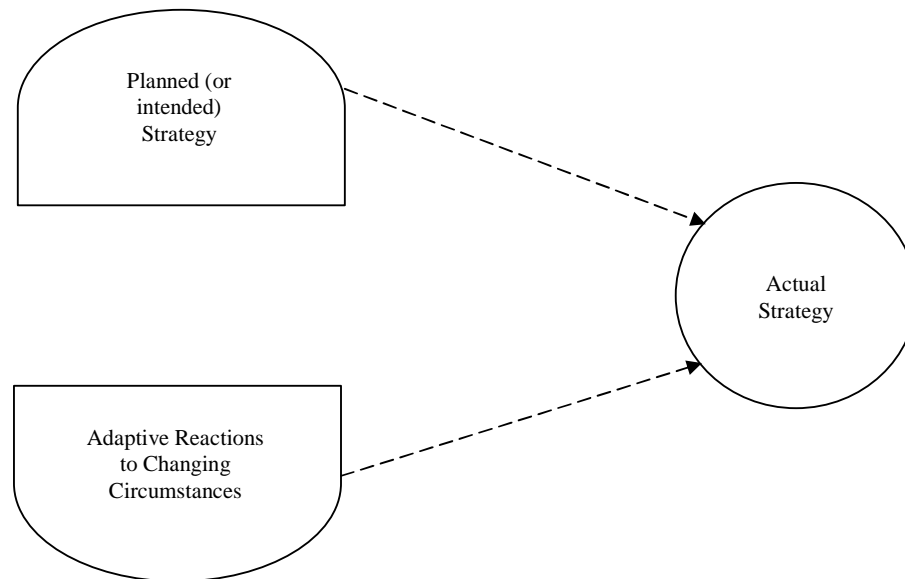
3.2.3 Crafting a Strategy

An organisation's strategy represents management's answers to such gut business issues as whether to concentrate on a single business or build a diversified group of businesses, whether to cater to a broad range of customers or focus on a particular market niche, whether to develop a wide or narrow product line, whether to pursue a competitive advantage based on low cost or product superiority or unique organizational capabilities, how to respond to changing buyer preferences, how big a geographic market to try to cover, how to react to new market and competitive conditions, and how to grow the enterprise over the long-term. A strategy thus reflects managerial choices among alternatives and signals organizational commitment to particular products, markets, competitive approaches, and ways of operating the enterprise.

Crafting a winning strategy needs to be a top-priority managerial task in every organisation. To begin with, there is a compelling need for managers to be proactive in shaping how the organisation's business will be conducted. It is management's responsibility to exert strategic leadership and commit the enterprise to going about its business in one fashion rather than another. Without a strategy, managers have no prescription for doing business, no roadmap to competitive advantage, no game plan for pleasing customers or achieving objectives. Such a lack is a surefire ticket for organisational drift, competitive mediocrity,

and lackluster performance. Moreover, there is an equally compelling need to mold the business decisions and competitive actions taken across various parts of the organisation into a coordinated, compatible pattern. An organisation's activities necessarily involve the efforts and decisions of many divisions, departments, managers and employees. All the actions and initiatives being taken in such areas as production, marketing, customer service, human resources, information systems, research and development, and finance need to be mutually supportive if an organisation-wide game plan that makes good business sense is to emerge. Absent an organisation strategy, managers have no framework for weaving many different decisions into a cohesive whole and no overarching business rationale that unites departmental operations into a team effort.

Figure 2 An Organisation's Actual Strategy is Partly Planned and Partly Reactive to Changing Circumstances



Strategy making brings into play the critical managerial issue of how to achieve the targeted results in the light of the organisation's situation and prospects. Objectives are the "ends", and strategy is the "means" of achieving them. The how's of an organisation's strategy are typically a blend of (1) deliberate and purposeful actions and (2) as-needed reactions to unanticipated developments and fresh competitive pressures (2). As illustrated in figure 2 above, strategy is more than what managers have carefully plotted out in advance and intend to do as part of some grand strategic plan. New circumstances always emerge, whether important technological developments, rivals' successful new product introductions, newly enacted government regulations and policies, widening consumer interest in different kinds of performance features, or whatever. Future business conditions are sufficiently uncertain that managers cannot plan every strategic action in advance and pursue a preplanned or intended strategy without any need for alteration. Organisation strategies end up, therefore, being a composite of planned actions and business approaches (intended strategy) and as-needed reactions to unforeseen conditions ("unplanned" or "adaptive" strategy responses). Consequently, strategy is best looked upon as being a combination of planned actions and on-the-spot adaptive reactions to freshly developing industry and competitive events. The strategy-making task involves developing a game plan, or intended strategy, and then adapting it as events unfold. An organisation's actual strategy is something managers must shape and reshape as events transpire outside and inside the organisation. It is normal,

therefore, for an organisation's actual strategy to differ from management's planned strategy as new strategy features are added and others subtracted to react and adapt to changing conditions.

Components of an Organisation's Strategy

An organisation's **strategy concerns how**: how to grow the business, how to satisfy customers, how to out-compete rivals, how to respond to changing market conditions, how to manage each functional piece of the business and develop needed organisational capabilities, how to achieve strategic and financial objectives. The how's of strategy tend to be organisation-specific, customized to an organisation's own situation and performance objectives. In the business world, organisations have a wide degree of strategic freedom. They can diversify broadly or narrowly, into related or unrelated industries, via acquisition, joint venture, strategic alliances, or internal start-up. Even when an organisation elects to concentrate on a single business, prevailing market conditions usually offer enough strategy-making latitude that close competitors can easily avoid carbon-copy strategies – some pursue low-cost leadership, others stress particular attributes of their product or service, and still others concentrate on developing unique capabilities to meet the special needs and preferences of narrow buyer segments. Some compete only locally or regionally, others compete nationally, and others compete globally. Hence, descriptions of the content of an organisation strategy necessarily have to cut broadly across many aspects of the business to be complete.

Crating strategy is an exercise in **entrepreneurship and outside-in strategic thinking**. The challenge is for organisation managers to keep their strategies closely matched to such outside drivers as changing buyer preferences, the latest actions of rivals, new technological capabilities, the emergence of attractive market opportunities, and newly appearing business conditions. Organisation strategies can't end up being well matched to its present and future environment unless managers exhibit first-rate entrepreneurship in studying market trends, listening to customers, enhancing the organisation's competitiveness, and steering organisation activities in whatever new directions are dictated by market conditions and customer preferences. Good strategy making is therefore inseparable from good business entrepreneurship. One cannot exist without the other.

An organisation encounters two dangers when its managers fail to exercise strategy-making entrepreneurship. One is a stale strategy. The faster an organisation's business environment is changing, the more critical it becomes for its managers to be good entrepreneurs in diagnosing shifting conditions and instituting whatever strategic adjustments are indicated. Coasting along with a status quo strategy tends to be riskier than making modifications. Managers with weak entrepreneurial skills are usually risk-averse and disinclined to embark on a different strategic course so long as they believe the present strategy can produce acceptable results for a while longer. They are prone to misread market trends and put too little weight on subtle shifts in customers' needs and behaviour. Often, they either dismiss the signs of impending developments as unimportant ("we don't think it will really affect us") or else move so slowly in taking actions that the organisation is habitually late in responding to market change. There's pervasive resistance to bold strategic change, a wariness of deviating very far from the organisation's tried-and-true business approaches unless absolutely forced to. Strategies that grow increasingly out of touch with market and customer realities weaken a company's competitiveness and performance.

The second danger of failing to exercise strategy-making entrepreneurship is inside-out strategic thinking. Managers with deficient entrepreneurial skills or an entrepreneurially cautious nature usually focus most of their time and energy inwardly – on solving internal problems, improving organisational processes and procedures, and taking care of daily administrative chores. The strategic actions they do decide to initiate tend to be heavily

dictated by inside considerations – what is philosophically comfortable, what is acceptable to various internal political conditions, and what is safe, both organizationally and career-wise. Often, outside considerations end up being compromised to accommodate internal considerations, resulting in strategies that are as much a reflection of inwardly focused strategic thinking as of the need to respond to changing external market and customer constraints. Inside-out strategies, while not disconnected from external developments, nearly always fall short of being truly market-driven and customer-driven, once again setting the stage for weakened competitiveness, impaired ability to exercise industry leadership, and underperformance.

How boldly managers embrace new strategic opportunities, how much they emphasise out-innovating the competition, and how often they champion actions to improve organisational performance are good barometers of their entrepreneurial spirit. Entrepreneurial strategy-makers are inclined to be first-movers, responding quickly and opportunistically to new developments. They are willing to take prudent risks and initiate trailblazing strategies. In contrast, reluctant entrepreneurs are risk-averse; they tend to be late-movers, hopeful about their chances of soon catching up and alert to how they can avoid whatever “mistakes” they believe first-movers have made. They prefer incremental strategic change over bold and sweeping strategic moves.

In strategy-making, all managers, not just senior executives, must take prudent risks and exercise entrepreneurship. Entrepreneurship is involved when a district customer service manager, as part of an organisation’s commitment to better customer service, crafts a strategy to speed the response time on service calls by 25 percent and commits substantial amount of money to equip all service trucks with mobile telephones. Entrepreneurship is involved when a warehousing manager contributes to an organisation’s strategic emphasis on total quality by figuring out how to reduce the error frequency on filling customer orders from one error on every 100 orders to one error on every 100,000. A sales manager exercises strategic entrepreneurship by deciding to run a special promotion and cut sales prices by 5 percent to wrest market share away from rivals. A manufacturing manager exercises strategic entrepreneurship in deciding, as part of an organisation-wide emphasis on greater cost competitiveness, to source an important component from a lower-priced supplier instead of making it in-house. Organisation strategies can’t be truly market and customer-driven unless the strategy-related activities of managers all across the organisation have an outside-in entrepreneurial character aimed at boosting customer satisfaction and achieving sustainable competitive advantage.

Why Organisation Strategies Evolve: Frequent fine-tuning and tweaking of an organisation’s strategy, first in one department or functional area and then in another, are quite normal. On occasion, quantum changes in strategy are called for – when a competitor makes a dramatic move, when technological breakthroughs occur, or when crisis strikes and managers are forced to make radical strategy alterations very quickly. Because strategic moves and new action approaches are ongoing across the business, an organisation’s strategy forms over a period of time and then reforms as the number of changes begin to mount. Current strategy is typically a blend of holdover approaches, fresh actions and reactions, and potential moves in the planning stage. Except for crisis situations (where many strategic moves are often made quickly to produce a substantially new strategy almost overnight) and new organisation start-ups (where strategy exists mostly in the form of plans and intended actions), it is common for key elements of an organisation’s strategy to emerge piece by piece as events transpire and the enterprise seeks to improve its position and performance.

Rarely is an organisation’s strategy so well crafted and durable that it can go unaltered for long. Even the best-laid business plans must be adapted to shifting market conditions, altered customer needs and preferences, the strategic maneuvering of rival firms, the experience of

what is working and what isn't, emerging opportunities and threats, unforeseen events, and fresh thinking about how to improve the strategy. This is why strategy-making is an ongoing process and why a manager must reevaluate strategy regularly, refining and recasting it as needed.

However, when managers decide to change strategy so fast and so fundamentally that their business game plan undergoes major overhaul every year, they are almost certainly guilty of poor entrepreneurship, faulty situation analysis, and inept "strategizing". Quantum changes in strategy may well be needed occasionally, especially in crisis situations or during unusually rapid periods of industry change, but they cannot be made on a regular basis without creating a zigzag market wake, generating undue confusion among customers and employees, and undermining performance. Well-crafted strategies normally have a life of at least several years, requiring only minor tweaking to keep them in tune with changing circumstances.

Strategy and Strategic Plans: Developing a strategic vision and mission, establishing objectives, and deciding on a strategy are basic direction-setting tasks. They map out where the organisation is headed, its short-range and long-range performance targets, and the competitive moves and internal action approaches to be used in achieving the targeted results. Together, they constitute a strategic plan.

In some organisations, especially those committed to regular strategy reviews and the development of explicit strategic plans, a document describing the organisation's strategic plan is circulated to managers and employees (although parts of the plan may be omitted or expressed in general terms if they are too sensitive to reveal before they are actually undertaken). In other organisations, the strategic plan is not put in writing for widespread distribution but rather exists in the form of oral understandings and commitments among managers about where to head, what to accomplish, and how to proceed.

Organisational objectives are the part of the strategic plan most often spelled out explicitly and communicated to managers and employees. Some organisations spell out key elements of their strategic plans in the organisation's annual report to shareholders or in statements provided to the business media, while others deliberately refrain from candid public discussion of their strategies for reasons of competitive sensitivity.

However, strategic plans seldom anticipated all the strategically relevant events that will transpire in upcoming months and years. Unforeseen events, unexpected opportunities or threats, plus the constant bubbling up of new proposals encourage managers to modify planned actions and forge "unplanned" reactions. Postponing the recrafting of strategy until it's time to work on next year's strategic plan is both foolish and unnecessary. Managers who confine their strategizing to the organisation's regularly scheduled planning cycle (when they can't avoid turning something in) have a wrongheaded concept of what their strategy-making responsibilities are. Once-a-year strategizing under "have-to" conditions is not a prescription for managerial success.

3.2.4 Implementing and Executing the Strategy

The managerial task of implementing and executing the chosen strategy entails assessing what it will take to make the strategy work and to reach the targeted performance on schedule – the managerial skill here is being good at figuring out what must be done to put the strategy in place, execute it proficiently, and produce good results. Managing the process of implementing and executing strategy is primarily a hands-on, close-to-the-scene administrative task that includes the following principal aspects:

- Building an organisation capable of carrying out the strategy successfully.
- Developing budgets that steer resources into those internal activities critical to strategic success.
- Establishing strategy-supportive policies and operating procedures.

- Motivating people in ways that induce them to pursue the target objectives energetically and, if need be, modifying their duties and job behaviour to better fit the requirements of successful strategy execution.
- Trying the reward structure to the achievement of targeted results.
- Creating an organisation culture and work climate conducive to successful strategy implementation and execution.
- Installing information, communication, and operating systems that enable company personnel to carry out their strategic roles effectively day in and day out.
- Instituting best practices and programs for continuous improvement.
- Exerting the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.

The strategy implementer's aim must be to create strong "fits" between the way things are done internally to try to execute the strategy and what it will take for the strategy to succeed. The stronger the methods of implementation fit the strategy's requirements, the better the execution and the better the odds that performance targets will be achieved. The most important fits are between strategy and organisational capabilities, between strategy and the reward structure, between strategy and internal support systems, and between strategy and the organisation's culture (the latter emerges from the values and beliefs shared by organisational members, the company's approach to people management, and ingrained behaviours, work practices, and ways of thinking). Fitting the ways the organisation does things internally to what is needed for strategic success helps unite the organisation behind the accomplishment of strategy.

The strategy-implementing task is easily the most complicated and time-consuming part of strategic management. It cuts across virtually all facets of managing and must be initiated from many points inside the organisation. The strategy-implementer's agenda for action emerges from careful assessment of what the organisation must do differently and better to carry out the strategic plan proficiently. Each manager has to think through the answer to "What has to be done in his/her area to carry out the piece of strategic plan, and how he/she can get the best done?" How much internal change is needed to put the strategy into place depends on the degree of strategic change, how far internal practices and competencies deviate from what the strategy requires, and how well strategy and organisational culture already match. As needed changes and actions are identified, management must see that all the details of implementation are attended to and apply enough pressure on the organisation to convert objectives into results. Depending on the amount of internal change involved, full implementation can take several months to several years.

3.2.5 Evaluating Performance, Monitoring New Developments and Initiating Corrective Adjustments

It is always incumbent on management to evaluate the organisation's performance and progress. It is management's duty to stay on top of the organisation's situation, deciding whether things are going well internally, and monitoring outside developments closely. Sub-par performance or too little progress, as well as important new external circumstances, call for corrective actions and adjustments. Long-term direction may need to be altered, the business redefined, and management's vision of the organisation's future course narrowed or broadened or radically revised. Performance targets may need raising or lowering in the light of past experience and future prospects. Strategy may need to be modified because of shifts in long-term direction, because new objectives have been set, because some elements are not working well, or because of shifting market conditions and customer preferences.

Likewise, one or more aspects of implementation and execution may not be going as well as intended. Budget revisions, policy changes, reorganization, personnel changes, revamped activities and work processes, culture-changing efforts, and revised compensation practices are typical managerial changing efforts, and revised compensation practices are typical managerial actions that may have to be taken to hasten implementation or improve strategy execution. *Proficient strategy execution is always the product of much organisational learning.* It is achieved unevenly – coming quickly in some areas and proving nettlesome in others. Progress reviews, ongoing searches for ways to continuously improve, and corrective adjustments are thus normal.

3.3 Strategic Management: A Process not an Event

The march of external and internal events guarantees that an organisation's vision, objectives, strategy, and implementation approaches will have to be revisited, reconsidered, and eventually revised. This is why the task of evaluating performance and initiating corrective adjustments is both the end and the beginning of the strategic management *cycle*. Evaluating and adjusting means that prior strategy-related decisions and actions are subject to modification as conditions in the surrounding environment change and ideas for improvement emerge. The choice of whether to continue or change the organisation's vision, objectives, strategy, and implementation approaches always presents itself. Strategic management is thus an ongoing, never ending *process*, not a start-stop event that once done can be safely put aside for a while. Managers have ever-present responsibility for detecting when new developments require a strategic response and when they don't. It is their job to track progress, spot problems early, monitor the winds of market and customer change, and initiate adjustments.

Characteristics of the Process

Although forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategic plan, and evaluating performance portray what strategic management involves, actually performing these five tasks is not so clearly divided into separate, neatly sequenced compartments. There is much interplay and recycling among the five tasks, as shown in figure 1. For example, considering what strategic actions to take raises issues about whether and how the strategy can be satisfactorily implemented.

Deciding on an organisation mission and vision shades into setting objectives (both involve directional priorities). Objective setting entails considering current performance, the strategy options available to improve performance, and what the organisation can really achieve when pushed and challenged. Deciding on a strategy is entangled with decisions about long-term direction and whether objectives have been set in all the key financial and strategic areas. Clearly, the direction-setting tasks of developing a mission, setting objectives, and crafting strategy need to be integrated and done as a package, not individually.

Second, the five strategic management tasks are not done in isolation from a manager's other duties and responsibilities – administering day-to-day operations, dealing with crises, going to meetings, reviewing information, handling people problems, and taking on special assignments and civic duties. Thus, while the job of managing strategy is the most important managerial function in so far as organisational success or failure is concerned, it isn't all managers must do or be concerned about.

Third, crafting and implementing strategy make erratic demands on a manager's time. Change does not happen in an orderly or predictable way. Events can build quickly or gradually; they can emerge singly or in rapid-fire succession; and their implications for strategic change can be easy or hard to diagnose. Hence, the task of reviewing and adjusting the strategic game plan can take up big chunks of management time in some months and little time in other months. As a practical matter, there is as much skill in knowing *when* to institute strategic changes as there is in knowing what to do.

Last, the big day-in, day-out time-consuming aspect of strategic management involves trying to get the best strategy-supportive performance out of every individual and trying to perfect the current strategy by refining its content and execution. Managers usually spend most of their efforts improving bits and pieces of the current strategy rather than developing and instituting radical changes. Excessive changes in strategy can be disruptive to employees and confusing to customers, and they are usually unnecessary.

Most of the time, there's more to be gained from improving execution of the present strategy. Persistence in making a sound strategy work better is often the key to managing the strategy to success.

3.4 Who Executes the Five Tasks of Strategic Management?

An organisation's chief executive officer, as captain of the ship, is the most visible and important strategy manager. The title of CEO carries with it the mantles of chief direction setter, chief objective setter, chief strategy maker, and chief strategy implementer for the total enterprise. Ultimate responsibility for *leading* the tasks of formulating and implementing a strategic plan for the whole organisation rests with the CEO, even though other senior managers normally have significant *leadership* roles also. What the CEO views as strategically important usually is reflected in the organisation's strategy, and the CEO customarily puts a personal stamp of approval on big strategic decisions and actions.

General Managers for production, marketing, finance, human resources, and other key departments have important strategy-making and strategy-implementing responsibilities as well. Normally, the production GM has a lead role in developing the organisation's production strategy; the marketing GM oversees the marketing strategy effort; the financial GM is in charge of devising an appropriate financial strategy; and so on. Usually, senior managers below the CEO are also involved in proposing key elements of the overall organisation strategy and developing major new strategic initiatives, working closely with the CEO to hammer out a consensus and coordinate various aspects of the strategy more effectively. Only in the smallest, owner-managed enterprises is the strategy-making, strategy-implementing task small enough for a single manager to handle.

But managerial positions with strategy-making and strategy-implementing responsibility are by no means restricted to CEOs, general managers and owner entrepreneurs. Every major organisational unit in an organisation – business unit, division, staff plant, support group, or district office – normally has a leading or supporting role in the organisation's strategic game plan. And the manager in charge of that organisational unit, with guidance from superiors, usually ends up doing some or most of the strategy making for the unit and deciding how to implement whatever strategic choices are made. While managers farther down in the managerial hierarchy obviously have a narrower, more specific strategy-making/strategy-implementing role than managers closer to the top, *every manager is a strategy maker and strategy implementer for the area he/she supervises*.

One of the primary reasons why middle-and lower-echelon managers are part of the strategy-making/strategy-implementing team is that the more geographically scattered and diversified an organisation's operations are, the more unwieldy it becomes for senior executives at the organisation's headquarters to craft and implement all the necessary actions and programs. Managers in the corporate office seldom know enough about the situation in every geographical area and operating unit to direct every move made in the field. It is common practice for top-level managers to grant some strategy-making responsibility to managerial subordinates who head the organisational subunits where specific strategic results must be achieved.

Delegating a strategy-making role to on-the-scene managers charged with implementing whatever strategic moves are made in their areas fixes accountability for strategic success or failure. When the managers who implement the strategy are also its architects, it is hard for them to shift blame or make excuses if they don't achieve the target results. And, having participated in developing the strategy they are trying to implement and execute, they are likely to have strong buy-in and support for the strategy, an essential condition for effective strategy execution.

In diversified organisations where the strategies of several different businesses have to be managed, there are usually four distinct levels of strategy managers:

- The chief executive officer and other senior corporate-level executives who have primary responsibility and personal authority for big strategic decisions affecting the total enterprise and the collection of individual businesses the enterprise has diversified into.
- Managers who have profit-and-loss responsibility for one specific business unit and who are delegated a major leadership role in formulating and implementing strategy for that unit.
- Functional area heads and department heads within a given business unit who have direct authority over a major piece of the business (manufacturing, marketing and sales, finance, research and development, personnel) and whose role it is to support the business unit's overall strategy with strategic actions in their own areas.
- Managers of major operating units (plants, sales districts, local offices) who have on-the-scene responsibility for developing the details of strategic efforts in their areas and for implementing and executing their piece of the overall strategic plan at the grassroots level.

Single-business enterprises need no more than three of these levels (a business-level strategy manager, functional-area strategy managers, and operating-level strategy managers). In a large single-business organisation, the team of strategy managers consists of the chief executive, who functions as chief strategist with final authority over both strategy and its implementation; the general managers and departmental heads in charge of key activities (research and development, production, marketing, finance, human resources, and so on); plus as many operating-unit managers of the various plants, sales offices, distribution centres, and staff support departments as it takes to handle the organisation's scope of operations. Proprietorships, partnerships, and owner-managed enterprises, however, typically have only one or two strategy managers since in small-scale enterprises, the whole strategy-making/strategy-implementing function can be handled by just a few key people.

Managerial jobs involving strategy formulation and implementation abound in not-for-profit organisations as well. In federal and state government, heads of local, state, zonal and federal offices function as strategy managers in their efforts to respond to the needs and situations of the areas they service (a state manager in Osun may need a slightly different strategy than a zonal manager in Kebbi). In local government, the heads of various departments (fire, police, water and sewer, parks and recreation, health, and so on) are strategy managers because they have line authority for the operations of their departments and thus can influence departmental objectives, the formation of a strategy to achieve these objectives, and how the strategy is implemented.

Managerial jobs with strategy-making/strategy-implementing roles are thus the norm rather than the exception (3). The job of crafting and implementing strategy touches virtually every managerial job in one way or another, at one time or another. Strategic management is basic to the tasks of managing; it is not something just top-level managers deal with.

There are some questions that deserve answers in respect of strategy-making, planning. They are:

1. Is strategy-making an individual responsibility or a group task?
2. Is there a role for full-time strategic planner?
3. What is the role of the board of directors?

1. Is strategy-making an individual responsibility or a group task?

Many organisations today are involving teams of managers and key employees in strategy-making exercises, partly because many strategic issues cut across traditional functions and departmental lines, partly to tap into the ideas and problem-solving skills of people with different backgrounds, expertise, and perspectives, and partly to give a greater number of people an ownership stake in the strategy that emerges and win their wholehearted commitment to implementation. Frequently, these teams include line and staff managers from different disciplines and departmental units, a few handpicked junior staffers known for their ability to think creatively, and near-retirement veterans noted for being keen observers, telling it like it is, and giving sage advice

2. Is there a role for full-time strategic planner?

If senior and middle managers have the lead roles in strategy making and strategy implementing in their areas of responsibility, supplemented by multidisciplinary strategy teams and broad employee participation in some circumstances, is there any need for full-time strategic planners or staffers with expertise in strategic analysis? The answer is perhaps in a few organisations, but even then a planning staff's role and tasks should consist chiefly of helping to gather and organize information that strategy makers decide they need, providing administrative support to line managers in revising their strategic plans, and coordinating the process of higher-level executive review and approval of the strategic plans developed for all the various parts of the organisation. A strategic planning staff can help line managers and strategy teams crystallize the strategic issues that ought to be addressed; in addition, they can provide data, conduct studies of industry and competitive conditions as requested by the strategy makers, and develop assessment of the organisation's strategic performance. But strategic planners should not make strategic decisions, prepare strategic plans (for someone else to implement), or make strategic action recommendations that usurp the strategy-making responsibilities of line managers or self-directed work teams in charge of operating units or particular activities.

3. What is the role of the board of directors?

Since lead responsibility for crafting and implementing strategy falls to key managers, the chief strategic role of an organisation's board of directors is to exercise oversight and see that the five tasks of strategic management are done in a manner that benefits shareholders (in the case of investor-owned enterprises) or stakeholders (in the case of not-for-profit organisations). Recent increases in the number of stockholder lawsuits and the escalating costs of liability insurance for directors and officers have underscored that corporate board members do indeed bear ultimate responsibility for the strategic actions taken. Moreover, holders of large blocks of shares (mutual funds and pension funds), regulatory authorities, and the financial press are all calling for board members, especially outside directors, to be more active in their oversight of organisation strategy.

3.5 Benefits of a “Strategic Approach” to Managing

The message in this unit is that doing a good job of managing inherently requires good strategic thinking and good strategic management. Today’s managers have to think strategically about their organisation’s position and about the impact of changing conditions. They have to monitor the external situation closely enough to know when to institute strategy changes. They have to know the business well enough to know what kinds of strategic changes to initiate. Simply said, the fundamentals of strategic management need to drive the whole approach to managing organizations.

4.0 CONCLUSION

We have learnt in this unit that a strategy entails management choices among alternatives and signals organizational commitment to specific markets, competitive approaches, and ways of operating.

5.0 SUMMARY

In this unit, we have discussed the following:

- Overview of Strategic Management Process
- The Five Tasks of Strategic Management
- Strategic Management: A Process not an Event
- Who Executes the Five Tasks of Strategic Management?
- Benefits of a “Strategic Approach” to Managing

6.0 TUTOR MARKED ASSIGNMENT

1. List and briefly discuss the five tasks of strategic management.
2. What are the benefits of a strategic approach to managing?
3. Distinguish between strategic management as a process and as an event.

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UNIT 2 STRATEGIC MANAGEMENT

CONTENTS

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1.0 INTRODUCTION

In Aghedo (2009), it was stated that the complexity and sophistication of business decision-making requires strategic management and that managing various and multifaceted internal activities is only part of the modern executive's responsibilities.

The firm's immediate external environment poses a second set of challenging factors. This environment includes competitors whenever profits seem possible, suppliers of increasingly scarce resources, government agencies monitoring adherence to an ever-growing number of regulations and customers whose often inexplicable preferences must be anticipated, monitored, assessed and incorporated in top-level decision-making.

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

In this unit of the course, you will learn about its concept, general approaches, its components, its hierarchy, its psychology and the challenges.

2.0 OBJECTIVES

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

- (i) define the concept 'strategic management';
- (ii) state and explain the components of strategic management;
- (iii) list the general approaches to strategic management;
- (iv) define strategic hierarchy;

- (v) discuss the psychology of strategic management;
- (vi) highlight the challenges of strategic management.

3.0 MAIN CONTENT

3.1 Concept of Strategic Management

Strategic or institutional management is the conduct of drafting, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programmes, which are designed achieve these objectives, and then allocating resources to implement the policies and plans, projects and programmes. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives.

Strategic management is a level of managerial activity under setting goals and over Tactics. Strategic management provides overall direction to the enterprise and is closely related to the field of Organization Studies. In the field of business administration it is useful to talk about "strategic alignment" between the organization and its environment or "strategic consistency" According to Arieu (2007). "There is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context."

"Strategic management is an ongoing process that evaluates and control the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e., regularly] to determine how it has been implemented and whether it has succeeded or need replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial , or political environment" (Lamb, 1984:ix).

Strategic management is defined as *the set of decisions and actions taken in formulation and implementation of strategies designed to achieve objectives of an organisation* (Aghedo, 2009).

The concept 'strategic management' involves giving attention to nine areas which include:

1. determining the mission of the company including making a broad statement about its purpose, philosophy and goals;
2. assessment of the company's external environment in terms of competitive and general contextual factors;
3. developing a company profile that reflects internal conditions and capabilities;
4. analysis of possible options uncovered in the matching of the company's profile with the external environment;
5. identifying the desired options uncovered when possibilities are being considered in the light of the company's mission;

6. strategic choice of a particular set of long-term objectives and the strategies needed to achieve the desired options;
7. development of annual objectives and short-term strategies combined with long-term objectives and grand strategies;
8. implementing strategic choice decisions based on budgeted resource allocations and emphasising the matching of tasks, people, strategies, technologies, and reward systems;
9. review and evaluation of the success of the strategic process as a basis for control and as an input for future decision-making.

You will note from these nine areas that strategic management involves planning, directing, organizing and controlling of the strategy-related decisions and actions of the business. Strategy means *the large-scale oriented plans for interacting with the competitive environment to ensure achievement of organisation objectives*. Thus, a strategy represents a firm's "game plans". Although it does not precisely detail all future, deployments (people, financial and material), it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how to compete against whom, when, where and for what.

3.1.1 Strategy Formulation

Strategic management is a combination of three main processes which are as follows:

- Performing a situation analysis, self-evaluation and competitor analysis; both internal and external; both micro-environmental and macro-environmental.
- Concurrent with this assessment, objectives are set. These objectives should be parallel to a timeless; some are in the short-term and others on the long-term. This involves crafting vision statements (long term view of a possible future), mission statement (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.
- These objectives should, in the light of the situation analysis, suggest a strategic plan.
- The plan provides the details of how to achieve these objectives.

3.1.2 Strategy Implementation

Features of strategy implementation are as follows:

- Allocation and management of sufficient resources (financial, personnel, operational support, time, technology support)
- Establishing a chain of command or some alternative structure (such as cross functional teams)

- Assigning responsibility of specific tasks or processes to specific individuals or groups
- It also involves managing the process. This includes monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variances and making adjustments to the process as necessary.
- When implementing specific programs, this involves acquiring the requisite resources, developing the process, training, process testing, documentation, and integration with (and/or conversion from) legacy processes.

Thus, when the strategy implementation processes, there have been many problems arising such as human relations and /or the employees-communication. At this stage, the greatest implementation problems usually involve marketing strategy, with emphasis on the appropriate timing of new products. An organization, with an effective management, should try to implement its plans without signaling the fact to its competitors.

In order for a policy to work, there must be a level of consistency from every person in an organization, including from the management. This is what needs to occur on the tactical level of management as well as strategic

3.1.3 Strategy Evaluation

Measuring the effectiveness of the organizational strategy, it's extremely important to conduct a SWOT analysis to figure out the strengths, weakness, opportunities and threats (both internal and external) of the entity in question. This may require to take certain precautionary measures or even to change the entire strategy.

In corporate strategy, Johnson and Scholes present a model in which strategic options are evaluated against three key success criteria:

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

Suitability

Suitability deals with the overall rationale of the strategy. The key point to consider is whether the strategy would address the key strategic issues underlined by the organisation's strategic position..

- Does it make economic sense?
- Would the organisation obtain economies of scale, economies of scope or experience economy?
- Would it be suitable in terms of environment and capabilities?

Tools that can be used to evaluate suitability include:

- Ranking strategic option
- Decision trees
- What-if analysis

Feasibility

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

- Cash flow analysis and forecasting
- Break-even analysis
- Resource development analysis

Acceptability

Acceptability is concerned with the expectations of the identified stakeholders (mainly shareholders, employees and customers) with the expected performance outcomes, which can be return, risk and stakeholder reactions.

- Return deals with the benefits expected by the stakeholders (financial and non-financial). For example, shareholder would expect the increase of their wealth, employees would expect improvement in their careers and customers would expect better value for money.
- Risk deals with the probability and consequences of failure of a strategy (financial and non-financial).
- Stakeholder reactions deal with anticipating the likely reaction of stakeholders. Shareholders could oppose the issuing of new shares, employees and unions could oppose outsourcing for fear of losing their jobs, customers could have concerns over a merger with regards to quality and support

Tools that can be used to evaluate acceptability include:

- What-if analysis
- Stakeholders mapping

Self Assessment Exercise

1. Define in your own word 'strategic management' and explain its components
2. Write short notes on the following concepts:
 - (a) Strategy formulation
 - (b) Strategy implementation
 - (c) Strategy evaluation

3.2 General approaches to Strategic Management

In general terms, there are two approaches to strategic management, which are opposite but complement each other in some ways:

1. The industrial organisation approach, and
2. The sociological approach.

1. The Industrial Organization Approach

- Based on economic theory – deals with issues like competitive rivalry, resources allocation, economies of scale;
- Assumptions – rationally, self discipline behaviour, profit maximization.

2. The Sociological Approach

- Deals primary with human interactions;
- Assumptions–bounded rationality, satisfying behaviour, and profit sub-optimality. An example of a company that currently operates this way is Google.

Strategic management techniques can be viewed as bottom-up, top-down or collaborative processes.

In the bottom-up approach, employees submit proposals to their managers who, in turn, funnel the best ideas further up the organization. This is often accomplished by a capital budgeting process. Proposals are assessed using financial criteria such as return on investment or cost-benefit analysis. Cost underestimation and benefit overestimation are major sources of error. The proposals that are approved form the substance of a new strategy, all of which is done without a grand strategic design or a strategic architect.

The top-down approach is the common by far. In it, the CEO, possibly with the assistance of a strategic planning team, decides on the overall direction the company should take. Some organizations are starting to experiment with collaborative strategic planning techniques that recognize the emergent nature of strategic decisions.

Self Assessment Exercise

What is the difference between industrial organizational approach and sociological approach to strategic management?

3.3 The Strategy Hierarchy

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

Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the question of: “Which businesses should we be in?, How does being in these business create synergy and/or add to the competitive advantage of the corporation as a whole?”

Business strategy refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates cost leadership, differentiation or focus in order to achieve a sustainable competitive advantage and long-term success in its chosen arenas or industries.

Functional strategies include marketing strategies, new product development strategies, human resources strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans is limited to the domain of each department’s functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or SBUs. A Strategic business unit is a semi-autonomous unit that is usually responsible for own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters.

An additional level of strategy called operational strategy was encouraged by Peter Drucker in his theory of management by objective (MBO). It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.

Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process. This notion of strategy has been captured under the rubric of dynamic strategy, popularized by Carpenter and Sanders’s textbook. (<http://www.prenhall>)

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

Self Assessment Exercise

Discuss briefly what you understand by strategy hierarchy.

3.4 The Psychology of Strategic Management

Several psychologists have conducted studies to determine the psychological patterns involved in strategic management. Typically senior managers have been asked how they go about making strategic decisions. A 1938 treatise by Chester Barnard, that was based on his own experience as a business executive, sees the process as informal, intuitive, non-reutilized, and involving primary oral, 2-way communications. Bernard says, "The process is the sensing of the organization as a whole and the total situation relevant to it. It transcends the capacity of merely intellectual methods, and the techniques of discriminating the factors of the situation. The terms pertinent to it are "feeling", "judgment", "sense" "proportion", "balance", "appropriateness". It is a matter of art rather than science."

In 1973, Henry Mintzberg found that senior managers typically deal with unpredictable situations so they strategize in ad hoc, flexible, dynamic, and implicit ways. He says, "The job breeds adaptive information-manipulators who prefer the live concrete situation. The manager works in an environment of stimulus-response, and he develops in his work a clear preference for live action."

In 1982, John Kotter studied the daily activities of 15 executives and concluded that they spent most of their time development and working a network of relationships from which they gained general insights and specific details to be used in making strategic decisions. They tended to use "mental road maps" rather than systematic planning techniques.

Daniel Isenberg's 1984 study of senior managers found that their decisions were highly intuitive. Executives often sensed what they were going to do before they could explain why. He claimed in 1986 that one of the reasons for this is the complexity of strategic decisions and the resultant information uncertainty.

According to Corner, Kinichi, and Keats, strategic decision making in organizations occurs at two levels: individual and aggregate. They have developed a model of parallel strategic decision making. The model identifies two parallel processes both of which involve getting attention, encoding information, storage and retrieval of information, strategic choice, strategic outcome, and feedback. They individual and organizational processes are not independent however. They interact at each stage of the process.

Self Assessment Exercise

Define and briefly explain what is meant by psychology of strategic management.

3.5 Challenges of Strategic Management

The challenges of strategic management would be discussed under the underlisted sub-topics:

3.5.1 Reasons why Strategic Plans Fail

There are many reasons why strategic plans fail, especially:

- Failure to understand the customer
 - Why do they buy
 - Is there a real need for the product
 - Inadequate or incorrect marketing research
- Inability to predict environmental reaction
 - What will competitors do

- Fighting brands
- Price wars
- Will government intervene
- Over-estimation of resource competence
 - Can the staff, equipment, and processes handle the new strategy
 - Failure to develop new employee and management skills
 - Failure to coordinate
 - Reporting and control relationships not adequate
 - 3Organizational structure not flexible enough
- Failure to obtain senior management commitment
 - Failure to get management involved right from the start
 - Failure to obtain sufficient company resources to accomplish task
- Failure to obtain employee commitment
 - New strategy not well explained to employees
 - No incentives given to workers to embrace the new strategy.
- Under-estimation of time requirements
 - No critical path analysis done.
- Failure to follow the plan
 - No follow through after initial planning
 - No tracking of progress against plan
 - No consequences for above
- Failure to manage change
 - Inadequate understanding of the internal resistance to change
 - Lack of vision on the relationships between processes, technology and organization
 - Poor communications
 - Insufficient information sharing among stakeholders
 - Exclusion of stakeholders and delegates

3.5.2 Limitations of Strategic Management

Although a sense of direction is important, it can also stifle creativity, especially if it rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia.

Many theories of strategic management tend to undergo only periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias (itself an era of research in strategic management). Many theories tend to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism or faddishness can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances. See business philosophies and popular management theories for a more critical view of management theories.

3.5.3 The Linearity Trap

It is tempting to think that the elements of strategic management – (i) reaching consensus on corporate objectives; (ii) developing a plan for achieving the objectives; and marshalling and allocating the resources required to implement the plan – can be approached sequentially. It would be convenient, in other words, if one could deal first with the noble question of ends, and then address the mundane question of means. But in the world in which strategies have to be implemented, the three elements are interdependent.

Means are as likely to determine ends as ends are to determine means. The objectives that an organization might wish to pursue are limited by the range of feasible approaches to implementation. (There will usually be only a small number of approaches that will not be technically and administratively possible, but also satisfactory to the full range of organizational stakeholders). In turn, the range of feasible implementation approaches is determined by the availability of resources.

And so, although participants in a typical “strategic session” may be asked to do “blue sky” thinking where they pretend that the usual constraints – resources, acceptability to stakeholders, administrative feasibility – have been lifted, the fact is that it rarely makes sense to divorce oneself from the environment in which a strategy will have to be implemented. It’s probably impossible to think in any meaningful way about strategy in an unconstrained environment. Our brains can’t process “boundless possibilities”, and the very idea of strategy only has meaning in the context of challenges or obstacles to be overcome. It’s at least as plausible to argue that acute awareness of constraints is the very thing that stimulates creativity by forcing us to constantly reassess both means and ends in light of circumstances. The key question, then is, “How can individuals, organizations and societies cope as well as possible with issues too complex to be fully understood, given the fact that actions initiated on the basis of inadequate understanding may lead to significant regret?”

The answer is that the process of developing organizational strategy must be iterative. It involves toggling back and forth between questions about objectives, implementation planning and resources. An initial idea about corporate objectives may have to be altered if there is no feasible implementation plan that will meet with a sufficient level of acceptance among the full range of stakeholders, or because the necessary resources are not available, or both.

Even the most talented manager would no doubt agree that “comprehensive analysis is impossible for complex problems”. Formulation and implementation of strategy must thus occur side-by-side rather than sequentially, because strategies are built on assumptions which, in the absence of perfect knowledge, will never be perfectly correct. Strategic management is necessarily a “receptive learning cycle rather than a linear progression towards a clearly defined final destination. While assumptions can and should be tested in advance, the ultimate test is implementation. You will inevitably need to adjust corporate objectives and/or your approach to pursuing outcomes and /or assumptions about required resources. Thus a strategy will get remade during implementation because “humans rarely can proceed satisfactorily by learning from experience; and modest probes, serially modified on the basis of feedback, usually are the best method for such learning”.

It serves little purpose (other than to provide a false aura of certainty sometimes demanded by corporate strategists and planners) to pretend to anticipate every possible consequence of a corporate decision, every possible constraining or enabling factor, and every possible point of view. At the end of the day, what matters for the purposes of strategic management is having a clear view – based on the best available evidence and on defensible assumptions – of what it seems possible to accomplish within the constraints of a given set of circumstances. As the situation changes, some opportunities for pursuing objectives will disappear and others arise.

Some implementation approaches will become impossible, while others, previously impossible or unimagined, will become viable.

The essence of being “strategic” thus lies in a capacity for “intelligent trial-and error” rather than linear adherence to finally honed and detailed strategic plans. Strategic management will add little value ---indeed, it may well do harm---if organizational strategies are designed to be used as a detailed blueprints for managers. Strategy should be seen, as laying out the general path – but not the precise steps – by which an organization intends to create value. Strategic management is a question of interpreting, and continuously reinterpreting, the possibilities presented by shifting circumstances for advancing an organization’s objectives, the best approach for achieving them, and the resources implied by the chosen approach. It requires a frame of mind that admits of no boundary between means and ends.

4.0 CONCLUSION

You have in this unit that strategic management is a question of interpreting, and continuously reinterpreting, the possibilities presented by shifting circumstances for advancing an organization’s objectives, the best approach for achieving them, and the resources implied by the chosen approach.

5.0 SUMMARY

In this unit, you have learnt about strategic management, its concept, general approaches, its hierarchy, its psychology and challenges.

In the next unit, you will learn about the historical development of strategic management.

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the limitations of strategic management? Briefly explain them.
2. Why do strategic plans fail?
3. Discuss linearity trap.

7.0 REFERENCES/FURTHER READINGS

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UNIT 3 HISTORICAL DEVELOPMENT OF STRATEGIC MANAGEMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
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1.0 INTRODUCTION

In the last unit you were introduced to strategic management as a concept and you learnt about the concept, general approaches, its hierarchy, its psychology and challenges. In this unit, you will learn about birth and developments of strategic management. You will also learn about strategic change, the future of strategic management and the fourteen elements of strategic management.

2.0 OBJECTIVES

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

- (i) trace the history of strategic management;
- (ii) discuss the developments of strategic management;
- (iii) define strategic change;
- (iv) explain the future strategic management as it affects IT driven and knowledge drive strategies;
- (v) list and discuss the fourteen elements of strategic management.

3.0 MAIN CONTENT

3.1 Birth of Strategic Management

Strategic management as a discipline originated in the around 1950s and 60s. Although there were numerous early contributors to the literature, the most influential pioneers were Alfred D. Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker.

Alfred Chandler recognized the importance of coordinating the various aspects of management under one all-encompassing strategy. Prior to this time the various functions of management were separate with little overall coordination or strategy. Interactions between functions and department were typically handled by a boundary position, that is, there were one or two managers that relayed information back and forth between two departments. Chandler also stressed the importance of taking a long term perspective when looking to the future. In his 1962 groundbreaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. He says it concisely, “structure follows strategy.”

In 1950, Philip Selznick introduced the idea of matching the organization’s internal factors with external environmental circumstances. This core idea was developed into what we now call SWOT analysis by Learned, Andrew, and others at the Harvard Business School General Management Group. Strengths and weakness of the firm are assessed in light of the opportunities and threats from the business environment.

Igor Ansoff built on Chandler’s work by adding a range of strategic concepts and inventing a whole new vocabulary. He developed a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal and vertical integration and diversification strategies. He felt that management could use these strategies to systematically prepare for future opportunities and challenges. In his 1965 classic *Corporate Strategy*, he developed the gap analysis still used today in which we must understand the gap between we are currently and where we would like to be, then develop what he called “gap reducing action”.

Peter Drucker was a prolific strategy theorist, author of dozens of management books with a career spanning five decades. His contributions to strategic management were many but are most important. Firstly, he stressed the importance of objectives. An organization without clear objectives is like a ship without a rudder. As early as 1954 he was developing a theory of management based on objectives. This evolved into his theory of management by objectives (MBO). According to Drucker, the procedure of setting objectives and monitoring your progress towards them should permeate the entire organization, top to bottom. His other seminal contribution was in predicting the importance of what today we would call intellectual capital. He predicted the rise of what he called the “knowledge worker” and explained the consequences of this for management. He said that knowledge work is non-hierarchical. Work would be carried out in teams with the person most knowledgeable in the task at hand being the temporary leader.

In 1985, Ellen-Earle Chaffee summarized what she thought were the main elements of strategic management theory by the 1970s:

- Strategic management involves adapting the organization to its business environment
- Strategic management is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses.
- Strategic management affects the entire organization by providing direction
- Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process).
- Strategic management is partially planned and partially unplanned.
- Strategic management is done at several levels: overall corporate strategy, and individual business strategies.

- Strategic management involves both conceptual and analytical thought processes

3.2 Developments in Strategic Management

The developments in strategic management will be discussed under the following sub-topics:

3.2.1 Growth and Portfolio Theory

In the 1970s much of strategic management dealt with size, growth, and portfolio theory. The PIMS study was a long term study, started in the 1960s and lasted for 19 years, that attempted to understand the Profit Impact of Marketing Strategies (PIMS), particularly the effect of market share. Started at General Electric, moved to Harvard in the early 1970s, and then moved to the Strategic Planning Institute in the late 1970s, it now contains decades of information on the relationship between profitability and strategy. Their initial conclusion was unambiguous: The greater a company's market share, the greater will be their rate of profit. The high market share proves volume and economies of scale. It also provides experience and learning curve advantages. The combined effect is increased profits [9]. The studies conclusions continue to be drawn on by academics and companies today. "PIMS provides compelling quantitative evidence as to which business strategies work and don't work" – Tom Peters.

The benefit of high market share naturally leads to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, franchise, mergers and acquisitions, joint ventures, and organic growth were discussed. The most appropriate market dominance strategies were assessed given the competitive and regulatory environment.

3.2.2 The Marketing Revolution

The 1970s also saw the rise of the marketing oriented firm. From the beginnings of capitalism it was assumed that the key requirement of business success was a product of high technical quality. If you produced a product that worked well and was durable, it was assumed you would have no difficulty selling them as a profit. This was called the production orientation and it was generally true that good products could be sold without effort, encapsulated in the saying "Build a better mousetrap and the world will beat a path to your door". This was largely due to the growing numbers of affluent and middle class people that capitalism had created. But after the untapped demand caused by the Second World War was saturated in the 1950s it became obvious that products were not selling as easily as they had been. The answer was to concentrate on selling. The 1950s and 1960s is known as the sales era and the guiding philosophy of business of the time is today called the sales orientation.

In the early 1970s, Theodore Levitt and others at Harvard argued that the sales orientation had things backward. They claimed that instead of producing products then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them. The customer became the driving force behind all strategic business decisions. This marketing orientation, in the decades since its introduction, has been reformulated and repackaged under numerous names including customer orientation, marketing philosophy, customer intimacy, customer focus, customer driven, and market focused.

3.2.3 The Japanese Challenge

By the late 70s, Americans had started to notice how successful Japanese industry had become. In industry after industry, including steel, watches, ship building, cameras, autos, and electronics, the Japanese were surpassing American and European companies. Westerners wanted to know why. Numerous theories purported to explain the Japanese success including:

- Higher employee morale, dedication, and loyalty;
- Lower cost structure, including wages
- Effective government industrial policy;
- Modernization after WWII leading to high capital intensity and productivity;
- Economies of scale associated with increased exporting;
- Relatively low value of the Yen leading to low interest rates and capital costs, low dividend expectations and inexpensive exports;

- Superior quality control techniques such as Total Quality Management and other systems introduced by W. Edwards Deming in the 1950s and 60s.

Although there was some truth to all these potential explanations, there was clearly something missing. In fact by 1980 the Japanese cost structure was higher than the American and post WWII reconstruction was nearly 40 years in the past. The first management theorist to suggest an explanation was Richard Pascale.

In 1981, Richard Pascale and Anthony Athos in *The Art of Japanese Management* claimed that the main reason for Japanese success was their superior management techniques. They divided management into 7 aspects (which are also known as McKinsey 7S Framework): Structure, Systems, Skills, Staff, Style, and Supra ordinate goals (which we would now call shared values). The first three of the 7 S's were called hard factors and this is where American companies excelled. The remaining four factors (skills, staff, style, and shared values) were called soft factors and were not well understood by American business of the time (for details on the role of soft and hard factors (see Wickens, P.D, 1995) Americans did not yet place great value on corporate culture, shared values and beliefs, and social cohesion in the workplace. In Japan the task of management was seen as managing the whole complex of human needs, economic, social, psychological, and spiritual. In America work was seen as something that was separate from the rest of one's life. It was quite common for American s to exhibit a very different personality at work compared to the rest of their lives. Pascale also highlighted the differences between decision making styles; hierarchical in America, and consensus in Japan. He also claimed that American business lacked long term vision, preferring instead of apply management fades and theories in a piecemeal fashion.

One year later, *The Mind of the Strategist was released in America* by Kenichi Ohmae, the head of McKinsey & Co's Tokyo Office (it was originally published in Japan in 1975). He claimed that strategy in America was too analytical. Strategy should be a creative art: It is a frame of mind that requires intuition and intellectual flexibility. He claimed that Americans constrained their strategic options by thinking in terms of analytical techniques rote formula, and step-by-step processes. He compared the culture of Japan in which vagueness, ambiguity, and tentative decisions were acceptable, to American culture that valued fast decisions.

Also in 1982, Tom Peters and Robert Waterman released a study that would respond to the Japanese challenge head on. Peters and Waterman, who had several years earlier collaborated with Pascale and Athos at McKinsey & Co., asked “What makes an excellent company?” They looked at 62 companies that they thought were fairly successful. Each was subject to six performance criteria. To be classified as an excellent company, it had to be above the 50th percentile in the 6 performance metrics for 20 consecutive years. Forty-three companies passed the test. They then studied these successful companies and interviewed key executives. They concluded in *In Search of Excellence* that there were 8 keys to excellence that were shared by all 43 firms. They are:

- A basic for action – Do it. Try it. Don’t waste time studying it with multiple reports and committees.
- Customer focus – Get close to the customer. Know your customer.
- Entrepreneurship – Even big companies act and think small by giving people the authority to take initiatives
- Productivity through people – Treat your people with respect and they will reward you with productivity.
- Value-oriented CEOs – The CEO should actively propagate corporate values throughout the organization.
- Stick to the knitting – Do what you know well.
- Keep things simple and clean – Complexity encourages waste and confusion
- Simultaneously centralized and decentralized – Have tight centralized control while also allowing maximum individual autonomy.

The basis blueprint on how to compete against the Japanese had been drawn. But as J.E Rehfeld (1994) explained it is not a straight forward task due to differences in culture. A certain type of alchemy was required to transform knowledge from various cultures into a management style that allows a specific company to compete in a globally diverse world. He says, for example, that Japanese style Kaizen (continuous improvement) techniques, although suitable for people socialized in Japanese culture have not been successful when implanted in the US unless they are modified significantly.

3.2.4 Gaining Competitive Advantage

The Japanese challenges shook the confidence of the western business elite, but detailed comparisons of the two management styles and examinations of successful business convinced westerners that they could overcome the challenge. The 1980s and nearly 1990s saw a plethora of theories explaining exactly how this could be done. They cannot all be detailed here, but some of the more important strategic advances of the decade are explained below.

Gary Hamel and C.K. Prahalad declared that strategy needs to be more active and interactive; less “arm-chair planning” was needed. They introduced terms like strategic intent and strategic architecture. Their most well known advance was the idea of core competency.

They showed how important it was to know the one or two key things that your company does better than the competition.

Active strategic management required active information gathering and active problem solving. In the early days of Hewlett-Packard (H.P), Dave Packard and Bill Hewlett devised an active management style that they called “Management by Walking Around” (MBWA). Senior H.P managers were seldom at their desks. They spent most of their days visiting employees, customers, and suppliers. This direct contact with key people provided them with a solid grounding from which viable strategies could be crafted. The MBWA concept was popularized in 1985 by a book by Tom Peters and Nancy Austin [23] G’s (Genba, Genbutsu, and Genjitsu, which translate into “actual place” and “actual situation”).

Probably the most influential strategist of the decade was Michael Porter. He introduced many new concepts including; 5 forces analysis, generic strategies, the value chain, strategic groups, and clusters. In 5 forces analysis he identifies the forces that shape a firm’s strategic environment. It is like a SWOT analysis with structure and purpose. It shows how a firm can use these forces to obtain a sustainable competitive advantage. Porter modifies Chandler’s dictum about structure following strategy by introducing a second level of structure: Organizational structure follows strategy, which in turn follows industry structure. Porter’s generic strategies detail the interaction between cost minimization strategies, product differentiation strategies, and market focus strategies. Although he did not introduce these terms, he showed the importance of choosing one of them rather than trying to position your company between them. He also challenged managers to see their industry in terms of a value chain. A firm will be successful only to the extent that it contributes to the industry’s value chain. This forced management to look at its operations from the customer’s point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer.

In 1993, John Kay took the idea of the value chain to financial level claiming. “Adding value is the central purpose of business activity”, where adding value is defined as the difference between the market value of outputs and the cost of inputs including capital, all divided by the firm’s net output. Borrowing from Gary Hamel and Michael Porter, Kay claims that the role of strategic management is to identify your core competencies, and then assemble a collection of assets that will increase value added and provide a competitive advantage. He claims that there are 3 types of capabilities that can do this; innovation, reputation, and organizational structure.

The 1980s also saw the widespread acceptance of positioning theory. Although the theory originated with Jack Trout in 1969, it didn’t gain wide acceptance until Al Ries and Jack Trout wrote their classic book “Positioning: The Battle For Your Mind” (1979). The basis premise is that a strategy should not be judged by internal company factors but the way customers see it relative to the competition. Crafting and implementing a strategy involves creating a position in the mind of the collective consumer. Several techniques were applied to positing theory, some newly invented but most borrowed from other disciplines. Perceptual mapping for example, creates visual displays of the relationships between positions. Multi-dimensional scaling, discriminate analysis, factor analysis and conjoint analysis are mathematical techniques used to determine the most relevant characteristics (called dimensions or factors) upon which positions should be based. Preference regression can be used to determine vectors of ideal positions and cluster analysis can identify clusters of positions.

Others felt that internal company resources were the key. In 1992, Jay Barney, for example, saw strategy as assembling the optimum mix of resources, including human, technology, and suppliers, and then configure them in unique and sustainable ways. Michael Hammer and James Champy felt that these resources needed to be restructured. This process, that they labeled reengineering, involved organizing a firm's assets around whole processes rather than tasks. In this way a team of people saw a project through, from inception to completion. This avoided functional silos where isolated departments seldom talked to each other. It also eliminated waste due to functional overlap and interdepartmental communications.

