



**NATIONAL OPEN UNIVERSITY OF NIGERIA**

**SCHOOL OF MANAGEMENT SCIENCES**

**COURSE CODE: MBA 898**

**COURSE TITLE: BUSINESS POLICY**

## **COURSE MATERIAL DEVELOPMENT**

Course Code      MBA 898  
Code Title        Business Policy (2 credits units)

Course Team: Mr. E. U. Abianga (Writer/Developer) NOUN  
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## **COURSE GUIDE**

### **1.0 INTRODUCTION**

MBA 898 Business Policy is one semester, course of two units for 800 level students of Master's degree in Business Administration programme of the School of Management Sciences. This course consists of sixteen units. The material has been developed to suit students for their learning process and prepare them as potential or active entrepreneurs. This course guide tells you briefly what the course is about, what course materials you will be using and how you are to use them. It provides some general guidelines for the amount of time you might be spending in order to successfully completed each unit of the course.

### **2.0 COURSE AIMS**

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

### **3.0 COURSE OBJECTIVES**

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

- Learn business policies
- Explain the functions and responsibilities of an enterprises general management
- Identify problems associated with the management of an enterprise
- Design and implementation of corporate strategies

### **4.0 WORKING THROUGH THE COURSE**

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

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

### **5.0 COURSE MATERIALS**

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

- Course Guide
- Study Units

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

## **6.0 STUDY UNITS**

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

### **MODULE 1 BUSINESS POLICY**

Unit 1	Business Policy – Definition and Discussion of Concepts
Unit 2	Evolution of Business Policy as a Discipline
Unit 3	Characteristics of Policy
Unit 4	Kinds/Types of Policies
Unit 5	Nature, Objectives and Purposes of Business Policy
Unit 6	Organizational Policies
Unit 7	Functions and Responsibilities of Business Policy in management

### **MODULE 2 CORPORATE STRATEGY AND MANAGEMENT**

Unit 1	The Concept of Corporate Strategy
Unit 2	Strategy Decision Making
Unit 3	Process of Strategic Management
Unit 4	Overview of Strategic Management
Unit 5	Historical Development of Strategic Management

### **MODULE 3 STRATEGY FORMULATION IN MANAGEMENT**

Unit 1	Hierarchy of Strategic Intent
Unit 2	Environmental Appraisal
Unit 3	Organizational Appraisal
Unit 4	Strategic Analysis and Choice

The modules and units are self explanatory as they summarize Business Policy for 800 level students of Master's degree in Business Administration. You will need to work in groups with other students in this course and program in order to discuss, compare notes and thoughts in order to exchange and share ideas.

## **7.0 ASSESSMENTS**

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

## 8.0 TUTOR-MARKED ASSIGNMENT (TMA)

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

## 9.0 FINAL EXAMINATION AND GRADING

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

**Table 1: Course Marking Scheme**

ASSESSMENT	MARKS
Assignment (TMAs) 1 – 4	Four (4) assignments, best three (3) marks of the four account at 10% each = $10 \times 3 = 30\%$
End of course examination	70% of overall course marks
<b>Total</b>	<b>100% of course marks</b>

## 10.0 HOW TO GET THE MOST FROM THIS COURSE

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

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

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

Activities are interspersed throughout the units, and answers are given at the end of the units. Practice these self-assessment exercises to help you to achieve the objectives of the units and prepare you for the assignments and the examinations. Keep tap with your facilitator for assistance.

In summary:

- (1) Try to read this course guide.
- (2) Organize a study schedule.
- (3) Do everything you can to stick to the schedule.
- (4) Assemble the study materials.
- (5) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through this unit, you will be instructed to read sections from your set books or other further readings.
- (6) Review the objectives for each study unit confirms that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult.
- (7) When you are sure of having achieved a unit's objectives, you can then start on the next unit.
- (8) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives and the course objectives.

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

## **11.0 SUMMARY**

This course MBA 898 is designed to give you some knowledge which would help you to understand business policy of business organisation/enterprise. Endeavour to go through this course successfully and you would be in a good position to pass your examination at the end of the semester

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

## **COURSE DESCRIPTION AS IN THE OPP/DPP**

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

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## **MODULE 1 BUSINESS POLICY**

Unit 1	Business Policy – Definition and Discussion of Concepts
Unit 2	Evolution of Business Policy as a Discipline
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### **UNIT 1 BUSINESS POLICY – DEFINITION AND DISCUSSION OF CONCEPT**

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3.2	Nature and Characteristics of Business Policy
3.3	Objectives of Business Policy
4.0	Conclusion
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References/Further Reading

#### **1.0 INTRODUCTION**

You are welcomed to this course MBA 898 and in the first unit of the first module of this course.

Every organisation has a purpose for which it was established – either for profit making or non-profit making, and closely allied to the purpose of an organisation are the principles on which it is to be conducted. These principles in business parlance are commonly called “**Policy**”. Policy, according to Kalejaye (1998), denotes a future course of action of intent towards the activities of an organisation. He opined that there is more to the meaning of policy than an expression of intent. To him, there is usually the connotation that policies should express the beliefs of the organisation, the things that are right to do and the courses of action which it ought to take in the organisation. This explains why policies on the same subject can be so different from one organisation to another. Every business requires guidelines which are to be embedded in policy. Policy is a decision rule, not a decision (Ackoff 1993). Principles in business parlance are commonly known as policy. Policy denotes a future course of action of intent towards the activities of an organization.

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

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

## **2.0 OBJECTIVES**

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

- Define business policy
- State the need for business policy
- Explain business policy implementation in organization

## **3.0 MAIN CONTENT**

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

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

### **3.1 Definition of Policy**

What comes to your mind when the word policy is mentioned? As stated in the introduction earlier, policy is defined as a decision rule not a decision. For example, of a policy- Hire only professionally qualified accountants for senior accounting positions. When such a person is hired it is a decision. A policy is considered the general guideline for decision making. Kalejaye, A. (1998) defined policy as the objectives, the mode of thought and the body of principle underlying the activities of an organization

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

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

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

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

### Self-Assessment Exercise 1.1

Define a policy.

## 3.2 Definition of Business

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

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

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

- **Sole proprietorship:** A sole proprietorship is a business owned by one person for-profit. The owner may operate the business alone or may employ others. The owner of the business has unlimited liability for the debts incurred by the business.
- **Partnership:** A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of for-profit partnerships are general partnerships, limited partnerships, and limited liability partnerships.