In 1989, Richard Lester and the researchers at the MIT Industrial Performance Centre identified seven best practices and concluded that firms must accelerate the shift away from the mass production of low cost standardized products. The seven areas of best practice were:

- Simultaneous continuous improvement in cost, quality, service, and product innovation
- Breaking down organizational barriers between departments
- Eliminating layers of management creating flatter organizational hierarchies
- Closer relationships with customers and suppliers
- Intelligent use of new technology
- Global focus
- Improving human resources skills

The search for “best practices” is also called benchmarking. This involves determining where you need to improve, finding an organization that is exceptional in this area, then studying the company and applying its best practices in your firm.

A large group of theorists felt the area where western business was most lacking was product quality. People like W. Edwards Deming, Joseph M. Juran, A. Kearney, Philip Crosby, and Armand Feignbaum, suggested quality improvement techniques like Total Quality Management (TQM), continuous improvement, lean manufacturing. Six Sigma, and Return on Quality (ROQ).

An equally large group of theorist felts that poor customer service was the problem. People like James Heskett (1988), Earl Sasser (1995), William Davidow, Len Schlesinger, A. Paraurgman (1988), Len Berry, Jane Kingman-Brundage, Christopher Hart and Christopher Lovelock (1994), gave us fishbone diagramming, service charting, Total Customer Service (TCS), the service profit chain, service gaps analysis, the service encounter, strategic service vision, service mapping, and service teams. Their underlying assumption was that there is no better source of competitive advantage than a continuous stream of delighted customers.

Process management uses some of the techniques from product quality management and some of the techniques from customer service management. It looks at an activity as a sequential process. The objective is to find inefficiencies and make the process more effective. Although the procedures have a long history, dating back to Taylorism, the scope of their applicability has been greatly widened, leaving no aspect of the firm free from potential process improvements. Because of the broad applicability of process management techniques, they can be used as a basis for competitive advantage.

Some realized that businesses were spending much more on acquiring new customers than on retaining current ones. Carl Sewell, Frederick F. Reichheld, C. Gronroos, and Earl Sasser,

showed us how a competitive advantage could be found in ensuring that customers returned again and again. This has come to be known as the loyalty effect after Reicheld's book of the same name in which he broadens the concept to include employee loyalty, supplier loyalty, distributor loyalty, and shareholder loyalty. They also developed techniques for estimating the lifetime value of a loyal customer, called customer lifetime value (CLV). A significant movement started that attempted to recast selling and marketing techniques into a long term endeavor that created a sustained relationship with customer (called relationship selling, relationship marketing, and customer relationship management). Customer relationship management (CRM) software (and its many variants) becomes an integral tool that sustained this trend.

James Gilmore and Joseph Pine found competitive advantage in mass customization. Flexible manufacturing techniques allowed businesses to individualize products for each customer without losing economies of scale. This effectively turned the product into a service. They also realized that if a service is mass customerized by creating a "performance" for each individual client, that service would be transformed into an "experience". Their book, *The Experience Economy*, along with the work of Bernd Schmitt convinced many to see service provision as a form of theatre. This school of thoughts is sometimes referred to as customer experience management (CEM).

Like Peters and Waterman a decade earlier, James Collins and Jerry Porras spent years conducting empirical research on what makes great companies. Six years of research uncovered a key underlying principle behind the 19 successful companies that they studied: They all encourage and preserve a core ideology that nurtures the company. Even though strategy and tactics change daily, the companies, nevertheless, were able to maintain a core set of values. These core values encourage employees to build an organization that lasts. In *"Built to Last"* (1994), they claim that short term profit goals, cost cutting, and restructuring will not stimulate dedicated employees to build a great company that will endure.

In 2000 Collins coined the term "built to flip" to describe the prevailing business attitudes in Silicon Valley. It describes a business culture where technological change inhibits a long term focus. He also popularized the concept of the BHAG (Big Hairy Audacious Goal).

Arie de Geus (1997) undertook a similar study and obtained similar results. He identified four key traits of companies that had prospered for 50 years or more. They are:

- Sensitivity to the business environment – the ability to learn and adjust.
- Cohesion and identify – the ability to build a community with personality, vision, and purpose
- Tolerance and decentralization – the ability to build relationships.
- Conservative financing.

A company with these key characteristics he called a living company because if it able to perpetuate itself. If a company emphasizes knowledge rather than finance, and sees itself as an ongoing community of human beings, it has the potential to become great and endure for decades. Such an organization is an organic entity capable of learning (he called it a "learning organization") and capable of creating its own processes, goals and peraona.

3.2.5 The Military Theorists

In the 1980s some business strategies realized that there was a knowledge base stretching back thousands of years that they had barely examined. They turned to military strategy for guidance. Military strategy books such as *The Art of War by Sun Tzu*, *On War by von Clausewitz*, and *The Red Book* by Mao Zedong becoming instant business classics. From Sun Tzu, they learned the tactical side of military strategy and specific tactical prescriptions.

From Von Clausewitz, they learned the dynamic and unpredictable nature of military strategy. From Mao Zedong, they learned the principles of guerrilla warfare books were:

- Business War Games by Barrier James, 1984
- Marketing Warfare by Al Ries and Jack Trout, 1986
- Leadership Secrets of Attila the Hun (<http://www.attilascamp.com>) by Wess Roberts, 1987

Philip Kotler was a well-known proponent of marketing warfare strategy.

There were generally thought to be four types of business warfare theories. They are:

- Offensive marketing warfare strategies
- Defensive marketing warfare strategies
- Flanking marketing warfare strategies
- Guerrilla marketing warfare strategies.

The marketing warfare literature also examined leadership and motivation, intelligence gathering, types of marketing, weapons, logistics, and communications.

By the turn of the century marketing warfare strategies had gone of favour. It was felt that they were limiting. There were many situations in which non-confrontational approaches were more appropriate. In 1989, Dudley Lynch and Paul L. Koris published *Strategy of the Dolphin scoring a Win in a Chaotic World*. “The Strategy of the Dolphin” was developed to give guidance as to when to use aggressive strategies and when to use passive strategies. A variety of aggressiveness strategies were developed.

In 1993, J. Moore used a similar metaphor instead of using military, he created an ecological theory of predators and prey (see ecological model of competition), a sort of Darwinian management strategy in which market interactions mimic long term ecological stability.

3.3 Strategic Change

In 1970, Alvin Toffler in *Future Shock* described a trend towards accelerating rates of change. He illustrated how social and technological norms had shorter lifespan with each generation, and he questioned society’ ability to cope with the resulting turmoil and anxiety. In past generations periods of change were always punctuated with times of stability. This allowed society to assimilate the change and deal with it before the next change arrived. But these periods of stability are getting shorter and by the late 20th century had all but disappeared in 1980 in *The third Wave*. Toffler characterized this shift to relentless change as the defining feature of the third phase of civilization (the first two phases being the agricultural and industrial waves). He claimed that the dawn of this new phase will cause great anxiety for those that grew up in the previous phases, and will cause much conflict and opportunity in the business world. Hundreds of authors, particularly since the early 1990s have attempted to explain what this means for business strategy.

In 1997, Watts Wacker and Jim Taylor called this upheaval a “50 year delta.” They claimed these major upheavals occur every 5 centuries. They said we are currently making the transition from the “Age of Reason” to a new chaotic Age of Access. Jeremy Ritkin (2000) popularized and expanded this term, “age of access” three years later in his book of the same name.

In 1968, Peter Drucker (1969) coined the phrase Age of Discontinuity to describe the way change forces disruptions into the continuity of our lives. In an age of continuity attempts to predict the future by extrapolating from the past can be somewhat accurate. But according to Drucker, we are now in an age of discontinuity and extrapolating from the past is hopelessly ineffective. We cannot assume that trends that exist today will continue into the future. He identifies four sources of discontinuity: new technologies, globalization, cultural pluralism, and knowledge capital.

In 2000, Gary Hamel discussed strategic decay, the notion that the value of all strategies, no matter how brilliant, decays over time.

In 1978, Dereck Abell (Abell, D. 1978) described strategic and stressed the importance of the timing (both entrance and exit) of any given strategy. This has led strategic planners to build planned obsolescence into their strategies.

In 1989, Charles Handy identified two types of change. Strategic drift is a gradual change that occurs so subtly that it is not noticed until it is too late. By contrast, transformational change is sudden and radical. It is typically caused by discontinuities (for exogenous shocks) in the business environment.

The point where a new trend is initiated is called a strategic inflection point by Andy Grove. Inflection points can be subtle or radical.

In 2000, Malcolm Gladwell discussed the importance of the tripping point, that point where a trend or fad acquires critical mass and takes off.

In 1983, Noel Tichy recognized that because we are all beings of habit, we tend to repeat what we are comfortable with. He wrote that this is a trap that constrains our creativity, prevents us from exploring new ideas, and hampers our dealing with the full complexity of new issues. He developed a systemic method of dealing with change that involved looking at any new issue from three angles:

In 1990s, Richard Pascale, (Pascles, R. 1990) wrote that relentless change requires that business continuously reinvent themselves. His famous maxim is “Nothing fails like success” by which he means that what was strength yesterday the root of weakness today. We tend to depend on what worked yesterday and refused to let go of what worked so well for us in the past. Prevailing strategies become self-confirming. In order to avoid this trap, business must stimulate a spirit of inquiry and healthy debate. They must encourage a creative process of self renewal based on constructive conflict.

In 1996, Art Kleiner (1996) claimed that to foster a corporate culture that embraces change, you have to hire the right people, heretic’s heroes, outlaws, and visionaries. The conservative bureaucrat that made such a good middle manager in yesterday’s hierarchical organizations is

of little use today. A decade earlier Peters and Austin (1985) had stressed the importance of nurturing champions and heroes. They said we have a tendency to dismiss new ideas so to overcome this, we should support those few ideas, so to overcome this, we should support those few people in the organization that have the courage to put their career and reputation on the line for an unproven idea.

In 1996, Adrain Slywotzky showed how changes in the business environment are reflected in value migrations between industries, between companies, and within companies. He claimed that recognizing the patterns behind these values migrations is necessary if we wish to understand the world of chaotic change. In “Profit Patterns” (1999) he described businesses as being in a state of strategic anticipation as they try to spot emerging patterns. Slywotsky and his team identified 30 patterns that have transformed industries after industry.

In 1997, Clayton Christensen (1997) took the position that great companies can fail precisely because they do everything right since the capabilities of the organization also defines its disability. [60] Christensen’s thesis is that outstanding companies lose their market leadership when confronted with disruptive technology. He called the approach to discovering the emerging markets for disruptive technologies agnostic marketing , i.e., marketing under the implicit assumption that no one- not the company, not the customers – can know how or in what quantities a disruptive product can or will be used before they have experience using it.

A number of strategists use scenario planning techniques to deal with change. Kees Van Der Heijden (1996), for example, says that change and uncertainty make “optimum strategy” determination impossible. We have neither the time nor the information required for such a calculation. The best we can hope for is what he calls “the most skilled process”. The way Peter Schwartz put it in 1991 is that hope for is what he calls “the most skillful process”. The way Peter Schwatrz put it in 1991 is that strategic outcomes cannot be known in advance so the sources of competitive advantage cannot be predetermined. The fast changing business environment is too uncertain for us to find sustainable value in formulas of excellence or competitive advantage. Instead, scenario planning is a technique in which multiple outcomes can be developed, their implication assessed, and their likeliness of occurrence evaluated. According to Pierre Wackm, scenario planning is about insight, complexity, and subtlety, not about formal analysis and numbers.

In 1988, Henry Mintzberg looked at the changing world around him and decided it was time to reexamine how strategic management was done. [64]. He examined the strategic process and concluded it was much more fluid and unpredictable than people had though. Because of this he could not point out one process that could be called strategic planning. Instead he concludes that there are five types of strategies. They are:

- Strategy as plan – a direction, guide, course of action – intention rather than actual
- Strategy as ploy – a maneuver intended to outwit a competitor
- Strategy as pattern – a consistent pattern of past behavior – realized rather than intended
- Strategy as position – locating of brands, products, or companies within the conceptual framework of consumers or other stakeholders – strategy determined primarily by factors outside the firm

- Strategy as perspective – strategy determined primarily by a master strategist.

In 1998, Mintzberg developed these five types of management strategy into 10 “schools of thought” “These 10 schools are grouped into three categories. The first group is prescriptive or normative. It consists of the informal design and conception school, the formal planning school, and the analytical positioning school. The second group, consisting of six schools, is more concerned with how strategic management is actually done, rather than prescribing optimal plans or positions. The six schools are the entrepreneurial, visionary, or great leader school, the cognitive or mental process school, the learning, adaptive, or emergent process school, the power or negotiation school, the corporate culture or collective process school, and the business environment or reactive school. The third and final group consists of one school, the configuration or transformation school, a hybrid of the other schools organized into stages, organizational life cycle, or “episodes”.

In 1999, Constantinos Markides also wanted to reexamine the nature of strategic planning. He described strategy formation and implementation as an on-going, never-ending, integrated process requiring continuous reassessment and reformation. Strategic management is planned and emergent, dynamic, and interactive. J. Monerieff (1999) also stressed strategy dynamics.. He recognized that strategy is partially deliberate and partially unplanned. The unplanned element comes from two sources: emergent strategies (result from the emergence of opportunities and threats in the environment) and Strategies in action (ad hoc actions by many people from all parts of the organization).

Some business planners are starting to use a complexity theory approach to strategy. Complexity can be thought of as chaos with a dash of order. Chaos theory deals with turbulent systems that rapidly become disordered. Complexity is not quite so unpredictable. It involves multiple agents interacting in such a way that a glimpse of structure may appear. Axelrod, R., Holland, J., and Kelly, S and Allison, M.A., call these systems of multiple actions and reactions complex adaptive systems. Axelrod asserts that rather than fear complexity, business should harness it. He says this can best be done when “there are many participants, numerous interactions, much trial and error learning, and abundant attempts to imitate each others’ successes”. In 2000, E. Dudik wrote that an organization must develop a mechanism for understanding the source and level of complexity it will face in the future and then transform itself a complex adaptive system in order to deal with it.

3.4 The Future of Strategic Management

The future of strategic management will be discussed under the following sub-topics:

- (1) Information and Technology-drive Strategy
- (2) Knowledge-driven Strategy.

3.4.1 Information and Technology-driven Strategy

Peter Drucker had theorized the rise of the “knowledge worker” back in the 1950s. He described how fewer workers would be doing physical labor, and would be applying their minds. In 1984, John Nesbitt theorized that the future would be driven largely by information: companies that managed information well could obtain an advantage, however, the profitability of what he calls the “information float” (information that the company had

and others desired) would all but disappear as inexpensive computers made information more accessible.

Daniel Bell (1995) examined the sociological consequences of information technology, while Gloria Schuck and Shoshana Zuboff looked at psychological factors. Zuboff, in her five years study of eight pioneering corporations made the important distinction between “automating technologies “and: information technologies” . She studied the effect that both had on individual workers, managers, and organizational structures. She largely confirmed Peter Drucker’s predictions three decades earlier, about the importance of flexible decentralized structure, work teams, knowledge sharing, and the central role of the knowledge worker. Zuboff [74] also detected a new basis for managerial authority, based not on position or hierarchy, but on knowledge (also predicted by Drucker) which she called “participative management”.

In 1990, Peter Senge, who had collaborated with Arie de Geus at Dutch Shell, borrowed de Geus’ notion of the learning organization, expanded it, and popularized it. The underlying theory is that a company’s ability to gather, analyze, and use information is a necessary requirement for business success in the information age. (See organizational learning). In order to do this, Senge claimed that an organization would need to be structured such that:

- People can continuously expand their capacity to learn and be productive.
- New patterns of thinking are nurtured.
- Collective aspirations are encouraged, and
- People are encouraged to see the “whole picture” together.

Senge identified five disciplines of a learning organization. They are:

- Personal responsibility, self reliance, and mastery – We accept that we are the masters of our own destiny. We make decisions and live with the consequences of them. When a problem needs to be fixed, or an opportunity exploited, we take the initiative to learn the required skills to get it done.
- New patterns of thinking are nurtured,
- Collective aspirations are encouraged and
- People are encouraged to see the “whole picture” together.

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- Mental models – We need to explore our personal mental models to understand the subtle effect they have on our behavior.

- Shared vision – the vision of where we want to be in the future is discussed and communicated to all. It provides guidance and energy for the journey ahead.
- Team learning – We learn together in teams. This involves a shift from “a spirit of advocacy to a spirit of enquiry”
- Systems thinking – We look at the whole rather than the parts. This is what Senge calls the “Fifth discipline” It is the glue that integrates the other four into a coherent strategy. For an alternative approach to the “learning organization”, see Garratt, B. (1987).

Since 1990 many theorists have written on the strategic importance of information, including J.B Quinn, J.Carlos Jarillo, D.L. Batton, Manuel Castells, J.P Lieleskin, Thomas Stewart, K.E Sveiby, [82] Gilbert J. and Shapiro and Varian to name just a few.

Thomas A. Stewart, for example, uses the term intellectual capital to describe the investment an organization makes in knowledge. It is composed of human capital (the knowledge inside the heads of employees), customer capital (the knowledge inside the head of customers that decide to buy from you: And structural capital (the knowledge that resides in the company itself).

Manuel Castells, describes a network society characterized by: globalization structured as a network, instability of employment, and a social divide between those with access to information technology and those without.

Stan Davis and Christopher Meyer (1998) have combined three variables to define what they call the BLUR equation. The speed of change, Internet connectivity, and intangible knowledge value, when multiplied together yields a society's rate of BLUR. The three variables interact and reinforce each other making this relationship highly non-linear.

Regis Mckenna posits that life in the high tech information age is what he called a “real time experience”. Events occur in real time. To ever more demanding customers “now” is what matters. Pricing will more and more become variable pricing changing with each transaction, often exhibiting first degree price discrimination. Customers expect immediate service, customized to their needs, and will be prepared to pay a premium price for it. He claimed that the new basis for competition will be time based competition.

Geoffrey Moore (1991) and R. Frank and P. Cook also detected a shift in the nature of competition. Industries with high technology content, technical standards become established and this gives the dominate firm a near monopoly. The same is true of networked industries in which interoperability requires compatibility between users. An example is word processor documents. Once a product has gained market dominance, other products, even far superior products, cannot compete. Moore showed how firms could attain this enviable position by using E.M. Rogers five stage adoption process and focusing on one group of customers at a time, using each group as a base for marketing to the next group. The most difficult step is making the transition between visionaries and pragmatists (See Crossing the Chasm). If successful, a firm can create a bandwagon effect in which the momentum builds and your product becomes a de facto standard.

Evens and Wurster describe how industries with a high information component are being transformed. They cite Encarta's demolition of the Encyclopedia Britannica (whose sales

have plummeted 80% since their peak of \$650 million in 1990). Many speculate that Encarta's reign will be short-lived, eclipsed by collaborative encyclopedias like Wikipedia that can operate at very low marginal costs. Evans also mentions the music industry which is desperately looking for a new business model. The upstart information savvy firms, unburdened by cumbersome physical assets, are changing the competitive landscape, redefining market segments, and disintermediating some channels. One manifestation of this is personalized marketing. Information technology allows marketers to treat each individual as its own market, a market of one. Traditional ideas of market segments will no longer be relevant if personalized marketing is successful.

The technology sector has provided some strategies directly. For example, from the software development industry agile software development provides a model for shared development processes. Access to information systems have allowed senior managers to take a much more comprehensive view of strategic management than ever before. The most notable of the comprehensive systems is the balanced scorecard approach developed in the early 1990s by Drs Robert S. Kaplan (Harvard Business School) and David Norton (Kaplan, R. and Norton, D. 1992). It measures several factors financial, marketing, production, organizational development, and new product development in order to achieve a "balanced" perspective.

3.4.2 Knowledge-driven Strategy

In 2009, Mark Blaxill and Ralph Eckardt suggested that in a knowledge economy all business strategy boils down to intellectual property (IP) strategy.

By contrast, most current approaches to business "strategy" focus on the mechanics of management – e.g., Drucker's operational "strategies"--- and as such are not true business strategy. In a post-industrial world these operationally focused business strategies hinge on conventional sources of advantage have essentially been eliminated:

- Scale used to be very important. But now, with access to capital and a global marketplace, scale is achievable by multiple organizations simultaneously. In many cases, it can literally be rented.
- Process improvement or "best practices" were once a favoured source of advantage, but they were at best temporary, as they could be copied and adapted by competitors.
- Owing the customer had always been thought of as an important form of competitive advantage. Now, however, customer loyalty is far less important and difficult to maintain as new brands and products merge all the time.

In such a world, differentiation, as elucidated by Michael Porter, is the only way to maintain economic or market superiority (i.e., comparative advantage) over competitors. A company must OWN the thing that differentiates it from competitors. Without IP ownership and protection, any product, process or scale advantage can be compromised or entirely lost. Competitors can copy them without fear of economic or legal consequences, thereby eliminating the advantage (for an explanation and elucidation of the "post-industrial" worldview, see George Ritzer and Daniel Bell).

3.5 Marvin Bower's Fourteen Elements of Strategic Management

Marvin Bower's fourteen (14) elements of strategic management are as follows:

1. Setting objectives: Deciding on the business or businesses in which the company or division should engage and on other fundamentals that shall guide and characterize the business, such as continuous growth. An objective is typically enduring and timeless.

2. Planning Strategy: Developing concepts, ideas, and plans for achieving objectives successfully, and for meeting and beating competition. Strategic planning is part of the total planning process that includes management and operational planning.
3. Establishing Goals: Deciding on achievement targets shorter in time range or narrower in scope than the objectives, but designed as specific sub-objectives in operational plans for carrying out strategy.
4. Developing a company philosophy; Establishing the beliefs, values, attitudes, and unwritten guidelines that add up to “the way we do things around here”
5. Establishing Policies: Deciding on plans of action to guide the performance of all major activities in carrying out strategy in accordance with company philosophy.
6. Planning the organization Structure: Developing the plan of organization – the “harness” that helps people pull together in performing activities in accordance with strategy, philosophy, and policies.
- 7 Providing Personnel” Recruiting, selecting, and developing people – including an adequate proportion of high-caliber talent – to fill the positions provided for in the organization plan.
- 8 Establishing Procedures: Determining and prescribing how all important and recurrent activities shall be carried out.
- 9 Providing facilities: Providing the plant, equipment, and other physical facilities required to carry on the business.
10. Providing capital: Making sure the business has the money and credit needed for physical facilities and working capital.
- 11 Setting Standards: Establishing measures of performance that will best enable the business to achieve its long-term objectives successfully.
12. Establishing Management Programmes and Operational Plans: Developing programmes and plans governing activities and the use of resources which – when carried out in accordance with established strategy, policies, procedures, and standards – will enable people to achieve particular goals. These are phases of the total planning process that includes strategic Planning.
- 13 Providing Control Information: Supplying facts and figures to help people to follow the strategy, policies, procedures, and programmes; to keep alert to forces at work inside and outside the business; and to measure their own performance against established plans and standards.
14. Activating People: Commanding and motivating people up and down the line to act in according with philosophy, polices, procedures, and standard in carrying out the plans of the company.

All these processes, without exception, are in one way or another. Embodied in a comprehensive formal strategic planning process. But again, managerial responsibilities and actions for some of the processes extend beyond the planning process. For instance, activating people (item 14) is a requirement that is more pervasive than planning. The point of this discussion is that dominate management processes, according to a management observer whose word commands respect, are elements of or rely heavily upon strategic planning.

4.0 CONCLUSION

Strategic management recognized the importance of coordinating the various aspects of management under one all-encompassing strategy and also stressed the importance of taking a long term perspective when looking to the future.

5.0 SUMMARY

In this unit, you have learnt about birth and developments of strategic management. You have also learnt about strategic change, the future of strategic management and the fourteen elements of strategic management.

6.0 TUTOR-MARKED ASSIGNMENT

1. List the elements of strategic management as propounded by Marvin Bower.

7.0 REFERENCES AND FURTHER READINGS

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UNIT 4: MANAGEMENT PRINCIPLES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Target Setting or Objective Setting
 - 3.2 Why Objective Setting Enhances Management Performance
 - 3.3 Characteristics of Objective Setting
 - 3.4 Decision-making and Problem-solving
 - 3.5 Programmed and Non-programmed Decisions
 - 3.6 Strategic Planning and Tactical Planning
 - 3.7 Management by Objectives (MBO)
 - 3.8 Management by Exception
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

1.0 INTRODUCTION

In the last unit, you learnt about the birth and developments of strategic management. You also learnt about strategic change, the future of strategic management and the fourteen elements of strategic management.

In this unit, you will learn the following management principles: target/objective setting, why objective setting enhances management performance; characteristics of objectives setting; decision making and problem solving; programmed and non-programmed decisions; strategic planning and tactical planning, management by objectives and management by exception.

2.0 OBJECTIVES

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

- (i) differentiate between target setting or objective setting;
- (ii) state why objective setting enhances management performance
- (iii) list the characteristics of objective setting;
- (iv) explain decision making and problem solving;
- (v) differentiate between programmed and non-programmed decisions;
- (vi) differentiate between strategic planning and tactical planning;
- (vii) discuss management by objectives;
- (viii) explain management by exception.

3.0 MAIN CONTENT

3.1 Target Setting or Objective Setting

A goal represents what the employee intends to do at some time in the future. Goals are, however, related to performance and the future rather than the past or present. Goals have

two major functions. First, they provide a basis for motivation. Secondly, they guide behavior.

Objectives are more specific than goals; objectives or targets steer the organisation or individual in the direction of the goal. When an individual has identified an intended or expected end, such an end is called a target or objective.

Even though some people use the terms goals and objectives interchangeably, many, however, use *goal* to refer to non-measurable, future ends, and *objectives* or *targets* to refer to specific, measurable ends.

3.2 Why Objective Setting enhances Managerial Performance

Objective setting enhances managerial performance because it:

1. provides guidance
2. reduces uncertainty
3. motivates people
4. facilitates learning
5. allows coordination

3.3 Characteristics of Effective Targets or Objectives

The characteristics of effective targets or objectives include the following:

1. it should be specific and understandable
2. it should be measurable
3. it should include a time-frame
4. it should be concise
5. it should call for standard performance
6. it should be realistic
7. it should be flexible
8. it should be acceptable

3.4 Decision-Making and Problem-Solving

If there is any universal mark of a manager, it is that of decision-making. Managerial life is a perpetual challenge of choosing between available alternatives. The manager is forever beset by the necessity to make a choice between alternatives, the outcome of which is definitely not known.

Decision-making is the process of identifying and selecting a course of action to solve a specific problem. A decision is a choice made from at least two alternatives. Whom do we employ? Which machine do we buy when should we computerize?

A problem is however a situation that could prevent the organisation from reaching its goal. For instance, how do we cope with declining productivity? How do we adjust to a new government regulation? These are problems and they require solutions. A problem is a situation which occurs when the existing state of things differs from the state desired. Often, a problem is an opportunity in disguise, or a situation which provides an opportunity.

Throughout the career of a manager, therefore, he must make several decisions, on a daily basis. The more it is done, the more expertise the manager acquires. Moreover, a popular measure of managerial power and influence is the ability of the manager to take decisions without consultation with some superior person or office.

Four possible situations usually alert the manager that there is a problem. The process of finding the problem has been described as often being informal and unofficial, following four stages:

1. A deviation from experience;
2. A deviation from existing plans;
3. External sources, e.g. customers, clients, etc.;
4. The performance or lack of it, from competitors.

3.5 Programmed versus Non-Programmed Decisions

Programmed decisions are routine and repetitive decisions that are associated with standardised decision rules. They are often made in accordance with written or unwritten rules, procedures, policies or regulations. The tendency is therefore for decisions to be simplified by limiting or excluding alternatives. For example, for deciding how much to pay a newly-employed, fresh graduate in the government ministry, there are existing salary scales. This is thus a programmed decision. Programmed decisions are used for dealing with recurring problems.

3.6 Strategic Planning and Tactical Planning

Strategic planning differs from tactical planning in several ways. They differ in terms of nature, scope, regularity, level of conduct, time-span, methodology, certainty, details, range of alternatives and trends reference (Gupta, 1995). Strategic planning is a formal process in which the assumptions, reasons and the plans themselves are all written with figures to serve for future references. Tactical plans are informal and often exist in the planners' minds. They are not put on record.

In terms of scope, strategic planning is very comprehensive and encompasses both long and short terms. Tactical plans are short-term (e.g. budgets) and tend to be fragmented.

Strategic planning is a systematic and logical process, whereas the tactical plans are ad hoc, based on whims and expediency.

Strategic planning is concerned with decisions having long-term and enduring effects, whereas tactical plans deal with decisions having short-term implications.

Tactical planning involves the selection of the means of attaining specified objectives, whereas strategic plans are concerned with both ends and means. Strategic formulation involves greater uncertainty than tactical/operational plans. Strategies are broader and fewer details than operational plans. The strategic planner also tends to choose from a wider range of alternatives than the operational planner. Lastly, tactical and operational plans are formulated within and in pursuance of strategies.

These seemingly differences notwithstanding, there is an interdependence between strategic and tactical planning. They are complementary rather than competitive.

3.7 Management by Objective (MBO)

MBO has been well recognised, very popular and widely used for more than three decades now. It is basically seen as a management technique based on goal and objective setting. The concept of MBO is attributed to Peter Drucker.

Drucker (1964) defined MBO as "a systematic approach to the setting of objectives and appraisal of results, and that it would lead to improved organizational performance and employee satisfaction".

Today, the MBO is widely used in large and complex organisations across the world and also in many fast-growing organisations. There is no consensus with respect to the meaning, use and application of MBO in organisations. However, the concept generally covers a series of systematic steps, four of which are very basic to its implementation. Many of the variations in the steps that may appear in most other writings may be subsumed in these four basic steps. They are:

1. Setting the overall objectives.
2. Developing the organisation for an MBO system.
3. Setting individual objectives.
4. Periodic appraisals and feedback on progress.

1. Setting the Overall Objectives

The MBO takes a top-to-bottom approach, and is therefore implemented on an organisation-wide scale.

First, the top management meets to formulate the overall objectives for the organisation. Areas that have the greater impact on overall organizational functioning are first identified, e.g. sales volume, market-share, production output, etc.

Secondly, the measures of performance are determined. Finally, the objectives are agreed upon by all it should be noted that:

- a. The objectives must be stated in such a way that they can be rationally and objectively measured.
- b. The objectives are stated, with target dates and accompanying action plan of how they will be achieved.

2. Developing the Organisation for an MBO System

Formulation of objectives must necessarily be followed by implementation and here the organisation must be prepared from top to bottom. Both the ranks of organisation and the top must be developed so that MBO can be successfully implemented.

Sometimes, there may be need for reorganisation to accommodate the MBO system. The current stage of development of human resources in the organisation would determine the time-frame of development in question. It may take from a few weeks to several months, or even years.

3. Setting Individual Objectives

The next stage in the MBO system involves the setting of individual objectives. These objectives are determined by each superior-subordinate pair; starting from the very top and going down as far as the system is to be implemented. The objectives are discussed thoroughly between the boss and his/her subordinated.

These objectives are accompanied by specific modes of accomplishment. However, it should be noted that:

- a. The objectives are to be set within the individual areas of responsibility.
- b. They must be in line with the organisation's overall objectives.
- c. They should be able to contribute to the objectives of superiors, peers and subordinates.

4. Appraisals and Feedback

This is a very crucial stage in the MBO system. Individuals are given periodic feedback (usually quarterly and also annually) and will be appraised on the basis of how they perform in accordance with their set objectives. The appraisal session attempts to be *diagnostic* rather than *evaluative*. This means that the superior assesses why objectives were either attained or not attained, rather than give punishment or reward for failure or success in meeting objectives.

These periodic reviews are conducted to provide feedback and evaluate progress towards the attainment of objectives. This provided an opportunity to make necessary changes in objectives. The dynamic nature of our business environment makes this evaluation critical, because objectives set at the beginning of a period may soon become obsolete due to changing conditions, such as a change in regulations by government, or a change in priority.

It must be noted that there is constant review of individual objectives and, to a lesser extent, of overall organizational objectives. This makes the MBO a living system that is adaptable to change.

Strengths of MBO

These include:

1. MBO lets individuals know what is expected of them

2. MBO aids in planning (short-and-long-range) by forcing managers to establish objectives and targeted dates.
3. MBO improves communication between managers and subordinates and among peers.
4. MBO makes the individual better aware of organizational objectives
5. MBO can lead to improved clarity of the manager's role and priorities
6. MBO can lead to improved commitment through increased motivation, loyalty and employee participation.
7. MBO makes the performance review and evaluation process more equitable by focusing on specific results. It also improves the review process by providing systematic feedback during the period when these results are expected.

Weaknesses of MBO

The weaknesses of MBO include:

1. MBO may fail to receive continual top management commitment and support and may therefore not reach the lower managerial levels.
2. There may be overemphasis on production and productivity to the neglect of the human element of organisation.
3. There may be overemphasis on quantitative objectives while ignoring the qualitative one, which measures 'how well'.
4. MBO may be used as a whip, especially when it is closely tied to wage and salary programmes.
5. Managers may not be adequately trained in the MBO process or in effective ways to coach and counsel subordinates.
6. MBO may fail to provide adequate personal incentives to improve performance. The emphasis is only on benefit to the organisation and not on the development of the particular managers.

Highlights of positive MBO characteristics

The positive peculiarities of the MBO system are as follows:

- It combines sound management techniques for decision-making communication and control with the basic behavioural requirements.
- Goal setting
- Feedback about performance
- Participative decision-making
- Open, two-way communication
- Self-control.

Use of MBO in Nigeria

Perhaps a major reason why MBO is not widely used in Nigeria, particularly in the public sector and government agencies, has to do with the setting of goals. It is obviously very difficult to have people agree on goals. Individuals may have their own interpretation of goals. Consequently, the MBO exercise becomes time-consuming and frustrating to organizational members. Employees who may want to shirk the responsibility may see it as a trap by management.

3.8 Management by Exception

This management principle is often simply referred to as the *exception principle*. Even after delegating responsibilities to others, some managers still want to know everything about anything that is going on. They insist on being kept informed of all details affecting their area of responsibility. The exception principle is useful in helping managers overcome this tendency.

The principle suggests that the managers should be informed about an operation's progress only if there is a significant deviation from the plans. They do not have to be informed when actions are in line with the plans, or within tolerance limits. The managers can thus concentrate fully on problem situations as they arise.

The more managers concentrate control efforts on exceptions, the more efficient will be the results of their control. The manager should organise the work in such a way that subordinate personnel can handle the routine and predictable, while the manager devote time to the exceptional events or problems.

In practice, the application of the exception principle is more difficult than it may appear to be. How does a manager know when actions are conforming to plans? Deviations from plans do not always show up with red flags on them.

4.0 CONCLUSION

Several management principles abound in the modern business world. These principles are developed to facilitate and enhance management performance.

5.0 SUMMARY

In this unit, we have discussed the following:

- Target Setting or Objective Setting;
- Why Objective Setting Enhances Management Performance;
- Characteristics of Objective Setting;
- Decision-making and Problem-solving;
- Programmed and Non-programmed Decisions;
- Strategic Planning and Tactical Planning;
- Management by Objectives (MBO);
- Management by Exception.

6.0 TUTOR-MARKED ASSIGNMENT

Differentiate between the following terms:

- (a) Target setting and objective setting;
- (b) Decision-making and problem solving;
- (c) Strategic planning and tactical planning
- (d) Management by objectives and Management by exception;
- (e) Programmed and Non-programmed decisions.

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UNIT 5 BASIC MODEL OF STRATEGIC MANAGEMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Environmental Scanning
 - 3.2 Strategy Formulation
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 - 3.5 Initiation of Strategy: Triggering Events
 - 3.6 Strategic Decision Making
- 4.0 Conclusion
- 5.0 Summary
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- 7.0 References/Further Readings

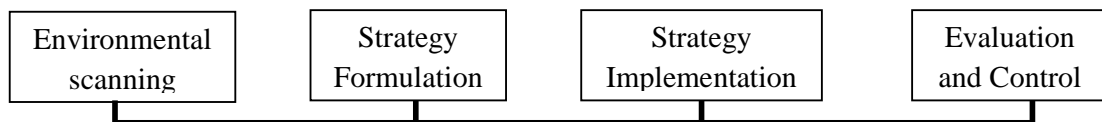
1.0 INTRODUCTION

Strategic management has now evolved to the point that its primary value is in helping the organisation operate successfully in a dynamic, complex environment (Gebelein, 1993). Managers at all levels are expected to continually analyze the industry in order to create or modify strategic plans throughout the year.

To be competitive in dynamic environments, corporations have to become less bureaucratic and more flexible. In stable environments such as have existed in years past, a competitive strategy simply involved defining a competitive position and then defending it. As it takes less and less time for one product or technology to replace another, companies are finding that there is no such thing as a permanent competitive advantage.

In this unit, you will learn about the basic model of strategic management. These basic elements are: environmental scanning, strategy formulation, strategy implementation, evaluation and control, initiation of strategy and strategic decision making.

Figure 1: Basic Elements of the Strategic Management Process



Source: Basic Concepts of Strategic Management (Gebelein, 1993), p. 9

2.0 OBJECTIVES

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

- (a) discuss environmental scanning;
- (b) define and explain strategy formulation and implementation;
- (c) explain the terms evaluation and control;
- (d) distinguish between initiation of strategy and strategic decision making.

3.0 MAIN CONTENT

3.1 Environmental Scanning

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors – those external and internal elements that will determine the future of the corporation. The simplest way to conduct environmental scanning is through SWOT Analysis. SWOT is an acronym used to describe those particular strengths, weaknesses, opportunities and threats that are strategic factors for a specific company. The external environment consists of variables (Opportunities and Threats) that are outside the organisation and not typically within the short-run control of top management. These variables form the context within which the corporation exists. The figures below depict key environmental variables. They may be general forces and trends within the overall societal environment or specific factors that operate within an organisation's specific task environment – often called its industry.

The **internal environment** of a corporation consists of variables (Strengths and Weaknesses) that are within the organisation itself and are not usually within the short-run control of top management. These variables form the context in which work is done. They include the corporation's *structure, culture* and *resources*. Key strengths form a set of *core competencies* which the corporation can use to gain competitive advantage.

Self Assessment Exercise

What do you understand by environmental scanning in strategic management?

3.2 Strategy Formulation

Strategy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in the light of corporate strengths and weaknesses. It includes defining the corporate *mission*, specifying achievable *objectives*, developing *strategies*, and setting *policy* guidelines.

Mission – An organisation's mission is the purpose or reason for the organisation's existence. It tells what the company is providing to the society – either a service like house cleaning or a product like automobiles. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served. It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but what it wants to become – management's strategic vision of the firm's future. The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company's task environment. *It tells who we are and what we do as well as what we would like to become.*

One example of a mission statement is that given by the National Open University of Nigeria. It specifies that:

Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation's mission.

The term "goal" is often used interchangeably with the term "objective". There is need to differentiate the two terms. In contrast to an objective, a goal is considered as an open-ended statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion. For example, a simple statement of "increased profitability" is thus a goal, not an objective, because it does not state how much profit the

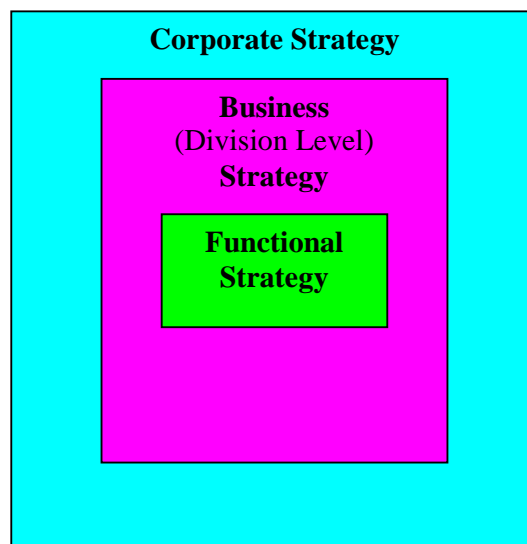
firm wants to make in the next trading year. Some of the areas in which a corporation might establish its goals and objectives are:

- Profitability (net profits)
- Efficiency (low costs, etc.)
- Growth (increase in total assets, sales, etc.)
- Shareholder wealth (dividends plus stock price appreciation)
- Utilisation of resources (ROE or ROI)
- Reputation (being considered a “top” firm)
- Contributions to employees (employment security, wages, diversity)
- Contributions to society (taxes paid, participation in charities, providing a needed product or service)
- Market leadership (market share)
- Technological leadership (innovations, creativity)
- Survival (avoiding bankruptcy)
- Personal needs of top management (using the firm for personal purposes, such as providing jobs for relatives).

Strategies – A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximises competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business, and functional.

1. *Corporate strategy* describes a company’s overall direction in terms of its general attitude toward growth and the management of its various businesses and product lines. Corporate strategies typically fit within the three main categories of stability, growth and retrenchment.
2. *Business strategy* usually occurs at the business unit or product level, and it emphasises improvement of the competitive position of a corporation’s products or services in the specific industry or market segment served by that business unit. Business strategies may fit within the two overall categories of competitive or cooperative strategies.
3. *Functional strategy* is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximising resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

The figure below shows a typical hierarchy of strategy.



A hierarchy of strategy is the grouping of strategy types by level in the organisation. This hierarchy of strategy is a nesting of one strategy within another so that they complement and support one another. Functional strategies support business strategies, which, in turn, support the corporate strategy .

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

Self Assessment Exercise

Briefly state the differences between business, corporate and functional strategies.

3.3 Strategy Implementation

Strategy implementation is the process by which strategies and policies are put into action through the development of programs, budgets and procedures. This process might involve changes within the overall culture, structure, and/or management system of the entire organisation. Except when such drastic corporate-wide changes are needed, however, the implementation of strategy is typically conducted by middle and lower level managers with review by top management. Sometimes referred to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation.

Programs – A program is a statement of the activities or steps needed to accomplish a single-use plan. It makes the strategy action-oriented. It may involve restructuring the corporation, changing the company's internal culture, or beginning a new research effort.

Budgets – A budget is a statement of a corporation's programs in terms of Naira. Used in planning and control, a budget lists the detailed cost of each program. Many corporations demand a certain percentage return on investment, often called a "hurdle rate", before management will approve a new program. This ensures that the new program will significantly add to the corporation's profit performance and thus build shareholder value. The budget thus not only serves as a detailed plan of the new strategy in action, it also specifies through pro forma financial statements the expected impact on the firm's financial future.

Procedures – Procedures, sometimes termed Standard Operating Procedures (SOP), are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete the corporation's program.

Self Assessment Exercise

What are the processes through which strategies are implemented in a business organisation?

3.4 Evaluation and Control

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

For evaluation and control to be effective, managers must obtain clear, prompt, and unbiased information from the people below them in the corporation's hierarchy. Using this information, managers compare what is actually happening with what was originally planned in the formulation stage. The evaluation and control of performance completes the strategic management model. Based on performance results, management may need to make adjustment in its strategy formulation, in implementation, or in both.

3.5 Initiation of Strategy: Triggering Events

Mintzberg (1976), after much research, discovered that strategy formulation is typically not a regular, continuous process. According to him, “it is most often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of grouping, of piecemeal change, and of global change”. This view of strategy formulation as an irregular process can be explained by the very human tendency to continue on a particular course of action until something goes wrong or a person is forced to question his or her actions. This period of “strategy drift” may simply result from inertia on the part of the organisation or may simply reflect management’s belief that the current strategy is still appropriate and needs only some “fine-tuning”.

A triggered event is something that acts as a stimulus for a change in strategy. Some possible triggering events are:

1. **New CEO** – By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation’s existence.
2. **External intervention** – The firm’s bank suddenly refuses to approve a new loan or suddenly demands payment in full on an old one.
3. **Threat of a change in ownership** – Another firm may initiate a takeover by buying the company’s common stock.
4. **Performance gap** – A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.

3.6 Strategic Decision Making

The distinguishing characteristic of strategic management is its emphasis on strategic decision making. As organisations grow larger and more complex with more uncertain environments, decisions become increasingly complicated and difficult to make.

Unlike many other decisions, strategic decisions deal with the long-run future of the entire organisation and have three characteristics, namely:

1. **Rare** – strategic decisions are unusual and typically have no precedent to follow.
2. **Consequential** – strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.
3. **Directive** – strategic decisions set precedents for lesser decisions and future actions throughout the organisation.

Some strategic decisions are made in a flash by one person (often an entrepreneur or a powerful chief executive officer) who has a brilliant insight and is quickly able to convince others to adopt his or her idea. Other strategic decisions seem to develop out of a series of small incremental choices that over time push the organisation more in one direction than another. Mintzberg’s (1976) states that the most typical approaches, or modes, of strategic decision making are:

- **Entrepreneurial mode:** Strategy is made by one powerful individual. The focus is on opportunities; problems are secondary. Strategy is guided by the founder’s own vision of direction and is exemplified by large, bold decisions. The dominant goal is growth of the corporation.
- **Adaptive mode:** Sometimes referred to as “muddling through”, this decision making mode is characterised by reactive solutions to existing problems, rather than a proactive search for new opportunities. Much bargaining goes on concerning priorities of objectives. Strategy is fragmented and is developed to move the corporation forward incrementally. This mode is typical of most universities, many large hospitals, a large number of governmental agencies, and a surprising number of large corporations.

- **Planning mode:** This decision making mode involves the systematic gathering of appropriate information for situation analysis, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy. It includes both the proactive search for new opportunities and the reactive solution of existing problems.
- **Logical incrementalism:** In some instances, a corporation might follow this approach, which is a synthesis of the planning, adaptive, and, to a lesser extent, the entrepreneurial modes of strategic decision making. For example, the top management might have a clear idea of the corporation's mission and objectives, but, in its development of strategies, it chooses to use "an interactive process in which the organisation probes the future, experiments and learns from a series of partial (incremental) commitments rather than through global formulations of total strategies". This approach appears to be useful when the environment is changing rapidly and when it is important to build consensus and develop needed resources before committing the entire corporation to a specific strategy.

The following steps could be taken to improve the making of strategic decisions:

1. Evaluate current performance results in terms of (a) return on investment, profitability, and so forth, and (b) the current mission, objectives, strategies, and policies.
2. Review corporate governance, that is, the performance of the firm's board of directors and top management.
3. Scan and assess the external environment to determine the strategic factors that pose opportunities and threats.
4. Scan and assess the internal corporate environment to determine the strategic factors that are strengths (especially core competencies) and weaknesses.
5. Analyse strategic (SWOT) factors to (a) pinpoint problem areas, and (b) review and revise the corporate mission and objectives as necessary.
6. Generate, evaluate, and select the best alternative strategy in the light of the analysis conducted in (5) above.
7. Implement selected strategies via programs, budgets and procedures.
8. Evaluate implemented strategies via feedback systems, and the control of activities to ensure their minimum deviation from plans

4.0 CONCLUSION

The discussion in this unit dwelt extensively on the basic models of strategic management which included environmental scanning, strategy formulation, strategy implementation and evaluation and control. We also discussed initiation of strategy, modes to strategic decision making and strategic decision making process.

5.0 SUMMARY

In this unit, we have:

- discussed environmental scanning;
- defined and explained strategy formulation and implementation;
- explained the terms evaluation and control;
- distinguished between initiation of strategy and strategic decision making.

6.0 TUTOR-MARKED ASSIGNMENT

1. Why are strategic decisions different from other kinds of decisions?
2. When is the planning mode of strategic decision making superior to the entrepreneurial and adaptive modes?

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MODULE 2 CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Unit 1	Corporate Governance: Role of the Board of Directors
Unit 2	Corporate Governance: Role of the Top Management
Unit 3	Social Responsibilities of Strategic Decision Makers
Unit 4	Ethical Decision Making

UNIT 1 CORPORATE GOVERNANCE: ROLE OF THE BOARD OF DIRECTORS

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Definition of a Corporation
3.2	Definition of Corporate Governance
3.3	Responsibilities of the Board
3.3.1	Role of the Board in Strategic Management
3.3.2	Board of Directors Continuum
3.4	Members of a Board of Directors
3.5	Nomination and Election of Board Members
3.6	Organisation of the Board
3.7	Trends in Corporate Governance
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

In this module, you will discuss extensively on corporate governance and social responsibilities.

This is the first unit in this module and it will be devoted to the role of the board of directors in corporate governance.

2.0 OBJECTIVES

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

- (a) define a corporation;
- (b) define corporate governance;
- (c) list members of a board of directors;
- (d) discuss nomination and election of board members;
- (e) describe the organisation of the board;
- (f) discuss the trends in corporate governance.

3.0 MAIN CONTENT

3.1 Definition of a Corporation

A corporation is a mechanism established to allow different parties to contribute capital, expertise, and labour, for their mutual benefit. The investor/shareholder participates in the profits of the enterprise without taking responsibility for the operations. Management runs the company without being responsible for personally providing the funds. To make this

possible, laws have been passed so that shareholders have limited liability and, correspondingly, limited involvement in a corporation's activities. That involvement does include, however, the right to elect directors who have a legal duty to represent the shareholders and protect their interests. As representatives of the shareholders, directors have both the authority and the responsibility to establish basic corporate policies and to ensure that they are followed (Monks and Minow, (1995).

The board of directors has, therefore, an obligation to approve all decisions that might affect the long-run performance of the corporation. This means that the corporation is fundamentally governed by the board of directors overseeing top management, with the concurrence of the shareholder.

3.2 Definition of Corporate Governance

The term corporate governance refers to the relationship among these three groups in determining the direction and performance of the corporation.

Dobrzynski (1992) reports that over the past decade, shareholders and various interest groups have seriously questioned the role of the board of directors in corporations. They are concerned that outside board members often lack sufficient knowledge, involvement, and enthusiasm to do an adequate job of providing guidance to top management.

The general public has not only become more aware and more critical of many boards' apparent lack of responsibility of corporate activities, it has begun to push government to demand accountability. As a result, the board as a rubber stamp of the chief executive officer or as a bastion of the "old-boy" selection system is being replaced by more active, more professional boards.

3.3 Responsibilities of the Board

Laws and standards defining the responsibilities of boards of directors vary from country to country. For example, the United States has no clear national standards or federal laws. Specific requirements of directors vary, depending on the state in which the corporate charter is issued. There is, nevertheless, a developing worldwide consensus concerning the major responsibilities of a board. In Nigeria, the corporate affairs commission (CAC) has spelt out the guidelines for the responsibilities of the board of directors in corporate organisations. The following is a list of five board of director responsibilities listed in order of importance:

1. setting corporate strategy, overall direction, mission or vision;
2. hiring and firing the chief executive officer and top management;
3. controlling, monitoring, or supervising top management;
4. reviewing and approving the use of resources;
5. caring for shareholder interests (Demb and Neubauer, 1992).

Directors must make certain, in addition to the duties just listed above, ensure management's adherence to laws and regulations, such as those dealing with the issuance of securities, insider trading, and other conflict-of-interest situations. They must also be aware of the needs and demands of constituent groups so that they can achieve a judicious balance among the interests of these diverse groups while ensuring the continued functioning of the corporation.

In a legal sense, the board is required to direct the affairs of the corporation but not to manage them. It is charged by law to act with due care, or due diligence. If a director or the board as a whole fails to act with due care and, as a result, the corporation is in some way harmed, the careless director or directors can be held personally liable for the harm done (Light, 1996).

3.3.1 Role of the Board in Strategic Management

The role of the board of directors in strategic management is to carry out three basic tasks:

- **Monitor:** By acting through its committees, a board can keep abreast of developments inside and outside the corporation, bringing to management's attention developments it might have overlooked. A board should at least carry out this task.
- **Evaluate and influence:** A board can examine management's proposals, decisions, and actions; agree or disagree with them; give advice and offer suggestions; outline alternatives. More active boards perform this task in addition to the monitoring one.
- **Initiate and determine:** A board can delineate a corporation's mission and specify strategic options to its management. Only the most active boards take on this task in addition to the two previous ones.

3.3.2 Board of Directors Continuum

A board of directors is involved in strategic management to the extent that it carries out the three tasks of monitoring, evaluating and influencing, and initiating and determining. The board of directors' continuum shown in the figure below shows the possible degree of involvement (from low to high) in the strategic management process. Judge and Zeithaml (1992) state that as types, boards can range from phantom boards with no real involvement to catalyst boards with a very high degree of involvement.

Highly involved boards tend to be very active. They take their tasks of monitoring, evaluating, and influencing, plus initiating and determining very seriously; they provide when necessary and keep management at alert. As a board becomes less involved in the affairs of the corporation, it moves farther to the left of the continuum. On the far left are passive phantom or rubber stamp boards that typically never initiative or determine strategy unless a crisis occurs. In these situations, the chief executive officer also serves as chairman of the board, personally nominates all directors, and works to keep board members under his or her control by giving them the "mushroom treatment" – throw manure on them and keep them in the dark!

Table showing Board of Directors Continuum

Low ← Degree of Involvement in Strategic Management → High

Phantom	Rubber stamp	Minimal review	Nominal participation	Active participation	Catalyst
Never knows what to do, if anything; no degree of involvement	Permits officers to make all decisions. It votes as the officers recommend on action issues	Formally reviews selected issues that officers bring to its attention	Involved to a limited degree in the performance or review of selected key decisions, indicators, or programs of management	Approves, questions, and makes final decisions on mission, strategy, policies, and objectives. Has active board committees. Performs fiscal and management audits	Takes the leading role in establishing and modifying the mission, objectives, strategy, and policies. It has a very active strategy committee.

Source: Wheelen, T.L. and Hunger, J.D. (1994). "Board of Directors Continuum".

Generally, the smaller the corporation, the less active is its board of directors. In an entrepreneurial venture, for example, the privately-held corporation may be 100 percent owned by the founders – who also manage the company. In this case, there is no need for an active board to protect the interests of the owner-manager shareholders – the interests of the owners and the managers are identical. In this instance, a board is really unnecessary and only meets to satisfy legal requirements. If stock is sold to outsiders to finance growth, however, the board becomes more active. Key investors want seats on the board so they can oversee their investment. To the extent that they still control most of the stock, however, the founders dominate the board. Friends and family members, and key shareholders usually become members, but the board acts primarily as a rubber stamp for any proposals put forward by the owner-managers. This cozy relationship between the board and management should change, however, when the corporation goes public and stock is more widely

dispersed. The founders, who are still acting as management, may sometimes make decisions that conflict with the needs of the other shareholders (especially if the founders own less than 50 percent of the common stock). In this instance, problems could occur if the board fails to become more active in terms of its roles and responsibilities.

Most large, publicly-owned corporations probably have boards that operate at some point between nominal and active participation.

3.4 Members of a Board of Directors

Finkelstein and Hambrick (1996) assert that the boards of most publicly owned corporations are composed of both inside and outside directors. Inside directors (sometimes called management directors) are typically officers or executives employed by the corporation. Outside directors may be executives of other firms but are not employees of the board's corporation.

People who favour a high proportion of outsiders state that outside directors are less biased and more likely to evaluate management's performance objectively than are inside directors. This view is in agreement with agency theory which states that problems arise in corporations because the agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation. The theory suggests that a majority of a board needs to be from outside the firm so that top management is prevented from acting selfishly to the detriment of the shareholders.

In contrast, those who prefer inside over outside directors contend that outside directors are less effective than are insiders because the outsiders are less likely to have the necessary interest, availability, or competency. Directors may sometimes serve on so many boards that they spread their time and interest too thin to actively fulfill their responsibilities. They could also point out that the term "outsider" is too simplistic – some outsiders are not truly objective and should be considered more as insiders than as outsiders. For example there can be:

1. Affiliated directors who, though not really employed by the corporation, handle the legal or insurance work for the company (thus dependent on the current management for a key part of their business);
2. Retired directors who used to work for the company, such as the past chief executive officer (partly responsible for much of the corporation's current strategy and probably groomed the current CEO as his or her replacement);
3. Family directors who are descendants of the founder and own significant blocks of stock (with personal agendas based on a family relationship with the current CEO).

3.5 Interlocking Directorates

There is need for you to understand the concept interlocking directorate. Sometimes CEOs often nominate chief executives (as well as board members) from other firms to membership on their own boards in order to create an interlocking directorate. A direct interlocking directorate occurs when two firms share a director or when an executive director of one firm sits on the board of a second firm. An indirect interlock occurs when two corporations have directors who also serve on the board of a third firm, such as a bank.

Interlocking occurs because large firms have a large impact on other corporations; and these other corporations, in turn, have some control over the firm's inputs and marketplace. Interlocking directorates are also a useful method for gaining inside information about an uncertain environment and objective expertise about potential strategies and tactics. Family-owned corporations, however, are less likely to have interlocking directorates than are corporations with highly dispersed stock ownership, probably because family-owned corporations do not like to dilute their corporate control by adding outsiders to boardroom discussions. Nevertheless some evidence indicates that well-interlocked corporations are better able to survive in a highly competitive environment.

3.6 Nomination and Election of Board Members

O'Neal and Thomas (1996) state that traditionally, the chief executive officer of the corporation decided whom to invite to board membership and merely asked the shareholders for approval in the annual proxy statement. All nominees were usually elected. There are some dangers, however, in allowing the CEO free reign in nominating directors. The CEO might select only board members who, in the CEO's opinion, will not disturb the company's policies and functioning. The directors selected by the CEO often feel that they should along with any propose the CEO makes. Thus, board members find themselves accountable to the very management they are charged to oversee.

An argument in favour of this practice are that it provides continuity by reducing the chance of an abrupt turnover in its membership and that it reduces the likelihood of electing people unfriendly to management (who might be interested in a hostile takeover) through cumulative voting. An argument against staggered boards is that they make it more difficult for concerned shareholders to curb a CEO's power – especially when that CEO is the chairman of the board.

3.7 Organisation of the Board

The size of the board is determined by the corporation's charter and its bye-laws in compliance with state laws. Although some states require a minimum number of board members, most corporations have quite a bit of discretion in determining board size. The average large, publicly-held firm has around 11 directors. The average small/medium size privately-held company has approximately seven to eight members.

In the US, the positions of chairman and chief executive officer are combined in one person in many of the corporations in the U.S. However, the combined chair/chief executive officer position is being increasingly criticised because of the potential for conflict of interest. The CEO is supposed to concentrate on strategy, planning, external relations, and responsibility to the board. The chairman's responsibility is to ensure that the board and its committees perform their functions as stated in the board's charter. Further, the chairman schedules board meetings and presides over the annual shareholder's meeting. Critics of combining the two officers in one person ask how the board can properly oversee top management if the chairman is also top management. For this reason, the chairman and CEO roles are separated by the law in Germany, the Netherlands, and Finland. A similar law is being considered in Britain and Australia.

However, many of those who prefer that the chairman and CE positions be combined do agree that the outside directors should elect a lead director. This person would be consulted by the Chair/CEO regarding board affairs and would coordinate the annual evaluation of the CEO. The lead director position is very popular in the UK where it originated.

The most effective boards accomplish much of their work through committees. Although they do not usually have legal duties, most committees are granted full powers to act with the authority of the board between board meetings. Typical standing committees are the executive, audit, compensation, finance, and nominating committees. The executive committee is formed from local directors who can meet between board meetings to attend to matters that must be settled quickly. This committee acts as an extension of the board and, consequently, may have almost unrestricted authority in certain areas.

3.8 Trends in Corporate Governance

The role of the board of directors in the strategic management of the corporation is likely to be more active in the future. The change will probably be more evolutionary, however, rather than radical or revolutionary. Different boards are at different levels of maturity and will not be changing in the same direction or at the same speed.

Some of today's trends in governance that are likely to continue include:

- Institutional investors, such as pension funds, mutual funds, and insurance companies, are becoming active on boards and are putting increasing pressure on top management to improve corporate performance.
- As corporations become more global, they will increasingly add international directors to their boards.
- Shareholders are demanding that directors and top managers own more than token amounts of stock in the corporation. Stock is increasingly being used as part of a director's compensation.
- Outside or non-management directors are increasing their numbers and power in publicly-held corporations as CEOs loosen their grip on boards. Outsiders are now taking charge of annual CEO evaluations.
- Boards will continue to take more control of board functions by either splitting the combined Chair/CEO into two separate positions or establishing a led outside director position.
- Society, in the form of special interest groups, increasingly expects boards of directors to balance the economic goal of profitability with the social needs of society. Issues of dealing with workforce diversity and the environment are now reaching the board level.

4.0 CONCLUSION

This unit discussed extensively the responsibilities of the board of directors in corporate governance and social responsibilities.

5.0 SUMMARY

In this unit, we have:

- defined a corporation;
- defined corporate governance;
- listed members of a board of directors;
- discussed nomination and election of board members;
- described the organisation of the board;
- discussed the trends in corporate governance.

6.0 TUTOR-MARKED ASSIGNMENT

1. Does a corporation really need a board of directors?
2. What recommendations would you make to improve the effectiveness of today's board of directors?
3. What is the relationship between corporate governance and social responsibility?

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UNIT 2 CORPORATE GOVERNANCE: ROLE OF THE TOP MANAGEMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Responsibilities of Top Management
 - 3.2 Executive Leadership and Strategic Vision
 - 3.3 Manage the Strategic Planning Process
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

The top management function is usually conducted by the chief executive officer (CEO) of the corporation in coordination with the chief operating officer (COO) or president, executive vice president, and vice presidents of divisions and functional areas. Even though strategic management involves everyone in the organisation, the board of directors holds top management primarily responsible for the strategic management of the firm (Finkelstein and Hambrick, 1996).

In this unit, we shall discuss the roles and responsibilities of top management in corporate governance. This discussion will lead to executive leadership and strategic vision, management of strategic planning process and the duties of strategic planning staff.

2.0 OBJECTIVES

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

- (a) discuss the responsibilities of top management in relation corporate governance;
- (b) explain the work of the top management in relation to strategic planning process; and
- (c) describe the work of the top management in respect of executive leadership and strategic vision.

3.0 MAIN CONTENT

3.1 Responsibilities of Top Management

Top management responsibilities, especially those of the chief executive officer, involve getting things accomplished through and with others in order to meet the corporate objectives. Top management's job is thus multidimensional and is oriented toward the welfare of the total organisation.

Specific top management tasks vary from firm to firm and are developed from an analysis of the mission, objectives, strategies, and key activities of the corporation. The chief executive officer, in particular, must successfully handle two responsibilities crucial to the effective strategic management of the corporation. They are:

- (1) provide executive leadership and a strategic vision, and
- (2) manage the strategic planning process.

3.2 Executive Leadership and Strategic Vision

Executive leadership is the directing of activities toward the accomplishment of corporate objectives. Executive leadership is important because it sets the tone for the entire corporation. A strategic vision is a description of what the company is capable of becoming. It is often communicated in the business statement. People in an organisation want to have a sense of mission, but only top management is in the position to specify and communicate this strategic vision to the general workforce. Top management's enthusiasm (or lack of) about the corporation tends to be contagious. The importance of executive leadership is illustrated by John Welch, Jr., the successful Chairman and CEO of General Electric Company (GE) quoted in Tichy and Charan (1989) as follows:

“Good business leaders create a vision, articulate the vision, passionately own the vision and relentless drive it to completion”.

Chief executive officers with a clear strategic vision are often perceived as dynamic and charismatic leaders. For instance, the positive attitude characterising many well-known industrial leaders – such as Bill Gates at Microsoft, Anita Roddick at the Body Shop, Ted Turner at CNN, Herb Kelleher at Southwest Airlines, and Andy Grove at Intel – has energized their respective corporations. They are able to command respect and to influence strategy formulation and implementation because they tend to have three key characteristics:

4. The CEO articulates a strategic vision for the corporation. The CEO envisions the company not as it currently is, but as it can become. The new perspective that the CEO's vision brings to activities and conflicts gives renewed meaning to everyone's work and enables employees to see beyond the details of their own jobs to the functioning of the total corporation.
5. The CEO presents a role for others to identify with and to follow. The leader sets an example in terms of behaviour and dress. The CEO's attitudes and values concerning the corporation's purpose and activities are clear-cut and constantly communicated in words and deeds.
6. The CEO communicates high performance standards but also shows confidence in the followers' abilities to meet these standards. No leader ever improved performance by setting easily attainable goals that provided no challenge. The CEO must be willing to follow through by coaching people.

3.3 Manage the Strategic Planning Process

As business corporations adopt more of the characteristics of the learning organisation, strategic planning initiatives can now come from any part of an organisation. However, unless top management encourages and supports the planning process, strategic management is not likely to result. In most corporations, top management must initiate and manage the strategic planning process. It may do so by first asking business units and functional areas to propose strategic plans for themselves, or it may begin by drafting an overall corporate plan within which the units can then build their own plans. Other organisations engage in concurrent strategic planning in which all the organisation's units draft plans for themselves after they have been provided with the organisation's overall mission and objectives.

Regardless of the approach taken, the typical board of directors expects top management to manage the overall strategic planning process so that the plans of all the units and functional areas fit together into an overall corporate plan. Top management's job therefore includes the tasks of evaluating unit plans and providing feedback. To do this, it may require each unit to justify its proposed objectives, strategies, and programs in terms of how well they satisfy the organisation's overall objectives in the light of available resources (Fogg, 1994).

Many large organisations have a strategic planning staff charged with supporting both top management and the business units in the strategic planning process. This planning staff typically consists of just fewer than ten people, headed by a senior vice president or director of corporate planning. The staff's major responsibilities are to:

1. Identify and analyze companywide strategic issues, and suggest corporate strategic alternatives to top management;
2. Work as facilitators with business units to guide them through the strategic planning process.

To fulfill these responsibilities, the planning staff must have an in-depth knowledge of the principal techniques used in the strategic planning process.

4.0 CONCLUSION

We have discussed the roles and responsibilities of top management in corporate governance.

5.0 SUMMARY

In this unit, we have:

- discussed the responsibilities of top management in relation corporate governance;
- explained the work of the top management in relation to strategic planning process; and
- described the work of the top management in respect of executive leadership and strategic vision.

6.0 TUTOR-MARKED ASSIGNMENT

“Good business leaders create a vision, articulate the vision, and passionately own the vision and relentless drive it to completion”. Discuss this statement in relation to executive leadership and strategic vision.

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UNIT 3 SOCIAL RESPONSIBILITIES OF STRATEGIC DECISION MAKERS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Responsibilities of a Business Firm
 - 3.1.1 Friedman's Traditional View of Business Responsibility
 - 3.1.2 Carroll's Four Responsibilities of Business
 - 3.2 Social Responsibility
 - 3.3 Corporate Stakeholders
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

The concept social responsibility proposes that a private corporation has responsibilities to society that extend beyond making a profit. Strategic decisions often affect more than just the corporation. A decision to retrench by closing some plants and discontinuing product lines, for example, affects not only the firm's workforce, but also the communities where the plants are located and the customers with no other source of the discontinued product. Such situations raise questions of the appropriateness of certain missions, objectives, and strategies of business corporations. Managers must be able to deal with these conflicting interests in an ethical manner to formulate a viable strategic plan.

In this unit, we shall be discussing the responsibilities of a business firm, social responsibility and corporate stakeholders.

2.0 OBJECTIVES

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

- (a) highlight the responsibilities of a business firm;
- (b) state how much of them must be fulfilled;
- (c) state Friedman's traditional view of business responsibility, and
- (d) state Carroll's four responsibilities of business.

3.0 MAIN CONTENT

3.1 Responsibilities of a Business Firm

This topic will be discussed under the following sub-topics:

- Friedman's Traditional view of Business Responsibility
- Carroll's four responsibilities of Business

3.1.1 Friedman's Traditional View of Business Responsibility

Urging a return to a laissez-faire worldwide economy with a minimum of government regulation, Milton Friedman argues against the concept of social responsibility. A business person who acts "responsibly" by cutting the price of the firm's product to prevent inflation,

or by making expenditures to reduce pollution, or by hiring the hard-core unemployed, according to Friedman, is spending the shareholder's money for a general social interest. Even if the business person has shareholder permission or encouragement to do so, he or she is still acting from motives other than economic and may, in the long run, harm the very society the firm is trying to help. By taking on the burden of these social costs, the business becomes less efficient – either price goes up to pay for the increased costs or investment in new activities and research is postponed. These results negatively affect – perhaps fatally – the long-term efficiency of a business. Friedman thus referred to the social responsibility of business as a “fundamentally subversive doctrine” and stated that:

“There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman, 1970).

3.1.2 Carroll's Four Responsibilities of Business

As shown in the figure below, Archie Carroll proposes that the managers of business organisations have four responsibilities: economic, legal, ethical, and discretionary (Carroll, 1979):

Social Responsibilities			
Economic	Legal	Ethical	Discretionary
(Must Do)	(Have to Do)	(Should Do)	(Might Do)

Source: Adapted from Carroll, A.B. (1979). “Dimensional Conceptual Model of Corporate Performance”, Academy of Management Review (October) p. 499.

- Economic** responsibilities of a business organisation's management are to produce goods and services of value to society so that the firm may repay its creditors and shareholders.
- Legal** responsibilities are defined by governments in laws that management is expected to obey. For example, U.S. business firms are required to hire and promote people based on their credentials rather than to discriminate on non-job-related characteristics such as race, gender, or religion.
- Ethical** responsibilities of an organisation's management are to follow the generally held beliefs about behaviour in a society. For example, society generally expects firms to work with the employees and the community in planning for layoffs, even though no law may require this. The affected people can get very upset if an organisation's management fails to act according to generally prevailing ethical values.
- Discretionary** responsibilities are the purely voluntary obligations a corporate assumes. Examples are philanthropic contributions, training the hard-core unemployed, and providing day-care centres. The difference between ethical and discretionary responsibilities is that few people expect an organisation to fulfill discretionary responsibilities whereas many expect an organisation to fulfill ethical ones (Carroll, 1991).

Carroll lists these four responsibilities in order of priority. A business must first make a profit to satisfy its economic responsibilities. To continue in existence, the firm must follow the laws – thus fulfilling its legal responsibilities. To this point, Carroll and Friedman are in agreement. Carroll, however, goes further by arguing that business managers have responsibilities beyond the economic and legal ones.

Having satisfied the two basic responsibilities, according to Carroll, the firm should look to fulfilling its social responsibilities.

3.2 Social Responsibility

Social responsibility, therefore, includes both ethical and discretionary, but not economic and legal responsibilities. A firm can fulfill its ethical responsibilities by taking actions that society tends to value but has not yet put into law. When ethical responsibilities are satisfied, a firm can focus on discretionary responsibilities – purely voluntary actions that society has not yet decided are important.

The discretionary responsibilities of today may become the ethical responsibilities of tomorrow. The provision of day-care facilities is, for example, moving rapidly from a discretionary to an ethical responsibility. Carroll suggests that to the extent that business corporations fail to acknowledge discretionary or ethical responsibilities, society through government, will act, making them legal responsibilities. Government may do this, moreover, without regard to an organisation's economic responsibilities. As a result, the organisation may have greater difficulty in earning a profit than it would have had if it had voluntarily assumed some ethical and discretionary responsibilities.

Both Friedman and Carroll argue their positions based on the impact of socially responsible actions on a firm's profits. Friedman says that socially responsible actions hurt a firm's efficiency. Carroll proposes that a lack of social responsibility results in increased government regulations, which reduce a firm's efficiency. Research has failed, unfortunately, to consistently support either position. There is no clear relationship between social responsibility and financial performance (Rechner and Roth, 1990).

In contrast, firms that are known to be ethical and socially responsible often enjoy some benefits that may even provide them a competitive advantage. Some examples of these benefits are:

- Their environmental concerns may enable them to charge premium prices and gain brand loyalty.
- Their trustworthiness may help them generate enduring relationships with suppliers and distributors without needing to spend a lot of time and money policing contracts.
- They can attract outstanding employees at less than the market rate.
- They are more likely to be welcomed into a foreign country.
- They can utilize the goodwill of public officials for support in difficult times.
- They are more likely to attract capital infusions from investors who view reputable companies as desirable long-term investments (Preece et. al., 1995).

3.3 Corporate Stakeholders

The concept that business must be socially responsible sounds appealing until we ask, "Responsible to whom?" A corporation's task environment includes a large number of groups with interest in a business organisation's activities. These groups are referred to as corporate stakeholders because they affect or are affected by the achievement of the firm's objectives (Freeman and Gilbert, 1988). Should a corporation be responsible only to some of these groups, or does business have an equal responsibility to all of them?

In any one strategic decision, the interests of one stakeholder group can conflict with another. For example, a business firm's decision to use only recycled materials in its manufacturing process may have a positive effect on environmental groups but a negative effect on shareholder dividends. Given the wide range of interests and concerns present in any

organisation's task environment, one or more groups, at any one time, probably will be dissatisfied with an organisation's activities – even if management is trying to be socially responsible.

4.0 CONCLUSION

The discussion shows that it is not possible for a corporate business to satisfy all stakeholders in order to be socially responsible. In this type of situation, the concept of social responsibility proposes that a private corporation has responsibilities to society that extend beyond making a profit.

5.0 SUMMARY

In this unit, we have:

- highlighted the responsibilities of a business firm;
- stated how much of them must be fulfilled;
- stated Friedman's traditional view of business responsibility, and
- stated Carroll's four responsibilities of business.

6.0 TUTOR-MARKED ASSIGNMENT

1. What do you see as the perception of Milton Friedman about the concept social responsibility?
2. How would compare this view with that of Archie Carroll.

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UNIT 4 ETHICAL DECISION MAKING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Reasons for Unethical Behaviour
 - 3.2 Moral Relativism
 - 3.3 Encouraging Ethical Behaviour
 - 3.4 Codes of Ethics
 - 3.5 Guidelines for Ethical Behaviour
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

This unit will introduce to you the ethics in business. It will enumerate the reasons for unethical behaviour, discuss moral relativism, suggest encouraging ethical behaviour, list the code of ethics and suggest the guidelines for ethical behaviour.

2.0 OBJECTIVES

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

- (a) enumerate the reasons for unethical behaviour in business;
- (b) discuss moral relativism;
- (c) suggest encouraging ethical behaviour;
- (d) list the code of ethics, and
- (e) suggest the guidelines for ethical behaviour.

3.0 MAIN CONTENT

3.1 Reasons for Unethical Behaviour

You may want to ask: “Why are many business people perceived to be acting unethically?” It may be that the involved people are not even aware that they are doing something questionable. There is no worldwide standard of conduct for business people. Cultural norms and values vary between countries and even between different geographic regions and ethnic groups within a country. For example, what is considered in one country to be a bribe to expedite service is sometimes considered in another country to be normal business practice. Another possible reason for what is often perceived to be unethical behaviour lies in differences in values between business people and key stakeholders. Some business people may believe profit maximization is the key goal of their firm, whereas concerned interest groups may have other priorities, such as the hiring of minorities and women or the safety of their neighbourhoods (Kumar, 1995).

This difference in values can make it difficult for one group of people to understand another’s actions. For example, even though some people feel that the advertising of cigarettes (especially to the youth) is unethical, the people managing these companies respond that they are simply offering a product – “Let the buyer beware” is a traditional saying in free market capitalism. They argue that customers in a free market democracy have the right to choose how they spend their money and live their lives. Social progressives may contend that business people working in tobacco, alcoholic beverages, and gambling industries are acting unethically by making and advertising products with potentially dangerous and expensive side effects, such as cancer, alcoholism, and addiction. People working in these industries

could respond by asking if it is ethical for people who don't smoke, drink, or gamble to reject another person's right to do so.

3.2 Moral Relativism

Some people justify their seeming unethical positions by arguing that there is no one absolute code of ethics and that morality is relative. Simply put, moral relativism claims that morality is relative to some personal, social, or cultural standard and that there is no method for deciding whether one decision is better than another.

Adherents of moral relativism may believe that all moral decisions are deeply personal and that individuals have the right to run their own lives; each person should be allowed to interpret situations and act on his or her own moral values. They may also argue that social roles carry with them certain obligations to those roles only. A manager in charge of a department, for example, must put aside his or her personal beliefs and do instead what the role requires, that is, act in the best interests of the department. They could also argue that a decision is legitimate if it is common practice regardless of other considerations ("Everyone's doing it"). Some propose that morality itself is relative to a particular culture, society, or community. People should therefore "understand" the practices of other countries, but not judge them. If the citizens of another country share certain norms and customs, what right does an outsider have to criticize them?

Although these arguments make sense, moral relativism could enable a person to justify almost any sort of decision or action, so long as it is not declared illegal.

3.3 Encouraging Ethical Behaviour

Another reason why some business people might be seen as unethical is that they may have no well-developed personal sense of ethics. A person's ethical behaviour will be affected by his or her level of moral development, certain personality variables, and such situational factors as the job itself, the supervisor, and the organisational culture (Trevino, 1986). Kohlberg (1976) proposes that a person progresses through three levels of moral development. Similar in some ways to Maslow's hierarchy of needs, the individual's moves from total self-centredness to a concern for universal values. Kohlberg's three levels are as follows:

1. The preconventional level is characterised by a concern for self. Small children and others who have not progressed beyond this stage evaluate behaviours on the basis of personal interest – avoiding punishment or quid pro quo.
2. The conventional level is characterised by considerations of society's laws and norms. Actions are justified by an external code of conduct.
3. The principled level is characterised by a person's adherence to an internal moral code. The individual at this level looks beyond norms or laws to find universal values or principles.

Following Carroll's work on encouraging ethical behaviour, if business people do not act ethically, government will be forced to pass laws regulating their actions – and usually increasing their costs. For self interest, if for no other reason, managers should be more ethical in their decision making. One way to do that is by encouraging codes of ethics. Another is by providing guidelines for ethical behaviour.

3.4 Codes of Ethics

Codes of ethics specify how an organisation expects its employees to behave while on the job. Developing codes of ethics can be a useful way to promote ethical behaviour, especially for people who are operating at Kohlberg's conventional level of moral development. The importance of this code is that it:

- (1) clarifies company expectations of employee conduct in various situations, and

- (2) makes clear that the company expects its people to recognise the ethical dimensions in decisions and actions (Keogh, 1988).

Various studies do indicate that an increasing number of companies are developing codes of ethics and implementing ethics training workshops and seminars. However, research also indicates that when faced with a question ethics, managers tend to ignore codes of ethics and try to solve dilemma on their own (Kohut and Corriher, 1994). To combat this tendency, the management of a company that wants to improve its employees' ethical behaviour should not only develop a comprehensive code of ethics, but also communicate the code in its training programs, performance appraisal system, in policies and procedures, and through its own actions. It may also way to do the same for those companies with which it does business.

3.5 Guidelines for Ethical Behaviour

According to Von der Embse and Wagley (1988), ethics is defined as the consensually accepted standards of behaviour for an occupation, trade or profession. Morality, in contrast, is the precepts of personal behaviour based on religious or philosophical grounds. Law refers to formal codes that permit or forbid certain behaviours and may or may not enforce ethics or morality. Given these definitions, how do we arrive at a comprehensive statement of ethics to use in making decisions in a specific occupation, trade, or profession? A starting point for such a code of ethics is to consider the three basic approaches to ethical behaviour (Cavanagh, 1990):

1. **Utilitarian approach:** This approach proposes that actions and plans should be judged by their consequences. People should therefore behaviour in such a way that will produce the greatest benefit to society and produce the least harm or the lowest cost. A problem with this approach is the difficulty in recognising all the benefits and the costs of any particular decision. It is likely that only the most obvious stakeholders may be considered, and others may be "conveniently" forgotten.
2. **Individual rights approach:** This approach proposes that human beings have certain fundamental rights that should be respected in all decisions. A particular decision or behaviour should be avoided if it interferes with the rights of others. A problem with this approach is in defining "fundamental rights". The approach can also encourage selfish behaviour when a person defines a personal need or want as a "right".
3. **Justice approach:** This approach proposes that decision makers be equitable, fair, and impartial in the distribution of costs and benefits to individuals and groups. It follows the principles of distributive justice (people who are similar on relevant dimensions such as job seniority should be treated in the same way) and fairness (liberty should be equal for all persons). The justice approach can also include the concept of retributive justice (punishment should be proportional to the "crime") an compensatory justice (wrongs should be compensated in proportion to the offence). Affirmative action issues such as reverse discrimination are examples of conflicts between distributive and compensatory justice.

Cavanagh proposes that we solve ethical problems by asking the following three questions regarding an act or decision:

1. Utility: does it optimise the satisfactions of all stakeholders?
2. Rights: does it respect the rights of the individuals involved?
3. Justice: is it consistent with the cannons of justice?

For example, is padding an expense account ethical or not? Using the utility criterion, this action increases the company's costs and thus does not optimise benefits for the shareholders or customers. Using the rights approach, a person has no right to the money (otherwise we wouldn't call it "padding"). Using the justice criterion, salary and commissions constitute ordinary compensation, but expense accounts only compensate a person for expenses

incurred in doing his or her job – expenses that the person would not normally incur except in doing this job.

Another approach in resolving ethical dilemmas is by applying the logic of the philosopher Immanuel Kant. Kant (1995) presents two principles (called categorical imperatives) to guide our actions:

1. A person's action is ethical only if that person is willing for that same action to be taken by everyone who is in a similar situation. This is same as the Golden Rule: Treat others as you would like them to treat you. For example, padding an expense account would be considered ethical if the person were also willing for everyone to do the same if he or she were the boss. Because it is very doubtful that any manager would be pleased with expense account padding, the action must be considered unethical.
2. A person should never treat another human being simply as a means, but always as an end. This means that an action is morally wrong for a person if that person uses others merely as means for advancing his or her own interests. To be moral, the act should not restrict another people's actions so that they are left disadvantaged in some way.

4.0 CONCLUSION

We have learnt in this unit that ethics is the consensually accepted standards of behaviour for an occupation, trade or profession. We have also discussed the approach to resolving ethical dilemmas.

5.0 SUMMARY

In this unit, we have:

- enumerated the reasons for unethical behaviour in business;
- discussed moral relativism;
- suggested encouraging ethical behaviour;
- listed the code of ethics, and
- suggested the guidelines for ethical behaviour.

6.0 TUTOR-MARKED ASSIGNMENT

1. Define moral relativism.
2. What reasons can you canvases for unethical decisions/actions?
3. What do you understand by code of ethics?
4. Enumerate some of the guidelines for ethical behaviour.

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MODULE 3 STRATEGIC ISSUES IN ENTREPRENEURIAL VENTURES AND SMALL BUSINESSES

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

UNIT 1: Strategic Alternative 1: GRAND STRATEGIES

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1.0	INTRODUCTION

This unit looks at the ranges of strategic alternatives facing the company for adoption, implementation and evaluation. It also discusses the various dimensions of strategy and factors determining them.

2.0 OBJECTIVES

At the end of this unit, you should be able to define strategic alternative, describe foundations of strategy, scope and steps in strategy formulation, criteria for assessing strategic alternatives and the benefits.

You will also learn about the dimensions of grand strategies, alternative grand and growth strategies, alternative generic competitive and retrenchment strategies as well as alternative functional strategies.

3.0 STRATEGIC ALTERNATIVE

The term strategy was derived from the Greek word "Strategies" which means 'general'. The concept of strategy was originally used in military science and art, where it implies '(the art of the general to improve the probability of winning a war.

3.1 Foundations of Strategy – Definition

Chandler (1962) defines strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources to carry out these goals. Andrew (1980) sees corporate strategy as the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving these goals, and defines the range of business the company is to pursue, the kind of economic and human organisation it is or intends to be and the nature of the economic and non-economic contribution it intends to make to its shareholder, employees, customers and communities. Corporate strategy defines the business in which a company will compete, preferably in a way that focuses resources to convert distinctive competence into competitive advantage. The above definitions suggest that strategy is the choice of major directions for pursuing objectives and the allocation of supporting resources. It represents a firm's "game plan". It is a large scale, future oriented plans for interacting with the competitive environment to optimize achievement of organisation objectives. It specifies how the organisation will be operated and run, and what entrepreneurial, competitive and functional area approaches and actions will be taken to put the organisation into the desired position that would realize chosen objectives. Although it does not precisely detail all future deployments (people, financial and material), it however, provides a framework for managerial decisions. Strategy therefore reflects a company's awareness of how to compete, against whom, when, where and for what. "Strategy formulation could be defined as the process whereby management develops an organisation's strategic mission, derives specific strategic objectives, and chooses a strategy, it includes all the direction-setting components of managing the total organisation. Strategies are usually formulated in relation to the current and potential activities of competitors. They are also formulated to deal with the vagaries of the business environment. Formulation is an intellectual activity that is devoid of shrewd corporate maneuvering or connivance. It is a continuous or systematic process aimed at challenging current and potential threats while utilizing current and potential opportunities to improve company's results

3.1.1 Scope of Strategy

Ansoff (1965) submits that strategy consists of four components including product-market scope, growth vector, competitive advantage and synergy. Product-market scope specifies the particular industries to which the firm confines its product market position and wherein it wants to compete. Growth vector indicates the direction in which the firm is moving with respect to its current product market exposure. Competitive advantage implies isolating characteristics or unique opportunities within the field defined by the product-market scope and the growth vector. The three components of the product-market scope, growth vector and competitive advantage collectively describe the firm's product market path in the external environment. The first defines the scope of search; the second provides directions within the scope and third indicates the firm's ability to make good the individual entries. The first three components of strategy describe the firm's search for inherent profitable opportunities in the external environment.

Synergy is the fourth component of the common thread/strategy that measures the firm's ability to make good on a new product market entries. By providing capabilities for success in new ventures, synergy enables the firm to realize its full profit potential. Synergistic efforts involve the creation of business units that support and complement each other. Synergistic effect may arise from acquisition, vertical integration, research competence, marketing network etc. A company may adopt an aggressive or defensive posture to capitalize on its synergy. The firm uses its outstanding competence such as a nationwide retail network, under its aggressive posture, to enter into new product-markets. For a defensive posture, new entries are required to provide some key competence; which the firm does not possess.

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

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

(1) Strategy as Plan I

Viewed as a consciously intended course of action.

(2) Strategy as Ploy

Viewed as a specific maneuver intended to outwit a competitor.

(3) Strategy as Pattern

Viewed as consistency in behaviour whether intended or not.

(4) Strategy as Position

Viewed as a means of locating an organisation in an environment.

(5) Strategy as perspective

Viewed as an ingrained way of perceiving the world.

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

3.1.2 Steps in Strategy Formulation

Formulation of corporate strategy requires the following task-processes:

- (1) Assess external environment to identify and forecast opportunities and threats. Analyze the significant industry also.
- (2) Assess internal environment of your organisation to identify your competitive strengths and weaknesses.
- (3) Assess the values of top managers and stakeholders to identify shared values.
- (4) Match external environment (including the relevant industry) analysis with both the internal organizational analysis and value analysis (**SWOTV Analysis**).
- (5) From the SWOTV analysis in (4) above, identify strategic mission or purpose for the organisation.
- (6) From the company's strategic mission, formulate long-term or strategic objectives which would be narrowed down to quantitative or verifiable objectives later.
- (7) From the strategic objectives formulated, identify and appraise all possible alternative ground designs or strategies with which the organisation can pursue formulated objectives.
- (8) Make a feasible choice out of the strategic alternatives that are open to the firm, in the light of the company exigencies, situations and capabilities.

3.1.3 Determinants of Strategic Choice

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

- (1) The history of the organisation which sets the path for the organisation into the future, it would not make sense for the organisation to abandon or divorce the path.
- (2) The purpose or mission of the organisation within the realm of its product-market definition would also suggest what strategy should be selected.
- (3) The socio-political-economic environment of the organisation also presents specific opportunities and threats, which may warrant specific adaptive strategy e.g. a competitive threat, may suggest a competitive strategy as a response.
- (4) Stakeholders of the organizations may come up with new resources, needs, expectations, agitation, threats and opportunities which may be strategically responded to e.g. suppliers may come up with new materials or inputs that may lead to new product development or diversification.
- (5) Organisation Resources of any particular organisation would also suggest the type and the limit to which a strategy can be operated. The Nigerian Football Authority or Association would be deluding itself if it wants to sit ten million people (capacity strategy) at the National or Liberty Stadium within any 90-minutes of play.
- (6) The shared values of owners and top managers would also determine the choice of a particular strategy. If the core values of the owners and top executives of the University of Lagos can be located in research, publication and teaching (academic values), then academic strategies would be selected. If the value shifts in the direction of competition with other institutions, then competitive strategies such as courses concentration (focus), differentiation, or low cost market leadership would be selected. However, if the value is growth oriented, then new courses, new departments, new outreaches, new outlets would be opened. The university may even go international to open foreign offices. It will not only run undergraduate or post graduate courses, but also postdoctoral courses. It will also create "Institute of Professors" and the likes which would be analogous to "Institute of Directors".
- (8) The objective pursued by an organisation would help in identifying all feasible alternative strategies from which a choice can be made. An objective to

pursue market share extension or market leadership would engender the adoption of competitive strategies whereas a growth and survival objectives may require growth and survival strategies respectively (e.g. integration: delayering etc.).

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

3.1.4 Criteria for Assessing Strategic Alternatives

All feasible strategic alternatives should be judged against these criteria before a choice can be made. They are:

- (1) Appropriateness to Available Resources

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

- (2) Appropriate Time Horizon

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

- (3) Internal Consistency

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

- (4) External Consistency

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

- (5) Acceptance Degree of Risk

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

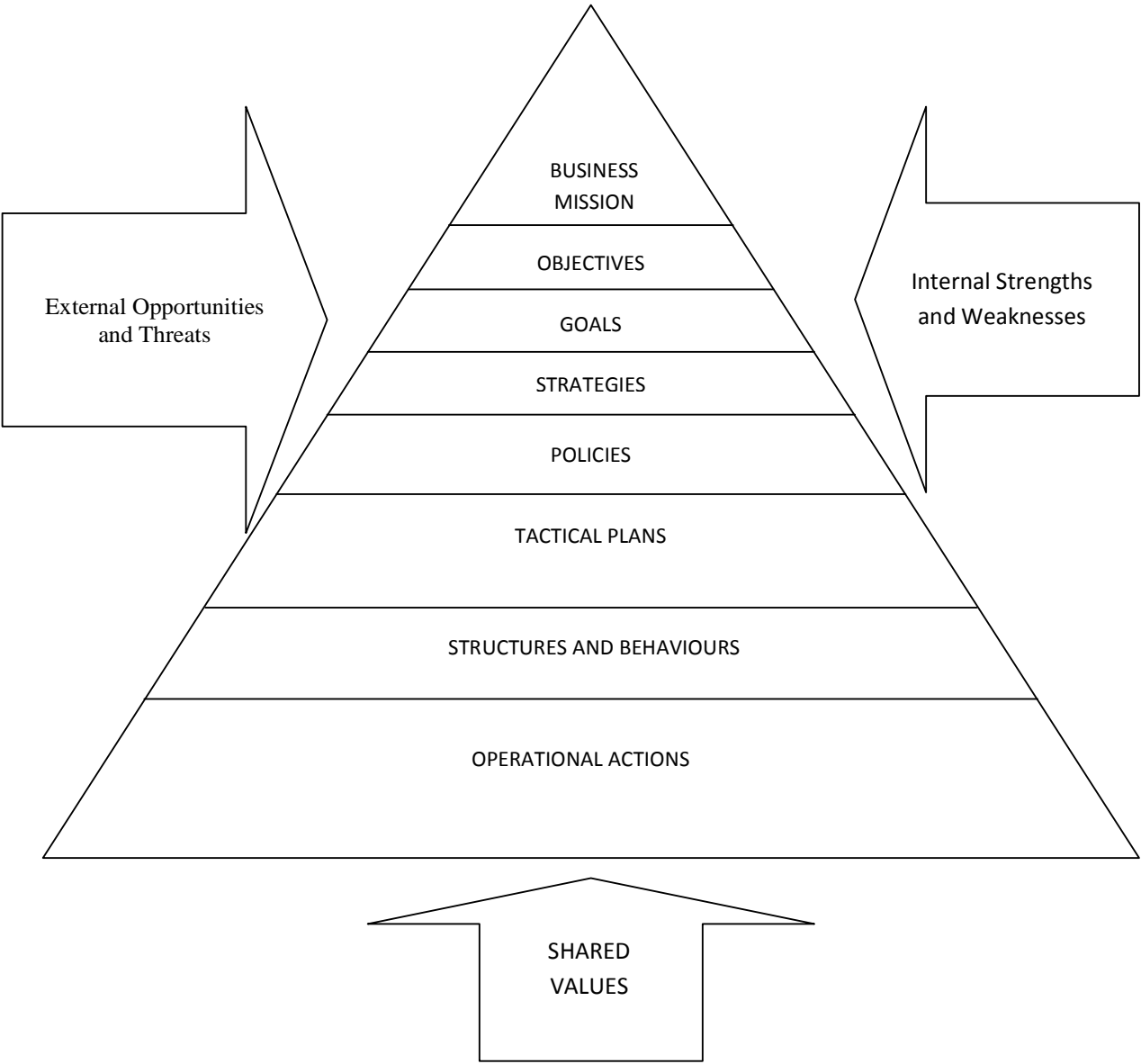
- (i) the amount of resources whose continued existence or value is not assured;
- (ii) the length of time period for which resources are committed;
- (iii) the proportion of resources committed to a single venture.

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

3.1.5 Benefits or Reasons for Strategic Adoptions Strategy formulation and implementation provides the following reasons or benefits for adoption.

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

Figure 8.1: Strategy Development Pyramid



3.1.6 Examples of Strategy Development

(a) **Mission Statement**

“To serve our customers with beverage drinks and furnish stakeholders satisfaction”.

(b) **Derived Objective**

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

(c) **Derived Goals**

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

(d) **Derived Strategies**

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

(e) **Derived Policies**

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

3.2 Dimensions of Grand Strategies

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

(1) Internal/External Dimension

Internalization is the extent to which the strategy adopted by an organisation is independent of any other entity.

Externalization is the extent to which the strategy adopted by an organisation is dependent or in association with another entity.

(2) Relatedness/Unrelatedness Dimension

Relatedness is the extent to which the strategy adopted by an organisation is related to current business definition (customer groups, customer functions, product group or alternative technologies).

Unrelatedness is the extent to which the strategy adopted by an organisation is at variance and unrelated to its current business definition. Relatedness is also called concentration (concentric) while unrelatedness is also called conglomerate.

(3) Horizontal/Vertical Dimension

Horizontalization is the extent to which a newly adopted strategy enlarges or complements the current business definition of an organisation (customer groups, customer function, product class or technological alternative).

Virtualization on the other hand is the extent to which a newly adopted strategy enriches the current business definition of a company. Enrichment could be backward or forward or both from the current organisational position.

(4) Active/Passive Dimension

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

(5) Basic/Derived Dimension

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

3.3 Alternative Grand Strategies

Grand strategies are common/master strategies intended to furnish basic or generic direction for strategic actions. They are the basis of collaborative and enduring efforts directed towards the accomplishment of long term business objectives. A grand strategy can be defined as a comprehensive general approach that guides major actions toward the realization of long-term objectives. Other authors often refer to grand strategies as master, general, basic, generic, overall systemic or holistic strategies.

Stability Strategies

Stability strategies are adopted by an organisation that desire incremental improvement of functional performance in all or any of its product market definition, either singly or collectively. Examples of such strategies include provision of special service to customers, provision of after sales service or modernization of plant to increase efficiency, productivity and stability.

Expansion/Growth Strategies

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

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

Growth strategies may be adopted for the following reasons:

- (i) It is a more appropriate answer when the environment demands increase in pace of activity;
- (ii) It provides strategists with a psychological feeling of satisfaction with the prospects of growth from expansion. CEOs may take pride in presiding over organizations perceived to be growth-oriented.
- (iii) Increasing size may lead to more control over the market vis a vis competitors.
- (iv) Advantages from the experience curve and scale of operations may accrue.

Competitive Strategies

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

The three generic competitive strategies would include:

- (i) Striving to be the overall lowest-cost producer in the industry;
- (ii) Seeking to differentiate one's product offering in one way or another from rival product.
- (iii) A focused approach based on catering (via low cost leadership or differentiation) to a narrow portion of the market rather than going after the whole market

International Business Entry Strategies

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

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

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

Contraction/Retrenchment/Turnaround Strategies

A retrenchment strategy is followed when an organisation substantially reduces the scope of either its customer groups, customer functions, or alternative technologies singly or jointly in order to improve its performance. Sometimes war strategists may think it is better to retreat rather than to advance. Retrenchment therefore involves total or partial withdrawal from either a customer group, customer function or alternative technologies e.g. an hospital abandoning treatment of general cases to concentrate on specialty treatment. A training outfit may serve its clientele through distance learning system and discard its face-to-face interaction methodology of training to reduce expenses, use of existing facilities and

personnel more efficiently. Retrenchment strategies "trim the fat" and results in a slimmer organisation bereft of unprofitable customer groups, customer functions or alternative technologies.

Combination Strategies

This strategy is followed when an organisation adopts a mixture of stability, expansion, new business entry, competitive and retrenchment strategies either at the same time in its different business or at different times in the same business with the aim of improving performance. This strategy as an alternative is a complex response or solution to complex-dynamic environmental problems and complications of real life business.

3.4 Alternative Growth Strategies

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

(a) Intensive growth Strategies

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

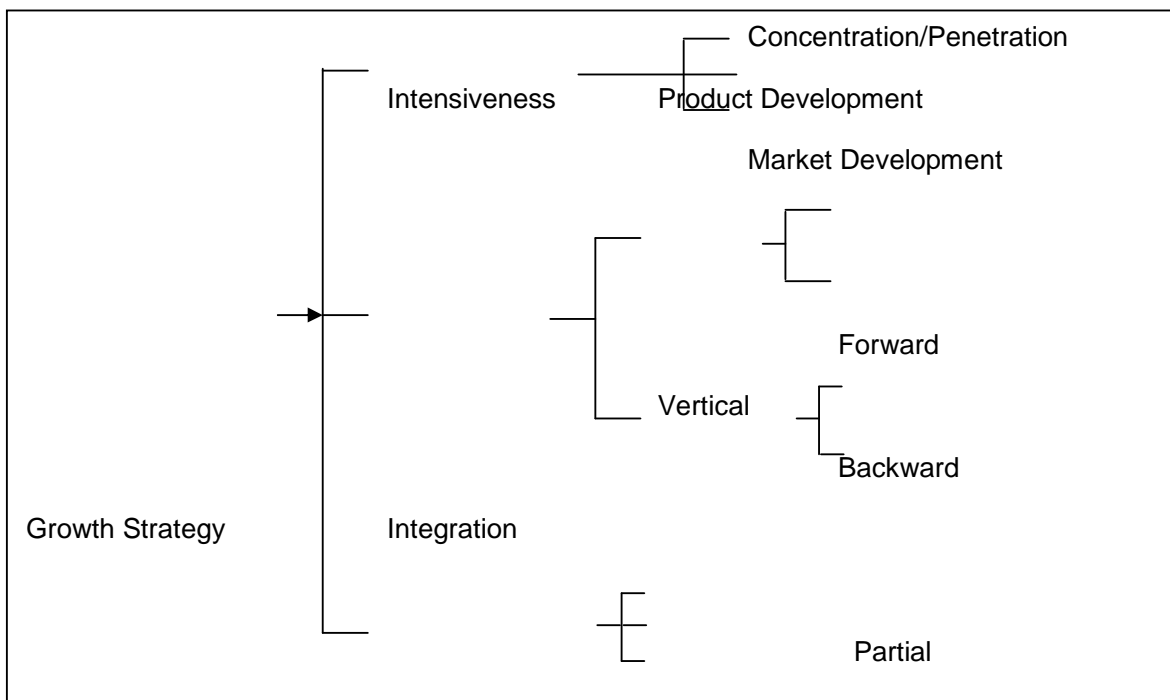
(b) Integrative growth Strategy

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

(c) Diversification growth

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

Figure 8.3: Alternative Growth Strategies



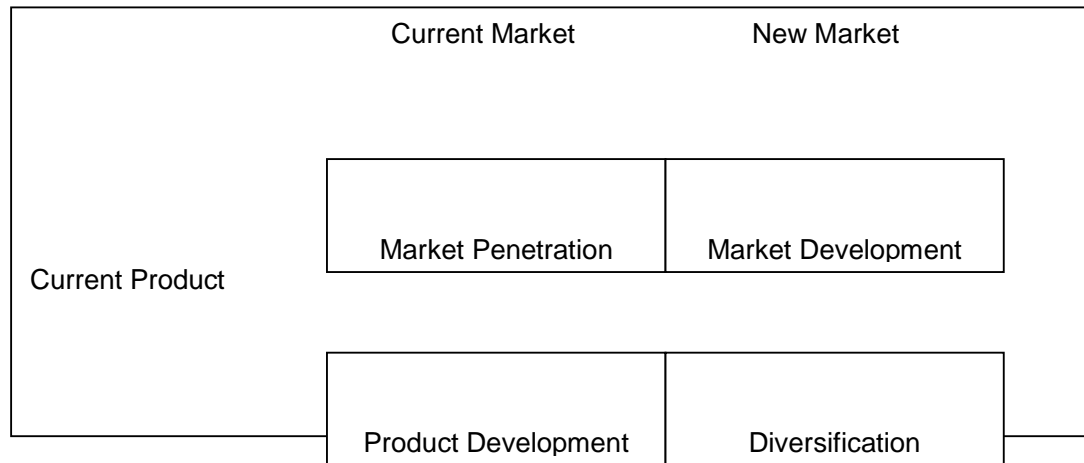


Figure 8.4: Ansoff's Product-market Windows/Portfolio

3.5 Alternative Generic Competitive Strategies

Figures 8.3 and 8.4 above illustrate the alternative growth strategies that a company may assess for adoption. The second figure shows the growth path along current/new product versus current/new market dimensions. Three sets of strategic intensiveness plus diversification strategy are visible from these combination in the window.

Each of these nine types of growth strategies are explained below:

(A) INTENSIVE GROWTH STRATEGIES

Alternatives are :

(1) Market Penetration/Concentration

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

- (i) When the usage rate of present customers could be significantly increased.
- (ii) When current markets are not saturated with one's particular product or service.
- (iii) When the correlation between sales revenue and marketing expenditure is historically high.

- (iv) When increased economies of scale provide major competitive advantages.
- (v) When the market shares of major competitors have been declining while total industry sales have been increasing.

Penetration may be achieved through intensive attraction of the company's current customers, competitors' customers and current non-users. Each of these actions suggests the usage of specific set of alternative or aggressive efforts such as trade allowances, promotion, price reductions, package improvements etc. Of all the grand strategies, concentration is the lowest in risk and in additional resources required.

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

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

(2) Market Development

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

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

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

- (i) When new channels of distribution are available that are reliable, inexpensive and of good quality.
- (ii) When an organisation is highly efficient and effective at what it does.
- (iii) When new untapped or unsaturated markets exist.

- (iv) When the company has needed capital. and human resources to manage expanded operations.
- (v) When the firm has excess or surplus production capacity.
- (vi) When an organizations basic industry is rapidly becoming global in scope.

(3) Product Development

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

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

Product development strategy are very effective under the following situations:

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

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

(B) INTEGRA TIVE GROWTH STRATEGIES

(1) Backward Integration

Backward vertical integration consists of a company's seeking ownership or increased control. of its supply systems.

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

- (i) When an organizations current suppliers are too expensive, unreliable or incapable of meeting the firm's needs for parts, components, assemblies or raw materials.

- (ii) When the number of suppliers are few whereas there are many competitors scrambling for scarce inputs.
- (iii) When a company competes in an industry that is growing rapidly.
- (iv) When a firm has the capabilities (capital, competence and human resource) needed to manage the business of producing or supplying its own raw materials.
- (v) When the advantages of stable prices are particularly important so as to stabilize the cost of raw material production.
- (vi) When present suppliers realize high profit margins, suggesting that the business of supplying products or services in the given industry is a worthwhile venture.
- (vii) When an organisation needs to acquire a needed resource quickly.
- (viii) It may be a policy directive or a legislative dictation from the government, for instance the Shagari regime in Nigeria demanded 50% local added inputs in manufacturing of company products.

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

In Nigeria, Lever Brothers Nigeria PLC (LBN) blazed a successful and enviable trail by, looking inward and sourcing raw materials, for itself and others locally. The company invested heavily in the development of local substitutes such as palm oil, kernel oil, agricultural annual crops such as sunflower and lemon grass. It has a 2000 hectare tea plantation, on the Mambila Plateau in Taraba State of Nigeria.

It also provides invaluable technical and financial support to local manufacturing ventures which produce intermediates such as alkaline sodium silicate and the local mining of feldspar and Kaolin in Plateau and other states of Nigeria. Other products include bleaching earth and some special adhesive for soap wrappers. LBN is also involved in the production of sulphuric acid, emulsifiers as well as special oil blends for companies manufacturing ice creams, condensed milk, beverages and other foods. LBN therefore is appreciatively self-reliant, the company depends largely 70% on local sources for its basic raw materials needs. Thus, inward looking and local sourcing of raw materials ensure increased employment of labour in the country and consolidate survival and continuity assurance for the companies involved.

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

(2) Forward Integration

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

- (i) When the company's present distributions are especially expensive, unreliable or incapable of meeting the firms distribution needs.
- (ii) When the availability of quality distributors is so limited as to offer a competitive advantage to those firms that integrate forward.
- (iii) When a firm competes in an industry that is growing and is expected to continue to grow markedly.
- (iv) When an organization has the capabilities, capital and human resources needed to manage the business of distributing its own products.
- (v) When the advantages of stable production are particularly high so as to be able to predict demand levels.
- (vi) When present distributors have high profit margins or are engaging in sharp practices detrimental to the image of the manufacturer.
- (vii) It may be a legal or legislative requirement in a developing economy for proper rationing of scarce output.

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

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

(3) Horizontal Integration

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

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

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

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

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

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

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

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

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

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

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

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

(C) DIVERSIFICATION STRATEGIES

The alternatives are :

(1) Concentric or Related Diversification

Concentric diversification consists of the company's seeking to add new products that have technological and/or marketing synergies with the existing product line, these products normally will appeal to new classes of customers.

This means that the additional business, product or service created is related to existing business definition of the firm either in terms of customer groups, customer functions, production technology or product class. This strategy may be achieved through internal-start up or generation (spin-off) or the acquisition of separate businesses with srnergistic

possibilities counterbalancing the two business strengths and weaknesses. The new businesses selected possess a high degree of compatibility with the current businesses. The combined company profits increase strengths and opportunities as well as decrease weaknesses and exposure to risk. Concentric diversification may be of three types including:

(i) Technology-related Concentric Diversification

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

(ii) Marketing Related Concentric Diversification

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

(iii) Full Concentric Diversification

This is the addition of a new product or service that is related to existing organizational technology as well as to its market, that is it will be sold through the same existing distribution channel, to satisfy the needs of current customers. Either (i) or (ii) above are regarded as partial concentric diversification

Concentric diversification becomes a suitable growth opportunity where the following conditions prevail.

- (i) When an organisation competes in a no growth or slow-growth industry.
- (ii) When the addition of a new, but related product would significantly enhance the sale of current products.
- (iii) When new, but related products could be offered at highly competitive prices.
- (iv) When new, but related products have seasonal sales levels, that counter balance a company's existing peak and valleys.
- (v) When a company's products are currently in the decline stage of the product life cycle.
- (vi) When an organisation is blessed with high-fliers in terms of strong and effective management team.

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

- (i) Increase the firm's stock value
- (ii) Increase the growth rate of the firm
- (iii) Make an investment that represents better use of funds than plugging them into internal growth
- (iv) Improve the stability of earnings and sales by acquiring firms whose earnings and sales complement the firm's peak and valleys.
- (v) Balance or fill out the product line
- (vi) Diversify the product line when the life cycle of current products has peaked.

- (vii) Acquire a needed resource quickly, for example, high quality technology or highly innovative management.
- (viii) Tax reasons, purchasing a firm with tax losses that will offset current or future earnings.
- (ix) Increase efficiency and profitability, especially if there's synergy between the two companies.

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

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

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

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

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

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

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

(2) Conglomerate or Unrelated Diversification

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

Ways of becoming a conglomerate include internal spin-offs into diversified portfolio of businesses, acquiring companies in any line of business (so long as projected profit opportunities equal or exceed minimum criteria), a debt-heavy firm may seek to acquire a debt-free firm in order to balance the capital structure of the former and increase its borrowing capacity, a firm with a strong seasonal and cyclical sales patterns diversifying into areas with a counter seasonal or counter cyclical sales pattern, a cash-rich but opportunity-poor company may seek to acquire a number of opportunity-rich but cash poor enterprises, or a company may build a diversified portfolio of three or four unrelated groups of business, striving for some degree of relatedness within each group.

Conglomerate diversification may be more suitable in the following situations.

- (i) When a company's basic industry is experiencing declining annual sale and profits.
- (ii) When a company has the capital and diverse managerial talent needed to compete successfully in a new industry.
- (iii) When the firm has the opportunity to purchase an unrelated business that is an attractive investment opportunity.
- (iv) When there exist financial synergy between the acquired and acquiring firm, not that a key difference between concentric and conglomerate diversification is that the former should be based on some commonality of markets, products or technology whereas the latter is based more on profit considerations.
- (v) When existing markets for an organizations' current products are saturated.
- (vi) When antitrust action could be charged against an organisation that has historically concentrated on a single industry.
- (vii) When a firm wants to minimize risk by spreading it over several businesses
- (viii) When growth in existing business is blocked due to environmental and regulatory factors.

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

Classic examples of a conglomerate in Nigeria are the UAC of Nigeria Plc., John Holt Plc etc.

(3) Horizontal Diversification

Horizontal diversification consists of the company's seeking to add new products that could appeal to its current customers though technologically unrelated to its current product line. In addition to cement production and marketing by West African Portland Cement Plc (Nigeria), the Portland Paint Division produces various quality of paint under the brand name Sandtex paints.

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

Horizontal diversification may be preferred under the following situations.

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

3.6 Alternative Generic Retrenchment Strategies

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

(1) Overall Cost Leadership Strategy

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

However, low cost advantage could be achieved by revamping the make up of the activity-cost chain. These include:

- (i) Stripping away all the extras and offering only a basic, no-frills product or service.
- (ii) Using a different production process.
- (iii) Automating a particularly high-cost activity.
- (iv) Finding ways to use cheaper raw materials.
- (v) Using new kinds of advertising media and promotional approaches relatives to the industry norm.
- (vi) Selling directly through one's own sales force instead of indirectly through dealers and distributors.

- (vii) Relocating facilities closer to suppliers and/or customers.
- (viii) Achieving a more economical degree of forward or backward vertical integration relative to competitors.
- (ix) Going against the "something for everyone" approach of others and focusing on a limited product/service to meet a special, but important, need of the target buyer segment.

(2) Differentiation Strategy

This is achieved by developing attributes of a product or service that distinguish it from those of its competitors. Differentiation is most likely to produce an attractive and lasting competitive edge when it is based on technical superiority, quality, providing customers more support services or through the appeal of more value for money. According to Porter (1985), a firm can differentiate by doing any thing to lower the buyer's total cost of using a product or by raising the performance a buyer gets from using a product or service. Specific ways to reduce a buyers total costs include:

- (i) Reducing, waste and scrap in raw material use.
- (ii) Lowering labour costs.
- (iii) Minimizing down time or idle time.
- (iv) Faster processing times.
- (v) Lowering delivery, installation or financing cost.
- (vi) Reducing inventory cost.
- (vii) Reducing maintenance cost.
- (viii) Reducing need for other inputs.
- (ix) Higher trade-in value for used models.
- (x) Free advice and technical assistance on end use applications etc.

Specific ways to enhancing the performance of the product from the perspective of the buyer include:

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

(3) Focus or Specialization Strategy

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

The segment to choose must:

- (i) Have sufficient size and purchasing power to be profitable.
- (ii) Have good growth potential.
- (iii) Not be too crucial to the success of major competitors.

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

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

(A) INTERNAL\DEFINITE RETRENCHMENT OR TURNAROUND STRATEGIES

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

Therefore, retrenchment or turnaround strategies are sometimes called survival or re-organisation strategies. Retrenchment therefore is a temporary retreat and trimming back in the face of adverse conditions. It is a short-run defensive strategy for responding to conditions of general economic recession, persistent negative cash flows, negative profits, declining market share, physical facilities deterioration, uncompetitive products or services, mismanagement, public criticisms, harsh regulation's etc. These conditions are indicators that turnaround or retrenchment strategy is needed to allow the organisation to survive. Retrenchment strategies may be adopted in the following situations.

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

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

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

Each of these retrenchment strategies is explained.