- **Corporation:** A corporation is a limited liability business that has a separate legal personality from its members. Corporations can be either government-owned or privately-owned, and corporations can organize either for-profit or not-for-profit. A privately-owned, for-profit corporation is owned by shareholders who elect a board of directors to direct the corporation and hire its managerial staff. A privately-owned, for-profit corporation can be either privately held or publicly held.
- **Cooperative:** Often referred to as a "co-op", a cooperative is a limited liability business that can organize for-profit or not-for-profit. A cooperative differs from a for-profit corporation in that it has members, as opposed to shareholders, who share decision-making authority. Cooperatives are typically classified as either consumer cooperatives or worker cooperatives. Cooperatives are fundamental to the ideology of economic democracy.

## Self Assessment Exercise 1.2

What is a business?

### 3.3 Definition of Business Policy

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

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

1. **Specific-** Policy should be specific and definite. If it is uncertain, then the implementation will become difficult.
2. **Clear-** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.
3. **Reliable/Uniform-** Policy must be uniform enough so that it can be efficiently followed by the subordinates.
4. **Appropriate-** Policy should be appropriate to the present organizational goal.
5. **Simple-** A policy should be simple and easily understood by all in the organization.
6. **Inclusive/Comprehensive-** In order to have a wide scope, a policy must be comprehensive.

7. **Flexible-** Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.
8. **Stable-** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

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

- (1) A business policy is an implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.
- (2) A business policy is one, which focuses attention on the strategic allocation of scarce resources. Conceptually speaking strategy is the direction of such resource allocation while planning is the limit of allocation.
- (3) A business policy represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions.
- (4) A business policy is the study of the nature and process of choice about the future of independent enterprises by those responsible for decisions and their implementation.
- (5) The purpose of a business policy is to enable the management to relate properly the organization's work to its environment. Business policies are guides to action or channels to thinking.

### **3.3.1 Difference between Policy and Strategy**

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

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.
2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.
3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.
4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action.

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

### **Self Assessment Exercise 1.3**

1. Define, in your own words, the concept 'Business Policy'.
2. State the major differences between a policy and a strategy.

### **3.4 Objectives of Business Policy**

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

Business policy specific objectives ensure:

- Efficiency and effectiveness in performance of duties
- Equal provision of services and treatment of customers
- Better management and provision of better quality services
- The utilization and application of resources
- The formulation mission statement
- The establishment of vision of the organization

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

The major reasons for having policies are as follows:

#### **3.4.1 Why Create Business Policies?**

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

*Specifically, business policies:*

- drive strategic planning, and help set expectations and performance objectives.
- lead to more efficient internal operations.
- engage and align the values of stakeholders; and build mutual understanding of expectations and challenges.
- ensure accountability and create transparency.
- promote ethical and responsible decision-making.

- assess and mitigate risk.
- streamline new staff orientation; having established written policies that staff can refer to create consistency, clarity, and provides an understanding of the goals and culture of the company.
- result in time savings: proactively thinking about how specific situations and issues will be handled eliminates having to discuss and debate how to handle issues every time they come to the forefront.
- meet legal requirements; some laws require employers to adopt certain policies to guide the actions of their staff and management. Example: Discrimination/Harassment Policy.

#### **Self-assessment exercise 1.4**

What are the objectives of Business Policy?

### **4.0 CONCLUSION**

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

### **5.0 SUMMARY**

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

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

### **6.0 TUTOR MARKED ASSIGNMENT**

- 1) What are main objectives of Business Policy?
- 2) Why does a business create policy?

### **7.0 REFERENCES/FURTHER READING**

Ackoff, R. L (1993). *The Role of Business in a Democratic Society A Portable MBA* Edited by Collins, EGC & Devanna, M. A. Ibadan Spectrum Books Limited.

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



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Rama Rao, V. S. (2010). Business Policy. downloaded on November 3, 2010 from <http://www.citeman.com/11809-nature-of-business-policy.html#ixzz1naSwscRY>

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

## **UNIT 2        BUSINESS POLICY AS A DISCIPLINE**

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6.0	Tutor-Marked Assignment
7.0	References/Further Readings

### **1.0    INTRODUCTION**

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

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

### **2.0    OBJECTIVES**

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

- trace the evolution of business policy based on managerial practices;
- discuss the historical perspective of the evolution of business policy;
- Predict the future business policy in regard to managerial practices.

### **3.0    MAIN CONTENT**

#### **3.1    Business Policy as a Discipline**

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

#### **3.2    The Genesis of Business Policy**

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

### **3.3 Evolution based on Managerial Practices**

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

### **3.4 Historical Perspective of the Evolution of Business Policy**

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

Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the needs of a business could no longer be served by policy-making

and functional area integration only. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship to the environment. The concept of strategy satisfied this requirement and the third phase, based on a strategy paradigm, emerged in the early sixties. The current thinking – which emerged in the eighties – is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the strategic process of business firms and the responsibilities of general management.

### **3.5 Pointers to the Future**

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

The direction in which strategic management is moving can be anticipated from what Ansoff calls an emerging comprehensive approach of “management of discontinuous change, which takes account of psychological, sociological, political, and systemic characteristics of complex organizations” (Ansoff, 1984). With the emergence of futuristic organizations, which, in the words of Toffler, are no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual, and social problems,” (Toffler, 1980) the demands on business policy are expected to rise tremendously. The general managers of tomorrow may be called upon to shoulder a set of entirely new responsibilities necessitating a drastic review of the emerging concepts and techniques in business policy. Responding to the need for evolving new approaches to the teaching of business policy, the AACSB no longer insists on the provision of just one course in this area. Now there is an emerging trend to have several courses, such as, the theory of strategic competitive strategy, industry dynamics, hyper-competition, and global strategy in the curriculum (Kazmi, 2006).

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

1. How do firms behave? Or, do firms really behave like rational actors, and, if not, what models of their behavior should be used by researchers and policy-makers?
2. Why are firms different? Or, what sustains the heterogeneity in resources and performance among close competitors despite competition and imitative attempts?

3. What is the function of or the value added by the headquarters unit in a diversified firm? Or, what limits the scope of a firm?
4. What determines success or failure in international competition? Or, what are the origins of success and what are their particular manifestations in international settings or global competition?

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

#### **4.0 CONCLUSION**

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

#### **5.0 SUMMARY**

In this unit, we have traced the evolution of business policy as a discipline; discussed the genesis of business policy; traced the evolution of business policy based on managerial practices; discussed the historical perspective of the evolution of business policy and predicted the future business policy in regard to managerial practices.

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

#### **6.0 TUTOR-MARKED ASSIGNMENT**

##### **Questions**

1. Business policy is a capstone, integrative course. Explain.
2. In what direction is strategic management likely to move in the future?
3. Around what questions does strategic management revolve?
4. Who constitutes the senior or top management in an organization?