(1) Human Resources Retrenchment Strategy

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

i) Downsizing

This is general reduction in the size of organizational activities which would necessitate a cut in the size of employees to eliminate wage bills that are out of tune with revenue earnings. It consists of shutting down or selling off obsolete or unproductive production or service lines. Reasons for downsizing including threatened organizational survival, dwindling profit, dwindling market, technological change, depressed economy, lack of raw material etc

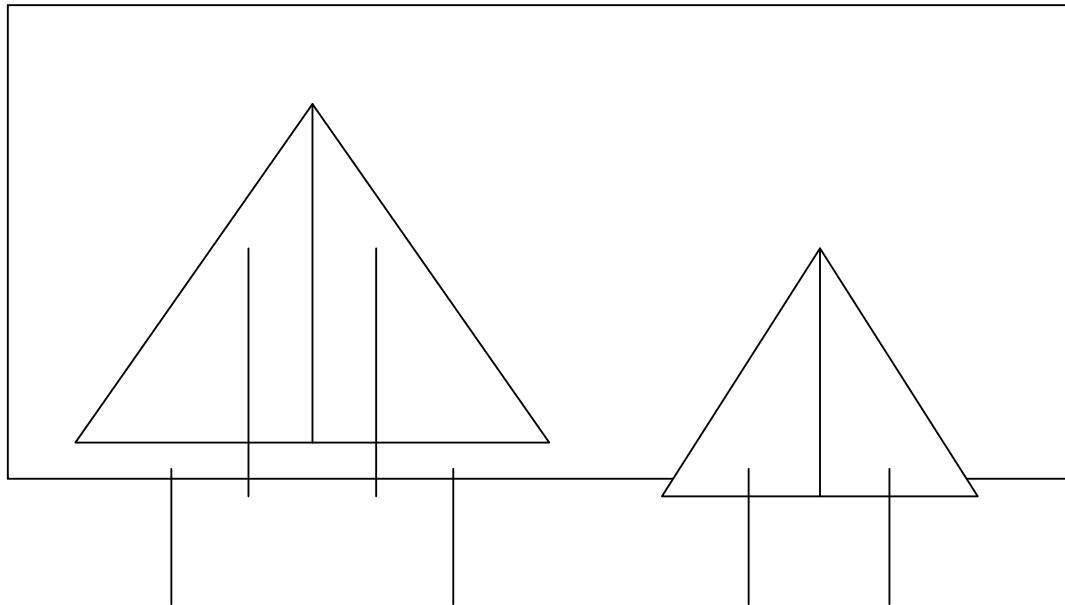
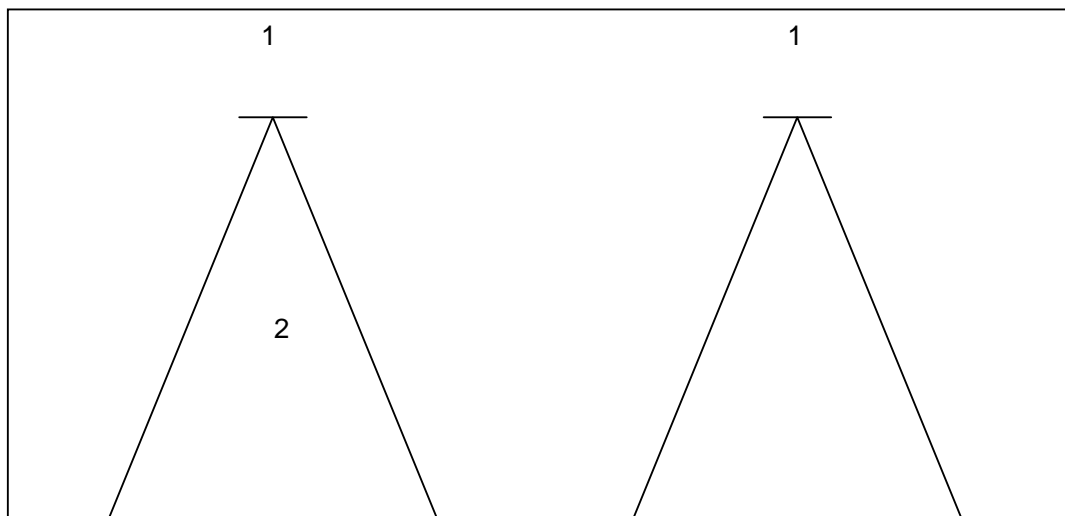


Figure 8.5: Downsizing

ii) Delaying

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



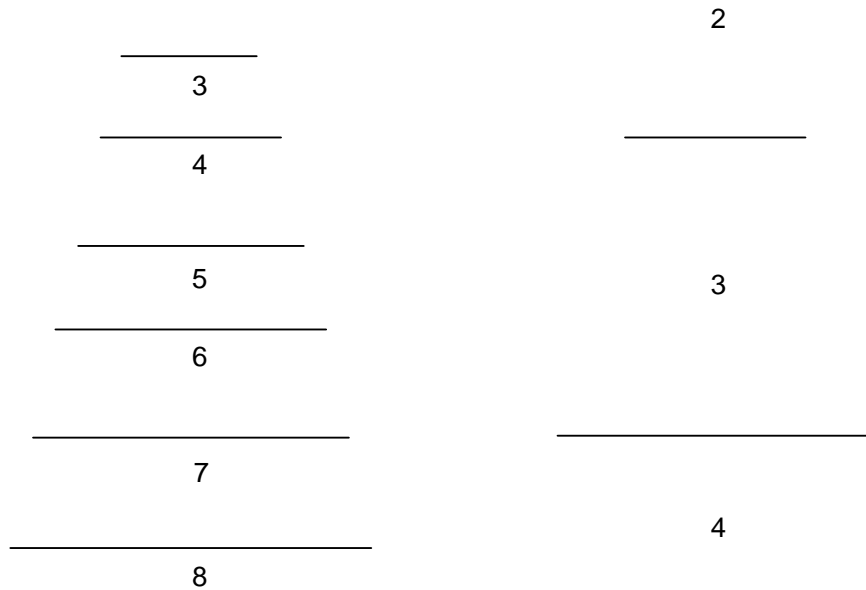


Figure 8.6: Delay ring

(iiii) Outsourcing

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

iv) Re-engineering

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

2.Assets Retrenchment Strategy

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

3. Top Management Retrenchment Strategy

This strategy sacks a low or non-performing top executive team and replaces their positions with a new team. Bringing in new managers will introduce fresh ideas and values within the organisation, raise employee morale, facilitate drastic but positive actions and discourage in-breeding. In most cases, only the CEO may be changed.

4.Revenue-Increasing Turnaround (Price Retrenchment)

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

(B) INDEFINITE/EXTERNAL RETRENCHMENT STRATEGIES

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

(1) Abandonment Strategy

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

(2) Divestment Strategy

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

Before divestment decision can be made, management must identify the portfolio of its businesses, that is, its Strategic Business Units (SBUs). Identification should be followed by classification of SBUs in a way that would reveal their resource allocation merit. This would enable management to decide which businesses to build, maintain (hold), phase down (harvest or milk) and phase-out (divest). Divestment aims at selling or liquidating the business so that the resources can be used elsewhere.

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

- (i) When a company pursued a retrenchment strategy but failed to accomplish needed improvements.

- (ii) When a division needs more resources to be competitive than the company can provide.
- (iii) When a division is responsible for an organisation's overall poor performance.
- (iv) When a division is a misfit with the rest of an organisation, this can result from radically different markets, customers, managers, employees, values or needs.
- (v) When a large amount of cash is needed quickly and cannot be reasonably obtained from other sources.
- (vi) When government antitrust action threatens an organisation.
- (vii) When it is impossible for a firm to invest in technological up gradation of the ailing division.
- (viii) When a better growth or expansion alternative is available for investment and cash is needed for this profitable investment opportunity.

(3) Liquidation Strategy

This is the most extreme, the most unattractive and unpalatable external retrenchment strategy. It involves closing down a company and selling its assets. It is a strategy of last resort that is very unattractive because it produces serious consequences such as loss of employment for employees, termination of opportunities where a firm could pursue any future activity, it also carries the stigma of failure. The business is sold in parts for its tangible asset value and not as a going concern. As a long-term strategy it minimises the loss to all stakeholders of the firm. Liquidation is adopted in the following circumstances:

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

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

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

3.7 Alternative Functional Strategies

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

(1) Production Management

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

(2) Marketing Management

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

(3) Personnel Management

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

(4) Financial Management

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

4.0 CONCLUSION

This unit x-rays the concept of strategy formulation, its antecedent as well as consequent. Alternative generic strategies came under penetration analysis. Growth, competitive and retrenchment strategies were reviewed as necessary for adoption by strategists.

5.0 SUMMARY

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

6.0 TUTOR MARKED ASSIGNMENT

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

7.0 REFERENCES AND FURTHER READINGS

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UNIT 2: Strategic Choice

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- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Steps in Strategic Choice
 - 3.2 Strategic Portfolio Analysis
 - 3.3 Behavioural Factors in Strategic Choice Decisions
 - 3.4 Contingency Strategies
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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

- (i) enumerate steps in strategic choice;
- (ii) explore the quantitative and qualitative factors often considered in strategic choice;
- (iii) explain the concept of contingency and the content of a strategic plan.

3.0 MAIN CONTENT

3.1 Steps in Strategic Choice

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

(1) Focusing Alternatives

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

(2) Consider Selection Factors

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

Subjective factors are non-rational, utilize personal judgments and are emotional, may be based on objective factors such as cost, guaranteed functional requirements, existing market availability, availability of needed materials, technical and financial feasibilities (e.g. reducibility of the product), risk assessment etc.

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

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

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

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

(3) Evaluation of Strategic Alternatives/Portfolio

Evaluation requires the appraisal or analysis of selected or available factors. This involves the use of mathematical or non-mathematical tools based on the strategists environment which may be one of certainty, risk or uncertainty.

The strategists' of company's environment would suggest methods of analysis. Under environment of certainty, techniques such as linear programming, input-output analysis, use of computer, activity analysis, product life-cycle analysis, experience curve analysis, trade or economic cycle analysis, business trend analysis (etc), may be used to assess the situation facing the company. Evaluation of strategic alternatives under risk or stochastic environment assumes that the strategist has a partial knowledge of outcomes of decision alternatives. The common techniques of analysis here include: the calculation of expected maximum value (EMV), the Boston Consulting Group (BCG) matrix, the General-Electric Nine-cell matrix Hofer's product-market 15-cell Evolution matrix, Directional Policy Matrix (DPM), Strategic Position and Action Evaluation (SPACE) etc. The alternatives or Portfolio with the expected maximum values (EMV) are usually considered the best.

Evaluation of strategic alternatives or portfolio under the environment of uncertainty requires that the probabilities associated with the states of nature are known. Evaluation is very difficult for absolute lack of knowledge of information. Each action here will lead to one outcome or known set of outcomes, each with known probabilities. Examples of strategic alternatives here include, introduction of a new product to a new market (diversification), new business establishment in foreign environment etc. Evaluation here will require objective or hard data but will also involve subjective judgments such as the experience or skill of the strategist. The choice of evaluation technique must always fit the environmental situation of a company, but the strategist must never lose sight and consideration of subjective factors.

(4) Making Strategic Choice

After careful evaluation of strategic Portfolio, one or two or more than two strategic alternatives may be selected for adoption, implementation, modification or continuation. Strategic choice is a simple step that is not simple. Like the evaluation step, it is also based on the skill and competence of the strategist. We have witnessed or read of how management lords or even political or religious lords have failed in matters of strategic alternatives evaluation and choice. There are also success stories. A situation of only one rigid mission, one rigid objective and one rigid course of action, is not a decision making situation, and those who find themselves in such situation are neither human beings nor true gods. The world is a world of alternatives for human beings, and the processes of reaching a particular goal, objective or mission is equifinal. If the process is not equifinal, then, what one is trying to reach is not a goal but a conjecture drained in mythologies. Strategic management transcends the level of vision. It includes adjustments to visionary threats and opportunities, selection of mission, objectives and strategies, then implementation and evaluation. A strategic blueprint is the strategic plan which discusses how the strategic will operate, states the conditions required and also states the contingency strategies associated with the chosen strategies. Choice must be based on evaluation, weighing and comparison of strategic alternatives. The point at which choice or selection of strategy is concluded represents the point at which strategic decision is formulated. What immediately follows it is implementation and follow-up.

Self Assessment Exercise 9.1

List and explain the steps in strategic choice.

3.2 Strategic Portfolio Analysis

Strategic alternatives can be evaluated or analyzed for selection in a number of ways. Some of the available techniques, in the hands of strategic valetudinarians for assessing the health or choice of a company Portfolio of products or businesses include: Boston Consulting Group (BGC) matrix or product Portfolio matrix, the General-Electric Nine-cell matrix Hofer's product-market 15-cell Evolution matrix, Directional Policy Matrix (DPM), Strategic Position and Action Evaluation (SPACE) and the experience curve. Each technique is explained below:

(1) Experience Curve

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

According to this concept, unit costs in many manufacturing industries and in some service industries, decline with “experience” or a particular company’s cumulative volume of production. The experience curve is broader than the “learning curve” which refers to the efficiency achieved over a period of time by workers through much repetition. The causes of decline in unit costs are combination of factors, including economies of scale, the learning curve for labour, capital-labour substitution, product redesign, other learning effects, technological improvements in production etc. The decline in costs creates a barrier to entry because new competitors with no “experience” face higher costs than established ones (particularly, the producer with the largest market share) and also have difficulties catching up with the entrenched competitors. Therefore, within the context of strategic management, the concept of experience curve of established firms pose barriers to new firms contemplating entry into business, helps to build market share, discourages competition and helps the firm to sustain rapid market growth as long as possible. It is a characteristic of the growth stage in a product or business life cycle. The firm with experience curve in this growth stage often pursues any or all of the following market-expanding strategies which will increase its competitive position.

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

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

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

(2) **Product Life Cycle (PLC)**

This is also a useful concept rather than Portfolio technique to guide strategic choice. PLC is an S-shaped curve which shows the relationship of sales with respect to time for a product that goes through the four successive stages of **introduction** (Slow sales growth), **growth** (rapid market acceptance), **maturity** (slow down in growth rate) and **decline** (sharp downward drift). The concept can be used to diagnose the stages of product or business Portfolio with a view to prescribing necessary strategic choice. For instance, businesses or products at the introduction or growth stages may require expansionary growth strategies, products or businesses at maturity stages may be used as sources of cash for investment in other businesses which need resources, and retrenchment strategies may be selected for businesses or products at decline stage. So, the PLC stage may point to relevant strategic choice for a firm.

(3) Trade Cycle Analysis

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

(4) Directional Policy Matrix (DPM)

DPM was developed by Shell Chemicals of U.K. It uses two variables of “business sector prospects” along the abscissa and “Company’s competitive abilities” along the ordinate (Hussey, 1978). Based on factors such as market growth, market quality, market supply and other factors, business sector prospects could be rated on three point semantic scales as unattractive, average or attractive. Also, company’s competitive abilities based on capability analysis could also be rated on a three point semantic scales as weak, average or strong. This engenders a 3 x 3 matrix which can be used to prescribe baseline strategies (Rowe et. al. 1982). An extension of DPM into “risk matrix” furnishes an alternative way to analyse environmental risk. In a risk matrix, environmental risk is taken as a third variable and is divided into four categories from low risk to very high risk.

Each risk position is determined on the basis of environmental threats and probability of their occurrence.

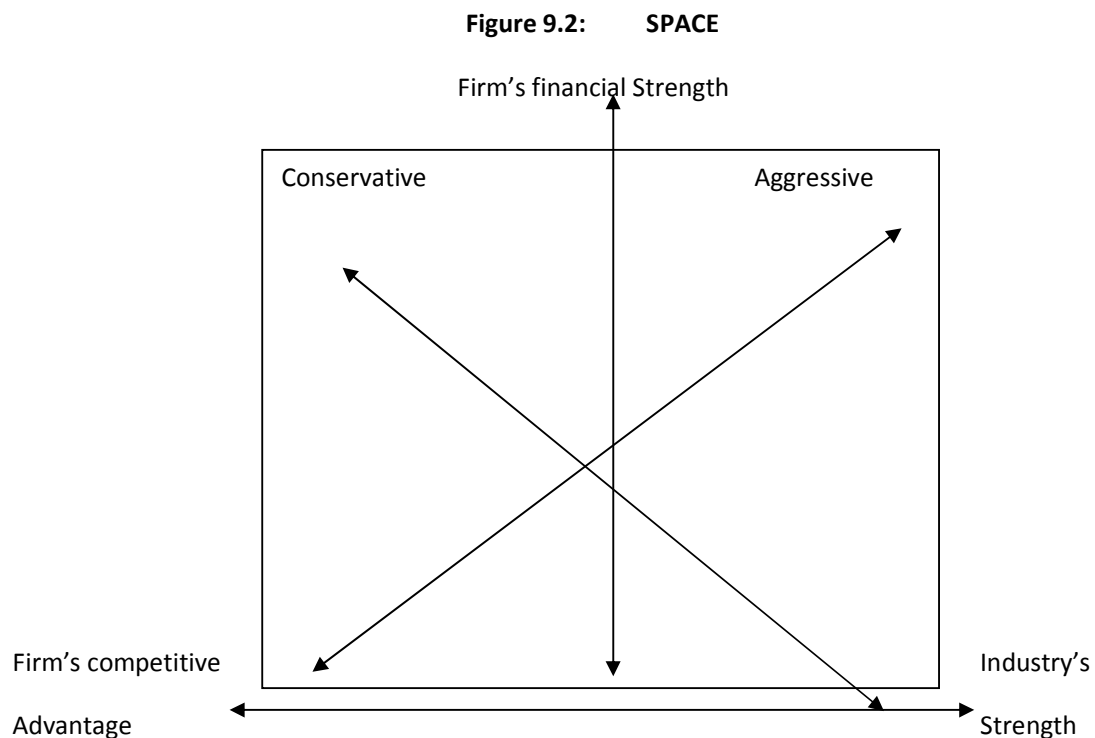
Figure 9.1: The Directional Policy Matrix (DPM)

Company’s competitive abilities

Weak	Divestment	Imitation/Phased withdrawal	Phased withdrawal /cash generation
			Expansion/Product differentiation
Average	Phased withdrawal/ Merger	Maintenance of position/ market Penetration	
Strong	Diversification/cash generation	Growth/Market segmentation	Market
<div> <div>Unattractive</div> <div>Average</div> <div>Attractive</div> </div> <div>(Business sector prospects)</div>			

(5) **Strategic Position and Action Evaluation**

SPACE is a technique that considers the firm's strategic position in tandem with the industry's strategic position. The firm's strategic position is viewed from the perspectives of both financial strength (e.g. Leverage, ROI, liquidity etc) and competitive advantage (e.g. product quality, market share etc). The industry's strategic position is also viewed from the perspectives of both industry's strength (e.g. growth, profit potential etc) and environmental stability (e.g. technological changes, competitive pressures etc) (Rowe et. al. 1982). When these two dimensions of two variables are combined, it will suggest or pinpoint likely strategic choice such as aggressive, defensive, conservative and competitive strategies based on simple rating system of the four variables put together (see figure 9.2).



Environmental Stability

Suggested strategies for each of the corners are:

- (i) Aggressive Posture
Firms with this outlook may select either concentric diversification or vertical integration strategies.
- (ii) Defensive Posture
Firms in this situation will select from divestment, liquidation or retrenchment strategies, all contraction strategies.
- (iii) Conservative Posture
Firms in this situation will select from concentration (stability) and conglomerate diversification strategies.
- (iv) Competitive Posture
Firms having this posture will select from any of concentric merger, conglomerate merger or turnaround strategies.

Note that the conservative posture may also suggest a no-growth strategy. Two related forms of no-growth strategies are redeployment and redeployment with concentration. Redeployment involves selling existing assets while purchasing and deploying assets in a different area such that the total assets of the firm remains essentially constant.

The strategy of redeployment with concentration involves redeploying existing assets, but in manner that makes one existing business unit a greater percentage of total corporate assets without increasing the total assets of the firm.

(6) **Hofer's Product-Market Evolution Matrix**

Hofer and Schendel (1978) offer a 15-cell life cycle Portfolio matrix. The matrix utilises two variables.

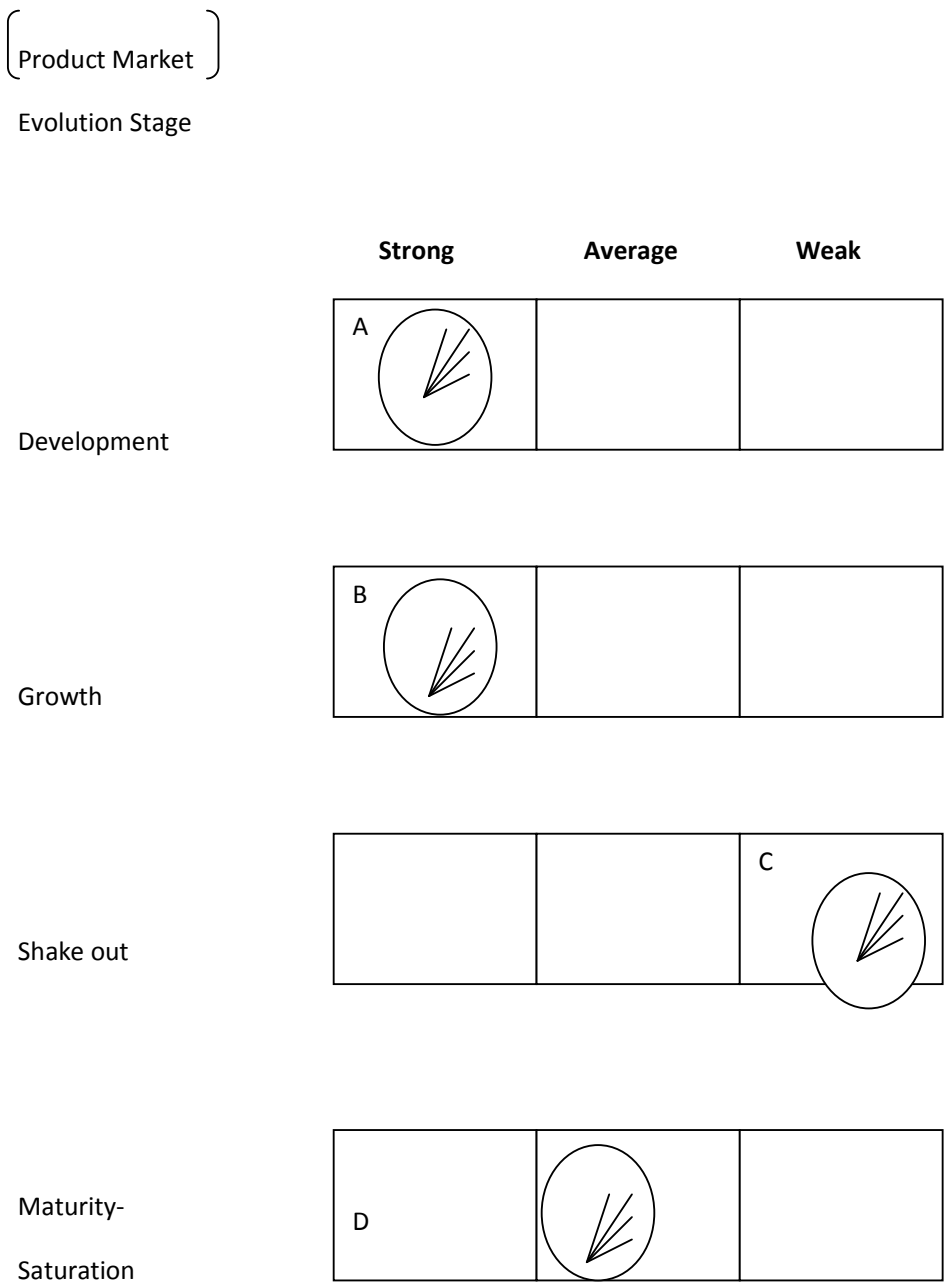
- (i) The stage of the development of the product or market. This factor is divided into five stages include: development, growth, competitive shake-out, maturity-saturation and decline – along the ordinate.
- (ii) The competitive position of different business units in a firm's corporate Portfolio. This factor is also divided into strong, average and weak competitive positions along the abscissa.

As appropriate in any of the 15 cells, circles are used to represent the sizes of the industries involved while pie wedges or segments are used within the circle to denote business market share.

Business could therefore be represented according to their industrial size and market shares. As can be shown in the figure 9.3, business 'A' represents a product/market with high growth potential and deserves expansion strategies. Business 'B' has a strong competitive position but has a product that is entering the shake out stage; it requires a cautious expansion strategy. Business 'C' is a potential looser and probably a dog while 'D' represents a business which can be used for cash generation that could be siphoned to A and B. Business 'E' is a looser and may be considered for divestment.

In this way, the product-market evolution matrix tells stories about the distribution of the firm’s businesses across the stages of industry evolution. What is required is analytical accuracy and completeness in describing the firm’s current Portfolio position. The ultimate purpose, of course, is to discern how to management corporate Portfolio and get the performance from the allocation of corporate resources.

Figure 9.3: Product/Market Evolution Matrix



Decline



(Competitive Position)

(7) Boston Consulting Group (BCG) Matrix

This is the first business Portfolio matrix to receive widespread usage. It is a four-cell growth-share matrix pioneered by a leading management consulting firm – Boston Consulting Group (BCG). The matrix utilizes two variables including:

- (i) Industry/market growth rate (y-axis)
- (ii) Relative market share position (x-axis). This represents the relative competitive position of the firm.

The relative market share (relative competitive position) is defined as the ratio of business's market share to the market share held by the largest rival firm in the industry, with market share measured in terms of unit volume, not money value.

The factor therefore shows the relative strengths of different businesses or products.

The market growth rate is represented in terms of percentage growth in sales projected for a particular market served by a particular business. It is usually measured as the percentage increase in a market sales or unit volume over the two most recent years.

The market growth rate provides an indicator of the relative attractiveness of the market served by each of the businesses in the corporation's Portfolio business unit. Circles drawn with the four cells represent different business units.

The size of the circle represents the proportion of corporate revenue generated from the business unit.

Different circle of different sizes therefore enables the management of the firm to visualize the current importance of the Portfolio of **businesses** (divisions, product lines, products, brands) as a revenue generator.

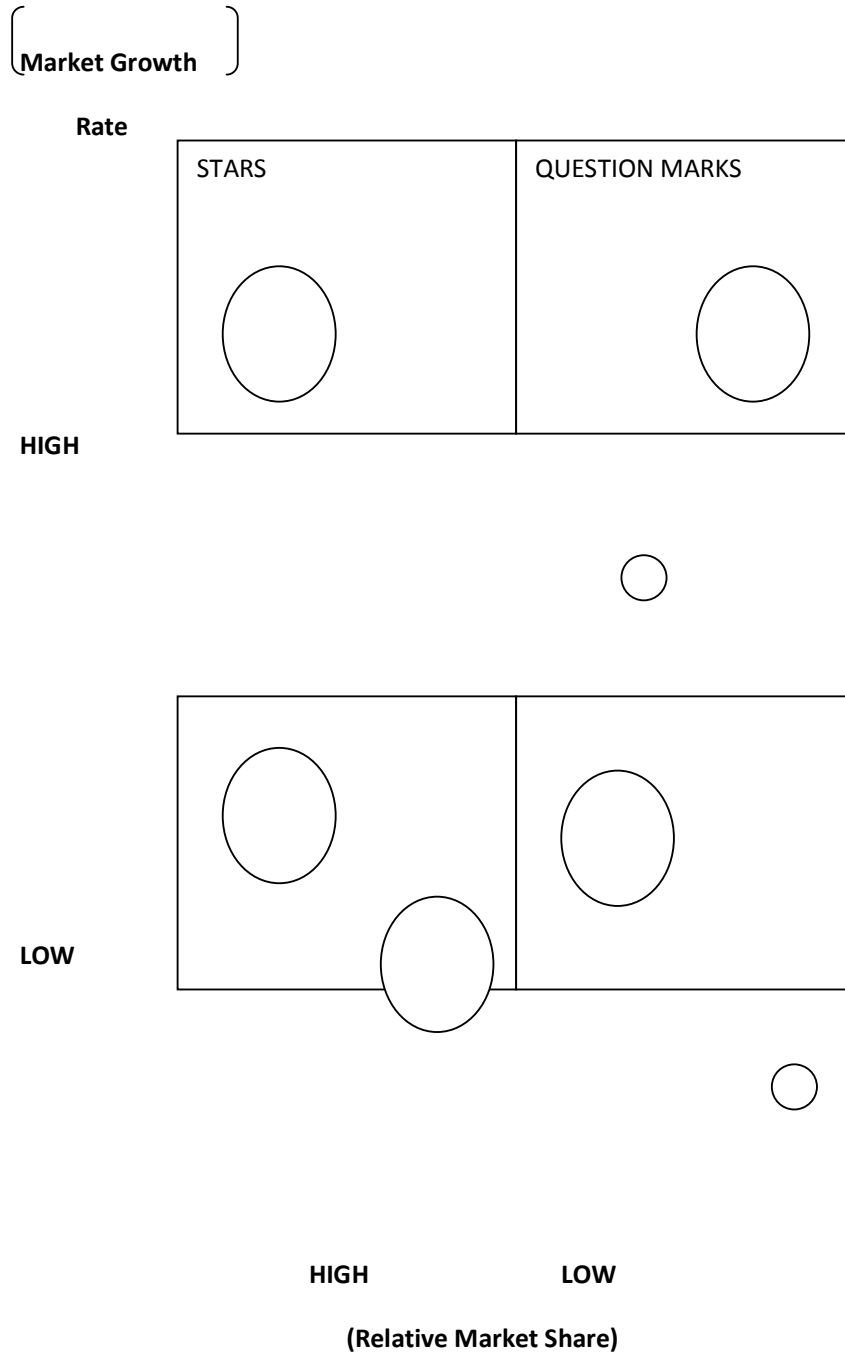
The matrix shows which businesses to flush out and what promising ones to add.

Market growth rate is usually lacerated into high and low areas by an arbitrary 10 percent growth line.

Relative competitive position is usually divided as a relative market share between 1.0 and 1.5, so that a high position signifies market leadership.

A BCG growth/share matrix therefore produces four cells of different strategic implications.

Figure 9.4: BCG Growth/Share Matrix



The four emerging cells are stars, cash cows, question marks (or problem children and dogs. They are explained thus.

(i) **Stars**

This represents high growth and high competitive position. They are businesses in rapidly growing markets with large market shares.

The SBUs in this category requires lots of cash to finance their rapid growth which will enable the firm to maintain (and expand) their strong position in a growing market. The financial requirement is often in excess of what can be generated internally.

The star cells analogous to the growth stage of the product life cycle (Plc). Expansionary growth strategies are warranted to establish and maintain a strong competitive position with regard to star businesses. Star businesses are short term high priority and gargantuan consumers of company's resources within the total business Portfolio.

Eventually, their growth will slow down, and will turn into cash cows and become major cash generators that will support other SBUs.

(ii) **Cash Cows**

Cash cow businesses have high relative market share or competitive position in maturing, low-growth markets or industries. They generate large amounts of cash in excess of what they need.

They require minimal reinvestment cash requirements for growth. Their surplus cash are selectively and sufficiently 'milked' by other SBUs especially stars and question marks that are cash users.

Cash cow businesses are analogous to businesses at the mature stage of product life cycle (plc) that are enjoying the benefits of experience curve. They often warrant the use of stability strategies, and where long term prospects are distinctively bright, they could adopt limited expansion strategies.

Cash cow businesses are yesterday's stars, and are currently the strong base of the firm's corporate Portfolios. They generate the cash to pay corporate overhead and dividends, they also provide debt capacity. They are managed to maintain their strong market share while efficiently generating excess resources for company wide use.

As 'cash cow' industries loose their attractiveness and tend towards decline, a phased retrenchment strategy may be called for, firms that are well entrenched in established markets are examples of cash cows.

(iii) **Question Marks**

These businesses are also called problem-children or wildcats. They are low market share SBUs in high growth – industries or markets. They require large amounts of cash to maintain or increase their market share. Management must think hard about whether to spend more to build these question marks into leaders or to phase them down or out.

Question marks are usually new products or services which have a good profit potential. Such SBUs are cash guzzlers because their cash needs are high as a result of rapid growth, while their cash generation is low as a result of small market share. If management is ready to spend the resources required on these wildcats, then, their market share may be increased for movement to the star group of SBUs. The long run shift from question marks to star will require expansion strategies. However, the wisdom of experience curve suggests that company that is leading others in the market will enjoy cost advantages and market leadership which will create entry barrier for other competitors. This wisdom suggests that if the firm with the “problem children” cannot do enough to turn these wildcats into stars, then a contractor strategy (divestment, retrenchment, liquidation) will be a feasible alternative. This will enable the company to reposition the resources there from in the other SBUs.

Question mark businesses are analogous to businesses at the introduction stage of PLC.

(iv) **Dogs**

These are businesses within the company Portfolio having low relative market share in slow-growth industries or markets. They are also called “cash traps”. The businesses are in mature or declining markets with low profit margins. Such businesses may generate enough cash to maintain themselves. They also neither generate nor require large amounts of cash. Such businesses face cost disadvantages due to low market share as a product of experience curve.

The only way out for dogs is to increase their market share in relation to their competitors. This is a remote solution because of the high costs involved. However, the feasible alternative for dog business units is nothing other than contraction strategy which may be any of retrenchment, divestiture or liquidation alternatives.

However, dogs can be managed for short term cash flows (through ruthless cost cutting) to supplement corporate level resource needs before the eventual contraction of the SBUs involved.

In conclusion, the BCG approach is an all inclusive technique that prescribes the total business portfolio of a company. The ideal balanced portfolio would have the largest sales in cash cows and stars, with very few question marks and dogs.

The major limitations of the BCG technique are:

- (1) The rather simplistic assumption that the growth rate of an industry represents market attractiveness while market share represents profitability is sometimes not the case in reality.
- (2) There are always practical difficulties in measuring the respective market shares and in identifying the market leaders especially in an oligopolistic setting.
- (3) There are always practical difficulties in measuring growth rate of a particular industry.
- (4) The high/low dichotomy of the matrix fails to recognize markets with average growth rates and businesses with average market shares.
- (5) The matrix is not particularly helpful in comparing relative investment opportunities across business units in the corporate Portfolio. For example,

- how should one question mark be compared to another to know whether it should be built into a star or divested? Is every star better than a cash cow?
- (6) Strategic appraisal of company's Portfolio of businesses transcends the examination of only two factors of relative market share and market growth rate. Other considerations may be technological, seasonal, organizational capability etc.
 - (7) The four-cell categorizations in the BCG matrix oversimplify the types of businesses one can find in a corporate Portfolio.
 - (8) The four BCG labels – star, cash cow, dog and question marks – do not enjoy popular usage among executives, as they create motivational problems in managers.

The terms are seen as negative and unnecessarily graphic. The terms are also static rather than dynamic (such as build/hold/harvest) and action oriented. The terms have meaning only within a BCG context, they do not evoke universal acceptance, validity and clarity of strategic.

(8) GE Nine Cell Matrix

The General Electric (GE) Company of USA supported by the consulting firm of McKinsey and Company popularized as adaptation of the BCG portfolio analysis technique.

The GE nine-cell Planning Grid tries to overcome some of the matrix weaknesses of the BCG technique. The 9-cell grid utilises multiple factors to assess industry attractiveness and business strength instead of the single measures (market share, market growth) used in the BCG matrix.

Also, the GE grid expanded the matrix from four cells to nine cells by replacing the high/low axes with high/medium/low axes to fine-tune the distinctions between business portfolio positions. The ordinate of the matrix represents industry attractiveness which is a weighted composite rating based on eight different factors.

These eight dimensions of industry attractiveness are market size and growth rates, industry profit margin, competitive intensity, cyclicity, seasonality, economies of scale, technology and social/environmental/legal/human factors.

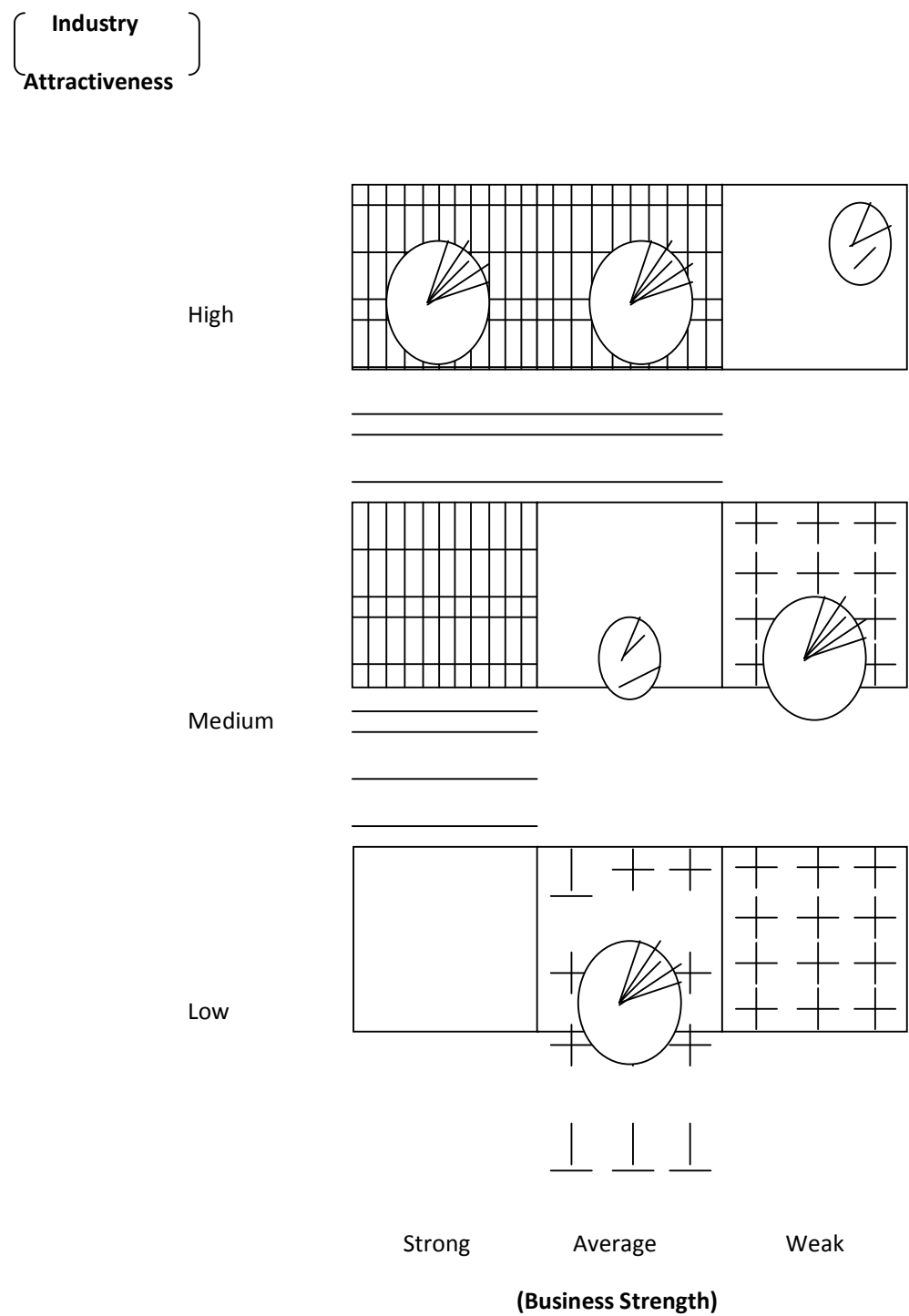
The abscissa of the matrix represents business strength (competitive position) which is also a weighted composite rating of seven factors. These seven dimensions of business strength are relative market share, profit margins, ability to compete on price and quality, competitive position, technology caliber of management, and knowledge of customer and market. The two composite values for industry attractiveness and business strength are plotted for each business in a company's Portfolio.

The circles drawn within the cells represent the proportional size of the industry and the segment within each circle denotes the company's market share. The industry attractiveness is rated on a scale of high-medium-low while business strength is rated on a scale of strong-average-weak. This produces a 9-cell matrix in all.

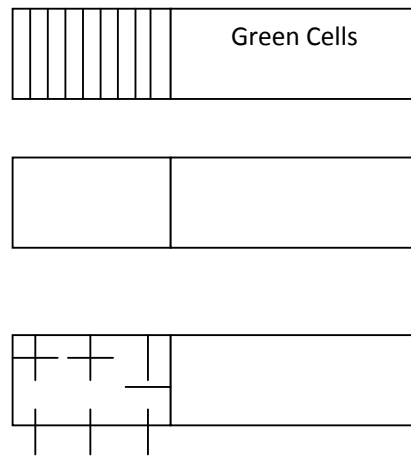
The nine cells are clustered into three zones of three cells each, represented by green, yellow and red colours.

This is why the CE grid is sometimes also called “Stoplight strategy matrix” reminiscent of traffic lights which displays green, amber and red colour for movement signals (see Figure 9.5).\\

Figure 9.5: GE Nine-Cell Matrix



Key



The various zones are discussed below:

(i) **Green Cells**

For the green zone, the signal is 'go ahead' to grow and build investments. This indicates the choice of expansion strategies. Businesses in this zone as well as industries have favourable industry attractiveness and also have strong business strength. They therefore have the green light to invest and grow. Management should select **build/improvement** strategy. The aim is to improve market position with the willingness to forgo short term earnings to realize this goal.

(ii) **Yellow Cells**

The yellow zone consists of the diagonal cells stretching from the lower left to upper right. The zone indicates industries or businesses that are medium in overall attractiveness and business strength.

The yellow signal means "wait and see", indicating that the company should adopt **hold/maintenance /preservation** strategies aimed at stability and consolidation. The strategy would preserve or maintain the market position or share of an SBU rather than reducing it or have it grow.

(iii) **Red Cells**

Industries or businesses in this zone are low in overall attractiveness and business strength. The red light signal means "stop". This indicates that the firms here must give serious consideration to harvesting or divesting. The company must adopt retrenchment strategies either to divest and liquidate the business or take a rebuild approach for adopting turnaround strategies. The **harvesting** strategy aims at getting short term increase in cash flow regardless of the long term effect. It is an appropriate strategy for businesses whose future is dim and from which more cash flow is needed.

Divestment strategy aims at selling or liquidating the business because regardless of the long term effect. It is very appropriate for dogs and for question marks which the company cannot finance for growth.

The GE 9-cell matrix apart from correcting most of the limitations of the BCG matrix is also a powerful analytical tool to channel corporate resources to businesses that combine medium to high position. The major limitation of the GE matrix is that it only furnishes wide strategic prescriptions rather than the specifics of business strategy.

On the whole, corporate portfolio analysis offers the following benefits:

- (i) It helps companies with diverse businesses to develop feasible strategic alternatives;
- (ii) It allocates resources among the diverse businesses;
- (iii) It provides skills for understanding the relationship between diverse business with a view to making strategic decisions;
- (iv) It furnishes strategic vocabulary and graphic aid for strategic communications;
- (v) It helps strategy implementation through increasing focus and objectivity which in turn enhance commitment.

Portfolio analysis is always limited by measurement, organisation, motivational and allocational (resource) problems. Portfolio analysis however deals with objective rather than subjective factors. Portfolio evaluation should be conducted regularly and frequently to encourage the generation and allocation of resources among business units, to realize objectives.

Self Assessment Exercise 9.2

What do you understand by Strategic Portfolio analysis? List and describe the techniques involved in strategic portfolio analysis.

3.3 Behavioural Factors in Strategic Choice Decisions

No one set of factor is sufficient to influence strategic choice. Strategic choice is often based on both quantitatively objective and qualitatively subjective factors. We have considered the various quantitative or analytical techniques in the previous section. This section explains the subjective or behavioral factors that may influence strategic choice. That is, strategies may be examined or evaluated on the bases of such judgmental factors before actual selection. Such factors are government policies, role of past strategic actions, perception of critical success factors and distinctive competence, top management decision style and attitudes towards risks, degree of firms' external dependence, internal political considerations, competitive reaction and timing. The factors are explained below.

1. Government Policies

Government economic systems may be one of capitalism, socialism or mixed economy. Within any of these systems, the government of a country may formulate policies that may facilitate, promote, regulate, restrict, protect, advice or participate in business activities. Also, government intervention in business may be partial or total, significant or insignificant and ad-hoc or permanent. Strategies to be adopted by business may be advised by government through its policies. Expansion and contraction strategies can only be selected if they are not an aberration to the government policies. Government policies are therefore a major subjective factor in screening strategic alternatives for firms.

The government industrial policy in Nigeria that large companies should utilise about 50 percent local value added, suggests that such companies must give emphasis to backward integration. Most multinational companies in Nigeria have selected this strategy for adoption based on government directive. Change in government is of utmost significance to industrialists as they are concerned with shifts in industrial policies and priorities and the effect they would impact on business. A substantial part of the chairmen's report in Company Annual Reports is usually devoted to the impact of government industrial and commercial policies on organisations performance. This suggests that government policy is a subjective factor that cannot be waived in strategy selection.

2. Role of Past Strategic Actions

The past may be prologue. Current strategic actions are usually the strategic choice of the past. Familiarity and commitment to past strategy in terms of devoted time, actions, resources and personnel is usually enormous and company wide knowledge. Therefore, any strategic choice that will take the organisation too far away from its existing position may not be welcomed. The past follows a track into the future. This strategic track has an idea of what the company may choose as strategy for future adoption. The strategists may not be willing to depart from this track or path that is set for the future. The track is usually cumulative and incremental in terms of experience and what strategy to adopt.

3. Top Management Style and Attitudes Toward Risk

Management style and attitude toward risk is a major determinant of strategic choice. The style of top managers may be aggressive and proactive or defensive and reactive. The style may also be conservative or competitive. The style of top management will influence the manager's attitude toward risk. Managers who initiate aggressive or competitive style will favour high risk taking orientation. They are likely to be entrepreneurial and growth oriented. They will select expansion strategies.

Managers who initiate defensive or conservative style will favour a conservative risk avoidance strategy. Such managers are likely to be cautious, pragmatic and favour stability oriented strategies. They will give emphasis to the market of true and tried products, avoid R and D, they will favour proclivity to low risk, average return on investments, internal financing of investments and adopt philosophy of cooperative coexistence with rivals.

Risk favouring managers will give emphasis to research and development, technological leadership, innovations, proclivity to high risk, high return on investments, external financing of investments and competitive "undo-the-rivals" philosophy (Khandwalla, 1977).

Both management style and attitude to risk are also dependent on the requirements of a particular business and its environmental contexts. They however act as fundamental subjective factors in strategic choice.

Risk orientation favours the choice of offensive, opportunistic strategies while risk aversion favours the selection of defensive, safe strategies. Industry volatility will require managerial propensity towards risk while industry stability may tend managers towards risk aversion and stability strategies.

Apart from style and industry's situation, another factor that will influence attitude towards risk is the product-market evolution or Plc concept. Firms in the early stage of evolution must operate with greater risk and growth strategies, whereas firms in the later stage of evolution cycle must operate with less risk and contraction or defensive strategies to minimise firm's weaknesses and external threats.

4. Internal Political Considerations

Strategic choice determines where resources of the organisation will go. Politics is who gets what, when and how. Strategy formulation and choice may therefore be viewed as a political game where power tactics and interrelationships are structured and balanced by coalition of interests. Strategic decisions in business are frequently settled by power rather than by analytical maximization procedures (Stagner, 1969).

The CEO is a major source of power in companies. In small firms, he is the dominant force in strategic choice, and this is also often true in large firms with strong or dominant CEOs. When the CEO begins to favour a particular choice, it is often overwhelmingly and unanimously selected. Sometimes, power groups or coalitions within the organisation often agitate for a particular strategic choice in their own favour to suite their own whims and caprices. Strategic choice considerations are often seen as a means of balancing power relationships/structures in organisations.

Such judgemental political negotiations for a strategic choice are often preferred to rational systematic analysis in organisations. Sometimes, the emergence of too many political groups or interests, each negotiating for a strategic choice in its favour, may suggest that the CEO is weak and unable to hold the centre of the centre in strategic decisions. It may also suggest that he is participative oriented in decision style.

If political behaviour is defined as those activities that are not required as part of one's formal role in the organisation, but that influence or attempt to influence the distribution of advantages and disadvantages within the organisation. Then, both legitimate and illegitimate political behaviour may attend to strategic choice decisions.

The use of power tactics such as sabotage, whistle blowing, symbolic protests, assaults, double cross, etc. to compel or manoeuvre the choice of a particular strategy represents hard ball playing or illegitimate behaviour. However, the use of power tactics such as forming coalitions, assertiveness, application of reasons, convictions, friendliness, bargaining etc. to drive at the selection of a particular strategy constitute legitimate behaviour in corporate politics.

In the government sector businesses, bureaucrats and politicians influence strategic choice, while multinational headquarters also sometimes try to influence the strategic choice of their subsidiaries. The importance of internal politics cannot be overemphasized as a subjective factor in strategic choice.

5. Organisation's Distinctive Competence

The most important skill of the organisation or what it can do best is called distinctive competence. For instance, Lever Brothers Nigeria Plc has strong expertise in the application or usage of vegetable oil. Whatever can be produced from edible oil is one of its provinces of competence. Any strategic choice to be made by any organisation would depend on its distinctive competence. A strategic choice that will require a type of competence that is not on the ground for now would be eliminated from consideration in favour of any strategy that will make use of the competence available. Apart from the competence, organisations would also select strategies that are based on the industry's critical success factors (CSFs) e.g. low cost production, raw material supply assurance, quality of after-sales service etc. Any organisation that is devoid or blank of the industry's critical success factors (CSFs) may have to look at another strategy by applying contraction strategies. Distinctive competence that fits industry's success factors may therefore engender the right competitive strategy in a particular industry. It is another subjective factors.

6. Degree of Firm's External Dependence

A selected strategy is to guide company's performance in the external environment. Owners, customers, suppliers, government, competitors and unions are some of the institutions of the firm's external environment. The needs of these institutions may discriminate what type of strategy a company can select. If a company is highly dependent on one or more environmental institutions, its strategic alternative and ultimate choice must accommodate this dependence (Pearce II et. al, 1988).

The greater the company's external dependence, the lower its range and flexibility in strategic choice. That is, the higher the firm's dependence, then the lower the flexibility in strategic choice or vice versa.

7. Competitive Reaction

The selection of any particular strategy must also consider the repercussion of the strategy on key competitors and also perceive what their reactions may likely be. For instance, the selection of an aggressive strategy by a firm may challenge a key competitor to retaliate by mounting an aggressive counter-strategy. In this wise, the initiator – strategists will have to evaluate the capacity of the competitor to retaliate and the probable impact of the retaliatory strategy on one's success. If the retaliatory strategy will be of no effect then, the initiator firm can forge ahead with the original strategic choice. But if retaliation will spell doom for the initiator, he has to consider another strategic choice..

8. Timing Considerations

Time is irreversible, irreplaceable and irrecoverable. Time element has considerable influence on strategic choice. Time itself is a strategic factor. External time constraints may limit strategic analysis and evaluation, where time serves as a constraint, the choice of defensive strategies may seem appropriate, but where time presents opportunities, then expansion strategies may be exploited.

Also, a good strategy may be endangered if it is undertaken at a wrong time. a wrong time may be too early or too late. Undertaking a strategy at too early a time may stretch company inventory capacity, lead to rising costs and space over-utilization etc. Strategy undertaken at too late a time may lead to production problems, marketing problems, unnecessary cost escalation's etc. Strategy should be selected and adopted at the right time to avoid the problems of time extremes. An early choice may lead to disruptive retaliation while a late choice may be over-delayed and so suffer from disruptive piracy of ideas. Also, strategy selection will also be influenced by the fit between management's current time horizon and the lead time (pay off time) associated with different choices. Another dimension of the time is the future; therefore, strategic choice will depend on various assumptions about the future conditions or future forecasts. Factors that may change future assumptions or forecasts are largely contextual e.g. economic downturn, labour strike, fuel problem, technological breakthrough, material shortages and other contingencies.

Changes in future time condition like this may require a contingency approach which would warrant the development of contingency strategies from scenarios.

Self Assessment Exercise 9.4:

Critically examine the behavioral factors involved in strategic choice decision

3.4 Contingency Strategies

Strategic choices are premised on various external and internal assumptions. A change or shift in these assumptions may invalidate the chosen strategies. If the changes are drastic – draconian, abandonment of the chosen strategies may be warranted, if the changes are simple, gradual, the strategies may have to be modified. To cope with such unforeseen contingencies, contingency strategies must be developed in advance to deal with uncertainties of the business future.

The external environment of the business is the powerhouse of future changes that may be gradual or drastic, for instance, changes within the social environment are usually gradual, changes within the regulatory or market environment are usually frequent, sudden and drastic and may only leave little time for strategic adjustments.

The external environment for different industries differs. The industries face different environmental attributes such as diversity, complexity, turbulence, hostility. Industries facing relatively dynamic environment require contingency strategies more than those facing relatively static or serene environment.

Companies facing serious turbulence may require the development of three scenarios – pessimistic, most like and optimistic – based on variegated assumptions in relation to critical variables. Many models exist to help firms develop and implement contingency strategies.

A model based on contingency planning process consists of three steps including:

- (i) Identify contingency events critical to the company;
- (ii) Establish the trigger points, and
- (iii) Develop strategies and tactics to deal with the dynamic situations.

Contingency strategies are of inestimable value to grand strategy masters in dealing with transient phenomenon like the business environment. However, a final step before strategy implementation is the formulation of a strategic plan.

Self Assessment Exercise 9.4:

In your own words, what do you mean by contingency strategies?

3.5 Strategic Plan

A strategic plan with other nicknames such as corporate, or group or perspective plan, is a document which furnishes information on the different elements of strategic management and the manner in which a company and its strategic gurus propose to put strategies into action.

Kazmi (1992) summaries the content of a comprehensive strategic plan as:

- (i) A clear statement of business definition, mission, purpose and objectives.
- (ii) Results of environmental appraisal, major opportunities and threats, and critical success factors of an industry.
- (iii) Results of corporate appraisal, major strengths and weaknesses, and distinctive competencies.
- (iv) Strategic choice made and the assumptions under which the strategies would be relevant. Contingent strategies to be used under different conditions.
- (v) Strategic budget for the purpose of resource allocation for implementing strategies and the schedule for implementation.
- (vi) Measures to be used to evaluate performance and assess the success of strategy implementation.

Self Assessment Exercise

Define strategic plan. List what the contents of a strategic plan.

4.0 CONCLUSION

The unit explains the steps in strategic choice, the techniques of corporate portfolio analysis, the subjective factors that may influence strategic choice, the need for developing contingency strategies along with strategic choice, and the contents of a strategic plan. Each of these issues are well expatiated and put in proper perspective for better understanding.

5.0 SUMMARY

In this unit, you have learnt strategic choice, the techniques of corporate portfolio analysis and the subjective factors that may influence strategic choice. You also learn about contingency strategies along with strategic choice and the contents of a strategic plan.

6.0 TUTOR MARKED ASSIGNMENT

1. A diversified company desires to identify strategies for the various businesses in its portfolio. How can it go about doing this?
2. The consideration of only objective factors in exercising strategic choice is not exhaustive. Explain

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UNIT 3: ACTIVATING STRATEGY

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1.0 INTRODUCTION

This unit explains how standing plans (policies, procedures and rules) as well as single-use plans (programmes, projects and budgets) amplify strategy in preparation for tactical actions.

These various elements of tactical and operational plans; narrow down the scope of long-range strategic plans into what can be manageable within a short range of time. each of these elements guide and activate the implementation of strategy and are therefore given sharper elaboration in this unit.

2.0 OBJECTIVES

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

- (i) define policy, examine its nature, list its sources and types, highlight and describe the disadvantages of written-formal policies, policy process and determination of standing plans;
- (ii) define procedures, list its objectives, benefits and disadvantages, analyse organisation procedure, state established organizational work procedures, enumerate and discuss the types and dimensions of procedures;
- (iii) analyse organisation procedure, state established organizational work procedures, enumerate and discuss the types and dimensions of procedures;

- (iv) discuss programme development, list steps in programme development and programmes and types, benefits of long-range planning, and discuss programme planning methods;
- (v) enumerate types and sources of resource planning for implementation, list resource terminologies, list the steps in resource planning, describe the approaches and means to resource allocation, discuss the factors that enhance resource allocation (budgeting).

3.0 MAIN CONTENT

3.1 Developing Policies for Implementation

This will be discussed under the following sub-topics.

3.1.1 Meaning of Policy

Policy is the fourth element of corporate plan; other elements according to their hierarchy include: purpose/mission, objectives, strategy, procedures, rules, programmes and budgets.

It therefore follows that “policies” amplify or explain and are derived from the first three elements, and it also gives birth to the last four elements. Policies are directives designed to guide the thinking, decisions and actions of managers and their subordinates in implementing the organizations strategy. According to Hicks (1967), policies, procedures and rules are different types of standing plans which are used over and over again. They are different from single-use or single-purpose plans such as: programmes, projects or budgets which are designed to attain specific objectives within short period of times.

Accordingly, policies are general statements that guide decision making, they define the boundaries within which decision can be made, and they direct decisions toward the accomplishment of objectives. In progression from objectives to policies to procedures to rules, the limits of broadness become increasingly narrower.

For Haimann and Scott (1970), policies are broad guides which lead to effective action. They are general statements which channel the thinking of personnel charged with decision making. Although they are broad, policy guides do set up definite limitations. As long as subordinates stay within these limitations, he will make appropriate decision.

3.1.2 Sources of Policy

The major sources by which policy comes about in organisation may be classified thus:

(1) Original Policy

This is the most significant. It is policy created by management. Such creation is one of the most important functions of management. Once it is originated as one of the broad policies by management, then it must be pursued by the lower managers. Policies may also be originated at or near the bottom of an organisation and flow upward. That is, they are generated at the operating and first line supervisory levels and imposed upward. This is the practice in Japan.

However, if certain matters are not recognised or provided for by the set policies adopted, or if regularly adopted policies are not enforced, customs may gradually emerge and achieve the generality, permanence, and authority of true policies (Haiman etc. al. 1970).