#### **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 3        NATURE, OBJECTIVE AND PURPOSE OF BUSINESS POLICY**

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### **1.0        INTRODUCTION**

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

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

### **2.0        OBJECTIVES**

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

- (i) state the nature of business policy;
- (ii) highlight the importance of business policy;
- (iii) enumerate the purposes of business policy
- (iv) list the objectives of business policy.

### **3.0        MAIN CONTENT**

#### **3.1        The Nature of Business Policy**

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

- Exide reaps the benefits of its strategies, which include modernization, expansion, and acquisitions, to become the integrated leader in the battery sector.
- Costly expansions and poor demand have forced JK Corp to rework its strategies. It is now banking its future on its core paper business. This will come through the divestment of its cement division, Laxmi Cements, and the acquisition of the Central Pulp Mills.

- Tisco is using divestments and mergers to restructure its core businesses of steel, allied industries, refractory, and engineering.
- Exim Bank (the Export and Import Bank of India), established in the early eighties with the objective of extending support to Indian exporters and importers, still remains small given the Indian economy's requirements. As it faces tough competition from the scheduled commercial banks it needs a strategic vision to cope with the increasing competition in the new millennium.

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

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

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

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

While deciding about a future course of action, the senior management are confronted with a wide array of decisions and actions that could possibly be taken. The senior management exercises a choice, on the basis of given circumstances, and which, in their opinion, would lead



the organization in a specific direction. By moving in a predetermined direction, an organization can attain its planned identity and character.

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

### **3.2 The Importance of Business Policy**

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

#### **3.2.1 Learning the Course**

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

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

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

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

#### **3.2.2 Understanding the Business Environment**

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

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

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

### **3.2.3 Understanding the Organisation**

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

Business policy, like most other areas of management, brings *the benefit of years of distilled experience in strategic decision-making* to the organization and also to its managers. Case study – which is the most common pedagogical tool in business policy – provides illustrations of real-life business strategy formulation and implementation.

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

### **3.2.4 Personal Development**

A study of business policy offers considerable scope for personal development. It is a fact of organizational life that the different sub-units within an organization have a varying value and importance at different times. It often happens that a company which has followed a production-orientation as a matter of policy gradually shifts emphasis to marketing may be due to increasing competition. In the changed situation, executives within the production departments have fewer opportunities for career advancement as compared to their colleagues in marketing. In this case, *it is beneficial for an executive to understand the impact of policy shifts on the status of one's department and on the position one occupies*. In extreme cases, many positions may become redundant due to policy shifts and retrenchment is inevitable. Business India cautions executives, especially those who work for multinationals. It says “..... persons who have devoted their lives working for one company suddenly find bewildering changes at head offices in the UK and US”, and adds that reorganization and changes at the top level can have a dramatic impact on individuals. “It is only too common for divisions of a company to be shut down worldwide, or to be sold off to another company”.<sup>22</sup> An understanding of business policy enables executives to *avail an opportunity or avoid a risk with regard to career planning and development*.

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

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

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

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

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

### **3.3 The Purpose of Business Policy**

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

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

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

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

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

### **3.4 The Objectives of Business Policy**

Objectives could be derived from the purpose of business policy.

#### **3.4.1 Knowledge**

1. The learners of business policy have to understand the various concepts involved. Many of these concepts, like, strategy, policies, plans, and programmes are encountered in the functional area courses too. It is imperative to understand these concepts specifically in the context of business policy.
2. A knowledge of the external and internal environment and how it affects the functioning of an organization is vital to an understanding of business policy. Through the tools of analysis and diagnosis, a learner can understand the environment in which a firm operates.
3. Information about the environment helps in the determination of the mission, objectives, and strategies of a firm. The learner appreciates the manner in which strategy is formulated.

4. The implementation of strategy is a complex issue and is invariably the most difficult part of strategic management. Through the knowledge gained from business policy, the learner will be able to visualize how the implementation of strategic management can take place.
5. To learn that the problems in real-life business are unique and so are the solutions is an enlightening experience for the learners. The knowledge component of such an experience stresses the general approach to be adopted in problem-solving and decision-making. With a generalized approach, it is possible to deal with a wide variety of situations. The development of this approach is an important objective to be achieved in terms of knowledge.
6. To survey the literature and learn about the research taking place in the field of business policy is also an important knowledge objective.

### **3.4.2 Skills**

1. The attainment of knowledge should lead to the development of skills so as to be able to apply that which has been learnt. Such an application can take place by an analysis of case studies and their interpretation, and by an analysis of the business events taking place around us.
2. The study of business policy should enable a student to develop analytical ability and use it to understand the situation in a given case or incident.
3. Further, the study of business policy should lead to the skill of identifying the factors relevant in decision-making. The analysis of the strengths and weaknesses of an organization, the threats and opportunities present in the environment, and the suggestion of appropriate strategies and policies form the core content of general management decision-making.
4. The above objectives, in terms of skills, increase the mental ability of the learners and enable them to link theory with practice. Such an ability is important in managerial decision-making where a large number of factors have to be considered at once to suggest appropriate action.
5. As a part of business policy study, case analysis leads to the development of oral as well as written communication skills.

### **3.4.3 Attitude**

1. The attainment of the knowledge and skill objectives should lead to the inculcation of an appropriate attitude among the learners. The most important attitude developed through this course is that of a generalist. The generalist attitude enables the learners to approach and assess a situation from all possible angles.
2. By acting in a comprehensive manner, a generalist is able to function under conditions of partial ignorance by using his or her judgement and intuition. Typically, case studies provide only a glimpse of the overall situation and a case analyst frequently faces the frustrating

situation of working with less than the required information. Experience has shown that managers, specially in the area of long-range planning, have to work with incomplete information. A specialist would tend to postpone or avoid a decision under such conditions but a generalist would go ahead with whatever information was available. In this way, he or she acts more like a practitioners rather than a perfectionist.

3. For a general manager information and suggestions are important to possess a liberal attitude and be receptive to new ideas. Dogmatism with regard to techniques should be replaced with a practical approach to decision-making for problem-solving. In this way, a general manager can act like a professional manager.
4. It is important to have the attitude to 'go beyond and think' when faced with a problematic situation. Developing a creative and innovative attitude is the hallmark of a general manager who refuses to be bound by precedents and stereotyped decisions.

### **3.4.4 An Alternative Viewpoint on the Objectives of Business Policy Course**

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

1. Integration of functionally specific knowledge. Business policy acts as an integrative, capstone course demonstrating the interdependence between separate functional areas, such as marketing, finance, and so on.
2. Understanding the 'big picture'. Communicating the appreciation of the synergy created by managing the interdependence among the functional areas is a critical objective of business policy. A general management perspective aids in exposing the student to the tradeoffs involved in achieving superior performance by balancing the internal competencies with the external requirements.
3. Working in, managing, and leading a team. Working with and managing a diverse and flexible team is a critical priority with the corporate recruiters. (Interestingly, a similar view is expressed on the basis of surveys conducted by the Indian business magazines too.) Business policy tries to build up the teamwork spirit by illustrating the finer aspects of group dynamics and by bringing together students from different specialization areas.
4. Enhancement of comprehension and communication skills. Business policy lays great emphasis on allowing students to be active participants in the learning process. In contrast to the functional courses, there is a stress on using methodologies, such as case discussions, and oral and written presentations and reports.

5. Ability to assess the applicability and relevance of strategic management research (theory to practice). Theoretical advances in the field of business policy are taking place rapidly. It is necessary for the students to evaluate the relative merit and applicability of theoretical advances to deal with the rapid environmental and strategic changes that characterize the business arena. So it is imperative that the students not just learn but also learn how to learn (Kazmi, 2006).

Having looked at the above alternative view of the objectives of business policy course, you will be in a position to gain further insight into the issue. The objective business policy, in terms of knowledge, skills and attitude could be further extended to the areas of behavior and performance.

After having attained a knowledge of the objectives in the classroom, or in an executive development programme, the learner is expected to exhibit appropriate behavior and good performance on the job. The structure of business policy, built through the accumulation of experience as one moves up the managerial ladder. The richness and variety of experience gained as one moves up the managerial ladder in business offers opportunities of testing, validating, and replicating the mental images and models learnt in the business policy course. Such an approach imparts an added impetus to the development of general management capability which is the *sine qua non* for a manager who wishes to succeed in his or her job and make a meaningful contribution to the organization he or she works for.

In the next unit, we shall take up an overview of strategic management that will familiarize you with the several terms and concepts used in this course.

#### **4.0 CONCLUSION**

An attempt has been made to understand the nature of business policy through a definition and its explanation. The nature of business policy deals with studying the functions and responsibilities of the senior management

#### **5.0 SUMMARY**

In this unit, we have stated the nature of business policy; highlighted the importance of business policy; enumerated the purposes of business policy and listed the objectives of business policy.

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

#### **6.0 TUTOR-MARKED ASSIGNMENT**

##### **Questions:**

1. What are the different aspects of the nature of business policy? Discuss each one of them with the help of suitable examples.
2. How does a course in business policy serve the needs of (a) management students (b) middle-level executives?

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 4          CHARACTERISTIC OF BUSINESS POLICY**

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### **1.0      INTRODUCTION**

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

In this unit, we shall continue with the discussion on overview of business policy. This discussion will centre on the nature and characteristics of policy, reasons for formulating policies, and formulation of policy. The policy thrust of an organisation solely depends on the type of business offered – whether it is for production or services; the intensity of needs of operation and quality of human resources to be employed. It provides guidance to achieving objectives and goals of organizations.

### **2.0      OBJECTIVES**

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

- explain the characteristics of policy;
- list and discuss the sources of a policy;
- state the features that make a good policy.

### **3.0      MAIN CONTENT**

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

materials/stock and others on capital and equipments. Some describe objectives and others means.

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

### 3.1 Characteristics of Policy

Sound policies usually contain a combination of the following characteristics:

- (1) Destiny
- (2) Top Management Approval and Commitment
- (3) Intellectual Input
- (4) Consistency and Long-term in Nature
- (5) Acceptability
- (6) Communicated to Staff
- (7) Genuine Intention and Application
- (8) Balanced Interpretation
- (9) Alignment with Objective

- **Destiny** – A common characteristic of policy is that it denotes future action and intent. It usually describes a goal or destiny which is there to be achieved. In addition, it implies a conviction in a set of beliefs which is considered “right” for the people in the organisation. The manner a policy is expressed and the detailed procedures which stem from it all point in the same direction and do not allow individual actions to follow a different direction. If the actual procedures and wording do not imply belief in a course of action, then it is probably a wrongly formulated policy.
- **Top Management Approval and Commitment** – In practice, making contributions and recommendations on policy issues may be the function at the lower levels of management in the organisation, but it is the hallmark of policy that it is approved and endorsed by the top management. This may be Board of Directors and Managing Director or the responsibility may be delegated to a top executive committee. Directors and top managers are primarily responsible for policy making and setting long-term objectives. Once the series of policies are approved at the top, there is every possibility that all segments of the organisation will move to the same direction toward the set objectives.
- **Intellectual Input** – Policy requires a high level of intellectual and intelligent inputs because policies are concerned about the future activities deemed to be just and right for the organisation. Policies must be able to withstand pressures, opposition and challenges from all parts of the organisation and its environment which may see and treat the policies differently. Without a high degree of thorough analysis and deep thought of reasoning during formation, a policy may be less effective and may even fail to provide the framework for enduring decision making.

- **Consistency and Long-term in Nature** – Usually, policy makers have thought through all aspects of a particular policy culminating into consistent and enduring policy thereby making frequent amendments difficult. Constant changes in the course of action and direction of an organisation will surely bring about confusion, resenting and even generally derail all things that sound policies are trying to achieve. Practically, almost all policies are long-term in nature, although for practical purposes; long-term policies are sub-divided into short-term.

It is worthy of note that there could be circumstances in which refinement and revision might be required; in essence, they are intended to create a continuum against which day-to-day standards and decisions can be made.

- **Acceptability** – The degree of acceptance of organisation policy to everyone is marked by the persistence and understanding of employees who want to know why the policy is made or changed. Genuine reasons must be forthcoming and management needs to provide supervisors with sufficient information to satisfy queries regarding a policy. There is danger in withholding information which often leads to gossip and speculation in an organisation as this can be disorganizing, cause increased friction between management and employees, upset and strain relationships through general suspicion and mistrust.
- **Communicated to Staff** – As soon as policies are formulated and ratified, they should be communicated to members of the organisation. Everybody must be aware about the mission and objectives of the organisation; hence, there should be no exception in communicating policies to the members of the organisation. Appropriate channels must be used in channeling policies throughout the organisation, so that nobody is left out. This, of course, will cement relationship in the organisation and motivate the staff to reach higher heights.
- **Genuine Intention and Application** – It is not uncommon for management to declare policy for prestige purposes, such as publicity and then fail to put the policy into practice. Management's intention, in these circumstances, is to ignore and dump the declared policies.