It is possible at times for policy to be formulated simultaneously from both directions. Such policy will incorporate top management’s point of view, but at the same time, it will give ample thought to what first line supervisory levels or even the employees largely affected by the policy feel it should contain.

(2) **Appealed Policy**

An appealed policy has a different origin. It is most often formulated in order to cope with some exceptional problem. They come about from the appeal of exceptional cases up the hierarchy of authority by subordinates who are not given adequate authority to handle exceptions. Such appeals are decided and re-decided upon and become precedents and guides for future managerial action.

Appealed policies are usually made to solve current problems. There is the danger that such appeals may be many, conflicting with one another and sometimes full of discrepancies. In this event, such policies may be referred to top management for more coverage, updating or clarification where they are checked into originated policies.

(3) **Externally-imposed Policies**

This means that policy has been imposed upon the enterprise by external factors such as the government, labour unions or trade associations.

The word “imposed” indicates compliance with a force which cannot be avoided. Trade association, for instance, may desire to eliminate trade or abuses and/or try to protect their members from destructive practices and competition.

(4) **Implied Policies**

These are policies which are stated neither in writing nor verbally. They are borne out of the fact that the policies are either too difficult to state, or that the nature of the company is too dynamic to set policies in certain areas or that the managers do not want to limit the freedom of employees too drastically..

3.1.3 Types of Policies

Policies may be written and formal or unwritten and informal. The positive reasons for informal, unwritten policies are usually associated with some strategic need for competitive secrecy. However, unwritten-informal policies may be contrary to the long-term success of strategy. Yet managers and employees often like the latitude granted when policies are unwritten and informal.

Written and formal policies must be carefully and explicitly stated and communicated so that those in the organizations who are to apply them will fully understand them.

Formal-written policies have multiplicity of advantages, viz:

- (1) The policy is explicit, so misunderstandings are reduced.
- (2) Managers have the chance to think through the policy’s meaning, content and intended use.
- (3) Unalterable transmission of policies is ensured.
- (4) Equitable and consistent treatment of problems is more likely.
- (5) Authorization of sanction of the policy is more clearly communicated.
- (6) A convenient and authoritative reference can be supplied to all concerned with the policy.
- (7) The key purposes of policies that is indirect control and organisation-wide coordination are systematically enhanced.
- (8) It is a useful aid in training and guiding staff, both old and new.
- (9) It can help annual management audit.
- (10) Written policy enhances the states of each department by showing that top management attaches importance to the function.
- (11) It provides a reference point against which principles and practices of strategic management can be evaluated.

- (12) Writing helps precision and clarity. The mere process of writing them down will uncover discrepancies, conflicts and omissions.

3.2 Developing Procedures for Implementation

This will be discussed under the following sub-topics.

3.2.1 Meaning of Procedures

Procedure means a subsystem. It is a planned sequence of operation for handling recurring business transactions uniformly and consistently e.g. procedures for processing an order, shipping of goods, accounting for the shipment, receiving payment for the sales, handling claims and adjustments, and analyzing sales (sales system). For each operation within a procedure, there is a method for accomplishing that phase of the work. A system is made up of many procedures or subsystems. A method is a manual or mechanical ways by which each operation is performed e.g. vacation procedures, exam procedures.

3.2.2 Objectives of Procedures

The objectives of procedures are as follows:

1. Elimination of unneeded information, unessential forms, records, and processes.
2. Combination of business forms and processes.
3. Simplification of the forms both in content and in method of preparation.
4. Mechanization of the repetitive, routine tasks at reduced cost.

3.2.3 Benefits of Procedures

Below are the benefits of procedures:

- (1) Reduction/elimination of waste motion, delays and errors in the smooth flow of work.
- (2) Reduction in the cost of performing routine company's work.
- (3) Responsibility is more easily fixed for satisfactory performance.
- (4) Training of personnel is simplified and becomes more effective.
- (5) Improvements are constantly made on existing procedures due to past experience.
- (6) Procedures help annual audit.
- (7) Details procedure for a particular department shows managerial support for it.

3.2.4 Guidelines for Control Procedures/Following-up Procedures

These guidelines must be followed in planning and controlling procedures:

- (1) Minimize procedures to those which are called for and necessary.
- (2) Design procedures to reflect and help accomplish organizational objectives and policies.
- (3) Analyse procedures to ensure a minimum of duplication, overlapping and conflict.
- (4) Recognize procedures as subsystems of a particular system, interrelated and interdependent.
- (5) Estimate the cost benefit of procedures to show the worth whiteness of any procedure.
- (6) Police procedures to accomplish the job intended by making available a procedural manual, training and employees in them and by following up (review).
- (7) Review procedures annually like performance appraisal to modify or eliminate within financial constraints.
- (8) Constant "tinkering" with procedures may be the biggest morale-regenerator. Procedural change for the sake of change frustrates.

3.2.5 Establishing Organizational Work Procedures

The first step in establishing a procedure is to look at the whole organisation “in the round”. The manager has to establish

- (1) what the main objective of the organisation is;
- (2) what work is involved in achieving the objective;
- (3) who is doing the work, this entails listing all staff, and their present contributions to the work;
- (4) what are the methods used to perform each operation;
- (5) the quality of the work being done.

Then it is necessary to make a full and detailed analysis of each operational step. Each step in the analysis must be examined closely.

- (1) To check whether it is necessary, that is, whether it achieves a specific purpose;
- (2) To see whether and where bottlenecks are occurring (to maintain the flow of work, these must be eliminated), and
- (3) To identify the interaction of the work involved with other sections/departments of the organisation.

The manager must watch the following in establishing and maintaining work procedures.

- (1) The bigger a system grows, the more chance there is of duplication of work and of records, and this must be guarded against.
- (2) Unnecessary writing, movement or effort must be avoided, as should all needless checking.
- (3) The procedures should be devised in such a way as to make exceptions unnecessary, or at least, as few as possible.
- (4) Ensure that the cost of operating the procedure is effective in terms of increased efficiency, whether productivity or any other benefit.

3.3 Developing Programmes and Projects for Implementation

Programmes, projects and budgets are the various elements of single-purpose plan. Single use or single purpose plans are designated to attain specific objectives within a stipulated, but relatively short period of time. They are not like standing plans that are used over and over again.

3.3.1 Programme Development

A programme is a sequence of activities evoked by some stimulus, such as a customer's order or the failure of the delivery truck to arrive on time or a worker's quitting a job (Khandwalla, 1977).

If the stimulus is one of those that keep on recurring, a routine will be developed to handle the situation promptly and efficiently whenever it occurs. Once such a routine is developed, there is little problem solving activity with regard to stimuli of the kind for which the routine is developed.

In this way, a programme minimizes cognitive strain, because solutions to recurring problems need not be discovered over and over again.

A programme serves as a control device since it specifies what must be done in specific circumstances and is an important part of the mechanics by which activities in an organisation are coordinated.

A programme requires goals, policies, procedures, rules, task assignments, resources to be employed, events, activities, network or sequence of activities duration and other elements necessary to carryout a given course of action.

Examples of programmes are expansion programmes, asset replacement programmes, management development programmes, training programmes. **Programme term** is the total length of time covered by a programme. Programmes can be developed in various areas of business functions including:

(1) Production Management

Examples are production programme, maintenance programme, plant layout programme, product or process development programme, purchasing programme.

(ii) Marketing Management

Examples are sales programme, promotion programme, distribution programme, research and development programme, pricing programme etc.

(iii) Personnel Management

Examples are recruitment/hiring programme, training and development programme, safety and welfare programme, wellness programme etc.

(iv) Financial Management

Find sourcing programme, billing programme, cost reduction programme, fund control programme, profit escalation programme etc. In any of these functions, programme term could be of three types including: long-term programme, annual programme and short-range programme.

Programming has four components including the existence of an objective function, alternative courses of action, limited resources which may create supply or demand constraints, and existence of skill and competence to get results within the limited resources.

3.3.2 Steps in Programming, Programmes or Projects

The following steps ensure better action programming.

- (1) Identify the objective of the organisation and the functional or derivative goals.
- (2) Identify the choice of a strategy e.g. diversification.
- (3) Narrow the strategy into the required corporate and functional policies, procedures and rules to guide implementation.
- (4) Within your own function, divide all the operations necessary to achieve functional and corporate objectives into parts, activities and events. State whether they are critical or slack activities.
- (5) Examine the relationship between and sequence of each of these activities. Observe the preceding and succeeding activities, and note activities that can be performed unilaterally, jointly or concurrently and their sequence.
- (6) Decide who will perform each of these activities or parts.
- (7) Decide how each part will be completed and the required resources needed to complete them.
- (8) Estimate the duration or time required for each activity or part (scheduling).
- (9) Assign definite dates (hours) when each activity is to take place.
- (10) Revise programmes, take new opportunities, and consider the effect of shifting resources from ordinary (slack) to bottleneck activities. These steps can be aggregated into design, implementation and evaluation phases.

3.3.3 Benefits of Long-Range Programming

Long range programming often evokes the following strengths.

- (1) It provides a record of the logical progression of activities involved in a programme or a project.
- (2) It enables a realistic completion time to be estimated.
- (3) It schedules the earliest and latest possible dates of all events in the network.
- (4) The initial construction of the network forces management to think logically and carefully about all aspects of the project before actually starting to do anything and incurring commitments.
- (5) It enables, by means of PERT/COST, the optimum economic scheduling of activities to be achieved.
- (6) It identifies the critical path and the critical or bottleneck activities needed in achieving the project completion time. To management, this indicates control priorities that a unit of time longer (e.g. a day) on any critical activity will delay the whole project or programme by the unit of time using extra resources/costs.
- (7) It identifies sub-critical activities which can be allowed to expand. the floats of these sub-critical activities indicate the degree of such expansion that can be accommodated.
- (8) It allows long-cycle actions to be started promptly so as not to miss opportunity e.g. a new product that requires three to five years for research, development, testing, process engineering and marketing.
- (9) Long range programming psychologically prepare top executives for a change as it aids adjustments to new and emerging conditions, whether good or bad.
- (10) Long range programming allows activities to be properly coordinated e.g. selection of executives for key posts, licensing of a company, patent etc.

The major weaknesses of long range programming include what programmes or projects to cover, what period to cover (e.g. five years), how will revisions be made and who is to develop the plan – a strategist, a tactician or an outside consultant?

3.3.4 Types of Programmes

Programmes vary in types, they include:

(1) Major Versus Minor Programmes

Any programme requiring heavy capital outlay and long in duration is a major programme, e.g. an acquisition programme to takeover a ₦100 million company, a five-year programme to improve the status and quality of supervisors.

A minor programmes requires relatively less capital assessment and are short in duration e.g. cleanliness programme instituted only in one department of the organisation by its head of department.

(2) Primary Versus Derivative Programme

A programme that is generic or operates at the corporate level is a basic or primary programme e.g. adoption of a post-graduate programme by a university (a generic programme) would call for various derivative programmes (that is, derived from the basic programme).

Such generic term embraces current academic staff inventory programme, hiring of more competent professions, training of current academic staff, building of post-graduate school complex, design of various derivative programmes such as masters programmes for all departments, post-graduate certificate and diploma programmes for all departments, design of doctoral programmes for all departments, support-staff development programmes etc.

(3) Long Range Versus Short Range Programmes

Long range programmes are those that have long duration e.g. five to ten years. Such programmes are underplayed by well-defined strategy. They are in fact programmes for general purposes.

Short range programmes cover a relatively shorter duration of time in relation to long range programme. Their programme cycles range between few months to two years.

These types of programmes are delegated to functional executives by top executives. However, top executive may take active part in such programmes if the amount of resources committed to all departments is large or when external relation and image is involved. The programmes are special purpose programmes, examples include expansion programmes, revision programmes etc.

(4) Discretionary Versus Routine Programmes

Programmes are routine if they have a high degree of recurrence, frequently observable, easily controllable and share strong interdependent relationship with other programmes e.g. program of maintenance of equipment and production programmes or sales and the extension of credit to customers.

However, programmes are discretionary if they have a low degree of occurrence, not easy to supervise, activities constituting the programme are relatively uneasy to observe but the output is easy to observe, supervise or measure, and shares less interdependent relationship with other programmes e.g. programme to secure a rate of return on employed capital of 20 percent, a programme to achieve a cost reduction of 15 percent, a programme to capture the market share of a competitor, a programme to defeat the opposing candidate.

(5) Standing Versus Ad-hoc Programmes

A standing programme is an enduring or interminable chain of activities, events and duration designed to capture objectives on a **recurrent** basis e.g. bachelor of science degree programme, examination programme, staff appointment and promotion programme, raw material programme.

An ad-hoc programme is a transient but terminable chain of activities, events and duration designed to capture specified objectives on **current** basis only. Another name for ad-hoc programme is **PROJECT**.

A higher national diploma (HND) course is therefore a programme to the school running it (on recurrent basis), but it is a project to students who want to graduate rather than to students who want to continue as students. An MBA course is a programme to the University authority, but a project to the students going through it unless they decide otherwise. In the same vein, existence (life) is a project, a very short one, to creatures such as human beings but it is a programme to God.

A road contract is a project if the contractor has a terminable duration to hand it over to government, but it becomes a programme if the contractor is given the mandate to construct it and manage it thereafter, for government. It seems therefore that programme embarkation harbor a lot of preventive controls while project embarkation would harbor a lot of costly corrective control. The former seems a better option.

3.3.5 Programme Planning Methods

Three major methods of network planning are in use.

- (1) CPM (CPA) (1957)
Critical path method (analysis) – developed by E.I. Du Pont De Nemours (and company and Remington Rand for the control of construction projects. It was first applied to maintenance scheduling in the chemical industry.
- (2) PERT (1958)
Programme Evaluation and Review Technique was developed by U.S. Navy and was first used in connection with the construction of the Polaris Missile system by the consulting firm of Booz, Allen and Hamilton.
- (3) MPM
Metra Potential Method – was developed 'SEMA' – European Consulting Group and was first applied to the construction of atomic power plants.

They all make use of project activities, precedence relationship between the activities and time estimates duration. Duration is the analytical point of departure between CPM and PERT. The duration for activities and the project in CPM are deterministic and known with certainty, while the duration for PERT is stochastic or probabilistic.

The network analysis methods can be used to manage political campaigns, personnel training programmes, design of academic programmes, construction projects, research and development, new project development, surgical operations, planned maintenance of machines and buildings, new business start-up, advertising/promotion campaigns, development and implementation of computer programmes, computer installation, congressional investigation, cash programming etc.

Network therefore is a programmatic re-presentation of all activities and events and their relationships in specified procedure order. By way of example, the Nigerian National Petroleum Corporation (NNPC) carries out two types of projects for oil and gas, namely: upstream and downstream projects.

The upstream projects consist of all activities related to exploration, discovery and extraction of oil and gas, their treatment in either flow-stations or compressor stations for oil and gas respectively, and their transportation and delivery to designated export terminals or to processing plants or refineries.

The downstream project consists of activities following delivery of crude to designated export terminals or processing plants. Such activities include refining and subsequent conversion of crude oil and gas into petrochemical products, transportation and marketing of the finished products and related ancillary services.

All organizations discharge one type of activities or the other, such as resource acquisition, workflow, control, identification and homeostatic activities etc. Sometimes, projects are part of specific programmes.

Self Assessment Exercise 10.4:

Differentiate between programmes and procedures.

3.4 Resource Planning for Implementation

This will be discussed under the following sub-topics.

3.4.1 Types and Sources of Resources

Resources are inputs for organizations use to realize strategic objectives. Strategic plan of the organisation represents the hopes and aspirations of the strategies. The development of standing plan (policies, procedures and rules) guide decision making and actions by furnishing a manual or a h

If the organisation is small, a manual which consists of the structural, policy and procedural aspects may be produced. Where the organisation is large, separate organizational policy and procedural manuals may be produced. They all guide the implementation of functions derived from corporate strategy of the organisation. While programmes and projects detail the task activities, their network and duration, budget allocates resources to the various programmes and projects for tactical implementation.

The financial, physical, human and infrastructural resources are derived from different sources. Financial resources drive other resources in its train, without finance other resources cannot be achieved; finance is therefore the basic resource used for creation and maintenance of other resources. All resources can be sourced both internally and externally. For example, internal sources of finance may include retained earnings, depreciation provisions, taxation provisions and other types of reserves like development rebate and investment allowance reserves.

External sources of finance consist of equity and debt (for long-term finance) and bank credit, hire purchase debt, trade credit and fixed deposits (for short-term finances).

Whether resources are sourced internally or sourced from outside, they carry merits as well as demerits of source. However, much depends on the top management policy relating to resource planning.

3.4.2 Resource Terminologies

Resource development for strategy implementation is centred around resource marshalling, allocation and deployment.

(1) Resource Marshalling

This refers to the processes of sorting out and sorting in and/or selection or choice of appropriate and adequate resources for a particular purpose. In a broad sense, it comprises of the choice of techniques, the choice of sources and funds, sourcing and selection of human resources, sourcing and selection of material resources etc. It means resource generation and acquisition. The success and growth of a firm depends, to a great extent, on the quantity and quality of resources marshaled. Factors that may endanger or limit the amount and quality of resources marshaled may be environmental such as legal constraint, government policies, rules and regulations, inadequate or limited supply of resources etc.

For instance, choice of a particular plant for production purposes may be limited by import restriction policy. Norms on debt-equity ratios may not permit choice of funds. Marshalling of critical human skills may also be hampered by manpower shortage. Resources marshalling can be measured by efficiency and effectiveness ratio.

(2) Resource Activation

This means the company develops its own resources within its internal capabilities. Human resources can be activated through training and development on-the-job and off-the-job. Material resources can be developed through backward vertical integration or through external supplier development effort. Financial resources can also be activated through internal source e.g. ploughing back etc.

(3) Resource Allocation

This means the distribution of funds and other resources among different users departments. Resources may be distributed on the basis of priorities of programmes and projects. Techniques for allocating (capital) resources among projects include the payback period, the accounting rate of return (ARR), the internal rate of return (IRR) and the net present value (NPV) techniques.

(4) Resource Deployment

This is the manner and the extent to which the marshaled and the allocated resources are actually utilized. Organizational structure is the vehicle for the deployment of resources.

Deployment involves the use of funds or resources after allocation is made. Factors that may engender resource deployment include: government policies, competitive conditions, market demand technology etc.

3.4.3 Means of Resource Allocation

Budget is the only means by which organizational resources can be allocated. A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources allocation of an enterprise for some specific period of an enterprise for some specific period in the future (Pandey, 1979).

The process by which a budget is produced is called budgeting. Budgeting is a systematic and formalized approach for stating and communicating the firm's expectations and accomplishing the planning, coordination and control responsibilities of management in such a way as to maximize the use of given resources to realize objectives (Pandey, 1979).

Put in a simple way, budgeting is the process of planned and controlling financial expenditure to aid the organisation in goal attainment. The following types of budgets are used to allocate resources.

(1) Master/Comprehensive Budget

This is a generic budget; it takes into consideration many changes, corporate activities and their impact on corporate objectives.

It consists of three important budgets, prepared from it, they are capital budget, operating budget and financial budget, all show the total resource allocation of the company.

(2) Capital Budget

It allocates resources for new projects or products, and also for expansion programmes and projects, together with their timing of estimated cost and cash flows for each project.

(3) **Operating Budget**

It allocates resources to various functional programmes or activities as well as resources for individual responsibility e.g. production budget, sales budget, purchasing budget, advertising budget, training and development budget.

(4) **Financial Budget**

This is the financial implication of resources allocated to various operations. It consists of expected cash inflows and outflows, financial position and operating results. Its components include cash budget, projected preformed, balance sheet and income statement, and statement of changes in financial position of the company (sources and uses of funds).

(5) **Zero-based Budget**

This reflects resource allocation based on fresh calculation of cost (nil or zero base) for each year rather than on the basis of previous year's budget for new Implementation activities. Good for allocating resources among competing units as ZBB does not perpetuate past anomalies and inefficiencies.

(6) **PLC-based Budget**

The budget allocates resources on the basis of stages in a products (SBU's) life cycle. A product in the introduction and growth stages may attract more resources and these resources may be diverted from the high-profit yielding products that have reached the maturity stage of their life cycle

(7) **BCG-based Budget**

Boston Consulting Group (BCG) matrix is also used for allocating resources. In the matrix, SBU's or products are identified as stars, question marks, cash cows and dogs. Investment decisions can be made on the basis of the type of SBU or product. Resources can be diverted, for instance, from a cash-cow to a question mark or a star. BCG matrix could, therefore, be a potent method of multi-product resources allocation.

(8) **Parta System**

'Parta' is a control device used for daily evaluation of net cash flow from operations, before tax and dividend. The budgeted 'parta' is a predetermined amount agreed upon between the chair person of the company and the business unit concerned. The total 'parta' system could be taken as a daily budgeting and reporting system.

(9) **Strategic Budget**

This is also called planning programming budgeting system (PPBS). It takes into consideration environmental changes, corporate strengths and weaknesses and their impact on corporate objectives. Considerations of achievable results override considerations for expenditure incurable. A time table is usually drawn up setting out stages or processes of prosecution and it is against that programme that resources are allocated and from time to time reviewed.

Apart from the benefit of resource allocation, other benefits derivable from budgeting include planning, control, communication, coordination and motivation advantages. All these positive impacts have bearings with successful strategy implementation.

3.4.4 Factors that enhance Resource Allocation (Budgeting)

The factors that enhance resource allocation or budgeting are as detailed below:

- (1) Top management must support resource allocation.
- (2) The presence of a structure or a committee for effecting resource allocation.
- (3) Participation in budget preparation by all managers required to commit allocated resources to implementation.
- (4) Departmentalizing of company activities into responsibility centres or cost centres to which allocated resources will go.\
- (5) There should be budget training and development for managers.
- (6) There should be budget education on company wide basis.
- (7) Availability of standard against which programmes and works can be translated into needs for labour, space and resources.

Standards will also aid the evaluation of resource utilization.

- (8) There should be realistic goals to which resources will be committed for attainment.
- (9) Designate somebody as a budget director. he would be responsible for coordinating budgets drawn from other departments from time to time.
- (10) Produce a budget manual – a written set of instructions and pertinent information that serves as a rule and reference for the implementation of a budget programme.
It expresses objectives, goals, procedures, structure, authority and responsibility relationship in the organisation.

- (11) Set the planning period for clarity sake. Planning period may be fixed or rolling.

In this case of a fixed plan period, a new plan for a specific period begins as the previous one ends e.g. (1995 – 1999), (2000 – 2004), (2005 – 2009) etc. It makes for definite accountability and responsibilities.

In a rolling plan, the first year of the plan is dropped and a new year is added to the plan at the end of each year, so that plan period remains of the same length e.g. (1995 – 1999, (1996 – 2000), (1997 – 2001), etc. This method provides flexibility and forward planning.

Planning period definition captures strategy implementation objectives over a long time.

Self Assessment Exercise

How do you plan resources for implementation?

4.0 CONCLUSION

This unit explains how strategic plan is amplified and activated into tactical plan in preparation for pinpointed tactical actions. Strategic plan is implemented by decomposing it into standing tactical plans such as policies, procedures and rules which guide implementation on recurrent bases. Strategic plan also find attitudinal expression in the development of single purpose, tactical plans such as programmes, projects and budgets which identify activities to be done, their sequence, their duration and identify resources required to carry out the activities, all in a path to realize strategic objectives only on current issues. the unit elaborated how each of the elements of the tactical plan is developed, the strengths and weaknesses involved and the various alternatives open to a tactician in anticipation of tactical execution.

5.0 SUMMARY

In this unit, you have learnt about the following:

- Developing Policies for Implementation
- Developing Procedures for Implementation
- Developing Rules for Implementation
- Developing Programmes and Projects for Implementation
- Resource Planning for Implementation

6.0 TUTOR MARKED ASSIGNMENT

1. Different between strategy and policy.
2. Explain the activities involved in policy formulation, implementation and evaluation. In what ways are these activities different from the activities of strategic management process?
3. Examine the factors that would engender or endanger the development of tactical plans and action plan.

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UNIT 4: STRUCTURAL IMPLEMENTATION

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7.0	References and Further Readings

1.0 INTRODUCTION

This unit takes the position that strategy formulation, implementation and evaluation take place in a structural setting built or modified for the purpose. Without a structure, no task activity may be performed. However, the structure must fit the strategy for desired results to be obtained.

Attempts to build a befitting or modifying an existing structure formally will also evolve an informal structure of roles, primary groups, power, influence, politics and status, all of which would partly influence the effectiveness or otherwise of strategy implementation and the realization of objectives and mission

Both the formal and informal structure of organisation will create a network of processes that are related to one another in a super structure system, such processes include: authority delegation, coordination, information system planning control, organizational change, etc. This unit reviews, not only the super structure, but also the sub-structural processes involved.

2.0 OBJECTIVES

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

- define and explain the concept of structure;
- list, examine and describe the dimensions of structure;
- discuss the structural alternatives for strategic choices.

3.0 MAIN CONTENT

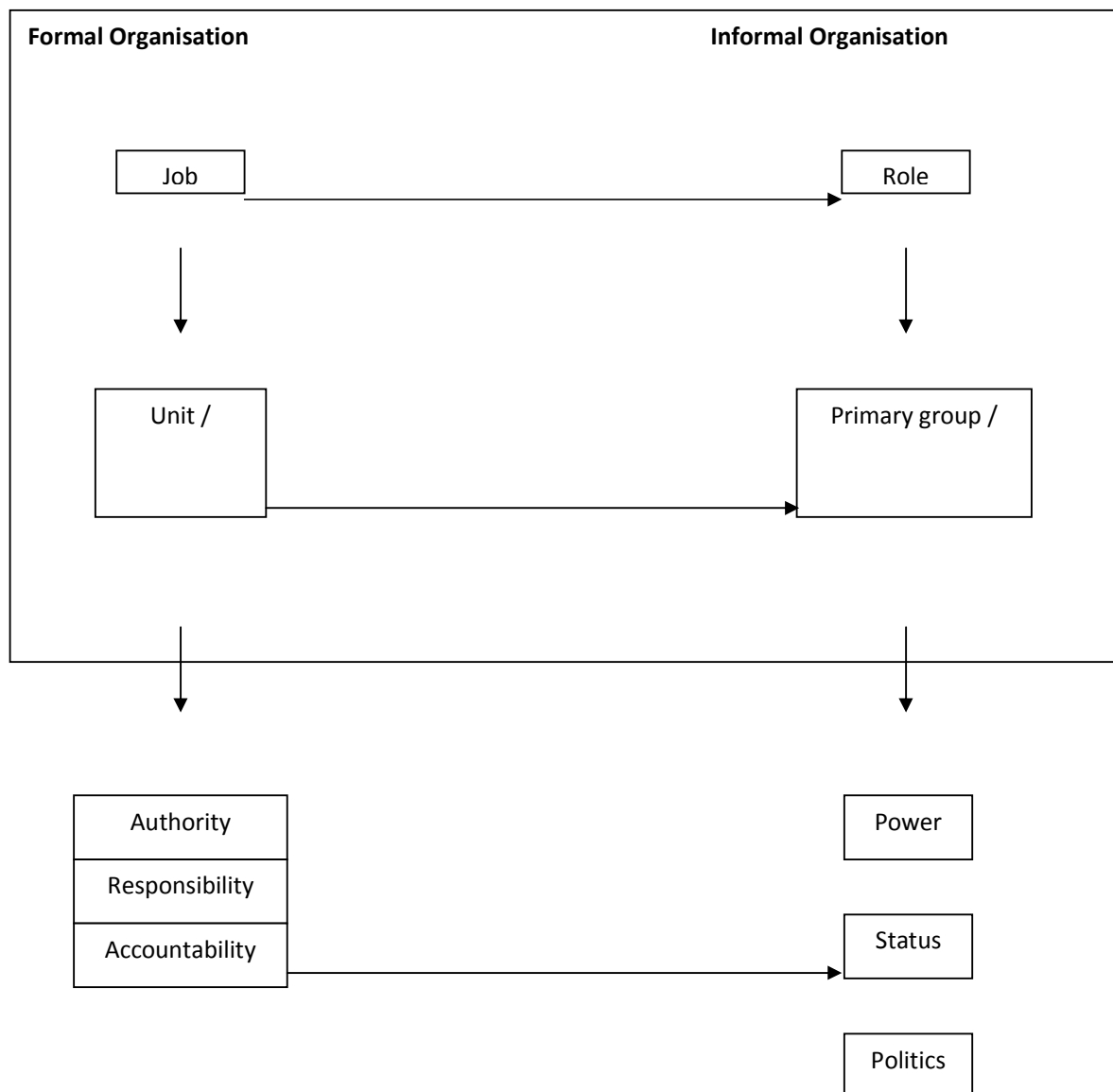
3.1 The Concept of Structure

An organizational structure defines how job tasks are formally divided, grouped and coordinated. Structure shows the conscious, formal and internal arrangement of an organisation for implementing strategies and realizing objectives and missions. It is a patterned network or framework of relationships among people and positions in an organisation.

Structure consists of two parts including the superstructure (the chart, organ gram or the skeleton) and the infrastructure (the sub-structural processes, the flesh and the blood) that is not as visible as the superstructure.

Managers need to address key structural elements when they are designing a new or modifying an existing structure to follow strategy. The elements include: work division, work grouping, or departmentation, work coordination, chain of command, span of management, organisation systems (e.g. information, appraisal, development, planning, reward and control subsystems), dimensions of structure and not the least important, structural design alternatives. Strategic gurus must also understand that their attempts to formally structure a business organisation will always lead to the emergence of an informal structure, which they must also accommodate rather than ignore. The informal structure will include the structure of roles, primary groups (group dynamics and processes) and the structure of power, status and politics. (See Figure 11.1). Addressing all these key elements of structure shows that structure is a multidimensional concept, which sometimes is taken to mean the degree of complexity, formalization and centralization in organisation.

Figure 11.1: Formal Versus Informal Organisation



The informal organisation may also consist of drinking and sleeping on the job, groups, sabotage, backstabbing, deviant behaviour etc. This is not to suggest that there is far more to organisation's than that prescribed by the formal. Essentially, structure must be deliberately set up to fit strategic choices so as to achieve corporate objectives, where activities, responsibilities and interrelationships are not structured in a way that is consistent with the selected strategies, then the structure is left to evolve per chance, the objectives and mission would also be achieved per chance. This is mismanagement per excellence, and those in charge are tyros, charlatans and damagers rather than managers. This is because management is the processes of not leaving anything to chance until results or objectives are realized – a technological definition.

Therefore, where strategy and structure are not coupled, compatible and coordinated, the result will probably be inefficiencies, loss of direction and fragmented efforts.

Chandler (1962) submitted that structure follows strategy. Child (1977) extended this nexus by submitting that the environment determines the choice of strategy; and both in turn determine structural choice.

Chandler (1962) observes, for instance, that as firms attempted to grow through product and geographical diversification, they changed from centralized structures to multidivisional structures that are largely autonomous in terms of decision making and operations, though major strategic and policy decisions are still undertaken by corporate headquarters.

The basis of structure has also been explained, in terms of stage development of an organisation, at a given point in time (Thain, 1969, Salter, 1970 and Scott, 1973). Experts are of the opinion that, as an organisation grows in size and diversity, the organisation changes from a simple to a complex organizational form, in a life cycle. An organisation, like a product, follows a life cycle consisting of introduction, growth, maturity and decline stages. These four stages are not distinct from one another and may even overlap.

Organisations in the first stage of this cycle have simplicity of objectives, operations and management. The design of the organisation is also simple and could be referred to as entrepreneurial. Strategies adopted here desires expansion strategy.

Organisations in the second stage are relatively bigger than organisation in the first stage, in terms of size and scope of operations. The relevant structural form is functional specialization or process design. The organisation is departmentalized on the basis of function into production / operations, marketing, finance and personnel departments. Alternatively, the organisation may be departmentised on the basis of process technology arranged in a particular workflow sequence. Strategy adoptable with this form may range from stability to unification (integration) strategies.

Organisations in the third stage are larger and broadly scattered organisations. They maintain units, plants or divisions in different places. Each division is semi-autonomous and linked to the

headquarters, but are functionally independent. The divisions have simple functional forms depending on their situational needs. Strategies favour here may range from stability to unification (integration) to fragmentation (diversification).

Organisations in the fourth stage are the most complex and fragmented. They are usually multi-plant, multi-product and multi-regional firms as a result of the adoption of fragmented strategies (related and unrelated diversification). The structural design is divisional. The corporate headquarters provide strategic direction and policy guidelines through the formulation of corporate-level strategies. The divisions, which may be companies, profit centres, SBUs, subsidiaries or units, formulate their business level strategies and may adopt structural choices in either the first, second or third stages of organisational life cycle.

Fayer Weather (1978) postulated a unification versus fragmentation paradigm, which attempts to explain multinationals' action in terms of strategic choice. Unification strategy corresponds to the firm's desire to integrate its global units into one entity while fragmentation strategy indicates the necessity to adjust policies and practices according to the environmental demands of the various nation stages. These conflicting demands differentiate the international business operations of MNC from large local company, while the latter is operating in a single homogenous environment of a given nation armed with the strategy (and structure) of unification /integration, the former is armed with a strategy (and structure) of fragmentation/diversification, and seeks to operate not only in a heterogeneous but also in complex socio-politico-economic environments of many nations.

From the foregoing theoretical foundation, it can be deduced that the determinants of choice of a particular structure will include:

- (i) The purpose or the mission of an organisation.
- (ii) The long-term objectives of an organisation.
- (iii) The strategies selected and adopted by an organisation.
- (iv) The stage of development of an organisation.
- (v) The demographic variables of an organisation e.g. size, business type, nature and structure of workflow technology.
- (vi) The environment interfacing an organisation e.g. the social, political, legal, economic and technological environmental attributes (contextual factors).
- (vii) The desired behaviour expected of employees and managers (backward linkage).
- (viii) The desired functions expected of managers and employees (backward linkage).
- (ix) The preferences and values of investors and top-managers of an organisation.
- (x) The resources, strengths and the distinctive competence of an organisation.

All these factors and others more will engender or endanger the selection of any particular form of structure.

3.2 The Dimensions of Structure

Structure, as stable, consistent, reliable and predictable patterns of relationships between position incumbents, can be evolved from the selection of portfolio of dimensions. The attributes, measures or dimensions of structure are:

- (1) Vertical Span
Number of levels in the hierarchy of authority from the bottom to top levels (Reimann, 1973).

- (2) Span of Control
Measure of the limits of hierarchical authority exercised by a single manager or how many subordinates an individual manager can or should supervise (Ouchi and Dowling, 1974).
- (3) Formalization
Extent to which the employee's role is defined by formal documentation (Reimann, 1973).
Proportion of codified jobs in the organizational unit (Hage, 1965).
- (4) Integration
The quality of the state of collaboration that exists among departments that are required to achieve unity of effort (Lawrence and Lorsch, 1967).

The basis of coordination between organizational units, either plans or feedback (Perrow, 1970).

- (5) Vertical Differentiation
Degree of cumulative authority and responsibility resting in various levels of hierarchy (Reimann, 1973). The number of hierarchical levels in a firm.
- (6) Horizontal Differentiation
The number of specialty functions represented in a firm (Weber, 1947). The differences in departmental manager's orientations towards particular goals, time requirements and interpersonal relationships (Lawrence and Lorsch, 1967). The number of functional specialization or units in the organisation.
- (7) Standardization
Measured by the range of variation that is tolerated within the rules defining the jobs (Hage, 1965).
- (8) Centralization
 - (i) The proportion of occupants or jobs whose occupants participate in decision making and the number of areas in which they participate (Hage, 1965).
 - (ii) The concentration of power arrangement (Thompson, 1967).
 - (iii)
 - (a) The locus of decision making with respect to policies.
 - (b) The degree of information sharing between levels, and
 - (c) The degree of participation in long-range planning (Reimann, 1973).
- (9) Administrative Ratio
Ratio of number of line supervisors, managers and staff personnel to the total of employees (Reimann, 1973).
- (10) Professionalization
This involves both structural and attitudinal dimensions (Hall, 1973). The structural dimensions include:
 - (i) Creation of full time occupation;
 - (ii) Establishment of a training school;
 - (iii) Formation of professional associates;
 - (iv) Formation of code of ethics;

The attitudinal dimensions are:

- (i) Use of the professional organisation as a major reference;
 - (ii) Belief in service to the public;
 - (iii) Belief in self-regulation;
 - (iv) Sense of calling to the field;
 - (v) Autonomy;
- (11) Structuring of Activities
The degree to which the intended behaviour of employee is overtly defined by task specialization, standard routines and formal paperwork (Pugh et. al. 1969).
- (12) Autonomy
The extent to which management has to refer certain typical decisions to a higher level of authority.
- (13) Specialization
(i) This is the number of occupational specialties (Hage and Aiken, 1967), (Hage, 1965) and (Reimann, 1973b). Horizontal differentiation.
(ii) The degree to which highly specialized requirements are spelt out in formal job descriptions for various functions (Reimann, 1973).
- (14) Complexity
The degree of vertical, horizontal and spatial differentiation in an organisation. The more differentiated they are, the more complex the organisation.
- (15) Delegation of Authority
Ratio of number of specific management decisions the executive delegates to the number he had to make (Reimann, 1973).
- (16) Spatial Differentiation
The degree to which the location of organisation's offices, plants or personnel are geographically dispersed.

An organisation that is more of these dimensions is highly structured while an organisation that is less of the above dimensions is less structured.

A high structured organisation may be necessitated by the strategy of stability. Such a structure will be typified by a vertically elongated chart, pyramidal in shape and in most cases, often characterized by serious problems of communication, control, bureau pathology, conspiracy, employee alienation, apathy, red-tapism, rigidity, lack of coordination, work to rules, resistance to change, inefficiency and sometimes, low performance. Such a high structure warranted by stability, high in specialization, standardization, formalization and configuration is often referred to as bureaucratic (Weber, 1947) or mechanistic (Burns and Stalker, 1963).

Conversely, a less structured organisation is often necessitated by expansionary strategy. Such a structure may be typified by a horizontally flat chart, exhibiting a collaborative pattern of relationships among the organisational participants. Such an adhocratic structure, make-shift rather than permanent, is referred to as organismic or simply organic (Burns and Stalker, 1965).

Reimann (1974) reported that decentralization, specialization and formalization are fairly independent of one another. That a high performing or an effective organisation could be relatively decentralized; specialized and formalised.

The dimensionality of structure rather than being universal, may be contingent on the types of organisation, the environmental situation of the organisation, organisation performance desired and a host of other factors earlier discussed as determinants of structure.

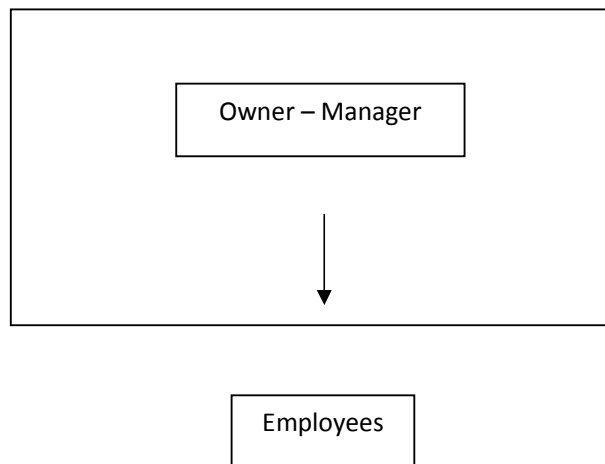
3.3 Structural Alternatives for Strategic Choices

Structural alternatives to match different types of strategies are discussed below. In practice, structural choices to fit a particular strategy may be a combination of the pure structures discussed below.

(1) Entrepreneurial Structure

This is the most elementary and the simplest form of structure, it is very much appropriate for an organization that is independently owned and managed by one person. All strategic, tactical and operating decisions are centralized in the owner manager. The owner-manager is on his own, he needs no permission or control of anybody. He provides the capital, takes decisions and assumes all risks. He may hire the labour of a few people. He is solely responsible for the success or failure of the business and has the sole rights to such profits as may be made or alternatively; bears the sole responsibility for such losses as may be made or accrue (See figure 11.2 below).

Figure 11.2: A Simpler or Entrepreneurial Structure



Strategic Advantages include:

- (i) Decision making is fast and rapid, because power is centralized;
- (ii) Easy control of all business activities;
- (iii) Timely adjustments to boundary or environmental changes and market signals;
- (iv) Simple and informal organizational system is afforded e.g. reward and information systems.

Strategic Disadvantages are:

- (i) May immerse the owner-manager in day-to-day routine activities at the expense of strategic decisions.
- (ii) May be grossly inadequate for the strategic or future expansion of the business.
- (iii) It limits the development of future strategic managers.
- (iv) The owner-manager is over-demanded and over-relied upon for all issues; it therefore limits delegation of authority necessary for future succession planning.

(2) Functional Structure

A functional structure is effective in single-business units where major activities revolve around well-defined skills and areas of specialization. A functional structure is based on the technology of the organization involving human skills, processes and equipment.

In such cases, profound specialization and focused concentration in performing tasks, projects and activities would enhance both operating efficiency and the development of distinctive competence. The use of specialized manpower, facilities, equipment and techniques are important considerations for organizations adopting any of the strategies of concentration, vertical integration and product development. These strategies require some kind of specialization which would also warrant kind of centralized, but functionally specialized structure. Specialization may be structured along the technique (process), equipment or occupational skills (line or staff skills). Process specialization would engender the grouping of activities around work processes. For instance, in the canning of beef, work may be grouped around butchering, precooling, cleaning, canning and cooking. Also, in the bottling of minerals, work may be grouped around mixing of materials, testing for quality, washing and drying of bottles, filling and corking of bottles, arrangements in crates. Equipment specialization would also facilitate work grouping along the special-purpose machine. For instance, in the production of plastic bags, employees may be structured around the ingredients' mixing machine, injection moulding machine, cutting machine, sealing equipment, styling equipment, counting machine and packing machine. Skills specialization may warrant structuring of employees around the major functions of an organization such as marketing, personnel, production, finance and any other staff function such as legal, auditing etc.

A functional structure seeks to distribute decision making and operational authority along functional lines. It also encourages delegation along such lines.

An organization structured along line functions shows an authority relationship where a manager has responsibilities for the activities of his subordinates in primary or major departments of an enterprise where the objectives and mission are primarily realized.

An enterprise structured along staff functions also shows a relationship where an incumbent task is to give advice or counsel to line managers e.g. legal advisers. Functional departments are usually centralized (see Figure 11.3, 11.4 and 11.5) below:

A functional structure is sometimes referred to as a unitary structure (U-form). Specialization of skills, processes and machines may also be along manufacturing or service activities. This also suggests that the functional structure may be purely a service-oriented structure, a manufacturing or processing structure, it could also be both, that is, combined.

Figure 11.3: Occupational-oriented Functional Structure

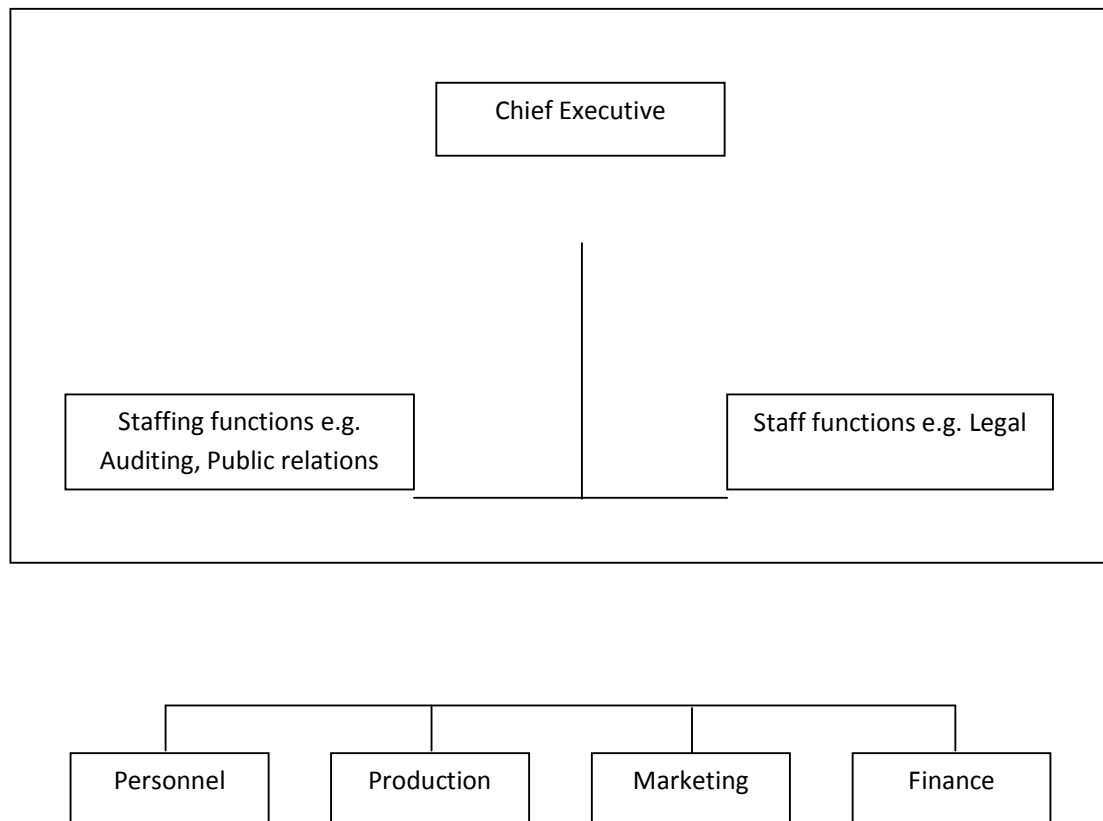


Figure 11.4: Process-oriented Functional Structure (Building)

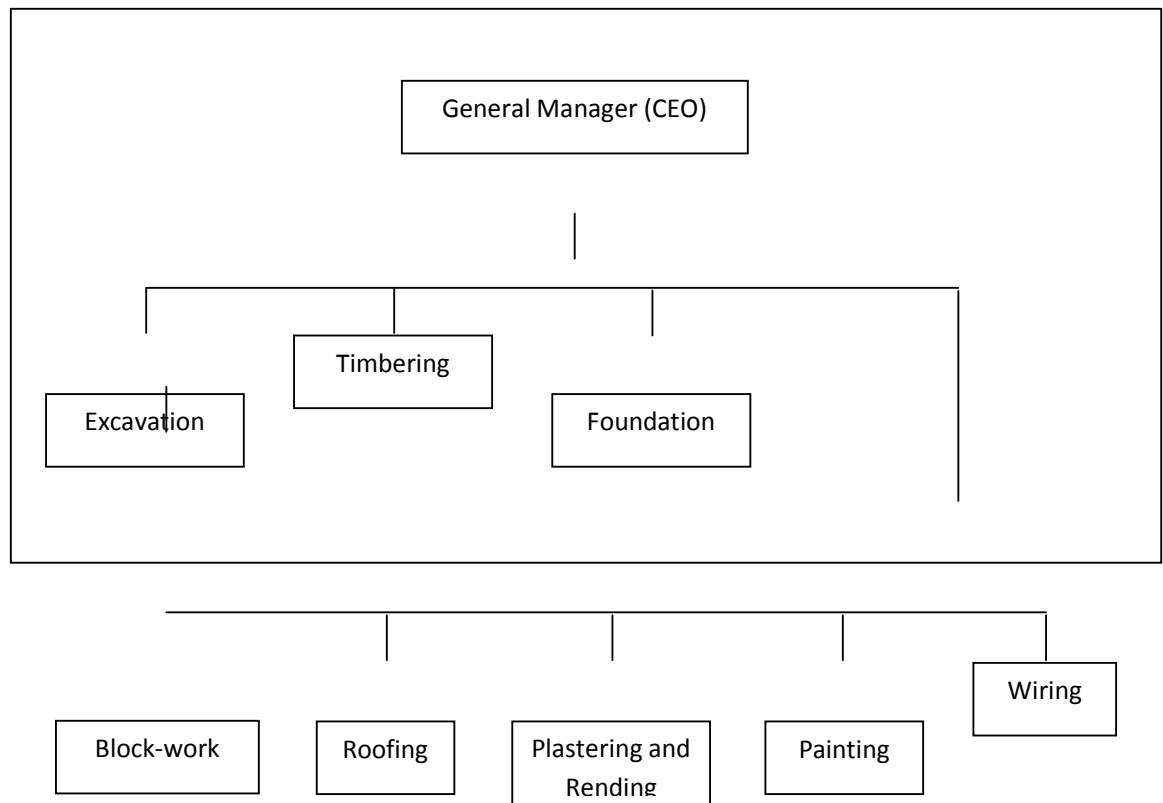
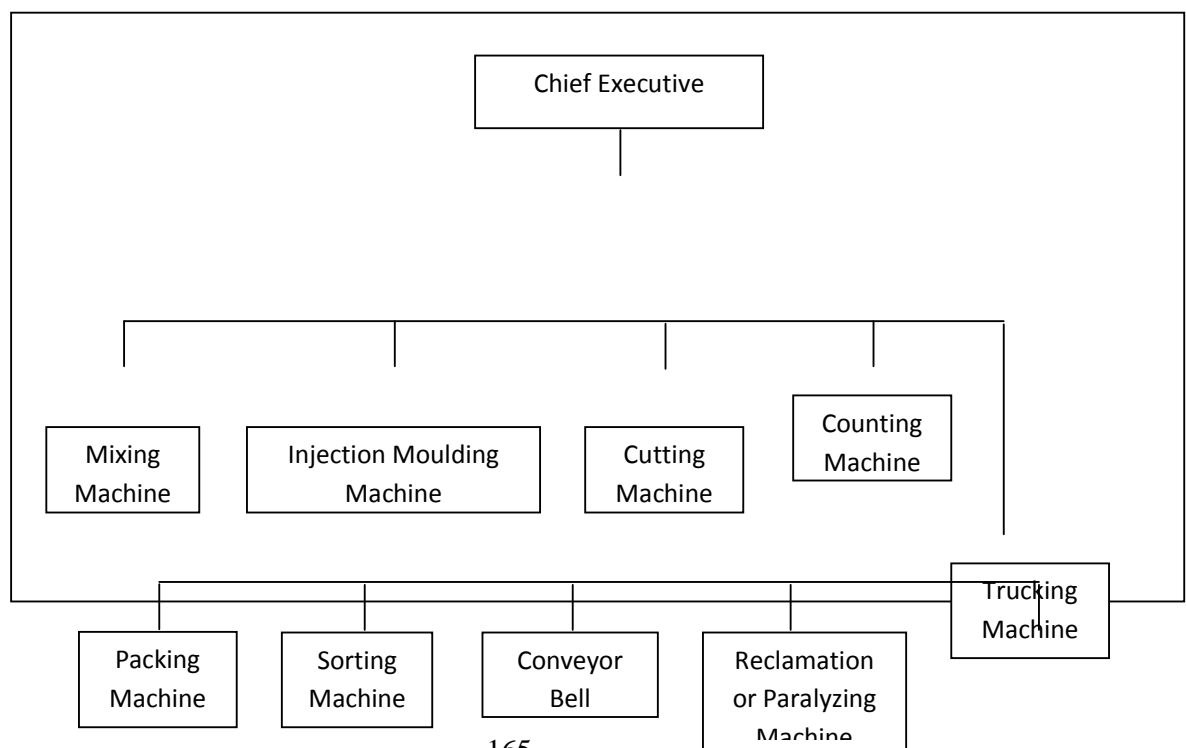


Figure 11.5: Equipment-oriented Functional Structure (Production of Plastic Bag)



Strategic Advantages of functional structure include:

- (i) Effective delegation of day-to-day operational functions;
- (ii) Enables top management to focus on strategic decisions;
- (iii) Efficient allocation of work through specialization or organizational technology;
- (iv) Improved development of future managers' functional expertise, and distinctive competence;
- (v) Permits centralized control of strategic decisions and results;
- (vi) Maintains power and prestige of major functions, processes and equipment;
- (vii) Furnishes a logical reflection of organizational functions for implementing strategy;
- (viii) Very well suited for structuring a single business;
- (ix) Conducive to exploiting learning/experience curve effects associated with functional specialization;
- (x) Good for social, political and economic projects. For instance, in social ceremonies, people are grouped around the processes of food making, canopy arrangement, supply of music, videoing, servers, bottle collection, supply of light / electricity etc.

Strategic Disadvantages of functional structure include:

- (i) Functional walls create difficulty in coordination of different functions to achieve overall results;
- (ii) Specialists with very narrow skills are created, often at the expense of the overall benefit of the organisation. This is over-specialization.
- (iii) It often generate inter-functional conflicts, rivalry and empire-building e.g. functional line versus staff conflicts;
- (iv) Limits internal development of general managers;
- (v) Makes economic growth of company as a system difficult;
- (vi) Creates problems of communication and control within and across functions, inter-functional decision-making is difficult;
- (vii) Forces responsibility for profit to the top only;
- (viii) May create uneconomical small units or underutilization of specialized facilities, manpower and capacities;
- (ix) Functional experience often create resistance to change (Paradigm paralysis);
- (x) Functional myopia and engrossment is always anti-entrepreneurship, anti-creativity, anti-innovation and anti-restructuring of activity-cost chain;
- (xi) May lead to group sabotage, functional make-belief, eye-service, dereliction of duty, functional pomposity, functional subterfuge and shameless profligacy.

Barring the disadvantages, the functional design is common and may exist in its original or modified form as the organisation graduate from the introduction, through growth to maturity stages of development. The functional structure only satisfies expansion and growth strategies to a very limited extent.

(3) **Divisional Structure**

A divisional structure caters for organizational complexity, growth needs, geographical expansions, unrelated market channels, market segmentation and environmental diversity. Therefore, it is most suitable for expansionary strategies such as growth and diversification. A divisional structure helps to meet the coordination and decision making requirements that may result from increasing diversity and size

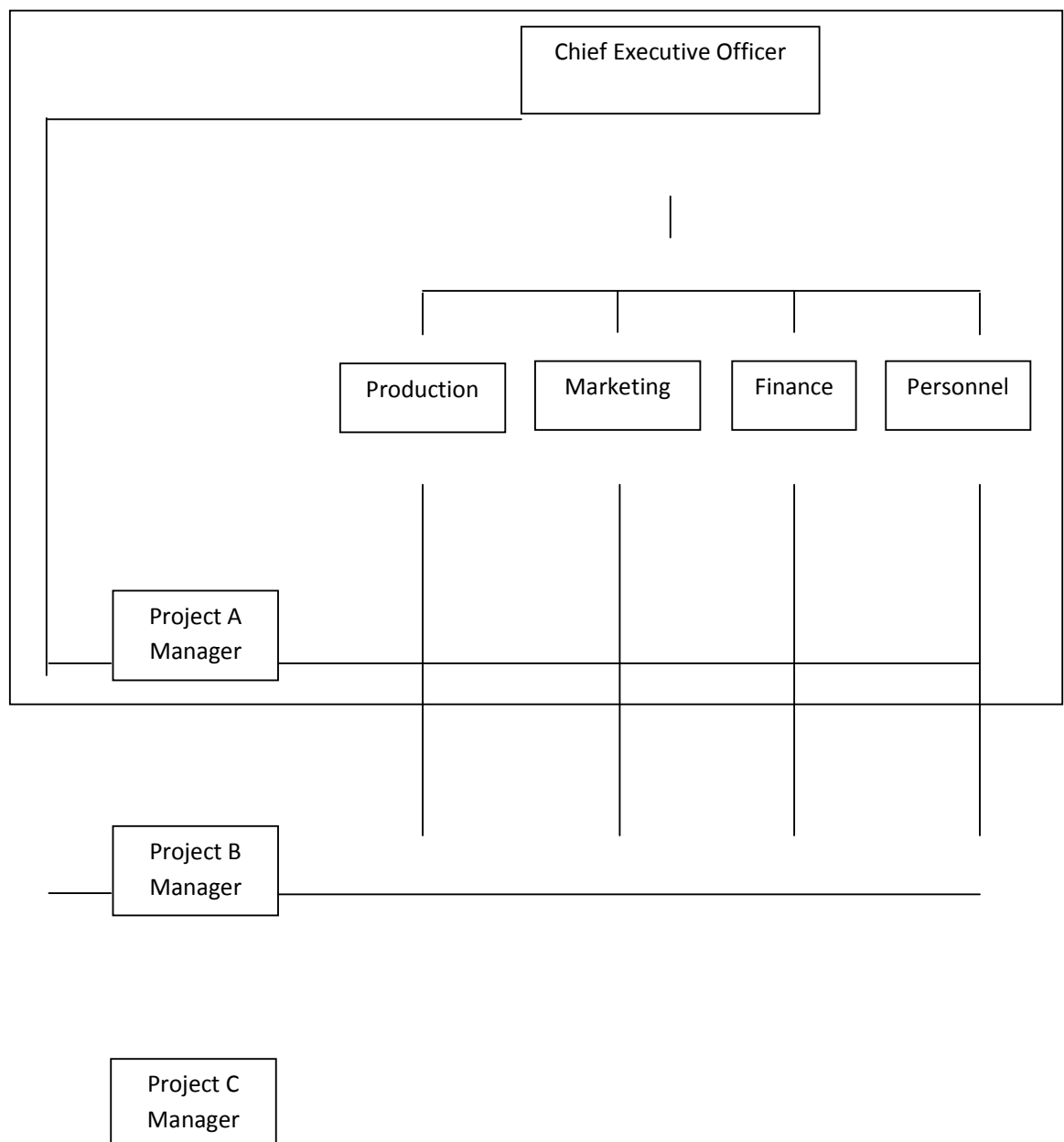
(4) **Matrix Structure**

A matrix organisation is a structure with two (or more) channels of command, two lines of budget authority and two sources of performance and reward.