In some cases, some managers apply policies in wrong and negative ways, hiding under one excuse or the other for not carrying out some course of action. These types of policies are rarely put into writing and where it is in written form; they are usually wrongly worded in such vague manners that will distort to fit in with any course of genuine action at the line. These types of policies must be avoided; every policy of the management must be treated with all the seriousness it deserves and must be genuinely applied to the intended course of action.

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

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

### Self Assessment Exercise 2.1

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

### 3.2 Sources of Policy

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

- (1) **Originated Source** – The most acclaimed source of policies is the one from top management which originates for the express purpose of guiding the company's operations. Originated policies flow basically from the objectives of the enterprise, as they are defined by top executive authority. These types of policies may be broad in scope, allowing key subordinates to give them clearer definition or they might be promulgated so completely and comprehensively as to leave little room for definition or interpretation.
- (2) **Appealed Source** – In practice, in most cases, policies stem from appeal through the hierarchical level of management authority. If occasion for decision arises for executives who do not know whether they have sufficient authority or how such matters should be handled, they appeal to their supervisors for the necessary support and action. As appeals are taken upward and decisions are made on them, a kind of rules and procedures are established. Precedent, therefore, develops and becomes guides for future managerial action and serves as reference point.
- (3) **Implied Source** – Useful policies are developed from the actions which employees see about them and believe to constitute them. Employees will readily understand what real policy is if they work for a company that operate policies that produce high quality goals, or sound labour policy, for instance, though the real policy is implied.
- (4) **Externally-imposed Source** – To a large extent, policies are externally-imposed by such agencies as the government, trade unions, professional associations and others like trade association. This might come in form of direct regulation or one of the many conditions of accepting government aid or contract; it could also be to maintain industrial peace. Besides, local and state governments, professional associations, social and charitable organisations do influence the policies of organisations.

### Self Assessment Exercise 2.2

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

### 3.3 What Makes a Good Policy

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

- **Purpose Statement**, outlining why the organization is issuing the policy, and what the desired effect or outcome of the policy is.
- **Specifications**, including statements indicating the specific regulations, requirements, and organizational behavior that the policy is creating.
- **Implementation section**, indicating which parties is responsible for carrying out individual policy statements and how policy adherence will be ensured.
- **Effective Date**, which indicates when the policy is considered in force (an executive signature or endorsement can be useful to legitimize the policy).
- **Applicability and Scope Statement**, describing whom the policy affects and which actions are impacted by the policy.
- **Background**, indicating any reasons, history, and intent that led to the creation of the policy, which may be listed as motivating factors.
- **Definitions**, providing clear definitions for terms and concepts found in the policy document.

### 4.0 CONCLUSION

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

### 5.0 SUMMARY

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

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

### 6.0 TUTOR-MARKED ASSIGNMENT

3. What makes a good policy? List them and briefly explain.
4. Sound policies usually contain some features or characteristics. List these features and briefly explain them.
5. Briefly explain the nature of a policy.

## **7.0 REFERENCES/FURTHER READINGS**

Kalejaye, A. (1998). *Basic Management Practice* Lagos: Mak-Jay Enterprise, ISBN: 978-027-770-6, pp. 196 – 197.

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## **UNIT 5        TYPES/KINDS OF POLICIES**

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### **1.0    INTRODUCTION**

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

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

### **2.0    OBJECTIVES**

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

- describe how policies are formulated;
- list the types of Policy
- enumerate the reasons for formulating policies;
- highlight the uses of policies for management effectiveness;
- explain how policies are integrated in relation to objectives;
- itemize management policy areas;
- state the role of workers in policy formulation.

### **3.0    MAIN CONTENT**

Business policy basically deals with decisions regarding the future of an ongoing enterprise. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in terms of product price, quality, leadership position, resources etc., in

relation to its environment. Once established the policy decisions shape the future of a company channel the available resources along desired lines and direct the energies of people working at various levels toward predetermined goals. In a way, business policy implies the choice of purposes, the shaping of organizational identity and character the continuous definition of what is to be achieved and the deployment of resources for achieving corporate goals.

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

### **3.1 Formulation of Policy**

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

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

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

#### **3.2.1 Policies from Top to Bottom**

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



profit sharing, and depreciation of assets and other many cost implication corporate issues cause the Chief Accountant to become involved in areas that are broad than strictly finance.

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

### **3.2.2 Policies within Functional Areas of Departments**

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

### **3.2.3 Policies from Bottom to the Top**

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

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

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

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

- (i) Carefully study the organisation's objectives.
- (ii) Identify the need for a policy in a given area.
- (iii) Source for and collect all possible and relevant information for the policy formulation.
- (iv) Consideration must be given to all alternatives especially as they relate to the policy.
- (v) Analyse all possible available outcomes.
- (vi) Select the best policy statement so far made taking into consideration its possible outcome.
- (vii) Review the policy statement with the employees and others who will be affected by its application.
- (viii) Ensure the policy is in line with the other existing policies of the organisation.
- (ix) Draw out the final policy statement including the effective dates of such a policy.

### **Self Assessment Exercise 3.1**

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

### **3.2 Types of Policies**

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

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

There are many types of policies. Examples include:

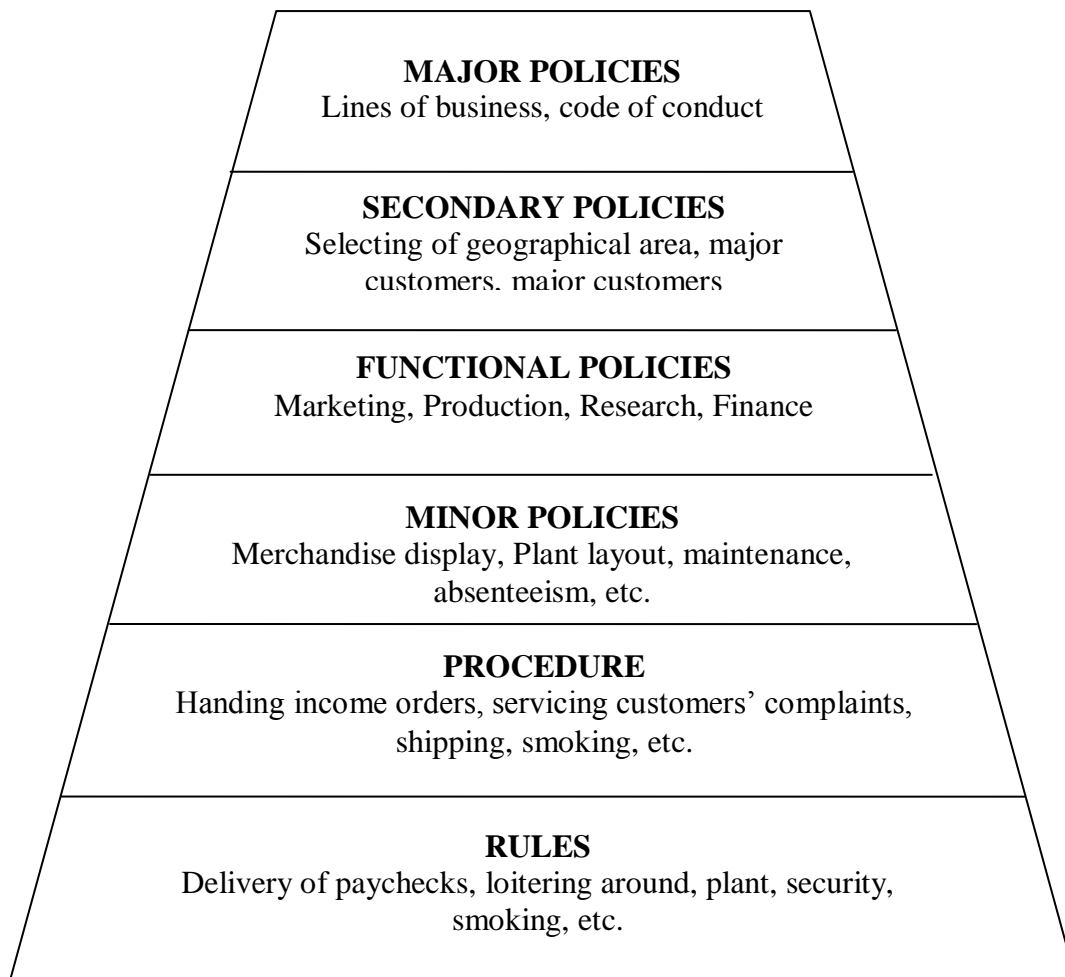
- hiring university-trained engineers;
- encouraging employees suggestions for improved cooperation;
- promoting from within, conforming strictly to a high standards of business ethics;

- setting competitive prices; and
- insisting on fixed, rather than cost-plus, pricing.

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

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

**Figure 3.1 Steiner's Pyramid of Business Policies**



**Source:** Steiner, G. (1969 quoted in Kalejaye, A., 1998).  
Top Management Planning, Macmillan, New York.

- Major policies
- Secondary (corporate) policies
- Functional policies
- Minor policies
- Procedure
- Rules

### **3.2.1 Major Policies**

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

### **3.2.2 Secondary or Corporate Policies**

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

### **3.2.3 Functional Policies**

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

### **3.2.4 Minor Policies**

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

### **3.2.5 Procedure**

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

### **3.2.6 Rules**

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

what is true in most cases. Finally, a rule is a statement of what is possible according to a particular system.

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

### **Self-Assessment Exercise 3.2**

What is the main characteristic of functional policy?

## **3.3 Business policies**

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

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

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

- the contract term and condition referencing the business policy
- the business policy definition
- the business policy command itself.

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

Business policy commands for the same type of business policy must have the same interface. The following categories of business policies are provided in WebSphere Commerce:

### **3.3.1 Catalog business policies**

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

### **3.3.2 Payment business policies**

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

### **3.3.3 Returns business policies**

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

### **3.3.4 Shipping business policies**

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

### **3.3.5 Referral interface business policies**

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

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

Business policies may be of the following types:

#### **1. External Policies:**

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

#### **2. Internal Policies:**

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

#### **3. Appealed Policies:**

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

4. **Explicit Policies:**

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

5. **Implicit Policies:**

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

### 3.4 **Reasons for Formulating Policies**

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

- (1) It is impossible and wrong to rely on expediency or precedents to solve problems which arise interally or regularly. To that extent, decision-making is more consistent and detailed when policy is defined and known.
- (2) Policy provides continuity for the organisation. They are more permanent than the individuals who are employed and later leave for greener pastures or are sacked; thereby providing an enduring foundation for continuity.
- (3) They help to facilitate expansion and integration of new businesses into the company so that when growth occurs, there is already a firm foundation policy to apply in the new situation.
- (4) They provide a yardstick with which to measure progress in the organisation. For example, policy on issue of stock items – stipulating that no condition on which stock should be issued on verbal instruction. This may not be achievable instantly, but it sets a standard against which progress can be measured as the policy is implemented.
- (5) They stimulate action, because managers and supervisors have the knowledge and confidence to make decisions and take actions knowing fully well that they are following the laid down policies.
- (6) Policies also save management time because the information is available and the procedures for carrying them out are known. This, of course, assumes that the policies are made freely available to those who require them.

- (7) They promote fairness in treating employee matters; provided the policies take account of the needs of the entire organisation and are interpreted consistently.
- (8) Policies serve as bases for the defence of the various organisation actions and activities in the event of challenges and litigation in the court of law.

### **Self Assessment Exercise 3.3**

Itemize the reasons why policies are formulated.

### **3.4 Uses of Policies for Management Effectiveness**

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

1. Policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organisational units thus facilitating the delegation process.
2. Policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to further action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things. As long as managers are conforming to the organisation's policies, they can safely proceed and use their own initiatives.
3. Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organisation.
4. Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that their actions are consistent with organisational policies, they are more likely to take actions than do nothing.
5. Definiteness and flexibility are both desirable to goals attainment, but calculating the trade-off lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.
6. To the subordinates, policies will not only serve as means of exercising authorities, it also lay down the guidelines that define and limit the exercise of the subordinates authorities and responsibilities.
7. Policies under-guide the planning of a future course of actions. They show the way the future plans and activities of an organisation are formulated and implemented.