The major feature of this structure is that product or project and functional lines of authority overlay one another to form a matrix or grid, so that managerial authority over the activities in each cell of the matrix is shared between the products or project manager and functional manager (see Figure 11.9).

Subordinates, in this type of structure, have a continuing dual assignment, to the product/project and to their functional departments. This produces a compromise between functional specialization and product/project talents and competence.

Figure 11.9: Matrix Structure



In the matrix structure for a College of Business Administration, the academic departments of accounting, business administration, finance etc. are functional units. The specific programmes such as: undergraduates, masters, etc. represent the products that are overlaid on the functions.

Members, in this structure, have a dual assignment, to their functional department, and to their product groups. For instance, a professor within the structure reports to the director of a relevant programme (e.g. masters) as well as to the chairperson or Head (HOD) of the Department where the programme is located, say accounting department.

The **Strategic advantages** of a matrix structure include:

- (i) Fosters creativity because of pooling of diverse talents;
- (ii) Facilitates coordination especially when the organisation has multiplicity of complex and interdependence activities;
- (iii) Direct and frequent contact between different specialties in the matrix can make for better communication and more flexibility;
- (iv) Matrix reduces bureaucratologies – The dual line of authority reduces tendencies of functional managers to become so busy protecting their little words to the extent that the corporate goals become secondary.

4.0 CONCLUSION : Both the formal and informal structure of organization will create a network of processes that are related to one another in a super structure system .such processes include : Authority , delegation , coordination , information system planning control, organizational change . An organization that is more of these dimensions is highly structured while an organization that is less of the above dimensions is less structured .

5.0 SUMMARY

In this unit, we have defined and explained the concept of structure. Furthermore, we listed, examined and described the dimensions of structure. Finally, we discussed the structural alternatives for strategic choices Strategic , Advantages and Disadvantages .

6.0 TUTOR MARKED ASSIGNMENT

Mention five advantages of functional Structures

Mention three disadvantages of functional Structures

7.0 REFERENCES AND FURTHER READINGS

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MODULE 5 INTRODUCTION TO CASE STUDIES/ANALYSIS

Unit 1 Methodologies for Case Studies

Unit 2 Case Studies

UNIT 1 METHODOLOGIES FOR CASE STUDIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Definition of Case Study
 - 3.2 Development of Skills in Case Study
 - 3.3 Case Analysis
 - 3.3.1 Recommended Steps in Case Analysis
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further References

1.0 INTRODUCTION

In this unit of Module 5, we shall discuss the methodology for case studies. This discussion will centre on the definition of case study, development of skills, case analysis including the recommended steps for carrying out case analysis.

2.0 OBJECTIVES

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

- (i) define the term 'case study';
- (ii) enumerate the skills to be developed in case analysis;
- (iii) discuss case analysis;
- (iv) list and explain the steps in case analysis.

3.0 MAIN CONTENT

3.1 Definition of Case Study

Omotola (2004) defined case study as a collection of facts, opinions and judgements relating to an actual business situation in which a problem exists and a decision must be made or taken. It is a study of the exact (or hypothetical) situation in a particular business. According to him, the case study method is one which encourages learning by doing.

3.2 Development of Skills in Case Study

The case study method of learning is used to develop in the manager or potential manager the following skills:

- (a) analyzing business situations;
- (b) diagnosing problems;
- (c) developing alternative solutions;
- (d) developing analytical ability and judgement.

(a) **Analyzing Business Situations**

Hornby (2006) defined analysis as the detailed study or examination of something in order to understand more about it. Analysis is a derivative of the word analyse which means to examine the nature or structure of something, especially by separating it into its parts in order to understand or explain it.

Analysing business situations means examining or studying the situation, condition or ecosystem of a business in order to explain the rationale behind different events or developments arising from the business. Before developing any given marketing strategy it is important to conduct some form of analysis. This should form an essential part of any business or marketing plan and should be reviewed over time to ensure that it is kept current.

The primary purpose for the situation analysis section of a marketing plan is to describe what is happening in the markets, in which the company competes, and the company's product and distribution trends.

The elements worth considering include:

- **Product Situation**

What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs. Feel free to also discuss here which of your client's needs your product is meeting.

- **Competitive situation**

Analyze your main competitors – who are they what are they up to – how do they compare – feature/ benefit analysis. What are their competitive advantages?

- **Distribution Situation**

Review your distribution Situation – how are you getting your product to market? Do you need to go through distributors or other intermediaries?

- **Environmental Factors**

What external and internal environmental factors are there which need to be taken into account. This can include economic or sociological factors that impact on your performance.

(b) **Diagnosing Problems**

This is the act of discovering, assessing or identifying something, especially an illness or problem. Diagnosing is a derivative of the word 'diagnose' which Hornby (2006) defined as "saying exactly what an illness or the cause of a problem is.

To diagnose is to discover the cause of or nature of a problem. It is to recognize the signs, the symptoms, or the presence of something. To diagnose is to recognize something undesirable. For instance, to diagnose in sales, is to recognize a gap between a prospect's or client's desired performance and actual performance. It is to understand the causes and nature of the problems and challenges. The ability to diagnose problems and challenges is the first step in closing the performance gap. Great salespeople have the ability to ask questions that uncover their client's problems and challenges, allowing them to utilize their business acumen to diagnose the problem. They are naturally curious, and they use every sales encounter to gain an understanding of their client's business. This curiosity results in an education and body of situational knowledge that allows them to recognize and identify not only their client's problems, but also the underlying root causes of the problems and challenges.

(c) **Developing Alternative Solutions**

Hornby (2006) defined development which is a derivative word from develop as "thinking or producing an idea, product, service, etc. and make it successful. It could also mean to make an idea, a story, etc. clearer by explaining it further. Relating this to a business, it means thinking or producing an idea that would serve as a solution or solutions to existing problems in a business.

The evaluation of potential solutions requires that you have defined each alternative in sufficient detail to recognize pros and cons. You also have to know what constitutes acceptable solutions to the problems you are trying to solve. When these two conditions are met, you can select the solution that best meets your needs. Cost/Benefit analysis compares the estimated cost of delivering a specific solution to the estimated value of the expected **tangible and intangible benefits**. Present the alternatives with estimated costs, expected tangible and intangible benefits to the decision makers. Document the decision, qualifying statements, concerns and all assumptions.

This clearly suggests that decision-making is necessary in planning, organising, directing, controlling and staffing. For example, in planning alternative plans are prepared to meet different possible situations. Out of such alternative plans, the best one (i.e., plan which most appropriate under the available business environment) is to be selected. Here, the planner has to take correct decision. This suggests that decision-making is the core of planning function. In the same way, decisions are required to be taken while performing other functions of management such as organising, directing, staffing, etc. This suggests the importance of decision-making in the whole process of management.

Decision-making is an essential aspect of modern management. It is a primary function of management. A manager's major job is sound/rational decision-making. He takes hundreds of decisions consciously and subconsciously. Decision-making is the key part of manager's activities. Decisions are important as they determine both managerial and organizational actions. A decision may be defined as "a course of action which is consciously chosen from among a set of alternatives to achieve a desired result." It represents a well-balanced judgment and a commitment to action.

It is rightly said that the first important function of management is to take decisions on problems and situations. Decision-making pervades all managerial actions. It is a continuous process. Decision-making is an indispensable component of the management process itself.

(d) Developing Analytical Ability and Judgement

Hornby (2006) defined analytical which is a derivative word from 'analytic' as using scientific analysis in order to find out about something i.e. business problems. This means using a logical method of thinking about something in order to understand it, especially by looking at all the parts separately. Through this method, it is possible to proffer solutions to problems in a business.

A managerial problem can be described as the gap between a given current state of affairs and a future desired state. Problem solving may then be thought of as the process of analyzing the situation and developing a solution to bridge the gap. While it is widely recognized that different diagnostic techniques are appropriate in different situations, problem solving as a formal analytical framework applies to all but the simplest managerial problems.

Smith (1998) identified the following problem-solving framework as: problem identification, problem verification, problem definition, root-cause analysis, alternative generation, evaluation of alternatives, implementation, post-implementation review as well as institutionalisation and control.

3.3 Case Analysis

Cases are 'business problems where business, facts, opinions, principles and judgements are in conflict' (Brown et. al., 1961 quoted in Omotola, 2004). When there is a conflict in a business environment, action must be taken by responsible executive. In analyzing any case, the analyst must have a thorough knowledge and understanding of the problem. He must be able to express his reasoning logically to convince his evaluator of the decision he has taken.

Wikipedia (2011) defined Situation analysis is a marketing term, and involves evaluating the situation and trends in a particular company's market. Situation analysis is often called the "three c's", which refers to the three major elements that must be studied:

- Customers
- companies
- competitors

The number of "c's" is sometimes extended to four, five, or even six, with "Collaboration", "Company", and "Competitive advantage".

A situation analysis is the foundation of the strategic planning process for any marketing plan. It includes an examination of both the internal factors (to identify strengths and weaknesses) and external factors (to identify opportunities and threats). A useful tool in performing a Situation Analysis is what we might call The C's of Marketing. The C's of marketing help companies focus on key elements that apply directly to marketing. Understanding these principles is essential in developing a successful marketing plan.

The 5 C's of Marketing can be summarized as (Milne, 2010):

Company – The product time line, experience in the market, etc.

Collaborators (or Partners) – Distributors, suppliers, and alliances. These are any companies that you work with on a day to day basis to help your company run.

Customers – This is your market. Ask yourself what benefits they are looking for. What motivates them in the purchase process? Where does the customer actually purchase your product? How the product is purchased (impulse buys, internet, etc)? Understand the quantity a customer will purchase and even trends in consumer tastes.

Competitors - Both your actual and potential competitors and those that directly or indirectly compete with you. Understand their products, positioning, market shares, strengths and weaknesses.

Climate (or Environment) - These are governmental policies and regulations that affect the market. It is also the economic environment around your company; which is the business cycle, inflation rate, interest rates, and other macroeconomic issues. Society's trends and fashions are found in the "climate." The technological environment is creating new ways of satisfying needs (i.e. using technology to enhance the demand for existing products).

Evaluating the company, collaborators, customers, competitors, and climate is a simple way to get a leg up on your competitors.

3.3.1 Recommended Steps in Case Analysis

Omotola (2004) enumerated the recommended steps in case analysis as:

- (a) The Problems or Questions;
- (b) The Facts;
- (c) The Alternative Course of Action;
- (d) The Decision and Reasoning; and
- (e) Implementation of Decision

Step 1: The Problems or Questions

Omotola (2004) advised learners to read the case study assigned to them carefully enough to remember many of the details presented in it. Every case analysis requires the **identification** of the **principal question** or **problem**. It is imperative that you determine the **basic problems** or **questions**.

Step 2: The Facts

It is vital that learners must **sift** and **sort** the **facts** of the case, even if there are a very large number of them. A time-consuming but generally productive technique is to **list the facts in order of importance** – the most **important facts first** and the **least important last**. Fill in the various facts in descending order of importance for posing this question to yourself: **“Just what do I need to know in order to answer the question?”** It should be noted that some

facts may be irrelevant, but care should be taken when discarding any fact. It may fit together with another seemingly relevant fact to make one highly relevant fact.

When they have been completely arranged in order of priority and importance, you should **review** and **revise** your **list** again, basing it on **logic** and even your **intuition**. It is also necessary to separate **objective fact** from **subjective opinions, assumptions, or conjectures**. Moreover, try to **identify** your own **speculations** and **opinions**, since they are **not** the facts of the case.

Enough facts should have been presented in each case for you to arrive at intelligent solutions. However, if you feel it is imperative that you make an assumption in the absence of some extremely important fact, **go ahead** and **make a reasonable assumption**. Be sure to **state** that assumption **clearly** in your **write-up**.

Step 3: The Alternative Course of Action

What can be done to resolve the problems? Stated in a formal manner, what are the alternative courses of action?

Often, you may come up with many alternative courses of action. However, you may need to dismiss some of these alternatives as impractical. For example, some courses may clearly violate the **long-term objectives** of the **organisation** or some **short-term goals** of the **operating period**. These objectives and goals are sometimes stated but more often must be inferred capital constraints may rule out some alternatives; and behavioural factors may rule out others. You should then reduce your list of alternative courses of action to the barest minimum consistent with the **issues** to be addressed within the content of the case study.

These selected alternatives must be **formally evaluated**. You should list the **merits** and **demerits** of each. Think in terms of the **advantages** of each alternative and the **risk** it entails. This procedure requires great care, but if it is done thoroughly, it puts you in a good position for Step 4 below.

Step 4: The Decision and Reasoning

You should now select the action that provides the **best answer** to the **problem**. In doing so, compare and contrast the **merits** and **demerits developed** in **Step 3**. Make your **selection**. **Be sure** that you **state clearly** the **main reasons why you select** one **alternative** over the others. **For each rejected alternative**, state why **your chosen alternative is better**.

Your process of reaching a **decision** throws up your **analytical** and **diagnostic ability** – and you must do everything you can to improve that process. Trying to communicate it orally and in writing to colleagues or subordinates or other course participants is excellent practice for developing this vital managerial ability.

Step 5: Implementation of Decision

Your decision is not complete until you prepare at least **draft operational plan** for its **implementation**. Draw up a **statement** of:

- (1) What must be done to carry out your decision?

- (2) What person must be assigned to do it?
- (3) When should the action be carried out?
- (4) How much roughly will it cost to do it?

You are dealing with **actions, existing or new personnel, timetable, and a rough budget**. In most cases, you cannot give highly detailed or precise answers to the questions in **Step 5**.

However, rough estimates are infinitely better than no estimates at all; for they force you to bring to **a logical conclusion or to a logical process of thinking**.

4.0 CONCLUSION

From the unit, you learnt that a case study is a collection of facts, opinions and judgements relating to an actual business situation in which a problem exists and a decision must be made or taken. You also learnt that a case study method of learning is used to develop in the manager or potential manager the following skills:

- (a) analyzing business situations;
- (b) diagnosing problems;
- (c) developing alternative solutions;
- (d) developing analytical ability and judgement.

5.0 SUMMARY

In this unit, you learnt the definition of case study, enumerated the skills to be developed in case analysis, explained case analysis and listed/discussed the steps in case analysis.

In the next unit, you will come across and treat case studies to enable you put into practice what you have learnt in this unit.

6.0 TUTOR-MARKED ASSIGNMENT

1. Define in your own words what you know as case study.
2. Enumerate and briefly explain the skills to be developed in case analysis.
3. Define case analysis. What are the steps in case analysis? List and briefly discuss them.

7.0 REFERENCES/FURTHER REFERENCES

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UNIT 2 CASE STUDIES

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1.0 INTRODUCTION

In this unit, you will come face to face with practical problems situations for your analysis and then judgment or decision-making.

With this unit, you have come to the end of this course. Congratulations.

2.0 OBJECTIVES

At the end of this unit, you must have developed and possessed the skills and abilities to analysis business problems and cases with a view to taking appropriate judgement or decision aimed at resolving those problems.

3.0 MAIN CONTENT

3.1 Microsoft Corporation (A)

In 1994, Bill Gates stood at the pinnacle of American success. He had become the youngest billionaire in US history, with a net worth of more than \$4 billion. In appearance, he was a most unlikely captain of industry. He looked as if he were 25 or younger, with an engaging boyish charm combined with the large round eyeglasses and energetic but highly focused look of the computer hacker reporters had once described as a nerd.

In 1994, with among the highest market values on the stock exchange, Microsoft was both a distinguished success – and an increasing competitive and antitrust target. How had this phenomenon grown? What problems did it face? Where would it go from here?

The Early Years

From the beginning, Bill Gates was a phenomenon, reading the encyclopedia from beginning to end when he was only 7 or 8 years old. He once memorized a 3-page monologue for a school play after a few seconds' glance at the material. From an early age, he worked all hours of the day and forced himself beyond anyone's expectations. When his grammar school teachers asked for a 4 – 5 page paper, Bill would respond with a 30-page treatise. Enrolled in Seattle's exclusive Lakeside School, Gates' competitive spirit was egged on by some of the finest young minds in the region. In the classroom, Gates became legendary for solving mathematics and physics problems faster than anyone else – and a capacity to see uniquely efficient mathematics solutions.

However, it was Lakeside's early acquisition of computers that changed his life. Gates and his friend, Bob Allen, became night and day users of a teletype machine that played into a PDP – 10 DEC Computer General Electric operated from a nearby Computer Centre Corporation (CCC). Fortuitously, BASIC was the time sharing language the system used. Gates' group would wrestle with the computer all night to debug programs for CCC, surviving on Coca Cola and pizza – a style which Gates continued for years. Soon Gates and Allen formed other money making projects: Traf-O-Data to develop traffic statistics, payroll programs for local companies, and debugging systems for TRW. Before he left Lakeside and went to Harvard, Gates commented matter-of-factly, "I'm going to make my first million by the time I'm 25".

The Beginnings of Microsoft

Gates never graduated from Harvard, leaving in his junior year. He worked hard and did well in courses he cared about, but slouched through the rest. He spent many nights in the Aiken Computer Centre working 36-hour stretches, collapsing for a few hours, and then with pizza and Coca Cola returning to work again. He also played lots of poker. His roommate said, "Bill had a monomaniacal quality. He would focus on something and really stick with it. He had a determination to master whatever he was doing ... (He sort of decided) where he was going to put his energy and to hell with what anyone else thought."

Then on a cold winter day in December, 1974, Gates and Allen came across an announcement in Popular Electronics for the Altair 8080, stated to be the "world's first microcomputer kit to rival commercial models". The company making Altair was MITS operated by Ed Roberts, an enormous bear of a man, out of an abandoned restaurant in Albuquerque. In a prophetic event, Roberts had shipped his only working model of the Altair for Popular Electronics to test. It never arrived. The world's first home computer was lost in transit. The picture in Popular Electronics was of a metal shell with eye-catching lights and switches on the front, shipped empty to New York.

One week after reading the article on the Altair, Allen and Gates called MITS and claimed to have written a program that would allow the Altair to be programmed in BASIC. When Roberts expressed interest, Gates and Allen, lacking an Altair, wrote the BASIC program using a simulation based upon a manual about the 8080 chip it contained. They completed the project in eight weeks of night and day activity. But they had forgotten the "bootstrap" program to load BASIC on to the Altair. They wrote that on the plane to Albuquerque for a demonstration. Miraculously, the whole thing worked on the first demonstration for Roberts. The first software program ever run on what would become known as Microsoft BASIC was

a “lunar landing” program Gates wrote on the spot, similar to one he had earlier programmed at Lakeside School. In July 1975, Gates and Allen formed a partnership called Microsoft (short for Microcomputer Software) with the intent of developing computer languages for the Altair and other microcomputers they were sure would follow. The Altair was inherently limited by the Intel 8080 chip, on which it was based.

Licensing

Their very first agreement (with MITS) gave Gates and Allen royalties from the licensing of their BASIC, with or without the accompanying sale of MITS hardware. Under the terms of the contract, they could earn only a maximum of \$180,000 in royalties. They were willing to do this to obtain the distribution MITS had to offer. But from the beginning, Gates’ mission in life was “to provide all the software for microcomputers”. Later, Gates wrote – in five days – what would become known as DISKBASIC for the Altair. Then Microsoft encountered an early and important crisis. Computer hackers and clubs were making copies of BASIC and shipping it out to all their friends. Piracy was spreading like a virus, and no one was paying for the BASIC software. In frustration, Gates offered to sell Roberts all rights to BASIC for about \$6,500. Fortunately, Roberts declined. However, Microsoft’s BASIC had become the de facto standard for microcomputers when they appeared in force.

In 1976, as National Cash Register, Citicorp, and GE signed lucrative contracts for Microsoft’s BASIC, Gates assembled his famous “Micro Kids—high I.Q. insomniacs who wanted to join the personal computer crusade, kids with a passion for computers who would drive themselves to the limits of their ability and endurance, pushing the outside of the software envelop”. Gates himself would take only two vacations of a few days each over the next five years. But the energetic and talented group could make no real money from BASIC until it could crack the arrangement Gates and Allen had with MITS. At first ignored and scoffed at by his opponents, Gates personally masterminded and negotiated the strategy that beat the more expensive big company legal teams. In a complex out of court proceeding, Microsoft was determined the owner of BASIC and could market the product as it saw fit. This was the first of many transactions in which people underestimated Gates, “the skinny kid with the dandruff and uncombed mop haircut”.

Interactions with IBM

In 1980, when IBM covertly decided to enter the burgeoning microcomputer industry with a machine based on Intel’s new, more powerful 8086 chip, it inquired whether Microsoft could write a BASIC program for its 8-bit resident memory. IBM also asked Microsoft to furnish other languages for the machine, including FORTRAN, Pascal and COBOL. To do this, Microsoft had to gain access to the operating system software on which they were based – Digital Research’s CP/M. Both Gates and IBM representatives approached Digital Research about supplying CP/M, then the dominant operating system in the industry, to power the IBM machines. But in two classic miscalculations, Digital’s President went on vacation when IBM’s team arrived and Digital’s balked at IBM’s restrictive contract provisions. With access, Microsoft would have continuously adapted its languages to Digital’s emergent operating system and its Intel 8086 platform. Without access, Microsoft had to develop its own operating system.

Until this point, Digital Research had developed operating systems, and Microsoft had focused on programming languages; each had respected the other’s domain. Frustrated, Bill

Gates decided on a bold move. He told IBM that Microsoft could not only supply the languages for the IBM machine, but also the operating system. In August, IBM, miffed over the snubs and inflexibility of Digital Research accepted. In September, 1980, Tim Patterson showed Microsoft his 86 DOS operating system written for the Intel 8086 chip. For \$50,000, Gates bought the rights to 86 DOS, then known as “dirty old system”, which became the basis for Microsoft’s MS-DOS.

Many proponents of CP/M argued that, as an industry standard, CP/M would have been best for linking existing languages, applications software, and hardware. Nonetheless, within less than a year after the announcement of the IBM PC, numerous microcomputer manufacturers signed contracts with Microsoft to make MS-DOS (Microsoft’s operating system) their hardware’s resident system. When IBM introduced the PC in 1981, Microsoft made short shrift of Digital Research in the MS-DOS-CP/M battle. CP/M was, by all standards, an excellent operating system, nearly all software and hardware systems had been tuned to it. But the quick and powerful emergence of the IBM PC as the industry standard catapulted MS-DOS and Microsoft to success. A whopping 99 percent of IBM compatibles carried MS-DOS as their operating system, although IBM later released a CP/M-86 operating system for PCs. Now holding a commanding position in operating systems software, Microsoft turned its attention to applications software.

The Electronic Spreadsheet

In the early 1980s, many computer companies did not believe that microcomputers held significant potential for business applications. However, the appearance of the first electronic spreadsheet, Visicalc, fulfilled a specific and important business need. VisiCalc enabled managers – previously confined to time consuming hand calculations or writing a specific program for the company’s mainframe – to define their own models and to run countless alternative solutions. Initially, the program could be run only on an Apple II. This became a primary determinant of the Apple II’s success. It was later adapted to run on the IBM PC. Sorcim developed another spreadsheet program, SuperCalc, to run on CP/M systems. The advent of spreadsheets created an unprecedented boom in both hardware and software sales to businesses.

Spreading with the Spreadsheet

When Gates and Allen decided to enter the application software market in 1980, the spreadsheet was a logical starting point. Because there was no hardware standard at the time, Gates decided to develop a spreadsheet that could be ported to all the operating systems on the market – including CP/M. The two dominant spreadsheet programs were limited in their portability. While Microsoft was developing its spreadsheet, dubbed Multiplan, IBM brought great pressure to assure that the new spreadsheet could run on its limited 64K PC models. Gates acquiesced to the computer giant, sacrificing many design attributes in order to stay in the good graces of Microsoft primary customer.

When released in late 1982, Multiplan met with some initial success but this was quickly eclipsed when Lotus offered 1-2-3 in 1983. Unlike Multiplan, 1-2-3 was aimed at 256K machines and reflected the richness of capability that increased RAM storage the top-selling applications software system, a position it held for the following six years. Fortunately, Lotus 1-2-3 operated only on MS-DOS. Largely due to the phenomenal demand for 1-2-3, over 80 percent of all users became familiar with MS-DOS in 1984. With the extraordinary

success of 1-2-3, Lotus became the largest independent software company – with annual sales of \$157 million compared to \$125 million for Microsoft's 64K Multiplan languished, but IBM's sales of 256K PCs skyrocketed that year. Lotus 1-2-3 did for the IBM PC what VisiCalc had done for the Apple II and MS-DOS benefited.

The Move to Europe

However, the Multiplan project was not a complete loss. Microsoft had adeptly repositioned Multiplan in Europe. As early as 1982, Microsoft had begun to adapt Multiplan to each of the European languages. In addition, Gates decided to open up subsidiaries in each of Microsoft's three major European markets, England, France and Germany. There, Multiplan's ability to run on many different systems proved to be a decided advantage. Unlike the U.S. market, Apple controlled 50 percent of the European market and Commodore 30 percent and when IBM's PC arrived in Europe in 1984, it included Multiplan rather than Lotus 1-2-3. By the time Lotus brought 1-2-3 to Europe in 1984, it was too late. In 1987, while Lotus held 80 percent of the American spreadsheet market to Multiplan's 6 percent, Multiplan dominated the European market, accounting for 60 percent in Germany and 90 percent in France. Because Multiplan was so successful overseas, Microsoft continued to distribute it. But Bill Gates would not forget why his package had failed in the United States while 1-2-3 had succeeded.

Word Processing

In 1983, Microsoft launched an offensive on a new front, word processing. At that time, WordStar, developed by MicroPro, was the most popular word processing software. Microsoft designers believed they could best WordStar by including in their program of additional features. Microsoft Word would be the first word processing software that displayed bold type, underlining, italics, subscripts, and superscripts on the screen. In addition, it would divide the screen into windows, allowing the user to work with more than one section of a text at a time. Instead of requiring the user to format each document individually, Word would offer style sheets that stored formats created by the user for repeated use. Importantly, Word would print in any of the fonts available in the new state-of-the-art laser printers.

Microsoft introduced Word to the U.S. in a novel way. At great expense, it sent out demonstration copies (which would do everything but save or print files) to the 100,000 subscribers of PC World in its November, 1983 special edition. Many newspapers lauded the unique and imaginative marketing technique employed by Microsoft, but Word initially met with marginal response. Although extremely powerful, Word proved to be too complex for the average user. Improved versions in 1984 and 1985 steadily increased sales; however, another small software publisher called Word Perfect again beat Microsoft in the marketplace.

Word versus WordPerfect

Jointly founded by a computer science professor and one of his students in 1979, WordPerfect's only employees were a group of students who helped with distribution tasks. Yet the fledgling enterprise was able to differentiate its program through a heavy emphasis on service. WordPerfect provided free telephone support to customers and followed up every inquiry until the customer was satisfied.

While Microsoft spent millions promoting Word, WordPerfect avoided sophisticated promotional campaigns, building a loyal following by word of mouth. Microsoft was at a loss as to how to respond to WordPerfect's ingenious grassroots campaign. WordPerfect's sales grew steadily and it quickly became the top-selling word processing software, outselling 5th place Word (31 percent to Word's 11 percent) in 1986.

Just as Multiplan had succeeded by turning to the European market, so too would Word. When Word arrived in France in 1984 with mixed reviews, WordStar and Textor, produced by a French company, were already well positioned. Gates and his European staff decided on a three-prong penetration strategy. First, to encourage distributors to sell Word, Microsoft France provided distributors with free training and free copy of Word. Second, Microsoft arranged to have all retailer demonstrations of Hewlett Packard's new laserjet printer use Word. Microsoft France also convinced many printer manufacturers to promote Word because of its ability to be used in sophisticated, high end multifont printers.

First France, then the World

As a result of its aggressive marketing effort, Word began making inroads into the French market in 1985. After a much refined Word 3.0 was released in April 1986, sales of Word rose rapidly. In 1987, it was the highest-selling word processing software in France with sales of 28,700 copies compared to 10,300 for IBM Vision, 7,000 for Textor, 3,800 for WordPerfect, and 3,300 for WordStar.

The great improvements made in the 3.0 version of Word were also critical in increasing its U.S. market share. In this version, the previous problems experienced by users in learning Word were resolved by what was then an ingenious solution. Included with all 3.0 version of Word was a step-by-step, on-line tutorial that replaced the traditional user's manual. U.S. sales of Word climbed substantially. By 1989, Word's sales had reached 650,000 compared to 937,000 of WordPerfect. Although Word was by many standards a superior product, WordPerfect had earlier on established itself as the word processing software of choice for PC users. Once customers learned and grew comfortable with program, it was often difficult and orders of magnitude more costly for them to switch.

While Word was having problems in 1984 and 1985, Microsoft worked feverishly on a Word program for the Apple Macintosh computer, the only substantial challenger to IBM's standard. When Macintosh Word was released in 1985, there were no other word processing programs available for the Macintosh except Apple's own software (MacWrite), which was included with the sale of each machine. Although Word for the Mac had some bugs, it quickly gathered a following among Macintosh users. When the 3.0 version was released in 1986, it was a tremendous success. By 1988, with annual sales of 250,000 copies, it was second only to the PC versions of WordPerfect and Word. WordPerfect released a version of its product for the Macintosh in 1988, but it was too late. As WordPerfect had beaten Microsoft to the U.S. PC market, so had Microsoft preempted WordPerfect in the Macintosh market. When Microsoft released Word 4.0 version in 1989, it sold 100,000 copies immediately, establishing Word's preeminence through the Macintosh.

Graphical User Interfaces

As IBM's PC became the bestselling microcomputer in the industry, it was soon copied by other manufacturers. But due to its unique graphical user interfaces, Apple's Macintosh

surpassed all other computers in user friendliness. While users of IBM PCs and compatibles had to interact with their machines using learned text commands such as erase, the Mackintosh user could use a mouse to point to a file icon and pull it into a trash can icon. Both Gates and Apple's cofounder, Steve Jobs, believed that the future of microcomputers lay in graphical interface technologies because they opened up the world of computers to even the most unsophisticated users.

The Apple Core

In 1981, Apple asked Microsoft to write applications programs for the Mackintosh, realizing that the availability of high-demand software could determine the success of the Mackintosh – just as the popularity of VisiCalc had launched the Apple II. Microsoft and Apple began a close collaboration aimed at designing an optimum match between the Mackintosh configuration and Microsoft's applications programs. The agreement specified that Microsoft versions of Multiplan, Chart and file would be shipped with each Mackintosh machine and that Microsoft could not publish software with a graphical user interface until one year after the Mackintosh was released or December 1983 at the latest.

Under this arrangement, Microsoft enjoyed tremendous successes with its various application programs. In addition to Word for the Mackintosh, Microsoft's new spreadsheet program, Excel, sold at a rapid rate in 1985, beating out Lotus's new integrated software for the Mackintosh called Jazz. In 1986, Microsoft sold 160,000 copies of Excel to Mackintosh users compared to 10,000 copies of Lotus's Jazz. By 1989, Lotus had decided to stay away from the Mackintosh users and made it the number one developer of applications software for the first time. And many thought virtually all of the PC market would inevitably move to graphical interfaces.

Windows

Windows was Microsoft's attempt to convert MS-DOS into a graphical user interface. Although IBM had been successful in establishing its hardware and operating system software (MS-DOS) as industry standards, no such standardization applied to PC applications software. Each applications program written for the PC required its own unique methods to modify or print a file. In addition, different printers demanded different intermediary programs called drivers to enable printers to receive data from applications. In order to address this problem, Microsoft decided in 1981, to develop Windows as a layer between the operating system and applications software, interpreting the particular communications requirements of the printer and monitor being used. The second purpose of this program would be to place over MS-DOS a graphical interface that would standardize the appearance of applications and provide common commands for such actions as modifying texts or printing files.

Opening New Windows

While Microsoft was developing its "Windows" graphical interface system, other companies began to release their own versions. VisiCorp, for example, released Vision in 1983. More perturbing to Microsoft was that some industry analysts foresaw IBM developing its own version of a graphical interface. In the past, IBM had largely looked to Microsoft to develop its PC software. Gates suspected that Big Blue was intent on expanding its control to include standardization of the entire computer configuration – not just hardware, but software too.

When IBM announced in 1983 that it was releasing TopView, a graphical interface to rest on top of DOS, it was clear signal that IBM was no longer content to remain in the hardware domain. Recognizing that IBM was attempting to squeeze Microsoft out of future software sales, Gates acted quickly. He contacted the manufacturers of IBM-compatible computers and tried to persuade them to follow Microsoft's lead with Windows, and thus isolate IBM. When Windows was announced in November 1983, twenty-three hardware manufacturers supported it.

Many did not want IBM to wait for Microsoft's version of Windows; rather they wanted them to follow IBM's lead by including Top View with their machines. Although direct competitors to Microsoft, many software companies also pledged their support to Microsoft Windows. The support of Lotus was particularly important since it was a primary supplier of applications software for the PC and compatibles. Like others, Lotus did not relish the thought of a stronger, more influential IBM and was willing to accept Microsoft's lead to prevent it. The software producers were confident that Microsoft would create an interface environment into which they could easily port their applications programs. IBM, on the other hand, had released a version of TopView configured in such a way that, if successful, it would give Big Blue a significant advantage in the development of future applications.

Unfortunately, the Windows project was characterized by lengthy and embarrassing delays. Although Gates repeatedly announced the imminent release of Windows, it did not actually hit the market until November 1985. Over 20 software publishers had to put their Windows-supported applications software on hold. Even then, Windows encountered constant problems in use, but Gates held on doggedly. It wasn't until Windows 3.0 introduction in 1990 that these were overcome. Nevertheless, its earlier Windows 2.0 had offered an interface system approaching the user friendliness of the Mackintosh. When Microsoft released its successful PC version of Excel along with 2.0 Windows' credibility increased, and many PC manufacturers began positioning their machines against Apple's Mackintosh.

Apple and IBM

On March 17, 1988, Apple announced that it was suing Microsoft over Windows 2.03 and Hewlett Packard over New Wave, the latter's graphical interface environment. Apple announced the suit to the press before notifying Microsoft. Apple argued that it had spent millions creating a distinctive visual interface which had become the Mackintosh's distinguishing feature and that Microsoft had illegally copied the "look and feel" of the Mackintosh. Microsoft countered that its 1985 contract with Apple granted it license to use the visual interface already included in six Microsoft programs and that the license implicitly covered the 1987 version, Windows 2.03. In July 1989, Judge Schwarzer dropped 179 of the 1989 items that Apple had argued were copyright violations. The 10 remaining items were related to the use of certain icons and the "overlapping windows" feature in Windows 2.03. In 1990, Judge Walker of the federal district court of San Francisco took over the case, having previously ruled against Xerox in its suit against Apple over the same copyrights. In March 1990, Walker ruled that the portions of 2.03 under debate were not covered by the 1985 agreement between Apple and Microsoft. The stakes were enormous. If Apple were to lose the case on appeal, it would also lose a major competitive advantage in terms of its distinctive visual interface. If Microsoft should lose, it might have to take all current versions of Windows off the market and pay royalties on past sales to Apple.

As this war was going on, Microsoft started collaboration again with IBM in 1987 on the development of a new multi-tasking operating system called OS/2 and a new, more powerful graphical interface named Presentation Manager for PCs and PS/2 workstations designed around the new 80286 and 80386 chips. In late 1989, IBM released OS/2 version 1.2 for IBM PCs. Microsoft released OS/2 version 1.21 for IBM – compatible machines in mid-1990, but initial sales of OS/2 were far lower than had been hoped. Both IBM and Microsoft, as well as many industry observers, had assumed OS/2 would be the first logical replacement for DOS; but the introduction of OS/2 went poorly. The IBM team managing the project made decisions slowly and dictated compromises which Microsoft did not always support. Independent software houses were reluctant to write applications for OS/2 when MS-DOS was so dominant, and it took an extra \$2,000 in memory to make OS/2 run effectively on existing IBM machines. As these factors became apparent, Microsoft began to upgrade and push its MS-DOS and Windows programs ever harder. Many alleged that Microsoft moved key people to Windows at the expense of OS/2 and Presentation Manager to make sure its own products preempt the next generation of software. Finally, perhaps feeling double-crossed, IBM took over most of the OS/2 development project and began to distance itself from Microsoft. It began to license workstation software from Steve Job's NeXt Corp. and pen-based technology from tiny GO Corp.

In June 1991, IBM and Apple began a joint venture based around Motorola's powerful Power PC chip Talagent – to develop an entirely new PC standard in which they would control the rights to both the operating system and the microprocessor. If successful, this cooperation between the two largest microcomputer manufacturers would tremendously influence the balance of power among software and hardware companies in the industry. Announced in late 1993 and early 1994, Apple's Power Mac and IBM's Power PC were designed to break the stranglehold Intel's X86 and Pentium chips and Microsoft's DOS Windows had on the world. Because the Power Macs were Apple's first new architecture in a decade, they would require new software. IBM would use its new Workplace OS software which could run Windows and DOS applications at OS/2 co-processing flexibility and speeds. Apple would offer a WinSoft emulation program that allowed its users to run Windows and DOS on the Power Macs at 486 speeds. Microsoft had been the biggest supplier of Mackintosh applications.

The risks were high for both collaborating companies. John Sculley, then CEO of Apple, had said, "This is something only Apple and IBM would pull off. Still, it's a big gamble, and we're betting our whole company on it". In 1994, nearly all PC applications programs were being ported through Microsoft's MS-DOS or Windows environment. Bill Gates said, "Our position is being attacked on all sides, but that's not new. Customers will decide on all of this, and I think ours will thank us for preserving their current investment in PCs, while improving that technology. That has always been our strategy".

In the mid-1990s, the industry was changing radically along other dimensions. Desktop computers were becoming so powerful that they were indistinguishable from what used to be mainframes. In any event, for mainframes and desktop computers to be effective, the increasingly had to be linked across both all of a company's own offices and into the external linkages, databases, and systems popularly called the Information Superhighway. The network with all its nodes was becoming the computer itself. Desktop computers and applications – with 21 percent of operating system software sales and 62 percent of applications sales – were only a minor portion of all systems. Recognizing this, Gates had

expanded his stated vision for Microsoft. “Our software will be used everywhere, in business, in the home, in the pocket, and in the car”.

Microsoft had a powerful base for its onslaught. It had almost 90 percent of the personal computer operation systems marketplace (55 million Windows customers) and thousands of independents writing software to support its systems. But its recent upgrades of Windows (called 4.0 or Chicago) and NT (server operations) had been months late and lacked key intended components. Microsoft’s attempts to reach beyond desktops – notably its LAN Manager (network operating system) co-developed with 3 Com and NT – had made little headway against Unix or Novell’s Net Ware. And its Winpad (operating system for handhelds) and its software for “set-top boxes” in cable applications had yet to make a major dent in smaller non-PC support markets”. In databases, it had little experience on anything that did not run on desktops.

The Networked World

In networking, Novell was the clear leader – 67 percent of that \$2.9 billion market. In 1983, Novell had bought UNIX System Labs from AT&T to increase its lead. Lotus’s Lotus Notes (\$100 million in sales) had grabbed a major share of the rapidly developing (\$1 billion, 50 percent growth rate) “groupware” market for interactive business communications and team decision-making”. Microsoft’s Windows for Workgroups had yet to catch on in this market. Oracle was the pacesetter for minicomputer and server software. Oracle was also heavily engaged in software (n Cube) for supercomputers, which it saw playing an increasing role in large scale entertainment applications.

In the large scale network software market, Microsoft had worked on a three-way venture with TCI and Time Warner for interactive TV software. But this collapsed when Time Warner reportedly balked over the stiff terms Microsoft demanded. Others claimed that a major problem was combining the intense personalities of Gates and TC’s CEO Malone – “like putting two scorpions in a bottle together”. Indeed, the very tenacity, hard-nosed philosophy, and dominating technical competencies that had made Microsoft so successful (\$4.5 billion in 1993 revenues with 25 percent margins) in the past might be an Achilles heel in the future. For example, a week before GO’s announcement of its innovative “pen” software (for handwriting applications), Microsoft told the press it already had such software and a few weeks later announced that 21 computer makers were considering designing around its Pen Windows. The press claimed that Microsoft often announced new products before they were ready to scare off competition. There was little doubt it aggressively matched all applications competitors” price reductions in its markets. And if small companies were unwilling to license key concepts in emerging markets, Microsoft moved quickly with end users or OEMs to co-design competing software. Many of these practices were common complaints of defeated competitors.

Alliances and Rivalries

Some alliance partners – and many potential competitors – were becoming reluctant to risk their future by dealing with (or opposing) a party so powerful that it had repeatedly beaten world-class companies in their very heartland. Some companies (like HP and Sun Microsystems, or Lotus and Novell) had undertaken defensive alliances to counter Microsoft. And Microsoft’s longtime ally, IBM, chose GO and Novell’s NetWare as the pen-based and LAN technologies for its laptop and PC systems. Symbolic of the concern over Microsoft’s

growing power were a series of lawsuits – in addition to Apple’s – alleging injury. In 1994, Star Electronics, a software company, won \$120 million and a restraining order against Microsoft on some versions of MS-DOS. When the FTC abandoned its two-year antitrust probe of Microsoft, the Justice Department quickly picked up the investigation. The key issue was whether Microsoft used its dominant (77 percent to 90 percent) market share in personal computer operating systems to gain unfair competitive advantage in other markets. There was little doubt that Microsoft currently enjoyed some significant advantages on the cost side. Once a program was widely accepted, it produced huge revenues with virtually no marginal costs – allowing its proprietary holder to invest or price with great flexibility.

But some rivals also claimed Microsoft’s use of its licensing structure made it a monopolist. MS-DOS was currently standard on almost any PC; the manufacturer included it free, and paid Microsoft a royalty on each unit sold. Retailers who wanted to bundle Windows on one machine had to buy a copy for each machine offered in that series. Applications software producers and competitors like Sun Microsystems claimed that – despite the detailed maps of its operating systems Microsoft made available to assist others in writing applications – Microsoft always had more knowledge than others had about its operating systems and might (inadvertently or otherwise) fail to illuminate crucial details for others, giving Microsoft an unfair competitive advantage. Microsoft vehemently denied this allegation. In fact, it invited competitors to its headquarters to work with its programmers and even tipped off developers about forthcoming operating system changes so they could adapt in time. The Justice suit was settled in July with little impact on Microsoft; most agreed that the marketplace, not lawyers, would determine the industry structure.

Like many others, Microsoft was deeply aware of the huge and rapidly advancing software necessary to support interactive devices (in homes or offices), to compress or multiplex signals (to or from various devices), to support large scale systems (like stock and bond trading), and to expand the bandwidth and general utility of wireless, fibre optic and other transmission systems. In 1994, there were over 180 million PCs worldwide, in the U.S. 7 million. Home computers accounted for \$9 billion, or 40 percent of all PCs sold in 1994. By 2000, they would claim the highest percentage of the market for home appliances and have become more important in the home than the television set, according to AST Research Inc. Much new software would be needed for the “multimedia systems” many envisioned operating on PCs for voice interactive systems, and for “object oriented” parallel processing systems supporting highly decentralized operations, as well as the infinite variety of gizmos called “hand gear” people would carry, wear, or travel with in the new electronics horizons for electronics in all kinds of appliances, vehicles, office devices, and home products and that software – rather than hardware – would be the limiting factor in their development. One key issue in the mid ‘90s was where should Microsoft focus and how?

Positioning the home market was very complex because of the large number of small software developers who suddenly appeared to fulfill any apparent need. In this marketplace, it would be difficult, if not impossible, for Microsoft to achieve much of a timing advantage. It would be equally difficult to create a software platform that would become a powerful standard, as Microsoft DOS or Windows had. For its part, Microsoft was working on virtually the entire product which connected into the microprocessor. The hardware companies were, of course, trying to generate hardware solutions to problems like interactivity among various systems and databases. A key question was where could solutions be better defined in software than in hardware.

As all this was occurring, the very microcomputer itself was changing. Computers were increasingly defined by the networks they attached to. Hardware capabilities continued to grow exponentially, typically with bandwidth, storage and calculation capabilities doubling almost annually. Formerly dominant players like IBM, Apple or AT&T found it increasingly hard to control architectures which often took years to develop, but could provide a competitive edge for application and connecting programs for years. Selecting partners and implementing partnerships in ways that did not damage past relationships or inhibit future developments was particularly difficult. Such complexities compounded as Microsoft looked toward foreign markets. The issues of matching and pricing platforms versus application programs were profound, as were the issues of sharing benefits when Microsoft worked with selected hardware partners.

The Microsoft Style

Another issue was whether Bill Gates' unique management style could survive into the future. From its genesis in the early days of Microsoft – when Gates and Allen and a small coterie of programmers literally worked night and day for weeks at a time under incredible pressure – the Microsoft culture had gelled into a unique form. Its working atmosphere counterbalanced highly intensive activity with an offbeat emphasis on an unstructured and informal environment. Gates expected programmers to work as hard as he did – 60 to 80 hours a week. There was an unstated expectation that employees work evenings and weekends. No one wanted their car to be the first out of the parking lot. The Microsoft complex in Redmond, Washington, looked more like a college campus than the headquarters of a Fortune 500 company. At times, its environment could be almost surrealistic. Most of its 10,000 employees had individual offices with windows, but the courtyards adjoining the principal structures were often rife with the active of employees juggling, riding unicycles or playing various musical instruments. Working hours were extraordinarily flexible. Dress and appearance were extremely casual. Many programmers walked in bare feet. It was not unknown for a team of programmers working on an intense project to take a break at 3 a.m. and spend 30 minutes making considerable racket with their electric guitars and synthesizers. Pranks were common. Offices would be filled with “bouncy balls” when their occupants were away. There were bouncy ball hockey games in the hallway and a special room just for juggling in the early days.

The Gates Style

Gates' personal style was legendary. He would challenge his programmers constantly. He wanted them to argue with him. If a programmer completed something(s) he thought was clever, Gates would suddenly challenge why it wasn't ready earlier, or why it wasn't done a different way. He was very aggressive and vocal in arguing an issue, but he was not afraid to change his mind if someone had a convincing argument. Observers said Gates turned everything into some form of competition. He even compared with Allen in the early years to see who could drive across Albuquerque faster. Gates still drove his Porsche, pushed to the limit, but always in control. Over the years, he had registered many run-ins with local traffic police and an incredible string of speeding fines. A former Microsoft top executive said “Gates was competitive in all things. He was often so intense in negotiating sessions that he would push too hard and actually jeopardizes the deal. There was ‘almost viciousness’ to the intensity Gates displayed to secure a deal”.

Gates' personal style became the subject of myths. He wore down both competitors and his own people by his tenacity and his formidable intellect. He had a reputation as the only entrepreneur in the industry with enormous personal technical acumen. He knew more about the industry and where it was going than anyone else. Being at the centre of action was a vital attraction to good people. Technically, Gates had an uncanny ability to spot a weak link in the most logical argument or program, but he also could show a shocking lack of diplomacy. If angered, he could become "apologetic", even throwing things when he was angry. Some felt he disagreed just to see if someone was strong in their beliefs. To others, it just appeared a portion of his style, as were his habits of firing off email all at all hours of the day or night and of meeting visitors or making public announcements in work clothes that had been his companions for days. For many, a technical staff meeting with Gates was like going through an oral examination with a verbal executioner. Once a flaw was pinpointed, he would rip the person to shreds, hurling his favour expletives, "stupid", or "random". Rocking back and forth in his rocking chair, he would impose his own intellectual prowess and standards on all comers.

Gates constantly conveyed his determination to be the dominant player in the industry. He, not only wanted to beat his competitors, but to eliminate them. As one executive said, "Bill learned early on that killing the competition is the name of the game. There just aren't as many people later to take you on", Gates' competitiveness had also led him to be a great salesperson. He often overcommitted Microsoft and set unrealistic deadlines. He tended to press for a major sale and worry about the consequences later. As a result, among servants, Microsoft's first programs in a series were known for being a bit behind schedule and bug prone. But Gate never gave up. He approached every transaction with a zealotry of a true believer; from day one he continued to articulate the Microsoft mantra "a computer on every desktop and Microsoft software in every computer". Throughout Microsoft, employees were expected to display initiative, ambition, intelligence, expertise, and business judgement. Gate pushed his people hard because he wanted them to be better. Each day, he said, they should come to work thinking "I want to win". Gates thought this was the only way to stay ahead in an industry where he predicted, within twenty years, the software race would be over. Computers would then be writing better software than people.

3.2 Microsoft Corporation (B)

The Microsoft Corporation (A) case presents the strategic situation facing Microsoft in 1994. The case deals with its organisation structure and management practice.

Past Management Style

In the mid-1980s, Microsoft's work environment for programmers had been described as "deliberately chaotic". There was little corporate hierarchy. Individual product development teams were small, usually no more than three people. Software creation was under the direct, day-to-day control of CEO-founder, Bill Gates. His philosophy was chat with less structure; people could be more creative and introduce more innovative products. Software tools that were supposed to work together were built by totally independent units, with little cross communication. Groups did not use each other's code or share information. Within Microsoft, people were promoted because of their technical prowess, and not for their management skills. To compound things, Gates' hands-on style often meant he jumped the chain of command and made major changes in direction or even programs without bothering to tell everyone involved. As one would expect, there was a constant conflict between each

group's desire to make the product continuously better and the need to get the product out of the door. Within Microsoft's very flat, unstructured organisation, the common crises of product development were often resolved by fierce confrontations and lots of yelling by all parties. Gates actively in contact with the entire process and clearly in control of the company, dismissed these sessions simply as "high band width communications". His clearly expressed goal of "being the leading producer of software for personal computers" overrode all else. Many observers said he displayed "competitive paranoia" that others might overtake, preempt, or destroy Microsoft and constantly sought not only to "win" but to destroy any such serious threats.

The PC World Changes

This style seemed to work well for early desktop operating and applications software, but became less effective as Microsoft developed major systems like Windows. However, Gates proved remarkably flexible in organisational matters. Between 1983 and 1994, recognizing his own limitations, Gates went through three COOs – with James Towne, Jon Shirley, and Michael Hallmann each contributing a new business discipline to the company – while reorganizing his own job. In a major step, in the middle of the \$100 million Windows project, he also reorganized Microsoft into separate Systems Software and Business Applications divisions, each headed by a corporate vice president. The theory was that – with MS-DOS thus internally separated – external application programming groups designing around MS-DOS could communicate directly with the Systems group, without disclosing possible competitive information to Microsoft Application groups. The upshot, ironically, was that Microsoft perhaps had even more knowledge of all its competitors' applications activities. Gates tried to counter outside' complaints insisting on a "Chinese wall" between the two operations. But skeptics in the industry claimed this was probably more a sieve than a wall.

The Best and Hardest Working People

Microsoft's style had always been to hire the very best and hardest-working programmers from anywhere and then allow them wide discretion. Hundreds of people might be screened for a single hire. There was no headcount budget. Searchers were always free to hire that once-in-a-lifetime talent, once found. When hiring, Microsoft care little about a candidate's formal education or experience. After all, neither founder, Bill Gates nor Paul Allen, had ever graduated from college. No matter how lofty the individual applicants' credentials might be, they were not hired until they had been thoroughly grilled on their programming knowledge and skills. The interview process was ferocious, lasting 1 – 2 hours with each of 4 – 6 programmers and managers. Interviewers would rip people to pieces, ask them very difficult technical questions, and suddenly hand them a piece of paper and pen and say, "Solve this problem". The emphasis was on how people thought and their capacity to perform under pressure. Gates, for a long time, insisted on personally interviewing each programmer applicant, and in the 1990s, Gates would still travel anywhere to land a special talent.

Among the most famous organisational features at Microsoft had been its "architects", the seven software samurai who had advised Gates, explored new technologies, and done much of the most important systems structuring. Below them each programmer was rated at one of six levels, from ten to fifteen. If a programmer made it to fifteen and became an architect, it was like being made a senior partner in a law firm. Huge stock options accrued.

Development teams were consciously kept small even as projects became complex. For example, Microsoft had only 18 developers working on its entire spreadsheet business, while Lotus had about 120 in the early 1990s. Gates explained, “It takes a small team to do it right. When we started Excel, we had five people working on it, including myself. We have seven people working on it today”. The individual development groups writing new code operate in a Darwinian fashion – every six months developers were reviewed, and the bottom 5 percent were weeded out.

The Software Development Process

By 1994, the format for developing software at Microsoft had evolved into a somewhat less chaotic system. Mr. Robert Muglia, Director of Windows NT, said, “One of the things Microsoft has learned to do very well is to build products which meet the needs of customers, focus on what customers want, and at the same time do so in a way that is business savvy.” Microsoft had created two basic roles: product managers and program managers. Product managers controlled the overall relationship with specific sets of customers. They were responsible on a continuing basis for understanding their customers’ needs at a descriptive level and for handling most customer presentations, sales issues, advertising, pricing, sales force building, channels management issues, etc. Program managers worked with product people to understand customer needs thoroughly at a technical level, and then drove these into a set of detailed specifications for design purposes. Throughout the development process, program managers worked with development groups, test groups, and user education groups to make sure the product met defined needs.

Mr. Peter Neupert, Senior Director, International Product Development, noted: The original specs for program functionality – in terms of timing and the types of performance which are critical – are agreed to by Microsoft’s top management. The second level of specification is programmatic interface specifications to make operating systems perform compatibly. The next level is application program interfaces or APLs. By this point, there are a bunch of internal documents that describe the interactions between some of the components, memory management file systems, and things like that. Another critical interface is the programmatic interface in the hands of the end user. As we develop the product, we have to make sure that it is present or the programs will fail commercially. Keeping each person in a development team keyed to this during the programming process is a major challenge. These interfaces are so important that the small teams doing the program are often organized around them and the specific hand tools necessary to develop their subsystem, like a file system.

Mr. Muglia continued: Program managers own the specs and are responsible for ensuring that the product does what customers want at a very detailed level. They go to the level of saying precisely how the product should look to external customers. They do not go to the level of data structures that implement it. Instead, the development teams really own the code. This sets up a good relationship because most developers don’t want to be the ones making the decisions about what to do, but they want to be in absolute control of the code and the algorithms.

The Specification Process

At the project team level, we sketch out issues and for the more important elements we use detailed specifications as to what the products need to do – but these tend to be verbal documents. We use wire-boards to discuss technical implementation (targets) which then

sometime get written into spaces. Probably nine out of ten times, however they don't. We are not good about maintaining specifications on our products. There are so many things inside an 8 million line system like NT that to try to document all of them would probably double the size of our team, and inhibit our ability to do things in the future. Generally, our code becomes the specification, but the people who wrote it understand the detailed goals and the trade offs made. If we lost a whole division of people, we would have a great deal of trouble recreating the code and its reasoning. But we have people who have been working on "word processors", for example, for eight years, and we are able to keep enough continuity there that a nucleus of people can maintain the needed knowledge levels. We operate this way because our technology changes so quickly.

Mr. Muglia continued: We think of specs as a great starting point to document whatever agreement exists. Typically, the development of the spec is a team process. May be only 10 – 20 percent of the time is spent actually writing the spec. But each key person is interacting with five or six others, developing agreement that this is what we should do. However, by the time we have actually written down a spec, it is (usually) garbage anyway because we've learned fifty more things since we got the spec agreement. We don't then go and update our written specs. Instead, every quarter, we take all the "bug fixes" the customers have asked us to do and roll them into maintenance packs (which become the updated documentation for the program). The same developers fix the code which they originally wrote.

Competitive Targets

Mr. Neupert said of this process: We are incredibly focused on competition. If there is a single figure of merit for a program, it is to beat the competition. In the networking business, it is to be faster than Novell; in the spreadsheet business, it was beat Lotus. From that point, you can start defining the dimensions needed for the purpose. These targets certainly aren't absolute, and they often are not totally quantifiable. We frequently need to make purely judgemental decisions. For example, one of the really tough calls in the OS business is what memory size do you want to fit in and what compatibilities do you need? These decisions get initiated on a very broad level between Bill (Gates) and Paul (Maritz), but the specifics get changed all the time as we find out what we can or cannot accomplish for one purpose and how it affects others. For instance, in the first version of NT, we wanted to make it work on eight megabytes. When that didn't work, the target became a twelve, and ultimately, a sixteen megabyte system. These broad decisions seriously affect our market positioning. Another example is in our next version of Windows where we have to enable enough of the installed base of machines to make the program into a mass phenomenon. That means we set program criteria based on the hardware mix we think is important in the future. The point is that specs are where we think the competition will be and what we think the market expects.