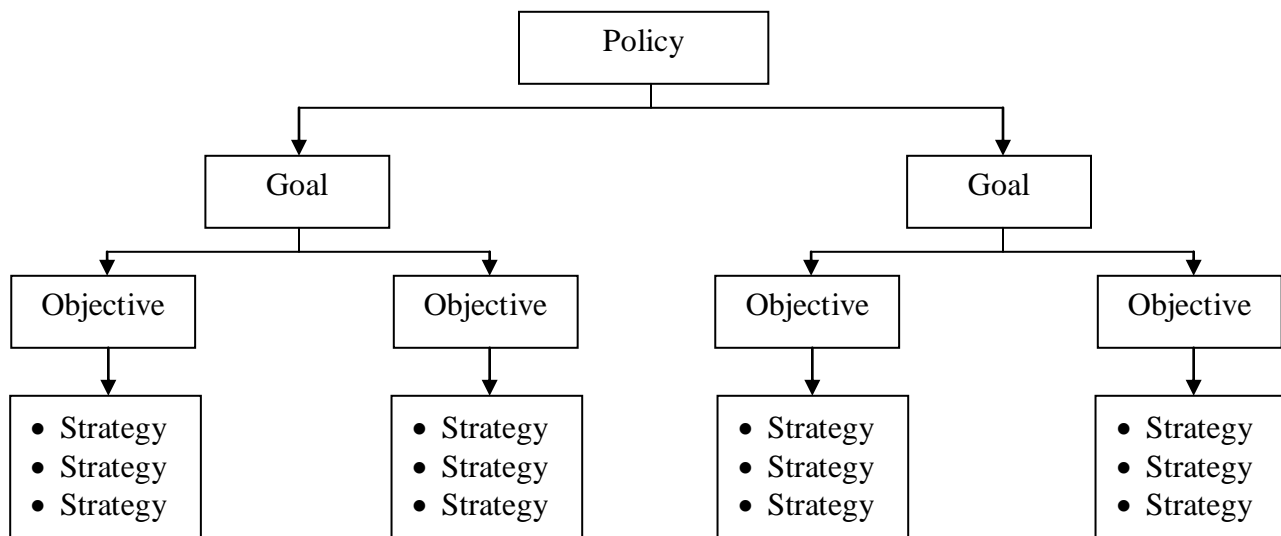
8. Policies define and clarify the objectives and goals of an organisation. They give a further definition on how the objectives of the organisation can be accomplished.
9. Policies are particularly necessary at lower levels where relationship between actions and objectives are most of the time vaguely articulated. Policies are used to bridge the gap – ensuring that staff actions are consistent with the broad policies and actions of others in the organisation. If this were not done by policies, every action will have to be approved, putting an impossible communications burden on coordinating supervisors.
10. Policies are used to mould and project the image of the organisation before the interest groups such as shareholders, suppliers, customers, employees and the public in general. The reputation that a company enjoys, whether favourable or otherwise, is frequently linked to the way the outsider perceives the company through its policy structure. It is common to hear people making statement such as “the firm is known to be liberal in its credit policy or the policy dictates positive attitude towards employees”.

### **3.5 Integration and Relationship of Policies to Objectives**

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

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

**Figure 3.2 Relationships between Objectives, Policies and Strategies**



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

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

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

#### **Self Assessment Exercise 3.4**

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

### 3.6 Management Policy Areas

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

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

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

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

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

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

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

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

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

### 3.7 The Role of Workers in Policy Formulation

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

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

- (iii) By involving workers in policy formulation, this will bring about effective utilization of the human resources of the enterprise.
- (iv) Workers participation in management policy is in effect seen as the antidote towards uncooperative attitudes and increase in industrial conflicts.

#### **4.0 CONCLUSION**

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

#### **5.0 SUMMARY**

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

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

#### **6.0 TUTOR MARKED ASSIGNMENT**

- (1) Sound and creative policies are essential for a company to survive the competitive business terrain. Explain the necessary factors that will ensure that a policy is sound and creative.
- (2) Discuss extensively the relationship between policy and objectives.
- (3) Identify the various areas in which policies can be directed or addressed in an organisation.

#### **7.0 REFERENCES/FURTHER READING**

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## **UNIT 6            ORGANIZATIONAL POLICIES**

### **TABLE OF CONTENTS**

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3.2	Nature of Organizational Policy
3.3	The Purpose of Policies
3.4	Distinction between Objectives and Policy
4.0	Conclusion
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References and Further Reading

### **1.0    INTRODUCTION**

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

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

### **2.0    OBJECTIVES**

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

- explain the meaning of organization;
- discuss the purpose of organizational policies;
- differentiate between objectives and policies.

### **3.0 MAIN CONTENT**

Abdullahi (2009) stated that corporate organizations operate within the ambit of the necessary guides which are normally the organizational procedures and regulations for effectiveness and efficiency. Basically, policies incorporate all the necessary operational procedures and regulations of an organization. Therefore, all the operational activities of an organization are circumscribed within the ambit of organizational policy. Hence, the issue of organizational policy cannot be compromised. All organizations must operate with policy as it is normally formulated for the good of healthy operations and interrelationships among the various subsystems of the organization. In this unit of the study material, therefore, the discussion is on organizational policy.

### **3.1 Meaning of Organisational Policy**

According to Pearce II and Robinson Jr. (1998, cited in Abdullahi, 2009), policies are specific guides for operating managers and their subordinates. Policies are powerful tools for strategy implementation and control once they are clearly linked to operating strategies and long-term objectives. In the opinion of Thompson Jr. and Strickland (1987, quoted in Abdullahi, 2009), policies are directives designed to guide the thinking, decisions, and actions of managers and their subordinates in implementing an organization's strategy. Policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm's strategic objectives.

Often referred to as standard operating procedures, policies serve to increase managerial effectiveness by standardizing many routine decisions and controlling the discretion of managers and subordinates in implementing operational strategies. Logically, policies should be derived from functional strategies (and, in some instances, from corporate or business strategies) with the key purpose of aiding in strategy execution.

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

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

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

- give priority to promotion from within the organisation;
- enforce retirement at government pensionable age;
- employ only graduate or professionally qualified accountants;
- permit line managers, in consultation with the personnel manager, to appoint staff up to a given salary/wage level.

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

### **3.2 Nature of Organizational Policy**

Policies in their nature can vary in their level of strategic significance. Some, such as travel reimbursement procedures, are really work rules that are not necessarily linked to the implementation of a specific strategy. A policy, for instance, couched that requirement that every

location invest a certain percent of gross revenue in local advertising are virtually functional strategies.

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

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

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

### **Self-Assessment Exercise 1**

Explain the term 'organizational policy'.

### **3.3 The Purpose of Policies**

According to Pearce II and Robinson Jr. (1998 cited in Abdullahi, 2009), policies are designed to communicate specific guides to decisions. They are designed to control and reinforce the implementation of functional strategies and the grand strategy, and they fulfill this role in several ways such as discussed below:

1. Policies establish indirect control over independent action by making a clear statement about how things are now to be done. By limiting discretion, policies in effecting control decisions and the conduct of activities without direct intervention by top management.
2. Policies promote uniform handling of similar activities. This facilitates coordination of work tasks and helps reduce friction arising from favoritism, discrimination, and disparate handling of common functions.
3. Policies ensure quicker decisions by standardizing answers to previously answered questions that would otherwise recur and be pushed up the management hierarchy again and again.
4. Policies help institutionalize basic aspects of organisation behaviour. This minimizes conflicting practices and establishes consistent patterns of action in terms of how organisational members attempt to make the strategy work.