Project Management

Mr. Muglia continued: Once a project is underway, we do project scheduling. One tool we absolutely use is Microsoft Project. The developers themselves set the schedule and they set the integration plans. They understand how all the pieces fit together at a real detailed level; they have a dependency tree and their project schedules to discipline sequences and dependencies. They hold at least monthly project reviews of everything. The development team goes off and presents exactly what each component group's status is and what functions they're working on. They all look ahead about a month for potential problems in functions or

sequencing, as projects get into later stages to find and solve problems. People understand exactly what the bug count is, what needs to be fixed tomorrow and what the priorities are.

Paul Maritz, Vice President Operating Systems, amplified: Some companies use a design and implement cycle. We don't unless you think of how you will implement the code at the time you design it, you will not implement it successfully. You must think in terms of cost issues as you design. Are the levels of abstraction too high? And so on. The first step is to lay out a taxonomy, next we break this out into different functions and areas. Then we define the interfaces between these. We write these interface intentions down, then we break the process into even smaller functions. The users of each of these smaller functions can critique them in terms of their goals and interfaces. Much of this is done informally with the teams interfacing extensively. We try to lay out the criteria for each function and sub-function carefully at first. Everyone reads each other's code to have a common vocabulary. The whole process is inherently fraught with tradeoffs. Each group has a strong interest in its own functionalities, their purposes and time sequences.

We typically do not have teams purposely in competition with each other inside the company. You can certainly have strong dissenting opinions within a team as to what's the right approach or the right architecture. That is encouraged all the time. The challenge is to get the issue resolved one way or another. Even after an initial decision, you may have a loser go off and pursue his approach alone just to prove he's right. For example, there was conflict between Windows and OS/2. It was widely believed internally that Windows couldn't really take advantage of the new. Intel architectures, to exploit protect-mode memory and things like that. However, one guy kept on working on it despite the fact that ninety percent of our resources were bet on OS/2 at that stage. Nobody thought he could do it; but when he ultimately figured out a way to make Windows work, his solution had lots of better characteristics and seemed to fit the market better than OS/2. That's how we went from betting our future on OS/2 toward supporting Windows.

No Magic Formula

Paul Maritz continued: With 1500 people in Operating Systems, and typical programs that involve 2 million lines of code, the process is enormously complex. We don't have any magic in how we write our code. Our programs must run on multiple hardware platforms and be extendable as those platforms change. There is no single body of procedures we can follow. The basis of everything is smart people, but teams can surpass the experience and capability of individually smart people. The biggest problem is handling the spatial interactions between subsystems. Thousands of things are happening in parallel. This vastly exceeds the complexity of any CASE tools; consequently, we do not use such tools. Nor do we use "macro control" programs like Anderson's Method 1 or Method 2. Instead, people document the program as they go along.

Senior developers are responsible for the overall design. However, most of the problems occur in implementation. You can never afford to lose control over your code base. You have to get constant feedback from all the elements. At early stages in the development cycle, the practice is generally "to leave the gates relatively open" so that everyone can see everything going on. However, later, with over 200 developers on a program like NT, if you just let developers check stuff into the system, it wouldn't even boot, it would just break.

To maintain coordination, the Microsoft Operating Systems group used a technique called taking the program for a “build test drive”. At least every week, but more often 2 – 3 times per week, each group would recompile its software so that the entire team could build a consistent, coherent product with all the new features and functions in place. Frequently, the attempt to assemble the entire program or subsystem would breakdown. However, the “builds” forced people to run down and fix what had gone wrong since the last build. If errors were not fixed at this stage, interactions quickly became so vast that it would be impossible to fit them all together, even though each subsystem might operate effectively on its own.

Said Paul Maritz, It is difficult to add performance later in any program. This means that in addition to the “builds”, we break up the process into milestones, each of which is legitimate for a particular customer base. Although our “test designers” set up formal test suites to discipline each stage of this process, we can’t possibly guess all the things that people can or will do with the program. Consequently, at the milestones we try to prepare the program to be used for a particular real-world purpose. Then we can get feedback from the people using it and work from there. We broaden the program for each succeeding step. At each one of the milestones, we take the bug backlog down to zero for that constituency and test suite.

For each subsystem, there is a team of one to ten people. You really can’t have the teams any bigger. People must be able to grasp the entire complexity of their subsystem and its interfaces. They must know each other intimately and be able to trust and judge each other’s needs and solutions. Consequently, we develop a series of rituals that force everyone to get together around the builds.

Mr. Peter Neupert noted, “Each of our applications group used to have its own tools. Now we do have conventions and building some tools, but these are not used consistently across groups. Rather than forcing tools or interactions, our general attitude is: ‘Where people need to know something, they should go find out about it. But it’s largely been on a personal basis. A person’s length of time in the company is really useful in terms of knowing how to get around in the system, whom to ask, and whom to talk to’.

A People-driven Business

Mr. Neupert continued: There’s one thing no one is confused about from Bill on down. This is a people-driven business. You can dream all you want to have all the vision you want, but you can’t deliver on it without the right people beneath you. Although we think our people have done extraordinary things, we still argue that we have a lot of weaknesses. We’ve never been able to keep up with the number of people we need, because the challenges we take on always expand faster than the infrastructure. For example, the current cable TV programming and multimedia programming needs are growing very rapidly. We drive very hard to find and keep the excellent people we need, but once here, it is awfully hard to get them to move between product groups. And the understanding of our people in one product group about the challenges in another is (very limited).

We don’t have any formal mechanisms by which we move people through a progression of challenges in different groups. Because the demand for good people is so high, all the divisions want to hoard their good people. And despite our policies, we are not as good as we need to be at weeding out people at the bottom. Because our challenges continue to grow so fast, some groups just plateau people. There have been some who have stayed on the same

level working on the same for ten years. That's okay, if they're competent and there are no more pressing problems, and their assignments still add value to the company. But this doesn't solve our real headcount shortages.

Personnel Development

Mr. Michael Murray, Vice President of Human Resources, described Microsoft's development practices this way: Once recruited, people will be put directly on a small team with a set of deliverables where they are expected to write or test software code under very tight time schedules. This is not an apprenticeship. They are rubbing shoulders immediately with people who have been here one, two, five, or ten years and are very knowledgeable. We don't have a lot of seminars on how to work as teams on software development. A new developer or new employee in our product groups will only go through a couple of weeks of formalized indoctrination or introduction to the methodologies we use in development.

We have always emphasised three attributes: people who are smart, people who work hard, and people who know how to get things done. If you have those three things, you get a promotion first to a technical lead position on a small project, then to a group manager position managing several lead people. Wherever you are, the job is still very hands-on, action-oriented. It would be difficult to find a single executive (even at the VP level) who doesn't do some individual work on the actual content of programs.

We basically tell employees that the development of their career is their responsibility. We are only now developing our first formalized program where we may create a few development type positions-purposely moving somebody into a position for 6 – 8 months so they can gain varied experience in the company. We will certainly talk to people, and discuss different job opportunities. We also keep a database of our upcoming stars. We are beginning some formalized leadership programs to introduce these people to broader concepts of strategy planning, and leadership. But at the lowest level, we expect the normal informal, e-mail means of communications to take care of most opportunity identification. In the past, we'd say if the company grew, we could all grow together. Now, we are still hiring the same overachievers as then, but we have moved from a 3,000 – 4,000 person company to a 17,000 person company, and the opportunities to move to or interact with the top aren't as great as they used to be. Now I emphasise that if a person wants to advance faster, they should look laterally. And if they move, they will probably find a very different company in some other areas. This thing we all think of as Microsoft is really many different cultures in different places. These different cultures have different ways of communicating, being rewarded, etc.

The Microsoft Culture

Mr. Murray described the Microsoft culture as follows:

“Part of our culture is questioning everything. In a presentation, the style is not to sit there and be impressed with the presentation. Instead, the task is to figure out what's wrong with the presentation, where is the flaw, where did they fail to do good analytical thinking. Sometimes, you walk out of a meeting feeling my gosh; this company is very cynical, bitter, or grumpy about everything. But I think it's simply a very cautious way to look at business. Another common aspect of our culture is a great intolerance: intolerance for imprecision or for inaccuracy in analysis, description of problems, or understanding of root issues. All this

is driven by Bill Gates more than anyone else. It's a great learning tool to have him either take you apart or watch him take apart someone else's presentation. This can sometimes be very tough on a person who is less articulate, but nevertheless, very bright.

Another part of our culture is our "to hour week". I find this very similar to my experience at Apple. These companies were started by people who were young, enthusiastic, and incredibly passionate about what they were doing. Each time you came up with a new idea, you could see an additional three new possibilities. So they ended to be an infinite amount of work and only a finite amount of time. Everyone became incredibly impatient because things were always moving so fast. The people who founded and joined these companies were single, highly competitive, highly intelligent, and chose to define their lives by their work. Suddenly, you found you've created a high velocity work culture. It wasn't unconscious. The people themselves reinforced it: where you parked your car was the time you came in, whether your car was there last was an indicator of how long you had worked. Even when you transfer into more administrative tasks, you find that this work ethic stays. None of us feels we can ever get our jobs really done.

All these cultural things took care of themselves when everybody rubbed elbows with everyone else. I'm not sure any of us yet realizes what having 17,000 employees means in terms of maintaining some of these cultural factors. You'll find that companies like Hewlett Packard or Intel spend a lot of time talking to their employees about the kind of company they are and want to be. I find that Bill Gates is quite passionate about what our corporate values are – or what we call our "success factors" – but he's not the kind of CEO who wants to talk frequently about them. He would rather talk about the new technology, the new product we're developing, the new business strategy we have.

Bill has a very well defined vision of where the company should be and great confidence in that vision. But it is a technical vision of where the company is going. Does he share the kind of company he wants us to be? I think not. That's not part of his script. But I think every employee would say, we are so glad Bill's our CEO. We love hearing him talk. We love hearing him talk about the future. We believe. We salute that flag. But this company doesn't tend to be introspective. Instead, we have a great big windshield that allow us to see this broad panorama in front of us, with a big fat gas pedal you can't miss on the floor, and a small but functional brake. But if you look around to see where you've been, that's not very interesting".

The Motivation System

Microsoft employees earned relatively modest salaries compared to the rest of the industry. But successful employees received large bonuses in the form of stock options. Even Bill Gates – though an equity billionaire – had never earned more than \$195,000 in salary per year. Nevertheless, employee turnover was well below the industry standard. What attracted people to Microsoft with are enormous personal demands and middling salaries? Paul Maritz, Vice President Operating Systems, said: "They come here because management understands software and is passionate about it. They have all been involved in software and like to interact with the project people. ...Our people tend to motivate themselves through peer pressure. A basic motivation is the fact that 'it is done well'. We are driven by customers, competition, and success. We cannot overemphasize these facts. However, a major contributor has been the fact that we are a rapidly growing company; and this has given our stock option plans enormous leverage".

Bob Muglia amplified, “There has probably not been in modern times a company that has had the financial impact on as broad a set of people as Microsoft has. By being at Microsoft over time, people have been more successful financially than they perhaps could have been in starting their own businesses. A lot of the attractiveness comes from the reputation of the company’s products, its position in the industry, and the fact that, at Microsoft, you meet a lot of smart folks. A lot of people who come directly out of college are not primarily motivated by finance and don’t understand the real value of options. When they receive them, they kind of say, “oh great”, but don’t think about it. There are many horror stories where people sold their stock options after the stock went up \$5 or so but could have made ten to twenty times that a year later. Over the years, people have often said Microsoft cannot continue growing exponentially forever. This is undoubtedly true, but where it will end, no one can yet define.”

A Performance Focus

We don’t do a lot of the cheer leading here that other companies may do. However, in certain ways things are pretty easy for programmers. You want to get a new computer with special features; okay you get what you want. People also enjoy knowing what the next generation operating systems will be and having a chance to play with them before anyone else does. But it’s not all loose and unstructured. Every person has an annual performance review with mid-year “objectives checkups”. The evaluation is pretty much by the objectives the people and their managers have set. Everybody has anywhere from five to ten objectives they are to accomplish within the next six months. Every six months each employee is given a blank review form. They take their previous six months’ objectives and evaluate themselves against them. On an annual basis, they also write what they think their strengths are, what their weaknesses are, and what they will do about them. Their managers then take that form and write their opinions on the employee’s strengths and weaknesses. Then, together they set in concrete terms the employee’s next six month objectives. It may be fun to work on other things, but these are the things you’re supposed to get done.

Peter Neupert said, “We have tried to set up metrics for measuring productivity, experimenting on smaller projects. How much effect does it have on productivity to improve procedures on the front end of the design process or to define functionality and quality better? How many bugs are tolerable per unit time? While we have some standards in our heads, it is hard to write these down or make them applicable across projects. It’s also hard to watch people and tell what they’re doing at the time. We purposely give our programmers private offices so they can have the time they need to work without interruption. We want them to unplug their phone and shut the door when they need to. But we also expect them to be team members and work all night when the team requires it.”

The interesting thing is that these guys are obsessive perfectionists. The hardest thing to do is to get them to stop work and get the product out the door. They’re upset when they think you are going to ship something less than perfection because they consider their name associated with the product and its performance. Another problem is that as you get further and further in a product, programming innovators came up and say, “Hey, we could do X. Isn’t that a great idea”, and regardless of what you say, they may try to do it. They may not think about how X fouled up 3 other people who assumed that function was going to be Y. Programmers always think things are going to be easier than they really are. Generally, they are more difficult by a factor of 4. As you add complexity, what you think is going to take one week ends up taking six and might not look like your original target. The obsessive perfectionists say you’ve got to have all this other functionality, so they try to shove 2T performance into

the original time T. And of course you never know how complex 2T is until a user actually works with it. The biggest problem is: the more subsystems are added, the more people you need, and the more specialized people must become. Obviously, coordination problems increase.

“But in the end”, Bob Muglia says, “What people know is that they have to meet their objectives. We have a 5-point rating scale which has increments of 5. Practically, however, we only use the scale from about 2.5 to 4.5. Above 4s are superstars and 2.5s are people having some problems. Everyone also has a compensation level. The levels for professionals go from 10 to 15 which is the architects. Level increases are what real promotions are. Titles don’t really mean much. When people are ready for the next level, we formally promote them; give them a big bonus, and also a raise associated with the promotion. However, we do not give special project performance bonuses. We have given division-wide recognition for people in the past. There has always been a real concern about taking ten or twenty people out of a thousand person pool and saying, ‘you have done an extra special job’. There’s a very fine line between the twentieth and twenty-first person on a project, and you may make fifty or hundred people feel worse by the selective bonus while only a few feel better”.

Mr. Murray noted, “There is management feedback as well. Employees have the opportunity to write feedback on their managers and what they’ve done right or wrong. We also do a yearly employee survey, which is anonymous, to understand what general trends are, issues, what people like and don’t like, and so forth. We try to learn from our experience by a process called a post mortem. After you finish something, you gather together all the key people, talk to customers and to whoever can give you some good feedback about what worked, what didn’t work, what we should do better next time, what we learned from this. Then we try to write it up in a brief report. The question is, do the other groups read it? Do they care about it?

Another thing that jumps forward is the immense personal development power of a company that runs itself on e-mail. Knowledge gets shared so rapidly and so openly to so many that it becomes a constant schooling and educational process. A person like Nathan Myhrvold, Senior Vice President of Advanced Technology, often sends out a ten-page e-mail message expounding upon his group’s most current thoughts. A lot of us are included in that e-mail group. We may not do anything with the particular memo. But it plants ideas into our minds. Nathan may never even know the impact he has or on what person. But many people go home at night thinking about new ideas and the possibility of applying them in some novel way to a project they’re working on. It all happens organically. There is simply no structure, no rules to all this. There is no way someone could try to create a controlled system around e-mail, trying to exploit its value as an educational tool. There are no specific rewards for joining in this e-mail sharing. It’s all organic in the way we do the job.

Looking at the Future

Microsoft’s practices had clearly been very successful in the past and its organisation had modified over time. However, in 1994, there was great concern about how the company’s increasing size, the changing nature of its marketplaces, and the vastly increased complexity and interactiveness of its programs would affect its management approaches. These factors had already caused Microsoft’s product service and support groups, which handled calls from customers, to exceed 5 percent of revenues by 1994. Because Microsoft was so important to its large corporate customers, it had created Microsoft Consulting Services in 1990. Mike

Hollmann, COO of Microsoft, noted, “We have not been well known for our customer support. By 1995, I want Microsoft to be as well known for its customer service and support as for its products. I want Microsoft to be the ‘Maytag repairman’ of software”. This placed increasing emphasis on the issue of controlling product quality before the product entered the marketplace, a problem Microsoft – because of its leadership – had often encountered. How to handle this in the highly decentralized style of Microsoft was a major issue. As Microsoft’s customers, complexity, and channels proliferated, there was a deep concern that the basic nature of the company would shift away from software development to marketing and service activities.

To anticipate the nature of these changes, Microsoft had launched a \$200 million research program under Nathan Myhrvold, a physicist who had worked with Professor Stephen Hawking. Myhrvold was a very articulate, innovative, charismatic individual who enjoyed discussing imaginative and philosophical possibilities. He commented, “We must learn to think of the information highway taking personal computing from a desktop phenomenon to one that is woven into the fabric of our lives – our living rooms, our dashboards, our pockets, our kitchens – wherever there are people and information tasks for computers and software. Up to now, our primary market, personal computing, has been mostly local in nature. That’s going away. And the same kinds of dramatic changes in price performance that microprocessors brought to the computer world are now coming from fibre optics, ATM (asynchronous transfer mode) switching, and satellite communications.

The really dramatic part of the computer and communications revolution will begin to occur in the next ten years. One reason Microsoft has been so successful in the past is that we have managed to maintain “cyber share”. As computer capabilities have grown, we have maintained our share of the cycles-per-second consumed in the marketplace. Given the exponential growth of the market, we have been surfing on a wave. Basically, our business has grown at the same rate that memory price performance has grown. To keep this up, we will have to continue to expand exponentially. There are more personal computers than VCRs now and about the same number of personal computers as television sets in the world. But, while people don’t replace their TV sets for twenty years, they change their PCs every few years. This will drive the replacement cycle of all software.

Until now, computing has been about making tools for people to analyze, to create documents, to design. In many areas, computers have merely replaced pen, ink, physical models, and calculators. The next clear stage will be to read with them, obtain information with them, let the computer be our window on the world’s information, and to communicate with them. E-mail will give way to true communications in short order. Once you get the fundamental capabilities of reading, interpreting, communicating, and distributing information, whole new worlds open. The technical challenge for us in the next five years is to really fill in all of what’s necessary to make this effective. The present system is not going to gracefully allow you to do all the wonderful things you could postulate. And the software that supports those new communication networks is going to have to be figured out afresh.

Many people have postulated that, as equipment gets every cheaper, someone can come in and even obsolete the gigantic investments that all the RBOCs (Regional Bell Operation Companies) have. The value of the existing technologies is, almost by definition, evaporating at a rate of 50 percent per year. Just like the old mainframes, the switches and PBXs of the past will be under tremendous pressure. ATM may well be the new “microprocessor” of the communications world. It will certainly allow lots of new

companies, concepts, and solutions to come in. When will the voice call system become essentially free? Already, much of the local and residential stuff is unmetered. Much of it costs only 5 a minute. What happens when you can move 60 megabytes per second over the installed systems that formerly handled only 10 kilobytes? The pricing of everything will change.

We understand personal computers really well. And they are going to be one of the key nodes on the information highway – but by no means the only node. In the near future, PCs will be the most available platform for doing almost anything. The installed base of PCs is impressive. And there were as many 486 Window's based machines sold to American homes last year as there were Sega Genesis games machines. But nobody yet has a dominating or even deep expertise in the new systems that will emerge. Along the way, there will be numerous mistakes and deaths in both the hardware and businesses. People say with all this competition, it's may not be so. Restructuring that whole communications world is going to spawn a hunch of billion dollar companies, just like the microprocessor did. One of the stupidest things I hear is that IBM made a huge error in not keeping its PC operating systems proprietary. But look at the cast of thousands that did try to keep it proprietary. From DEC and Xerox to HP and Wang, almost all are dead or suffering. Whereas IBM created a whole industry and is the largest player in it.

The question is, how do you extract revenue from this rapidly changing software-oriented world? The key to that is managing these very bright people we have who create the software.

3.3 Joe Peterson

Joe Peterson, President of Investment Management Corporation (IMC), sat alone in his office, having inevitability of his decisions regarding David Johnson. Tomorrow, Joe would fire David, the company's Vice President of Portfolio Management. This decision had been a particularly difficult one for Joe to make. Joe had hired David to work for IMC the summer between the two years David spent pursuing his MBA. He offered David a permanent position after he had been graduated, and had been instrumental in David's rapid rise through the organisation.

The situation, however, was more complex. David had performed competently in many ways, had developed a large and loyal group of portfolio managers; and David was the primary liaison between Investment Management Corp. and the Boston Mutual Fund, which accounted for roughly 30 percent of the assets that IMC currently managed. Joe's decision risked internal dissension and the destruction of relations with an important client. But it looked like there was no choice – David would have to be fired. He was the focus of very destructive internal conflict in the firm, and it looked as if the conflict would not subside as long as David was at IMC. Nevertheless, a nagging doubt remained in Joe's mind as he set about devising a step by step plan for implementing his decision.

Investment Management Corporation, Joe Peterson and David Johnson

The Investment Management Corporation, located in New York City, was described as being in the investment advisory business. In 1979, it employed about 120 people, 40 of whom were classified as professional. The company managed about \$5 billion of assets. From their management activities, the company generated approximately \$6 million in yearly revenues.

IMC enjoyed profitable operations. The firm had been incorporated in 1960 by several local university professors whose work on econometric models for the evaluation of real estate investments had attracted the attention of brokerage houses and investment management firms. IMC's initial focus had been entirely upon consulting. By 1964, the pressure of an ever-increasing workload forced the founders to choose between their new business and academic life; they chose the former. The company continued to grow moderately until 1969, when the founders realized that they could expand the business dramatically by managing. So by 1973, the firm was managing approximately \$2.5 billion in pension funds. Another important change occurred in 1973 when the firm agreed to manage a mutual fund. This decision added another billion dollars of assets literally overnight.

Joe Peterson

Joe Peterson, himself an MBA, had been in IMC since early 1966. Prior to that, he had worked in the research department of a major brokerage firm. Joe commented on his reasons for changing jobs:

I was getting a little bored, and feeling a bit constrained by some of the bureaucratic aspects of the larger organisation. They really didn't seem to be doing anything exciting; they spent more time worrying about their monthly newsletters. When one of the principals (of IMC) asked me if I would be interested, I said yes. I took a chance by leaving a fairly high paying and cushy job to join Investment Management at a much lower salary. If things worked out and the company grew, there were a lot of possibilities. In fact, I had gone from being one of the research staff to actually running the research department at IMC. Joe Peterson was named president of Investment Management Corporation in 1969.

Sam Wilson

Sam Wilson, Vice President of the Investment Department had joined IMC in 1967. His prior work in econometric models made him sympathetic to the orientation of the founders of IMC. Sam's doctorate in economics and prior work in the research department of a major investment management firm had prepared him to have a major impact on the new research needs facing IMC during their period of rapid growth. Sam Wilson, like Joe Peterson, was a firm believer in the unique perspective which IMC offered to clients. One of the first management actions which Joe Peterson took when he became president was to promote Sam to the position of vice president of the Investment Department. This position was previously held by one of the founders who were only performing the management duties on an occasional basis. The founder preferred working on the research. Joe had convinced this particular founder the IMC needed a full-time manager of the Investment Research Department.

David Johnson

It was IMC's interest in bringing along bright young MBAs that led to David's employment during the summer between his two years in business school. His work in the research department resulted in IMC's offer of a full-time position upon graduation in 1968. Ever since, David's career progressed rapidly. One and half years after joining the firm he was given the position of assistant portfolio manager, and only eight months later he was promoted to portfolio manager. Two years later, in 1972, David was made vice president of Portfolio Management, with ten portfolio managers reporting to him.

Conflict over the Corporation's Strategic Orientation

Early in 1973, IMC's management group began to hold meetings which dealt with orienting the firm to take best advantage of the prevailing economic realization that critical resources were in short supply; and the economy had taken a turn towards recession. During one such session, David suggested that IMC should accept responsibility for a greater amount of mutual fund management, particularly from Boston Mutual Fund. Sam Wilson, Vice President of the Investment Department, raised some questions about David's proposed strategy. He noted that the company did not have the personnel necessary to manage the additional mutual funds, and therefore risked diluting its efforts. He also noted that the company's distinctive competence had been in the management of real estate investments, and it was those associated skills that had given the firm a sound track record and reputation. Sam's point was that during economically hard times, investment management companies rise or fall on their strategy. He felt strongly that the real estate specialty was a sound one for the years ahead.

Joe commented on that meeting and on some developments that occurred soon after:

We said that David's suggestion was interesting, but it seemed a little too abrupt for us at the time. We said that we would continue to look at it. What happened during the next few months was, that although the topic never came up again in any of our management meetings, more and more people were talking about it. It's hard to say where the idea got its force. Some people tell me that Berne Rogers (a portfolio manager), who managed most of the mutual funds we had at the time, began to gain prestige within the organisation, which may or may not have reflected his competence. Some of the other portfolio managers then started to wonder whether they could be making a lot more money if they started picking up some of these other mutual funds.

Apparently, what happened at that time is that with David's support, Berne was able to get two more mutual funds from the Boston Mutual Fund. Obviously, our assets and revenues grew. A couple of the other portfolio managers were shifted onto the new funds, and some new people were brought on to take over some of the regular business. The rapid growth in revenues was very enjoyable to all of us, in particular to the principals. I had been a little reluctant about it. I turned to Sam Wilson and asked him whether or not he thought we were allowing David a little bit too much leeway. He somewhat agreed, but pointed out that we were still staying consistent with the basics. So, I said OK! Let's keep it going.

Some months later, the differences in orientation became clear. At a management meeting, it had been proposed that the corporation expand its real estate investment activities internationally; David objected, again stating his preference for expanding the mutual fund activity. Joe described this and subsequent meetings as hard sell sessions, led by David and backed very strongly by a group of portfolio managers and one or two people in the research department.

At that point in time, Joe made clear his commitment to the fundamental strength of the real estate investment strategy, and indicated that the company would not expand its mutual fund activities further. Joe described David's response:

In somewhat subdued anger, he had offered me the proposition that he might take a few of the portfolio managers and one or two of the people from the research group and just go off

on their own and pursue that endeavour. I was somewhat taken aback. At the moment that it happened, I don't know if I said anything at all. About two weeks later after I sorted it out in my mind, I called David into my office and explained that in my opinion the firm had performed well, and David had been a major contributor to its success. I explained that one of the reasons why the firm had done well was that we had stayed within the track and that it was my strong feeling some of the things David was pushing for would not help. I also pointed out that a threat of taking some of the staff and forming their own company could not have a positive effect on the organisation. If he wanted to continue with the organisation he would have to understand that although he had the freedom to present new ideas, once we had decided not to pursue them, he would have to live with that decision. If he felt he couldn't, we would pursue a rational severing of relations.

Joe felt that this meeting had resolved their differences until a few months later when Sam Wilson rushed into his office after a meeting between the investment and portfolio management departments. Same was quite upset. He said that in contrast to the usual three-piece-suit decorum which we usually maintain at our meeting, he and David had gotten into a shouting match. Each of them was shouting at the other's subordinates.

A Pivotal Incident

The conflict between the portfolio management and investment departments failed to subside. In fact, Sam had been giving Joe a weekly rundown of minor crises. Joe described an incident which took place during the spring of 1974.

Sam came into my office very upset; he had just come from a meeting between his research staff, David Johnson, and a few of David's portfolio managers. He said that during the meeting, Berne Rogers had accused him of trying to maintain his empire to the detriment of the organisation.

Several of the researchers had been working on certain projects when David came to them and asked them to drop what they were doing and run out an analysis that would take about a week. The researchers were reluctant at the time because it meant that they wouldn't meet a deadline. But David pushed it with the full weight of his office, and literally threatened that it wouldn't help their careers if they didn't go along. One of the group was sympathetic to David's efforts. Eventually they agreed.

Sam didn't find out about this until the following week when the report that he was waiting for didn't come in. When he talked to his staff, they told him that David had claimed that I had okayed the shift in priorities. Sam then had a meeting with David and some of the key staff involved. During that meeting, David said very little but Bernie, who often spoke for David, said that the researchers were mistaken. Not only had I not only had to do what they did was that I, as president, had not given this particular research a high enough priority. Clearly Bernie's main client, the Boston Fund, had requested it; in fact, demanded and expected it of their advisory service.

Sam pointed out that there were procedures for interdepartmental coordination. If there had been a compelling reason to interrupt the flow of things, it could have been done, but it should have been done through Sam. Sam asked David directly why he hadn't come to him and requested the change. At that point, David tossed the ball back to Bernie and said that at the time it didn't seem like such a big deal.

The Decision

Because David continued to question the strategic direction of the firm and stimulate internal dissension regarding the direction, it became clear to Joe that he would have to take action. The dilemma I'm facing is not only that I will lose someone who is a very valuable asset to the organisation and risk losing a number of the other portfolio managers and some of the people in the research group as well, but I also risk losing business. On the other hand, by not taking action I am assured of continued conflict and further disruption of IMC's operations.

The nature of the Boston Fund's relationship with David may have developed to the point where if he does go his own way, they might go with him. Our assets would drop considerably, and revenues as well. The dilemma had affected Joe rather dramatically: I haven't slept particularly well. I've gotten into a very odd pattern where I'll sleep for several hours, be awake for several hours, and then sleep for a few more. I've started smoking again and drinking more regularly. The biggest indicator is the fact that my family is showing signs of the tension. My wife and kids have started building a set of activities around me rather than with me. They've started spending the majority of their time doing things that don't include me.

I've obviously been worrying about the impact of all this on the organisation, on the business. But the second dominant worry is about the impact on the individual. David is someone I like, who's contributed significantly. I found profound pleasure and joy in the fact that we had been able to support him and move him into a high level of importance very rapidly. I also asked whether or not the events that have occurred are stimulating things in me – fears from the past, and to what extent those fears might have somehow confused or blurred my judgement as to which decision would harm IMC the least. The probable consequences to IMC of firing him.

3.4 Nintendo of America

Entering 1994, Nintendo Company Limited was clearly the world leader in video games. Although pundits repeatedly forecast saturation, the market and Nintendo continued to grow despite a worldwide recession and a 30 percent stronger yen. Nintendo had released a variety of new game concepts including its Mario Kart, a unique action-racing game, Mario Paint, allowing users to draw pictures and compose music with a "mouse and Star Fox, the first game using Nintendo's proprietary FX (16 bit) chip which generated very realistic 3D animation pictures at faster speeds than competitive machines. The supported Nintendo's new "Super NES" export version of its Super Famicorn player in Europe and America. Unfortunately, games for the original NES did not work on the new machine.

Both technologies and markets continued to explode worldwide. An astonishing 34 percent of Nintendo users were adults, courted with addictive puzzle – like games such as Jeopardy and Tetris, developed surprisingly in Russia. Nintendo's 100 percent owned Nintendo of America (NOA) accounted for over 50 percent of its sales and profits on a \$100 million investment base, while its \$40 million (investment) Nintendo of Europe was poised for expansion. In 1993 alone, NOA and its direct licenses sold 28 million game cartridges. Signaling potential future moves into educational markets. Nintendo had invested \$3 million in MIT studies on how children learn. Given Nintendo's huge installed base of 40 million systems in the U.S; Apple Computer's President Michael Spindler, when asked which company Apple feared most, answered Nintendo".

Largely because of Nintendo's success, a number of other competitors had entered the games market. Japanese giant Matsushita, Sony and NEC were poised to bring truly formidable scale, brand names, and distribution power to bear for the first time in Nintendo's markets. NEC had partnered with Hudson, largest of Hokkaido's rapidly growing software industry, to develop a 16 bit microprocessor, called PC Engine, to replace the jerky movements of on – screen characters by using a new “compression chip”. However, its system cost \$199 as opposed to Nintendo's \$70. Sony had developed its own system, while Matsushita's Panasonic Division was providing the hardware for 3 DOS revolutionary 32 bit entry many thought might soon be followed by a 64 bit system. The technologies supporting PCs and advanced games were rapidly converging, and 19 percent of PC users cited “games” as a significant use.

All of this posed some interesting problems for Nintendo and NOA. No one doubted Nintendo's marketing and distribution potentials, but Nintendo had traditionally kept its advertising to about 2 percent of sales, compared to the 17 – 18 percent of most “toy” companies. Instead, it developed a formidable array of methods to reach and get feedback from its young audience. Its Nintendo Power magazine enjoyed the largest paid subscription circulation of any magazine to kids and teens. NOA also had 400 people answering about 150,000 calls a week, responding to questions about how to solve game problems, when and where games would be available, and so on. In 1990, this “800-line” service had become so expensive that Nintendo converted it over to a regular tolls system. Even then, the service was so popular that – to avoid annoying parents – counselors were told to terminate a child's call after seven minutes.

In the early 1990s, NOA accounted for a massive 20 percent of most U.S. toy stores' sales and even more of their profits. And despite competition, Nintendo's international sales had been growing rapidly. Suddenly, however, market changes posed some interesting problems for both Nintendo Company Limited (NCL) and Nintendo of America (NOA) in both creating and distributing games.

NCL's Software Organisation

Mr. Yamauchi, Nintendo's entrepreneurial CEO, had centralized all internal software development in Japan. Earlier on, he saw that the real key to success in the games business was not hardware, with its limited market; but software which was unlimited. At that time, Yamauchi decided Nintendo should become a haven for video game artists. “An ordinary man cannot develop good games no matter how hard he tries. A handful of people in this world can develop games that everyone wants. Those are the people we want at Nintendo,” he said. He wanted Nintendo to be the place where the “hottest game designers” most wanted to be. Yet there had been a problem. In Japan, most employees stayed with one company for their entire career. Nintendo could not hope to pirate talent from competitors or other software companies. Consequently, by 1994, it had developed 377 third party game sources in Japan, plus 190 worldwide.

Yamauchi's style seemed ill-suited for attracting and nurturing software geniuses. He had a reputation for aloofness, self-assuredness, and authoritarianism that had grown along with Nintendo. There were legends about his squashing people or companies that crossed him. He had no engineering background. Nevertheless, Yamauchi made himself head of all (research and development) “the heart of this company”. Yamauchi had never played a video game in his life, yet he alone was the judge and jury when it came to deciding which games

Nintendo would release. He had hand-picked his three subordinates – Yokoi, Uemura, and Takeda – to be heads of research and development (R & D) 1, 2 and 3. Within each R & D group were many teams pitted against each other. Miyamoto – the games genius who had created Donkey Kong, Legend of Zelda, and the Mario Bros – operated a separate small group on his own, using his own unique style of laying games out on huge paper spreadsheets across several tables in a chaotic setting.

The Yamauchi Style

Hiroshi Yamauchi was the highest paid (\$6.3 million income) CEO in Japan, yet that was a mere fraction of top U.S. CEOs. Yamauchi was soft spoken, but very intense, opinionated, and unpredictable. Although he was often criticized for being ruthless in his employee and business practices, no one questioned Yamauchi's genius at choosing successful games. Yamauchi insisted that R & D was sacrosanct. No one told his creative people what to create. The marketing department saw games only when they were completed. Yamauchi thought marketing people could only pick what was popular now, not what would be new and fresh in the future. In his judgments, he was very final. "Months of work could be disposed of with a single scowl", said one engineer. His style created much frustration and anger at times. Some left; others exhausted or disappointed were sent on sabbatical and told. "Spend the time, relax. Come back fresh". Then, however, they seemed to come back for more, determined to have their game chosen the next time.

Unlike other Japanese companies, what Nintendo did not seem to seek was harmony in its operations. Yamauchi seemed to carefully parcel out his praise. If any one team had too much success, it could be slapped down. As a result, each team came to excel in different areas and at different moments. Yamauchi divided the R & D work among his three teams. Yokoi, the oldest and most traditional engineer, headed R & D1, a software game design group. His team of 30 engineers operated as a small, dedicated "band of samurai" cranking out major successes like Game Boy and Meteoroid. Uemura's team, R & D, developed the hardware itself. This included peripherals like the communications adapter. Takeda, said to be "the sharpest designer" of all, ran R & D3. Takeda's 40-person staff consisted of computer backers and nerds. Takeda said, "There are no limitations, no boundaries, since we are on our own there is nothing we cannot do; when you start with nothing you can do everything..... We have to have more talented people because we are given unthinkable tasks..... becoming maniacs is the idea".

Although it also designed successful games, R & D3 often came up with the technologies that allowed the other games to run, for example, the Nintendo Read Only Memory (NROM) chips onto which a game program was reproduced. The amount of information in a game was limited only by the size of the NROM. Takeda's group expanded this enormously by creating a special cartridge called UNROM, a RAM (random access memory) which stored information until it was needed: for example, until the lead character entered a new room whose features and creatures the UNROM provided only while the hero was in that "room". The group created Memory Map Controllers (MMCs) that, through information compression and storage tricks, gave cartridges 32 times their original capacity and extended the life of Nintendo's early systems substantially.

While the rest of Nintendo (reflecting Mr. Yamauchi's preferences) was Spartan in the extreme, the R & D groups worked in spacious, private laboratories with significantly more staff and resources than many other laboratories allowed. In keeping with Japanese practice,

software developers were paid a salary with a year-end bonus based on the company's performance. Despite Yamauchi's focus on software, 90 percent of Nintendo's games were produced by outside suppliers in 1994. Yamauchi's goal for each internally produced program was preeminence. Given the cost of each game, he believed that it was far better to put resources into the production of one or two hit games per year rather than several minor successes. When a game went into full production, it typically required a million dollars of engineering and development backup, plus several millions more for marketing introduction.

The NOA Style

In striking contrast to Nintendo's tough disciplined Japanese image, NOA under its founder, Minora Arakawa, allowed much information and practical joking. There was a "no suits on Friday" dress code. "Managers were conspicuously young and everything and everybody was closely connected". Arakawa took out all the walls between managers and workers, and had weekly meetings with key elements of his staff to keep communications open. Offices were decorated with baseballs, windup toys, stuffed animals, basketball hoops, and other toys. Yet a Spartan Japanese atmosphere still existed. There were no corporate jets, all offices were a 10 x 10 square, and there were no executive suites. Employees often worked late, past midnight. Although NOA followed the Japanese model of controlling executive compensation relative to other workers, employees could earn up to a 50 percent bonus on their salary if the company's earnings and their individual performance warranted. Top managers spent a full weekend twice a year going through all employees' performance and salaries in detail and awarding bonuses based on evaluations made by their groups.

Arakawa was determined to avoid the elaborate, expensive bureaucracies and perquisites he thought had destroyed Atari and other game companies in the volatile and cut-throat toy business. Through 1993, Arakawa or his then COO, Howard Lincoln had to approve any hiring. Lower level executives could only approve expenditures up to \$5,000.00. Anything above \$50,000.00 had to have Arakawa's approval – an anomaly in a business where it cost millions to develop and manufacture a new product for introduction and tens of millions to go to full production and marketing.

The NOA Marketing Concept

NOA is operated as a wholly owned subsidiary of Nintendo Company Limited (NCL). Mr. George Harrison, Director of Marketing and Corporate Communications said:

In the last few years, we have moved from being an export-driven Japanese company in which NOA was essentially a sales office just receiving products from Japan. We are now a more international company where it is recognized that other large markets (the U.S. being one) have special needs, interests in other types of software and products, and special cultural characteristics. For example, the sports category of video games was not really very big at all in the U.S. and was the strategic edge that some competitors used very successfully in the last few years. Recently, we've been able to direct some product acquisitions from the U.S. and we've sent our people who are familiar with football, basketball and baseball to find products that were appropriate here.

Even today, we don't develop any products here in the U.S. We have a group of people who go out and scan contract developers to see what interesting products they may have available to acquire. To some extent, this places us in a competition with our own licenses as we seek

to buy products we could publish ourselves. Now, suppliers who want to publish the same title can come out simultaneously on all. We've always taken great care to make sure that Nintendo's product is the best quality. That's the only thing that ultimately distinguishes our systems. Traditionally, developers had been paid on almost a flat fee basis as a contract group to produce something. Publishers (like us) then marketed the games and made the large variable revenues that go with that. Developers enjoyed relatively low risk under this system, but seeing the profits going elsewhere; they are now attempting to market their own products. This is changing the structure of the industry enormously.

With marketing and introduction costing as much as ten times what development does, all parties are seeking ways to decrease their risks. Unfortunately, like the movie industry, a few really large hits are where you make your money. To gain better control, many firms are trying to vertically integrate; and in response, we are trying to leverage our own unique position in the market. In the design area, you will find that our games have distinctive looks, for example, if you put our Mario character games up against SEG's Sonic games. Ultimately, we can only be as good as our creative product. The industry has been littered with people who have introduced interesting game titles, new techniques, or tricks, but many lacked original in their characters or stories. That is where our Mr. Miyamoto's great strength has been.

There are licenses who have introduced Barbie games and others they thought were specifically targeted for particular demographic group through market research, "What would you like?" and then try to develop it. We tend to let our nose be our guide in the market place. Decreasing your risks (in the market place is very difficult). One means is locking up the best creative talents in the world with some form of exclusive development arrangement. However, this very act may also increase your costs and risks in some other ways. As the technology has become more sophisticated, the cost of development has gone up to a point where front end investment are very high and a video game developer can't really be more than some guys working in a garage anymore.

Technology or Content

A phenomenon like SEGA was probably inevitable, given our market share and strong Japanese base. However, when you have been successful for so long, you can't change your practices just because someone, in the last sixty days, has taken a major piece out of the business. Last year, consumers seemed to be just fascinated by technology jumping, jumping on CD players and 16 bit machines just because they were more advanced products. SEGA has kept up to a steady strategy of talking of things like virtual reality goggles, the SEGA channel, and claims that they were the wave of the future. The strategic question is, do they try to meet this currently or hunker down, conserve your resources then wait until you have a truly superior system to push back with? We have always held that it is more important to have an important entertainment piece to go with the new technology that really makes someone want to buy that technology.

Today, there is a lot of hoopla about CD-ROMs and the fact that millions of people have been installed PCs, but the percentage who use them for games in computers is small and those who go on to buy additional CD programs is extremely small. Our focus on staying with cartridges has not been a popular stance, but we feel that the electricity piercing through a micro chip is always going to be faster than a spinning disk that's being read by an optical reader. CDs are fine for some purposes (like recalling major stored programs) but not for

others. On the other hand, CDs enjoy some advantages in terms of manufacturing and distribution costs.

Distribution is another key element. As the number of platforms and titles expand, the retailer has a large challenge on how to manage inventories so as not to get burned. As program costs increase, customers want to pretest a program either through in-store testing or rentals. These problems, and the capabilities of the information highway, will be changing channels enormously. How we participate will be a critical strategy. About a year ago, NCL made an investment in a Japanese satellite company called St. Giga and after the first of the year will begin broadcasting five channels of entertainment by education, radio TV guide listings, other services, and video games. The small 18" satellite dishes are especially important in Japan because little cable TV exists there. This opens whole new market opportunities. When researchers ask consumers which of all the "information highway services" they would most want, entertainment always comes to the top. It is the Trojan horse to get the other services into the home.

To expand markets, we have to deliver sustained success, not just exploit fads or passing phenomena. Customers' service has always been a key strength of ours. Our goal is to have people most satisfied with our products. This has been the function of our Call Centre, our correspondence group, and our Nintendo Power magazine. We now have to push these concepts further using the capacities of the new technologies available. Another form of customer service is to respond to our retail customers quickly. We have built a very sophisticated warehouse outside of Seattle that allows us to ship product to arrive at the store level within three days, bypassing storage warehouses and distribution centres. Logistics may not sound like a sexy part of the business, but in a hit-driven business, it is very important.

The NOA Organisation

Nintendo of America had a very flat organisation and a series of policies to maintain informality. NOA had two subsidiaries, NES Merchandising, Inc. and Nintendo of Canada, Limited in Vancouver. Its basic organisation form was functional, but within that structure, it employed a large number of part-time and inexperienced people. About 400 were in its Consumer Service unit and 150 in Merchandising, NOA's largest units. The Consumer Service force was very important. It answered calls about games day in and day out. Inquiries typically focused on the availability of specific games in different areas and the details of how to get a game character through a particular problem. Answers had to be extremely polite, friendly, and knowledgeable. Operating from small carrels in the same floor area, telephone answers typically handled 50 – 100 calls a day. The pressure caused serious problems with burn-out and major challenges in creating opportunities for personal growth. In addition to 150,000 telephone inquiries per week, Consumer Service also handled about 5,000 – 10,000 letters. Although detailed technical questions about games dominated the inquiries, telephone answerers also had to field broad policy questions about Nintendo's position on violence in video games, what was happening currently in law suits etc.

Maintaining quality in all these contacts was a serious concern for NOA's management. Although each job in the Nintendo operations area carried a job description and job rating, employees were encouraged to feel that they were not confined by that description and were encouraged to initiate ideas and better work methods. Ms. Beverly Mitchell, Director of Personnel said:

We have a bonus program which is very unique. All employees participate in the same program and the bonuses, although discretionary – meaning the company may or may not pay any bonuses – range between 0 – 4 percent of compensation based on employee performance. All employees from officers to hourly workers are on the same program. In evaluating performance for bonus purposes, one of the things employees are rewarded for are ideas they brought forward which have been implemented. In addition to this method of encouraging improved work methods and ideas, we have a very strong open door policy. It's not just a vehicle for airing complaints; it's the way we get things done. Everyone feels free to go to the source. We feel this is imperative because our fast-paced environment demands that we get things done now.

Corporate Controls

Like many Japanese companies, Nintendo's corporate control systems varied from those common in the U.S. As Bruce Holden, Director of Finance, said:

The primary thing about NCL looks at is how the company is doing vis-à-vis competitors, in terms of serving customers with a reasonable financial return. Headquarters recognizes the value of sacrificing short-term profits to preserve good relationships with retailers or to deal with an inventory situation; they deal with those decisions without a great deal of hand-wringing. To the best of my knowledge, there is no written strategic plan. NOA's offices do provide input to NCL in terms of the worldwide strategy: which products to develop, and so forth. But the final decisions are basically at NCL; NOA then does its best to adapt those products and marketing strategies to be successful in North America. In this very dynamic entertainment type of business, we have to be very flexible. The idea of a written five-year or three-year plan, I think, would just be laughed at here. Key people on the technology and marketing sides in Japan, I am sure, are thinking three years out. We tend to consider more what's going to happen next year, what products we will have to sell, and how we can bet do that job of selling. To the best of my knowledge, there are no ROI, ROR or ROE targets given to us by Japan.

No Budgets

One of our multiple features is that we don't have budgets. That goes right to Mr. Arakawa's belief that this is a very dynamic, fast-paced business and we could get too tied up in managing budgets. There are two basic risks: (1) we might not be responsive to the market either on the upside or the downside and (2) we could go ahead and spend money despite the fact that conditions have changed. He's afraid that a budget is a bit of a self-fulfilling prophecy, which people will manage to a set of plans that are several months old rather than managing to what's happening today in the marketplace. However, 'we provide cost centre reports to all the department managers and their supervisors, and those have details on what has been spent year to-date and versus last year.

(An interesting set of tools we use is) a process called action memos and an authority chart. The authority chart is about a twenty-page document with basically one page for each major function or department. It says that "the following decisions require approval by (person's name)". For each level, the chart defines what we consider to be discretionary expenses. Basically, up to \$5,000.00, a director can authorize discretionary expenses with no further approval. From \$5,000.00 to \$50,000.00, the director needs to prepare an action memo and submit it to an NOA corporate office. That gets circulated, but that's the final sign off.

Above \$50,000.00, Mr. Arakawa and Mr. Lincoln are required to sign and don't require approvals. Payroll and routine, recurring costs such as utilities are considered non-discretionary and not subject to approval, but hiring additional people, position changes, marketing costs, etc. do need approval. A new building or piece of capital investment is discussed in a fair amount of detail concerning its location strategy fit, etc. But, in general, there are no hurdle rates imposed by NCL.

Action Memos

In addition, there are certain non-financial decisions that are important enough to require approvals in the authority chart. Examples might be the change in CPA firm, a change in advertising agency, the sign-off on a six-month merchandising department plan, and so forth. Messrs. Lincoln and Arakawa thought very carefully about what the key success and expense factors are in this business and said that "these are the things – whether there's a direct dollar impact or not – we want the opportunity to sign off on". So the action memos were initiated to provide the full context for such decisions. We all look at them primarily as a communications tool. We are not just trying to control things we're trying to ensure that the officers and Mr. Lincoln and Mr. Arakawa, in particular, are aware of what's going on.

Some people who come here don't understand why they can approval only up to \$5,000.00, when at the same rank elsewhere; they could have approved \$1 million. The answer is, our system is designed to ensure that the officers know that's going on. For example, an action memo is written for the marketing launch titles that we'll spend \$10 million launching because they are really strategic or we have huge sales expectations. The officers have a full financial breakdown as well as a verbal rational for these projects.

There is very close, frequent contact among the officers. There are regularly scheduled staff meetings for each division in which all the directors assemble and receive a report on what's going on in a particular area. The areas reporting are scheduled and rotated to ensure that each group reports at least once a month. In specific areas like the customers service group, we keep lots of statistics on the types of questions, comments, complaints and inquiries they get as well as the efficiency with which they answer these. This activity is monitored thoroughly for quality because it is an absolutely key communication with our customers. In the credit area, we have policies where we step back and ask whether certain controls are necessary for individual customers, what the cost of these controls is versus the probable credit or goodwill losses, etc. We try to eliminate those controls that are unnecessary. The old 80 – 20 rule is very important for us.

Servicing that last 20 percent of customer desires can be very expensive. Essentially, the Vice President of Operations sets of a total target cost, has that approved, and says, "I'm going to hold to this total cost and will achieve this level of service". At the retail level, we have a department (now three people) whose sole purpose is to monitor what is selling at retail, analyze that, and translate it into information executives can use for decision. We now basically meet with all major customers and get that data via EDI, following not just what is shipped to Toys 'R Us, but what specific titles are selling where. This data is crucial for all aspects of our operations including the potentials of new product launches, where it helps calibrate the "gut feel" of our officers concerning how well a product should do and do is performing.

Product Development

Mr. Donald W. James, Director of Product Analysis and Development said:

All final decisions on product direction are made by NCL in Japan. But in the last 2 – 3 years, we've been expanding the product development areas of NOA because we are now global company. Focus is given to the industrial design side, like the plastic housing, controllers, colours, graphics, human factor, and design elements for the American market. We look for new game concepts or ways to deliver entertainment. We also search for various technologies and are approached by non-Japanese companies from all over the world with new concepts or technologies we can possibly utilise.

We do not develop software internally at Nintendo of America. We may use thirds party developers in the U.S. or Western Europe to produce. Nintendo published titles. But most often, we help other publishers develop their concepts for Nintendo hardware platforms. They take all the development and marketing risk, but we suggest ways to help make a better product, hardware concept, or game. This obviously helps Nintendo overall. One of the key differences between movie and interactive entertainment is that in an interactive environment, you have a lot of intangible than can only be evaluated through testing. In an interactive environment, you must keep going back and re-doing things so that it becomes more and more fun. You have to take into account all of the things a kind can think of while playing the game and what they can do to make the software fail.

Nintendo, though, will continue to work on a game for as long as necessary until it is fun as it can be, you can't really put a hard time schedule on this. The important thing is to get it right. Unfortunately, the public in any retail environment can be very tickle. Fighting games, which are hot now, may not be so next year. Yet, it often takes 20 months or more to make a really interesting new game. Every program is different and requires a certain expertise. If you're doing a baseball game, you need people to spend a lot of time researching baseball, doing stats, getting the situations right and so forth. Although most concepts that do well in Japan also do well here, there are notable exceptions due to the cultural differences. In making a game, you have a designer-creator who develops the concepts, characters, and entertainment features. But he generally isn't a program. You have someone also to design and direct the visuals and graphics. Artists create the backgrounds and character movements, and there is someone else who directs the music. Pulling this together worldwide is quite a challenge.

The Nature of Business

The 1994 video game business was peculiar. Big product hits came and went with the whims of millions of children. Both the market and the distribution system were dominated by a few large chains like Toys 'R Us' which alone controlled over 20 percent of all toy sales in the U.S. About 60 percent of all toys had been sold during the month before Christmas in North America. Toy manufacturers normally had to carry credit for their retailers until Christmas season sales cleared. This was a risk Arakawa was determining to avoid. The questions were how?

Sales of hardware depended on the adequacy of the software available. Although virtually all Nintendo's product development and most cartridge production were still in Japan, foreign markets were difficult to gauge. Mr. Yamauchi said,

It is impossible for us to judge or investigate whether or not a game we will introduce two years will successfully sell in any market by utilizing polls or available questionable techniques. Only experienced engineers or designers can tell whether games should be financed and whether games will attract large audiences. We do have several groups inside the company who do the evaluation of the finished product. They are composed of some software science people and hardware engineers, and some people doing the administrative work here (in Kyoto). Adding to that, we hire some students who do moonlighting for Nintendo and are so-called “game bugs”. They love to play games, so they play our games extensively and say anything freely to us as to whether they like it or don’t like this or that feature. Games are given scores, but the fact that a game got an 80 to 90 score doesn’t necessarily mean the game will sell extensively. We cannot tell unless we see the actual result in the market place, but when a game is marked only 50 to 60, we are quite sure it will not sell.

“If there are 100 games introduced to the market a week, the market will regard only about 10 percent interesting or fun. We continuously make about 100 games a year, but we concentrate on that 10 percent of interesting games. If others cannot produce very good software which will be appreciated by Japanese audiences, there is no way for them to be successful in this market”.

An American with Nintendo system averaged 7 game cartridges, Japanese averaged 12. Average cartridges prices had been about \$40.00. Unfortunately, software was relatively easy to duplicate for most systems. Consequently, counterfeiting was a major problem. Another was glut of games with inferior quality.

To deal with these issues Nintendo of America had instituted the “lock and key” system (between game software and NES hardware) to prevent use of unauthorized software and had insisted on an exclusivity clause which (1) limited its licenses to producing only 5 Nintendo games per year, and (2) prevented their release for other video game systems. NOA approved games could not be sold outside the United States and Canada. Anyone who attempted to abuse its strict license terms was dealt with stringently by Nintendo, which also enforced its copyright and intellectual property with vigour throughout the world. In the early 1980s, Arakawa and his then legal counsels, Howard Lincoln, had masterminded several landmark cases – against MCA and Atari among others – defending Nintendo’s positions. Many licenses complained about Nintendo’s restrictions, but none had been able to have them set aside by the courts. Approved games obtained the Nintendo quality seal, an important item on retail shelves. NCL either self-manufactured or controlled the production of all cartridges at selected vendors. Licenses would mark-up the cartridge prices by 50 – 100 percent, and retailers would double it again. Licenses could show their wares in the Nintendo booth at important industry trade shows, distribute their products through Nintendo’s channels, and have access to Nintendo’s game counseling system. Despite the licenses’ restriction, Nintendo’s marketing power enabled licenses to sell at startling average of 75,000 – and sometimes millions of – copies of every game approved by Nintendo.

The New Competition

However, the new competition was impressive. In 1994, the most potent competition was SEGA. SEGA’s new 16-bit “Genesis System” had accompanied its introduction of its popular Sonic The Hedgehog game. True to its strategy, SEGA cut its system price quickly from \$190 to \$150 and began to offer Sonic. The Hedgehog as a promotion for new sales.

Despite increasing its market share, SEGA's profits hovered around half those of Nintendo. Nintendo's and SEGA's success also stimulated a whole new software industry. In the US, companies like Acclaim, which had developed popular programs such as Aliens 3, Terminator 2, and WWF Super Wrestle – Mania Challenge found their stocks quadrupling in one year and trading at 27 – 30 times earnings. In Japan, software companies like Capeom had broken sharply from Japanese business practices. In these software houses, a new style prevailed. Individuality was prized, head-hunting was rife, compensation systems no longer depended on seniority, and entrepreneurship was praised. Traditional firms like Matsushita's JVC and giant NEC had formed alliances with young American software suppliers like Electronic Arts, while independent firms like Japan's Enix – developer of Dragon Quest – because financial phenomena, selling 3 – 10 million copies of games at \$80.00 each, almost overnight, through alliances or licensing”.

From Disney to 3DO

Disney had entered the marketplace with its game version of Aladdin. New combination a games – and – films companies introduced “adult-oriented interactive motives” like Voyeur allowing players to solve sexy mysteries by seeking clues in different rooms viewed through a telescopic lens. Alliances with AT&T, Time-Warner, and Tele-Communications Inc – and the Paramount – Viacom (MTV) combination, one of the largest mergers in history – were changing the structure of the entire entertainment industry. A new company 3DO was introducing a 32-bit processor which promised high definition television (HDTV) quality pictures, hi-fi sound quality, fast response times and much more flexibility in game design. Headed by Trip Hawkins, 3DO became one of the hottest initial public offerings of 1993. It sought to combine the visual power of a Hollywood movie with the interactivity of a video game.

Time-Warner and Tele-Communications had agreed to create a special SEGA Channel for their cable TV systems, giving subscribers access to 50 games each month. ImigiNation Network allowed people to compete with each other in a “virtual amusement park” covering many western communities in the U.S. Increasing numbers of video games based on best-selling movies like cliff Hanger, Last Action Hero, or Jurassic Park began to emerge. Virtually every major Hollywood studio either had a video game division or had bought a video game company. In Sony's Entertainment Division, its Sony Interactive Group screened every movie script for its game potentials, and could send a team out to videotape sequences simultaneously with the making of the movie. The creative potentials of many other possible combinations were still untested.

However, as kids became addicted to games (Americans averaged nearly 1.5 hours per day), parents became extremely concerned about the degree of violence in various games. Unlike the gentle whims of the Super Mario Bros, other games features graphic decapitations, monsters (and heroes) tearing the hearts out of victims, and vampires creating bloody havoc. In the U.S. these led to Congressional hearings, a major media outcry, and threats of protective legislation.

The Nintendo Position

In this complicated marketplace, both NOA and NCL had to review their strategic positions. Nintendo's Super NES System was the leading (15 million unit) 16-bit central processor, although it had only 128K of workable RAM. Through its advanced “mode 7” graphic

capability, it offered spectacular 360 game play for titles like Super Mario Kart, NCAA Basketball, and NHL Stanley Cup. It could display 256 colours from a palette of 32,768 colours – compared to 16 – 64 colours displayed and a palette of only 512 on most competing systems. Through the technological magic of R&D3, Super NES offered very high resolution, full digital stereo sound, and a game library of over 200 titles as compared to the more limited offerings of other individual competitors. Nintendo's compact Game Boy led the market in portable game systems, while its "Gateway" system offered interactive multimedia access in airplanes, hotels, and other venues. Its initial target was 20 million travelers. Game Boy contained the same computing power as the NES, yet fit in the palm of a person's hand. A Super Game Boy adapter allowed full colour play on a home screen. In advanced technology terms, Nintendo was looking beyond 3DO to a "Nintendo Ultra 64" (64 bit) system for planned introduction in late 1995 (planned price around \$250). In game software, Super Mario Bros 3 was the undisputed single game leader of the current era with more than 9.6 million copies sold in 1993 alone. And Super NES enjoyed a library of 600 titles. In terms of market penetration, in early 1994, Nintendo compared to other home systems in the U.S. (for other market and trend data, see Appendix A). Player demographics for Nintendo showed some interesting patterns as indicated in Table 2. Nintendo's U.S. Sales broke down as shown in Tables 1, 2 and 3.

The Unexpected Happens

In late 1993, the previously unimaginable happened. After over a decade of rapid, continuous growth, Nintendo announced in the fourth quarter that its worldwide profits had declined by 24 percent. Nintendo blamed the suddenly high exchange rates for the yen, which clearly affected its international profits. But SEGA, its most important competitor, reported a profit increase to Y57 billion on sales of Y380 billion. Nintendo's 16-bit games began to decline in demand as Arari launched its 32-bit "Jaguar System", Sony set up a joint venture to market its new 32-bit system, and SEG joined with Hitachi to develop a 32-bit successor for its new "Game Gear" series. And 3DO announced its even more impressive 32-bit, movie-quality advanced game machine, which (with anticipated 64-bit quality) could ultimately provide highly articulated 3 dimensional movements. 3DO was also designed to accommodate voice activation, which was rapidly becoming a reality for computer systems.

In the U.S. Nintendo's total retail revenues grew by 22 percent during 1993. Nintendo still had a market share of 80 percent both in the U.S. and worldwide. The cumulative growth rate of Nintendo had been 43 percent in the U.S. for the 5 years as compared to the total video game industry's growth of 380 percent. No other system came close to the 60 million installed base of Nintendo worldwide, where its total sales had also increased by 13 percent during the fiscal 1993. However, the industry was expecting to sell 40 million more games over the next five year as new, more powerful chips poured out of Silicon Graphics, Matsushita and NEC. Chip speeds were doubling every 3 years toward 400 – 500 MHz levels by 2000. Storage capacity per chip was reliably predicted to go from 1993's 15 megabits to between 500 and 1000 megabits by 2000. Totally new entertainment concepts seemed sure to develop as those capacities merged with the desires of a teenage population growing at 15 percent per year, from a base of over 75 million in America alone in 1994.

The Sonic Booms

SEGA, Nintendo's most successful competitor, had been started in Japan by two Americans and became an American company in 1984 when Gulf and Western acquired it. SEGA had

been unable to entice Japanese software producers to abandon Nintendo, but had been very successful in lining up some U.S. producers, notably Electronics Arts, which had helped create its “Genesis System”. SEGA’s Sonic the Hedgehog was one of the most successful concepts to challenge Nintendo’s Super Mario Brothers in the early 1990’s and SEGA’s 16-bit Genesis machine (using the chip that powered Apple’s Macintosh) had beaten Nintendo to that market. It had also beaten Nintendo to the market with CD-ROM capabilities in its 1992 machines. It had used preemptive pricing to forestall Nintendo’s responses. And to support its low price strategy, SEGA – unlike Nintendo – moved half its production to Southeast Asia.

In the three years from 1990 to 1993, SEGA increased its sales five times and profit six times, but in a bloody price war, SEGA’s 1993 profits had plunged by 2/3 to \$100 million. SEGA was concentrating on its next generation “Saturn System” operating on CD, while Nintendo stayed with its cartridge system. SEGA also began to plug money into virtual reality than parks, electronic toys and interactive systems for the electronic superhighway. It had worked out collaborations with Time-Warner and TCI, which had agreed to download SEGA games over their pay-channel systems. AT&T had developed a special modem to enable interactive games over a “SEGA Network” using its phone lines. SEGA was also working on virtual reality “rides” which would give the effects of roller coasters and spin rides while sitting in an enclosed room on a mobile chair.

By 1994, Panasonic’s REAL multiplayer had been used to introduce 3DO 32-bit CD-ROM system. Based on the almost photographically realistic graphics of Amiga computers, 3DO’s upgradable system (if successful) would allow much faster responses, high quality graphics, and a lower royalty payout (only \$3 versus \$20 for Nintendo) to game designers than did competing systems. 3DO did no manufacturing. Its CD-ROM systems and disks would be produced by others. Many say 3DO’s system as the most promising bridge to realistic imaging for virtual reality, multimedia, and many new arcade concepts as well as for corporate training systems.

Looking Forward

Commenting on the late 1993 situation, Mr. Hiroshi Yamauchi had said:

In Japan, we occupy more than 90 percent of the video game entertainment market. However, in Europe and the U.S., there are substantial numbers of people competing with Nintendo. Some types of games called action games are loved by people around the world. Other types of games like “role-playing games” are very popular in Japan but don’t do well in the United States or Europe. A second difference is how people approach cost, or the retail prices of these games. In Europe and America, people make much of retail prices, and our competitors try to bundle several different software packages or to cut prices to make them attractive. In the case of Japan, it is very different. As long as the game software is not interesting, people will not buy, however, cheap it is. I think this cost consciousness is the main reason why competitors like SEGA are becoming important against Nintendo in European and American markets. It’s interesting that in Japan, Nintendo’s prices are 50 to 60 percent higher than SEGA’s but in Japan, SEGA is not selling at all. As 3DO, Atari and others try to enter these markets; those are the conditions they will have to meet.

Nintendo’s continuing success remains based on our unique ability to create the thrill of great game play experiences and appealing characters to share them with....Nintendo’s characters

come to life because players can relate to them, experience adventures and excitement with characters you'd be proud to storm a castle with.... No one creates interaction better than Nintendo

Nintendo will be in the forefront of (both hardware and software) developments. We will develop these in a way appropriate to our players, by making them both affordable and run. We remain committed to pursuing record financial performance in the coming years, while delivering over – more exciting and unique entertainment to people all around the world.

3.5 Intel Corporation

In 1968, Robert N. Noyce (age 40) and Gordon E. Moore (age 39) broke away from Fairchild Semiconductor to form Intel Corporation. They concentrated on semiconductor memory components for the computer industry. When Intel started, no market existed for its principal product. By the late 1970s, Intel's trailblazing technologies had irrevocably restructured the electronics, computer, and communications industries.

In the 1980s, semiconductors were affecting social changes many believed would be as profound as those of the industrial revolution. Not without cause did CEO Moore say, "We're in the business of revolutionizing society". Opportunities seemed boundless. But in the early 1990s continuing technological advances and Japan's massive competitive capabilities presented unprecedented strategic challenges for this unique company.

Budding Entrepreneurs

Noyce and Moore made an unusual team. Although the future of this revolutionary technology was unknown at that time, Noyce – an inveterate young tinkerer from a small Iowa town – headed for MIT to study about the new field only to find it had no courses on semiconductors. Taking his Ph.D. (in electronic physics) at the top of his class, Noyce had joined Philco's semiconductor division.

Two and a half years later, he got a call from William Shockley, the inventor of the transistor, who was starting a new semiconductor company in Palo Alto (California). Noyce and Moore, a Ph.D. chemist from Cal Tech, arrived there the same day. Thus, began one of the most successful technical partnerships of modern times.

Fairchild Semiconductor

The imaginative Shockley had assembled a group of bright young scientists, but the operation fell apart when eight of them left only a year later. Shockley's managerial shortcomings had totally alienated them. Even while with Shockley, the group had looked upon Noyce as a leader. His enthusiasm – and his approach to everything with the idea that it was going to work – easily infected people. One of the members of the group wrote to a friend of his family who worked for Hayden Stone, the New York investment firm.

Hayden Stone soon arranged to finance the new semiconductor company the young founders contributed about \$500 apiece but most of the start-up money came from Fairchild Camera and Instrument Corporation which also received an option to buy the group's budding company, known as Fairchild Semiconductor.

Big Company Blues

The company, which started in a rented building in Mountain View, California, grew fast. By 1968, Noyce was supervising nearly 15,000 employees in the United States and abroad. Both he and Moore achieved major technical advances in semiconductor technology at Fairchild (including the first planar integrated circuit and the first stable MOS transistor). But both men had begun to find big – company life less and less satisfying.

When Fairchild Camera had exercised its option to buy out Fairchild Semiconductor in 1959 and make it into an operating division, the originators each got about \$250,000.00 worth of stock in Fairchild Camera. But Noyce and Moore began to feel that a company as big as Fairchild could not easily expand into new areas of semiconductor technology. Noyce said, “Fairchild was getting big and slummy. LSI had been talked about a good deal, but there was no commitment behind it”. New ventures in such a complex field initially lose money – sometimes a lot of it – and it is often difficult to justify big losses to directors and stockbrokers. Moore and Noyce finally left Fairchild Semiconductor (in the summer of 1968); but not before they had built the company into a \$150 million enterprise, one of the Big Three in its field along with Texas Instruments and Motorola.

A New Company

“We figured LSI (Large Scale Integration) was the kind of business we’d be interested in. We both had started in technology, not in computers or finance. It would be fun for us,” said Noyce. Noyce and Moore decided that their new company should try to establish itself as a specialist and leader in the computer memory field, a field where semiconductors had very little impact and no larger companies were present. As Moore explains, “It’s very tempting for a little company to run in all directions. We went the other way. It was our objective to dominate any market in which we participated”.

Venture Capital

The pair knew they would need quite a bit of money to start up. Fortunately, Noyce had already had considerable personal exposure to the investment community. Among his acquaintances was Arthur Rock, who had helped to arrange the original financing for Fairchild Semiconductor while he was at Hayden Stone.

“It was a very natural thing to go to Art and say, “Incidentally, Art, do you have an extra \$2.5 million you would like to put on the crap table?” Said Noyce. Rock had long before become convinced of Noyce’s abilities as a manager, but he also knew that men who run big companies for others don’t necessarily make good entrepreneurs.

So Rock, a cautious man, grilled Noyce on his goals and his emotional and financial commitment to the idea. “My way with people who want to start companies is to talk to them until they are exhausted – and then talk to them some more”, said Rock. “Finally, I get an impression what their real objectives are, whether their goals are big enough. One of the things I’m interested in is whether the management puts a limit on the company they want. If they do, I get fearful: Noyce wanted to grow to \$100 million in 10 years. Rock was pleased with Noyce’s responses and by the fact that both Noyce and Moore were willing to invest substantial amounts of their own money, about \$250,000.00 each.

Intel (a contraction of “integrated electronics”) started in the enviable position of having so many would-be investors that it could choose those it preferred. “People had known Bob and were kind of lined up to invest in the company”, said Rock. Rock purchased \$300,000.00 worth of convertible debentures and brought in other investors who took an additional \$2.2 million. Later, Intel sold 154,000 shares of common stock in private placements for \$2.2 million. The common stock was immediately oversubscribed. Ultimately, paid-in capital for Intel amounted to about **\$17.5 million**. But after its initial debenture issues, Intel did not find it necessary to borrow or to use its line of bank credit. During this period, the company owned almost all its facilities.

Total sales growth of integrated circuits (I/Cs) in the 1970s would exceed 20 percent per year. I/Cs would have even more impact on electronics than transistors had, although no one knew then precisely when or how. It cost millions to develop initial technologies, to build facilities and to make the first successful chips. But production bugs made yields a miserable 1 – 5 percent of each run. Over 100 steps had to be performed perfectly in sequence. With tolerance of a few microns (millionths of a meter) required, a fleck of dust would cause a faulty device. And reliability testing of the circuits had to be meticulous, a million or more tests for each chip. Nevertheless, this miraculous technology, when mastered, would drive the cost of transistors down 10,000 – fold or more. Older vacuum tube companies couldn’t cope with these uncertainties, and customers, so called “systems houses”, were often afraid of trusting their design secrets to outside “I/C suppliers”. This was the business Intel set its cap for.

A Complex Technology

“The 1103 was a brand – new circuit – design concept, it brought about a brand – new systems approach to computer memories, and its manufacturing required a brand – new technology”, added Andy Grove, then Vice President, Operations. “Yet it became, over the short period of one year, a high-volume production item – high volume by any standards in this industry”. Making the 1103 concept work at the technology level, at the device level, and at the systems level and successfully introducing it into high-volume manufacturing required a fair measure of orchestrated brilliance. Everybody from technologists to designers to reliability experts had to work to the same schedule toward a different aspect of the same goal, interfacing simultaneously at all levels over quite a long period of time Yet I would wake up at night, reliving some of the fights that took place during the day on how to accomplish various goals” (2,155).

“The operating style that evolved at Intel was based on the recognition of our own identity”, said Grove. “The semiconductor industry consisted of companies that typically fell into one of two extremes: technology leaders and manufacturing leaders. Neither of these types of leadership would accomplish what we wanted to do. We wanted to capitalize on new technology and we wanted to sell our technology and our engineering over and over again. This meant high volume. We regarded ourselves as essentially a manufacturer of high-technology jelly beans”.

Early Organisation

“A manufacturer of high-technology jelly beans needs a different breed of people. The wild-eyed, bushy-haired, boy geniuses that dominate the think-tanks and the solely technology-oriented companies will never take their technology to the jelly-bean stage. Similarly, the

other stereotype – the straight-laced, crew cut, and moustache-free manufacturing operators of conventional industry – will never generate the technology in the first place”. A key question was how to find and mix the two talents. There weren’t many experienced engineering or manufacturing people, and top young graduates were sought after by everyone”. In engineering, we needed to orient toward market areas and specialized customer needs – such as computer mainframe memories, increasingly sophisticated peripheral capabilities, general purpose I/Cs, and timing circuits. “Engineering had to come through first with a workable design for what the customer would need most”.

But in manufacturing, Intel needed to standardize as much as possible. In production, said Grove, “We actually borrowed from a very successful manufacturer of medium technology jelly beans – McDonald’s hamburgers. When you thought about their standardized process and standardized module approach, it had much to offer in our technology”. But there was also a sociological reason for what became known as the “McIntel” approach. Noyce was convinced that the day of the huge production unit was gone, that modern workers performed better in smaller, more informal production units. And by 1975, Intel had such units in various Santa Clara towns as well as in Oregon, the Philippines, and Malaysia. In each area, Grove introduced perhaps the toughest quality control and monitoring systems in the industry and a system of rewards to match Intel’s production philosophy.

Finally, Intel realized that reliable delivery was perhaps the most important single issue in marketing its chips. Intel quickly evolved its well known motto, “Intel Delivers”. But these words had to be backed by careful practices and dramatic policies to be credible to a skeptical market place. For example, at one point early in its history, Intel convinced Honeywell to give it a contract for a custom memory device. Honeywell had already placed contracts with six semiconductor manufacturers including Texas Instruments and Fairchild. “We started about six months later than the others”, recalls Grove, “and we were the only ones to deliver the device, about a year later”. (2,158).

Living on the Brink of Disaster

“This business lived on the brink of disaster”, explained Moore. “As soon as you could make a device with high yield, you calculate that you could decrease costs by trying to make something four times as complex, which brought your yield down again”. Overeager technologists could easily miscalculate future yields and pledge deliveries they could not meet or set prices that turned out to be below their costs. Said Noyce, “If you look at our stuff and melt it down for silicon, that’s a small fraction of cost – the rest is mistakes. Yet we chose to work on the verge of disaster because that meant doing the job with finesse, not brute strength”. Early entry allowed Intel to quick recovery of development costs through high prices for unique products. It also meant “experience curve” advantages in costs over those who entered later. Volumes were growing so rapidly that future plant was a necessity, but the technology was moving so fast that one never knew two years ahead what products would be made in the plants. Still plant construction might easily take more than two years for planning and implementation.

The conflicting strategic requirements of production, engineering, marketing (plus international operations) required some unique policy and organisational solutions for the young Intel. Intel has an insatiable need for skilled personnel and tried some imaginative ways of meeting it. The company hired new employees for its wafer-processing facility at Livermore months before that plant went into operations and bused the employees 35 miles

each way daily to Santa Clara to train them. To hang on to skilled people, Grove used a technique that he called “Peter Principle recycling”. Instead of firing foremen and other managers who flopped when promoted to more demanding jobs, he split their tasks, giving them smaller responsibilities. Some of these “recycled” people again advanced to higher positions, only a few left.

Middle managers at Intel were monitored carefully but had considerable operational freedom. “Lots of guys starting new companies are interested in keeping their fingers in every part of the pie” and Moore think Bob and I were relatively willing to relinquish day-to-day details. For example, Intel had streamlined purchasing to the point where the engineer in charge of a project could buy a \$230,000 tester, or whatever he needed, by simply signing for it – provided it was in his budget (In a big company) you would need seven different signatures on a piece of paper to spend any money”, said Moore Noyce and Moore also tried to keep operations as informed as they could. Spaces in the huge Intel parking lot were not marked with officials’ names “If Bob gets to work late”, said Moore, “he parks way out in the corner of the lot”. I think this will continue. Sometimes it’s pain in the neck, but the other problem is, once you start marking parking spaces, where do you stop”. The rule still held in the 1980s.

The Microprocessor

Among the more exciting potentials of the mid 1970s was the emerging impact of another Intel invention – the microprocessor. By 1972, a number of LSI chips capable of significant computation had been produced or were in design for small calculators or intelligent terminals. A Japanese calculator company, Busicom, asked Intel to develop a 12-chip set for a high – performance programmable calculator series ROM – Read-Only memory-chips would customize each model for specific uses. As he worked on the problem, Intel’s M.E. “Ted” Hoff concluded that Busicom’s design was too complex to be cost effective. Hoff had been utilizing a DEC PDP8 and was struck by its lean architecture versus the complexity of the Busicom’s design. With a relatively primitive instruction set, the PDP8 could perform highly complex control and arithmetic functions because of its large program memory. Hoff proposed to Intel management a program to design a simpler, more general-purpose, more powerful single-chip processor. If successful, such a device might have applications well beyond just calculators.

Intel’s management responded quickly and enthusiastically. A small team soon defined a 3-chip design: a 4-bit CPU, a ROM program memory, and a RAM (random access memory) data memory. This design was vastly aided by the concurrent invention of the EPROM (erasable programmable read-only memory) by Dov. Frohman at Intel. But it still languished for lack of staffing until Federico Gaggin – later cofounder of Zilog – arrived from Fairchild in early 1970. Faggin worked furiously on the silicon design, and in only nine months produced working samples of the chips that would become the MCS – 4 microprocessor the world’s first “micro” computer.

In some complex negotiations with Busicom, Intel won the right to sell the MCS chips to others for non-calculator applications. The marketing department saw microprocessors as possibly a 10 percent slice of the minicomputer market, then at 20,000 units per year. While Intel management thought it might obtain as much as 90 percent of this market in its early stages, there was widespread skepticism about the microprocessor in the industry. Many saw it as too slow and small to be of much use, but Intel went ahead. Even as Intel was working

on the MSC-4, a parallel development was underway that would lead to its first 8-bit processor, the 8008. Then in 1974, Intel introduced its much more powerful 1880, which quickly became accepted as the 8-bit standard and was widely second sourced. Faggin, Hoff, and Mazor carefully designed the 8080 to be compatible in software with the earlier 8008. This policy of upward compatibility had been followed for all Intel machines thereafter. The 1880 was the first Intel microprocessor announced before it was actually available, “to give customers lead time to design the part into new products”. Now things were moving fast. In only three years, microcomputers had exceeded the population of both minis and mainframe computer (CPU, I/O, RAM, and ROM) was Intel’s 8049, introduced in 1976. With it a whole new era of computers and automation began.

Practices attuned to the Times

The company had grown larger and more complex in the 1970s and ‘80s, but it worked hard to keep its management systems attuned to the times. A few key elements in its approach follow:

The Top Team

By 1982, Intel’s “two-headed” – Noyce and Moore – had become a three-headed “executive office”. Chairman Moore – pensive and more reserved in his habits – was the company’s long range thinker, charting overall product strategies. The more gregarious Noyce, now vice chairman, had become Intel’s Mr. Outside and was increasingly recognized as one of the industry’s major spokesmen. Andy Grove (then age 45) was president and chief operating officer. Although less visible than Noyce and Moore in the early years, Grove was increasingly recognized as the personality driving Intel’s internal affairs. “Grove has to be the world’s most organized guy”, said and admiring Moore. “He sees problems developing much sooner than other people, and he’s interested in the people and people interactions needed to solve them”.

The three worked well together, respecting each other’s technical abilities, and arguing openly and without rancour when they disagreed. To maintain a close touch with the organisation, each man was in a separate area of Intel’s Santa Clara complex. Their offices were distinguishable from all the other cubicles that secretaries and junior executives worked in. all offices were indistinguishable from all the other cubicles that secretaries and junior executives worked were only shoulder high partitions, there were no doors on any offices (including Moore’s), no limousines, and no executive dining rooms. Any of the top three was likely to plop down at a table in their building’s cafeteria and join in a lunch chat with whomever was there. Said one group of employees, “It’s exciting to know you may see and talk to the very top guy at any time. You feel a real part of things.

Council and Confrontation

Intel had tried hard to avoid communications barriers and structural bureaucracies. While the company was decentralized into relatively small operating units, people might still have several bosses, depending on the problems at hand. Virtually all staff functions – purchasing, operating procedures, employee compensation, and so on – were handled by “councils” of line managers. There were usually several dozen – ninety were once counted – of such councils operating at one time. On the councils, all people participated as equals, with new members free to openly challenge top managers”. The idea, said Grove, “is to remove

authority from an artificial spot at the top and place it where the most knowledgeable people are I can't pretend to know the shape of the next generations of silicon or computer technology any more. People like me need information from those closer to the technology. We can't afford the hierarchical barriers to the exchange of ideas that so many corporations have. The technology is moving too fast.

This free exchange of ideas was reinforced by a policy of "constructive confrontation". Each member of a team was expected to challenge ideas openly and aggressively, but never to attack an individual's motives for presenting an idea. Employees said, "Things can get very rough in a meeting. You'd be surprised at the things people can say, but if you are seeking a solution, it's okay". Grove himself set the tone. "When he walks into the room, things can get electric I've seen him listen to a carefully prepared report for a while and shatter the room with 'I've never heard so much bullshit in my life'". The company has courses on "constructive confrontation" for all its rising executives and includes the concept in its training of people in Intel's philosophy.

The World of High Achievers

Like all other groups and individuals in Intel, the councils were required to set performance objectives and be measured against them. Assignments were set by the council and agreed to by each employee and his supervisor. Grove said, "This takes a lot of time, but everyone knows exactly whom they report to on each item – and so do their supervisors. We can't afford to leave anything to chance as we grow larger". Performance measurement pervaded everything. When Noyce had joined Shockley, he had said, "I had to test myself, to know if I could hold my own with the best". In 1982, the attitude persisted. "We are seeking high achievers, and high achievers love to be measured because otherwise they can't prove to themselves that they're achieving. Measuring them says that you care about them.....(But it must be an honest review). Many people have never had an honest review before. They've been passed along by school systems and managements that don't want to tell people when they don't measure up. We tell them, "Here are the things you did poorly, and here are the things you did well".

Intel MBO (management by objectives) everywhere. Each person had multiple objectives. All employees wrote down what they were going to do, have their bosses' agreements and reviewed how well they performed with both their management and peer groups. This made the review a communication device among various groups as well. A key to the system was the "one-on-one" meetings between a supervisor and subordinate. The meeting belonged to the subordinate who went to the boss, provided the agenda, told the boss what he was doing, and saw whether there was any assistance the boss could offer. These meetings were required for everyone on a regular basis. They might occur weekly for anyone. In the meeting at Intel, problems were put forward first, and everyone dug in to solve them'.

Formal Organisation

There was no large corporate staff in the usual sense. Instead the top division managers formed the "executive staff" whose job was to worry about the whole business, not just their individual portions of it. Expectedly, Intel was leery of formal organisation charts. Within its structure "flexibility" dominated. Teams were formed for special problems, and planning was performed across all divisions toward a selected set of strategic business segments (SBUs), Intel's version of the strategic business units (SBUs) used in other companies Noyce

said. “Strategic planning is imbedded into the organisation. It is one of the primary functions of line managers. They buy into the program. They carry it out. They determine their own future”.

An interesting example of this was the bubble memory group established in a separate entrepreneurial division within Intel. In 1970, Bell Laboratories discovered that in certain materials, it was possible to create small densely packed magnetic bubbles whose location and polarity could be controlled to store enormous quantities of information in a very small space. Although greeted with enthusiasm at first, the technology at first was difficult to reduce to practice, and most larger companies gave up on it in the late 1970s. A few small entrepreneurial concerns persisted, however; and in 1978 one of these came to Intel with a promising approach ready for scale up and possible introduction. Intel brought the company in as a separate division with a very unusual incentive program to maintain its management’s enthusiasm and entrepreneurial flair. In 1982, Intel bubble memories with one million bits per chip capacity were commercial and a 4 million bits chip was announced for release late in the year.

The Intel Culture

Many observers felt that the “Intel culture” was a major determinant of its success in the wild world of the 1980s. This “culture” was an odd mixture of discipline and flexibility that pervaded the company. So important was this “culture” that all employees were put through a course on it soon after they arrived. This was especially important in a company like Intel where half of the people might have been present only a year or less. The top three executives consistently taught in this course as they did in the complex of other courses set up to maintain Intel’s competitiveness. Grove said, “Management must teach to have the courses believed It takes a lot of time, but nothing could be more important than understanding how we operate and what makes Intel unique. Intel is a complete philosophy not just a job”.

At Intel, people were expected to be disciplined and to work hard. There are clocks and “signs-in sheets” for all people who arrived after the rigorous 8.00 a.m. starting hour. Even top executives followed this rule. Someone once said, “Intel is the only place I’ve ever seen where 8.00 a.m. meetings start at 8”. Many people don’t like the demands Intel makes and its lack of structure. Some employees said, “Some people can’t understand that no one will tell them what to do. They have to define what they are going to do and then live up to it. We’ve seen lots of people quit in the first month because they can’t take the pressure”. But those who stay like the atmosphere. “It’s great to say you work at Intel. You know you’re the best..... I guess its real pride in being first, in being on the frontier. You know you’re really a part of something very big – very important”. At Intel, employees had put over \$60 million of their own money into its stock, which had never paid a dividend”. Perhaps this was why Intel was able to meet the mid-1980s downturn with its “20 percent solution”. Under this program, many of the professional staff agreed to work an extra day a week – without extra pay – to get out new products and to break production bottlenecks as necessary, allowing Intel to rocket out of the recession with a momentum of new products and processes for enjoyed.

“Quality Circles”, Total Quality Control and Quality Assurance programs had long been present in Intel, along with a monthly cash bonus system for quantity and quality of production output. The latter was announced at a monthly bonus meeting in which

performance, suggestions, and solutions were discussed directly with the people doing the job on the production line. But noted Noyce, “In a larger organisation, to see the result of what you’re doing, you push on one thing a year and see some movement. In a small organisation, you can turn on dime and change direction. With 10,000 people, you break the organisation into small manageable units, so you can change the direction of one unit at a time.....”

“But in development, you can’t afford that. You have to move fast, to be first, but you’re in a realm where no one has done before what you’re trying to do. You have to measure absolutely everything, so when something goes wrong, you have some idea of what went wrong. You don’t change something unless you’ve proved it on a pilot basis first, so that it won’t louse up something else.... Yet you have to compete against other people who may not know this – and get lucky. You also have to compete against the massive capacities of the large Japanese companies to change the whole market place if they make a right decision and you don’t. None of us – no one – has managed a company in this kind of technology and this competition before. We have to write the book for the future. It’s quite a challenge”.

Moore had started the ultimate challenge in these terms. “We intend to be the outstandingly successful company in this industry. And we intend to continue to be a leader in the revolutionary technology that is changing the way the world is run”. The question was how to do this in an era in which many saw the once almost mystically high technology chip business moving into a commodity era.

Intel in the 1990s

Intel’s revenues had fallen during the mid-1980s as its top management discontinued several low-margin product lines reduced its workforce of 25,400 by 7,200. Intel’s losses for 1986 exceeded \$200 million, as the entire industry suffered while it adjusted to the new Japanese capacity and slackening demand. In 1987, Intel began to emerge from the recession, while the company adopted a sole sourcing strategy for its microprocessor products, demand grew dramatically for its 386 microprocessor product line. In the middle of 1989, the company’s expected sales had nearly tripled to \$3.1 billion. By 1989, it had the highest return on sales of any major semiconductor company in the world.

In 1984, Intel had left the direct random access memory (DRAM) market. Intel’s experience in the DRAM marketplace mirrored that of several other U.S. competitors who also exited during the 1985 – 1986 recession. In 1985, the entire DRAM market shrank by over 50 percent to \$1.4 billion. However, by late 1987, demand once again began to outpace supply, and DRAM suppliers enjoyed market growth and renewed profitability. By 1987, Japanese companies controlled the overwhelming majority of the DRAM market since only two U.S. manufacturers, Texas Instruments and Micron Technology, remained (although IBM does not sell DRAMs, it is one of the world’s largest producers for its own use).

By 1990, Japanese companies commanded 87 percent of the \$8 billion DRAM market, U.S. companies held about 8 percent and Korean companies held the remaining 5 percent. Korean market share was likely to increase as Korean firms announced investment plans of over \$4 million by the early 1990s. In order to address marketing concerns that the company has a full product line, Intel, in 1987, had signed a long-term sourcing agreement with Samsung Semiconductor for DRAM chips under its own name. Electronic Buyers News reported that Intel had sold more than 10 million 256K and 1-megabit DRAMs during 1988 through its

commodity operation. Prevailing prices suggested that DRAM reseller business generated well over \$100 million in revenue by 1990.

The dramatic decline in U.S. position led some industry observers to predict the eventual downfall of the entire U.S. semiconductor industry. The concern over U.S. competitiveness and dependence on foreign suppliers led several companies to announce plans to form a joint DRAM venture. A group of semiconductor and computer companies (including Hewlett Packard, Intel, IBM Corporation, Digital Equipment Corporation, LSI Logic Corporation, National Semiconductor, and Advanced Micro Devices) agreed in June 1989 to form U.S. Memories Incorporation investing an initial \$50,000 each. The venture required \$1 billion in capitalization over several years and intended to use IBM's design for a 4-megabit DRAM as its introductory product offering early in 1991. The unusual arrangement between competitors required federal antitrust clearance and faced opposition from some vocal critics.

New Technology Drivers

Until 1985, Intel managers thought of DRAMs as the company's technology driver. Historically, DRAMs had always been the first products to employ new technology. Even though it never went into production, the 1-megabit DRAM was Intel's first attempt at 1-micron geometry. Sun Lin Chou, then the leader of the DRAM technology development group, said it was typical for DRAMs to precede logic products in line width reduction by at least one year.

In 1990, Sun Lin Chou expressed some skepticism in discussing the cumulative volume model for learning in the semiconductor industry. The traditional model of a technology driver says that the more you do, the more high – volume products you run, the more production you get. That means in order to stay on the leading edge; you need a product you can ramp into high-volume production rapidly. There is some truth to the model, but it can be carried to an extreme.

There are certain ways of learning that can be carried out at much lower volumes. Our recent experience suggests that you can learn without massive volumes. If so, that takes away the requirement or urgency to have a traditional technology drive. We think it is possible to achieve mature yields by processing only about 10,000 wafers versus the old model's predicted requirement of 1,000,000 wafers, but you have to use intelligence.

You don't learn quickly when you increase volume by brute force. You have to learn by examining wafers. Learning is based on the number of wafers looked at, analyzed, and the number of effective corrective actions taken. Even if you have processed 1,000 wafers, the technical learning probably only came from the 10 wafers you analyzed. Technical learning is time and engineering constrained, not number of wafers constrained.

There are also a great number of things you can do in an open loop system. For example, you can see or guess where particles are coming from and remove them without really knowing for sure whether they are yield limiter. You don't take the time to get the data to justify the fix; you don't do a detailed study; you just fix what seems broken. You have an intuition about what to do. The Japanese have really led the way on this. You don't undertake an ROI analysis to figure out the cost/benefit for every little improvement. You just fix everything you can think of. Everyone can participate.

Craig Barrett, Executive Vice President and General Manager of the Microcomputer Components Group, believed the importance of DRAMs to technology leadership had been overestimated by most industry observers. At one time DRAMs really were a technology driver for Intel. DRAMs are still the single biggest product in the industry as a whole. They are about \$8 – 10 billion of a \$50 billion market, and they are certainly a learning vehicle for some.

When we got out of DRAMs, we were concerned that we might suffer from the lack of volume. We tried to address that concern by selective staying in the EPROM business. Even though the EPROM volume is not as big, it is a volume product. But I would have to conclude that after two generations past – DRAM we do not miss it as a technology driver.

I think that the industry used the notion of technology driver as a crutch. We were late waking up to the fact that we did not need to run volume in order to learn. There are other ways to be intelligent. You don't have to depend on volume if you depend on good engineering.

We have data to show that our learning as represented by lowering defect density has actually accelerated in the past two generations since 1985, 1.5 micron, 1 micron, and most recently, 0.8 micron, each defect density trend line is downward sloping with the most recent generations having the steepest slopes.

While we do have a lot of high – margin wafer starts, we still have a significant mixture of products. We have 256K EPROMs, 1 meg, 2 meg and just recently, 4 meg in addition to our microcontrollers, which are all very cost sensitive. We chose to stay in those commodity businesses partly because it does “keep us honest”. Of course, it also represents a significant part of our revenue and it helps to amortize R & D expenditures.

Gerry Parker, Vice President of Technology Development had a slightly different perspective on the issue of technology drivers:

There is no single technology driver at Intel. We focus our technology development on logic and nonvolatile memory products. More than ever before, we watch what the rest of the industry is doing and try to follow trends. The DRAM is the industry's driver, because it is the highest – volume product and DRAM suppliers are the biggest equipment purchasers. There have been some really fascinating developments in the industry. I think that the entire industry paradigm has shifted in the past several years.

A great deal of the know-how is now generated at the equipment suppliers. We try to stay in the mainstream by purchasing the most advanced equipment, but then we optimize it to maximum advantage for our products. For example, I know that a certain stepper vendor is developing a new tool that will accommodate a certain maximum chip size. It will not be able to process larger chips. The size is driven by the needs of Toshiba's next generation DRAM. They are building the equipment to satisfy the demands of their largest customer.

You can bet that all of Intel's next generation parts will be designed to capitalize on the DRAM toll. We will put that constraint on our designers. The equipment vendor will be ready to produce those steppers in volume and will be happy to supply us with a few machines. We could ask them to design a special tool for us, but it would be inferior because we wouldn't command the same level of attention that Toshiba gets.

Attitude is important and has led to the changes. The Japanese really have taught us something. They expect excellence from equipment vendors and make them develop the expertise to provide equipment vendors and make them develop the expertise to provide the best possible equipment. If a piece of equipment has a problem, the vendor is right there in the fabrication area fixing it, and he can make appropriate changes on the next generation.

In Japan, all the technicians set the machines to the exact settings that are specified by Applied Materials. If the process doesn't work, Applied Materials gets blamed. In the United States, we tend to be more inventive; each technician sets machine to an optimum that he had determined. When you operate like that, it becomes more difficult to blame the vendor when the yields are down.

As a result of this fundamental change in the equipment, suppliers' role learning now resides in the industry, not just in the company. That is a complete shift. Just to prove it, look at this example. A Japanese ball beating company, NMB, with no expertise in the semiconductor industry, had \$500 million in excess cash and decided to get into the DRAM business. They got vendors to sell them equipment and set it up, and they contracted with consultants to sell them a process and get it running. In a short time, they were the most automated semiconductor factory in the world. That could never have happened even five years ago..... The latest equipment is essential to getting the highest yields. Equipment vendors allow Intel and even new start ups to keep up with the latest industry advances.

EPROM and Flash

By the end of 1986, Intel had also exited the static random-access memory (SRAM) business, stepped development of electrically-erasable programmable read-only memory (E-PROM), sold its memory systems division, and sold its bubble memory subsidiary. Intel's only remaining position in memory businesses were in EPROMs. In 1986, Intel commanded a 21 percent share of the \$910 million market versus 17 percent of an \$869 million market two years earlier. In 1989, EPROMs were manufactured in five of Intel's fabrication sites.

Intel's continued dominance in the EPROM business arose partly from a successful legal battle against Hitachi and other Japanese companies accused of selling EPROMs below cost in the United States. Intel successfully fended off the attack through actions taken by the U.S. government.

In September, 1986, Intel top management requested a middle-level manager to prepare a study of each memory business and make recommendations for Intel's long-term strategy. The manager recommended that Intel maintain its position in the EPROM business. Intel top management decided to keep the EPROM operation as relatively high-volume product to drive learning, but primarily as an enabling technology for the microcontroller business. Intel's microcontrollers integrate EPROM functionality and use an EPROM process technology. In 1989, Intel remained the EPROM market leader, with 21 percent market share of a billion-dollar market.

Flash

The middle manager also recommended that the company devote resources to a new memory technology called Flash. He said:

Flash is very similar to EPROM in functionality, but it is much cheaper to make. Basically, it costs less than EPROM, but you can erase it electrically instead of with light. This is a major cost – functionality discontinuity in EPROM semiconductor technology and has significant implications. One can envision low-end and solid-state reprogrammable systems, for instance, as well as simpler field's service for ROM/EPROM-based systems.

Contrasting Flash to DRAM reveals some interesting perspectives. Flash does not have the flexible write functionality of DRAM, but it is nonvolatile. Additionally, Flash is actually a simpler-to-manufacture read-write technology because it is not constrained by the need for a large capacitor in each memory cell. About 80 percent of the current DRAM cell is active, whereas only 5 percent of the Flash cell is. That means that Flash can shrink like mad.

Another paradigm change had resulted in our working on a truly parallel processor, or neutral network that uses a version of Flash technology. By making an analog instead of a digital device, we can develop a low precision but very high performance “trainable analog-memory processor”. It remains to be seen what applications will evolve from this capacity but it has exciting possibilities.

If Flash leads to miniaturization of computers from portable to hand-held units, neutral nets may solve hand-writing recognition. This combined with a notebook computer would result in a very user-friendly tool for a large market.

By 1990, some industry began to recognize the potential for Flash as a replacement for conventional magnetic disk drives in laptop or portable computers. Some industry specialists noted that solid-state disks, when compared to traditional Winchester drives, can consume up to 300 times less power, are 15 times more durable, can withstand much more heat, and are up to 100 times faster. Other industry specialists, however, noted that there has been a 100-fold “shrink” in the size of 20 – 40 MB drives since the late 1970s (from 2,300 cubic inches for the 14-inch drive to 23 cubic inches for the current 1-inch drive) and that during that time, price had decreased by a factor of 10 and access time improved by a factor of 2”.

While the current installed base of portables was fewer than 5 million units, the future potential is estimated in the tens of millions. Although Flash was still more expensive than traditional magnetic, its learning curve was much steeper.

In 1990, Intel announced a credit card size “Flash memory card”, available in 1 – and 4 – megabyte storage units and priced at \$298 and \$1,198, respectively. The new storage system would offer an important alternative to floppy and hard disk drives in portable computers because it used less power and offered improved performance. The reduced power demands, for instance, extended battery life between 10 and 100 times for portable computers.

By 1994, Intel predicted it would have a 16-megabit Flash chip. The chip would enable a cost – competitive Flash chip. The chip would enable a cost – competitive alternative to the industry standard 50-megabyte hard drive on a credit card size format.

Western Digital was reportedly developing Flash subsystems that could be managed like magnetic media and could be interfaced into a system like a disk drive. Texas Instruments was also developing its own Flash technology, which reportedly used less power than Intel's during data writing.

New Microprocessor Strategy

During the same week in 1985 when Intel made the decision to close Fabrication 5 in Oregon for DRAM production, it announced shipment of the 32-bit 80386. The electronics industry received the 386 microprocessor with great enthusiasm. Just one year later, in the third quarter of 1986, customers had completed development of new products, and the first products to contain the 386 were shipped. The power of the 386 to leverage previous software led to the most rapid ramp-up of production for any microprocessor in Intel's history. By the end of 1987, just two years after the 386's introduction, Intel had shipped an estimated 800,000 units as compared to 50,000 for the earlier 8086 at two years after its introduction. By 1989, some analysts believed that Intel was too dependent on the 386 and its support chips, estimating that they generated nearly \$1 billion, or between 30 and 40 percent of the company's revenues during fiscal 1988.

A new corporate strategy added to Intel's early success with the 80386. During previous generations, Intel supported a cross-licensing agreement with AMD (Advanced Micro Devices) in which AMD acted as a second source for the development of support chips. Intel's top management made the decision to make AMD perform under the existing agreement or be prepared to act as a sole source for the 386. Intel believed that AMD did not earn rights to the 386 design under the existing licensing agreements. Intel's decision led to a widely publicized dispute with AMD that was still unresolved at the time of case development.

Craig Barrett described some of the factors that figured in the decision:

Basically, Intel got to the point where it could generate enough customer confidence to pull it off. There were at least several forces at work.

Our quality thrust of the early 1980s began to pay off in improved consistency on the manufacturing line and overall better product quality. In addition, customer-vendor partnerships became more prevalent throughout our business. For example, we had recently started selling Ford a microcontroller product, the 8061. They proclaimed that total cost was more important than purchase price alone and decided to work with us closely and exclusively – sort of on the Japanese model. We learned a great deal from that which carried into our other customers and to our vendors.

We had also decided to pursue a “vendor of choice” strategy in 1984 which led to improved customer satisfaction. Finally, the experience with earlier x86 generations led us to believe that we could accurately forecast demand for the 386 and put sufficient manufacturing capacity in place.

With improved manufacturing consistency and better forecast accuracy, we realized that it wasn't always necessary to have a second source to keep the customer satisfied. As our second source deal with AMD came unraveled, we put in the capability to never miss a shipment by adding strategic inventory and redundant capacity. Since then, we have never missed an 80386 customer commitment.

The pitfalls of our strategy are obvious. You can fall on your sword, and it only takes once to lose the confidence of our customers. Also, the business is sufficiently profitable that everyone is gunning for you. They try to make clones of your product or substitutes.

Bob Reed, Chief Financial Officer underlined the importance of intellectual property to Intel and to the semiconductor industry. Intel has looked around for an edge against competitors. When we look back 10 years from now we may see that intellectual property protection saved the U.S. semiconductor market. The production will essentially lead to a segmentation of the semiconductor industry into may be 10 industries, all with leaders. Intel's sole source strategy for the 386 is a good example of a winning strategy. Now Motorola is also a sole source.

This does not imply much more complicated contractual relationships with customers. For example, Intel has no penalty clauses for non-delivery of parts; however, we never miss a delivery. The stakes have been raised on both sides of the table. At Intel, the legal department has grown from 5 to 20 internal people in the past 5 years. In addition, we retain outside counsel. We vigorously pursue anyone who infringes on our intellectual property rights.

In order to support the sole sourcing strategy, the Portland Technology Development Group began developing a 1-micron version of the 386, a significant reduction in chip size from the original 1.5 micron geometry. Increased functionality and integration depend on the ability to "shrink" the microprocessor, allowing more space to integrate new features. Jack Carsten, formerly an Intel senior vice president said:

Lots of people talk about the design team that developed Intel's 386 chips. Its great product, but, the great unsung heroes at Intel are the people who successfully developed the "shrink" technology for the 386. That reduction in geometry led to higher – performance parts as well as greatly increased yields.

Sun Lin Chou discussed the role of the Portland Technology Development Group:

In the past 2 years, the situation has changed significantly. We don't just do process development in Portland. We have designers in Portland who leverage our ability to make use of leading – edge technology sooner. Some of those designers are old DRAM designers who have been retrained.

In the old days, memory was always the first product to use a new process. First, we would get the yields up on memory, then a couple of years, later the logic product would use the process. We stabilized the process on memory, and then a couple of years later, the logic product would use the process. We stabilized the process on memory, and then did logic. Since logic takes longer to design, it is easier to do it that way. Now we have no DRAMs; the concept of technology driver has changed.

Our challenge is to get logic products up on new processes sooner than we ever have before. To do that, we have accelerated and integrated the design process. We use the Portland designers to design standard cells which can then be used by chip designer groups. We also take existing logic parts that have proven designs and use the new standard cells to generate "shrink" designs. Instead of using memory to ramp production, we are now using logic products redesigned with smaller geometrics.

The 80486 was introduced in April 1989. With over 1 million transistors, the 486 microprocessor contained nearly four times the circuit elements in the 386. The 486 had taken a total of 130 person-years in design effort compared to 80 for the 386. It had benefited

from a fourfold increase in proprietary specialized design tools created by Intel. The overall investment in the 486 development had been more than \$200 million. In keeping with its strategy of upward compatibility, Intel had designed the new 486 offering to run software developed for its predecessors. The 486 was expected to be especially important in the growing market for a new class of “servers”, which could store information for an entire corporation and send it out as needed to PCs in response to queries from different types of users.

RISC versus CISC

By the early 1990s, Intel had established a dominant position in the personal computer microprocessor business based on complex instruction set computer (CISC) design. Every manufacturer of advanced IBM-compatible personal computers had to purchase a 386 or 486 microprocessor from Intel. Similarly, those manufacturers or their customers had to purchase operating system software from Microsoft Corporation in order to maintain backward compatibility with the thousands of programs already developed for the PC market. (Microsoft was the sole source for the IBM PC operating system, MS – DOS. In conjunction with IBM, Microsoft also developed a new operating system, OS/2 which took advantage of the 286 and 386’s multitasking features, while maintaining upward compatibility).

The engineering workstation market – characterized by high-performance graphics and computation ability – was pioneered by Sun Microsystems. In some of its earlier systems, Sun used the Intel 386 chip, but instead of MC – DOS chose the UNIX operating system. (Unlike MS – DOS, the UNIX operating system is capable of taking advantage of the multiprocessing feature of the 386. In addition, UNIX is an “open” program and available from multiple sources – although many of the versions are not compatible).

Sun Microsystems president, Scott McNearley, believed that Intel was charging too much for its processor, so he initiated the development of a new processor using a competing architecture called RISC (reduced instruction set computer). Following a strategy of “open” standards, McNearley made the Sun RISC chip design (SPARC) available to his competitors. In addition to the SPARC chip, several other RISC chips appeared from MIPS and Motorola, capable of supporting some version of the UNIX operating system environment. While RISC microprocessors were simpler than CISCs, the system logic that surrounds the RISC microprocessors is more complex all that RISC does is to transfer system complexity from the microprocessor to the system logic. RISC was far behind CISC on the learning curve. In 1990, Intel shipped over 8 million 32-bit CISC microprocessors, while the 10 RISC suppliers combined shipped no more than 200,000 units.

The 1860 Story

Intel’s initial response to RISC architecture was to call it “the technology of the have nots”. As several companies announced new RISC chip, Intel developed an internal jargon referring to the competitor chips as YARPs, or “yet another RISC processor”.

Yet within the Intel design organisation, a designer named Les Khon had been trying for several years to initiate a RISC program:

It was very difficult to see from Intel’s perspective on the x86 architecture (that RISC had some definite technical advantages). Between 1982 and 1986, I made several proposals for

RISC projects through the Intel product planning system, but I wasn't successful RISC was not an existing business, people were not convinced that the market was there, and the design would have been way too big to do in a skunk works.

In 1986, I saw that our next generation processors would have 1 million transistor chips, and I started working on the idea of a RISC-based processor that would take full advantage of that technology. We drafted a product requirement document that outlined market size, pricing, and rough development cost. We positioned it as a coprocessor to the 80486 and made sure that it could be justified on that basis. We designed it as a stand-alone processor, but made it very useful as an accessory to the 486. We made sure it was very different from the x86 family so that there would be no question in the customer's mind of which product to use. The really fortuitous part came when presentations to several large customers generated a lot of positive feedback to senior management. There was also a whole group of customers who did not previously talk to Intel because they were workstation, and minicomputer accounts all got very interested. In the end, it looked like the 860 would generate a whole new business for Intel.

Kohn's new chip had a 64-bit architecture with floating point and integer processing as well as enhanced graphic capability. The chip utilised design concepts found in supercomputers, and its design team of 50 wore tee-shirts with a miniaturized CRAY supercomputer icon resting on a chip, but top management saw it as a coprocessor for the 486. Kohn commented on Intel's unique position to produce a 1 million transistor RISC chip.

Intel has historically led the industry in having the most transistors – at least in terms of widely used commercial microprocessors. To do it on the schedule, we did require a very close working relationship between technology development and the design teams.

In a lot of cases, RISC companies worked with external vendors for the fabrication of parts so they either had to design for the lowest common denominator of those technologies or they wouldn't necessarily get access to the most advanced technology.

Another factor was the design tools. Intel made a strategic decision to invest in advanced CAD tools. Our new database manager allowed us to manage the several thousand files that go into this chip. It made sure that people didn't make changes that got lost or that two different people weren't making changes to the same file at the same time. We also used a new generation of workstation-based circuit design that was very graphic, allowing the engineers to work directly with schematics and display results graphically.

In February 1989, Intel announced the 860 not as a coprocessor, but rather as a stand-alone RISC processor. Top management decided to join the RISC processor race. Grove said:

We had our own marketing story for the chip, but our customers changed it. They said, "Listen, this isn't just a coprocessor chip, this could be the central processor of a super-technical workstation. Occasional sarcastic jibes aside; we were in no position now to dump on RISC as a technology. Our chip showed what the real potential of RISC was".

System Business

In 1985, Les Vadasz became senior vice president and general manager of the Intel Systems Business, which by 1990 was expected to contribute over \$1 billion to sales. Originally, the

Systems Business provided technology to enable the growth of Intel's semiconductor business. For example, development systems, which allowed customers to design their own systems and to write software for microprocessor applications, provided a significant portion of revenue. Vadasz said:

We were providing customers multiple choices at different levels of integration. If they wanted microprocessors or board-level products, we could provide either. Now we are more like an independent business. We make a range of products: PC compatibles for OEMs, mainframes through a joint venture, and even parallel supercomputers based on the 386 and 860 processors. We also make PC enhancement boards and sell them through retail channels.

We have organised around segmented strategies for each market. We must recognize that each of our segments requires a different business structure. For example, supercomputers and PCs require entirely different manufacturing disciplines. The PC enhancement business requires a retail understanding, its own sales force, a different kind of documentation, and, of course, its own product engineering. Each new capability can then be deployed into other areas, but you must exercise discipline in how you use your capabilities.

Several of the businesses started as ventures in the Intel Development Organisation (IDO), which Vadasz also headed. Vadasz continued:

IDO looks a bit like an internal venture capital fund. It is funded by the corporation and has its own miniboard of Gordon Moore, Bob Reed, and me. It serves to isolate a new idea from the quarterly cycles of Intel's business. We create an isolated investment unit and see how it does. These units are managed with an iron hand, but on their own merits.

The guiding question at Intel is: Where can we add intellectual value? Some semiconductor people used to grow crystal ingots (raw materials for semiconductors), but they found they could not add value there. Others specializing in crystal growth became more effective suppliers. DRAMs were like that, the lowest value added component in the chain always tends to spread, so you get perfect competition in that area.

Some industry observers believed Intel's Systems Business represented a bold strategy which might alienated its customers. Not only did Intel have a sole source position, it could become a potential competitor to some of its customers – companies like Compaq, Tandy, or Olivetti.

4.0 CONCLUSION

You have reviewed the case studies of four leading individuals/organisations namely: Microsoft Corporation, Joe Peterson, Nitendo of America, and Intel Corporation.

5.0 SUMMARY

In this unit, you had from the reviewed case studies developed and possessed the skills and abilities to analyse problems there from with a view to taking appropriate judgment or decision aimed at resolving those problems.

With this, you have come to end of this course, and we congratulate you on the successful completion of this course.

6.0 TUTOR-MARKED ASSIGNMENT

Microsoft Corporation (A)

1. What were the critical factors in Microsoft's past success? Trace the crucial interactions with its customers, competitors and other outside parties. How can these patterns be applied in the future? How do the strategies of hyper-competition fit this situation?
2. What are the major differences in strategic management in a company like Microsoft versus an Intel, IBM, or Sony? The major similarities? How does one form of a strategy in this environment? What are the key trends Microsoft must deal with? How?
3. What are the keys to Microsoft's strategy in the future? What should they do to respond to the new joint venture between IBM and Apple? What role should government play in this industry? Why?

Microsoft Corporation (B)

1. What are the most important organisational and structural reasons for Microsoft's success? What major problems do you see in their approach now? What issues do you see for the future?
2. What should the future macro structure of Microsoft look like? Why? How would you propose to resolve the specific issues and shortcomings you see in Microsoft's existing practices? How should it organize to exploit the emerging opportunities in software?

Joe Peterson

Is my interpretation of these events and the decision in the best interests of IMC?

Nintendo of America

1. Evaluate Nintendo's approach to software development. How does this correspond to your view of "the Japanese management style"? why has Nintendo been as successful as it has in the past? What problems would you expect in the future? Why does Nintendo make so much money?
2. What are the main opportunities and threats NCL and NOA must respond to? How should NCL and NOA position themselves strategically in the new environment? How should they be organized for the future? What should be the relationship between NCL and NOA? What does this mean for their organisational, control, and reward systems?
3. Why does NOA use the kind of control system it does? How would you propose to evaluate the performance of software people, telephone answerers, and other key elements of NOA's operation? What types of motivation systems might be more appropriate in NOA and NCL?

Intel Corporation

Decision Point

1. What are the key factors for success in each functional area?

2. What specific policies should Intel develop to meet the conflicting requirements of manufacturing, engineering, and the market?
3. What specific organisational form should Intel undertake in its early years?

Issues for the 1990s

In reviewing the recent history of the company, Mr. Grove wondered how to top the “awesome new \$3 billion Intel”. Among the U.S. semiconductor companies, Intel was clearly a leading performer in 1990, but what steps would be necessary to continue that performance?

In particular, Grove wondered about the future role of the relatively low-margin EPROMs in what was now “the microprocessor company”. Should Intel get out of EPROMs to free resources for microprocessors, or should they be continued? This was particularly important in the light of the potential future of Flash. He also questioned the role of RISC and the implications of Intel’s endorsement of that technology. Was RISC a distortion of Intel’s microprocessor strategy or part of it? What options could Intel pursue? Finally, he wondered what larger environmental forces might help or inhibit Intel in sustaining its current growth and profitability throughout the 1990s.

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