5. Policies reduce uncertainty in repetitive and day-to-day decision making, there providing a necessary foundation for coordinated, efficient efforts.
6. Policies can counteract resistance to or rejection of chosen strategies by organisation members. When major strategic change is undertaken, unambiguous operating policies help clarify what is expected and facilitate acceptance, particularly when operating managers participate in policy development.
7. Policies offer a predetermined answer to routine problems, giving managers more time to cope with non-routine matters; dealing with ordinary and extraordinary problems is greatly expedited – the former by referring to established policy and the latter by drawing on a portion of the manager's time.
8. Policies afford managers a mechanism for avoiding hasty and ill-conceived decisions in changing operations. Prevailing policy can always be used as a reason for not yielding to emotion-based, expedient, or temporarily valid arguments for altering procedures and practices.

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

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

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

- (i) Managers are required to think through the policy's meaning, content, and intended use.
- (ii) The policy is explicit so misunderstandings are reduced.
- (iii) Equitable and consistent treatment of problems is more likely.
- (iv) Unalterable transmission of policies is ensured.
- (v) Authorization or sanction of the policy is more clearly communicated, which can be helpful in many cases.
- (vi) A convenient and authoritative reference can be supplied to all concerned with the policy.
- (vii) Indirect control and organisation-wide coordination, key purposes of policies, are systematically enhanced.

## **Self-Assessment Exercise 2**

What are the reasons for the formulation of organizational policies?



### 3.4 Distinction between Objectives and Policy

While objectives set out more specifically the goals of the organisation; the aims to be achieved and the desired end-results, policy is developed within the framework of objectives. It provides the basis for decision-making and the course of action to follow in order to achieve objectives. The relationship between the organisation, its objectives and management is espoused as one of the managerial duties of an organization, which it is to ensure that the human and material organisation is consistent with the objective, resources and requirements of the concern. The established objectives and policy therefore constitute an integral part of the process of management and a necessary function in every organisation.

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

Regardless of the type of organization under consideration, there is need for lines of direction through the establishment of objectives and determination of policy. Objectives and policy form a basis for the process of management. The choice of objectives is an essential part of the decision-making process including future courses of action. Objectives may be set out either in general terms or in more specific terms. General objectives are determined by top management. Specific objectives are formulated within the scope of general objectives and usually have more defined areas of application and time limits.

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

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

#### Figure 5.1: Comparison between Objectives and Policy

##### *Functional Area Objective Policy*

Marketing Complete market coverage The company will sell to every retail outlet that is creditworthy, as decided by the Company Accountant.

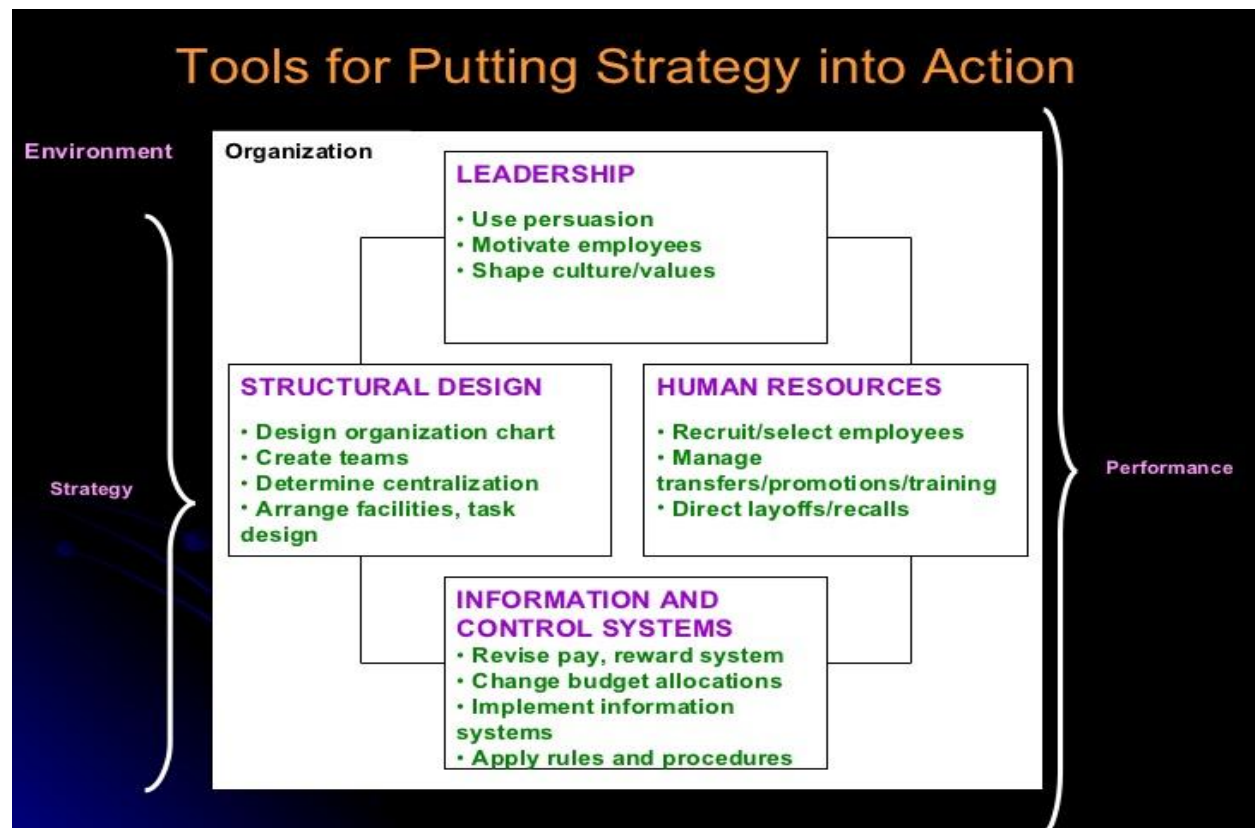
Production Low units costs from long production runs

The company will not produce one-off jobs without the specific authority of the Board.

Finance To maintain adequate liquidity

Accountant will draw up a cash budget and inform the Board if working capital is likely to fall below a specified limit.

**Personnel Good labour relations Set up and maintenance schemes for Joint Consultation, Job Evaluation, Wage Incentives.**



**Source:** Daft, Richard (2009). Strategy Formulation and Implementation (Management 6<sup>th</sup> Edition) p.26.

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

#### 4.0 CONCLUSION

In this unit we have discussed that policies are directives designed to guide the thinking, decisions and actions of managers in implementing an organization's strategy. You have observed from the analysis that policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm's strategic objectives.

We also discussed that policies are interrelated with objectives because the former is normally designed to pursue and achieve the latter. Lastly, we have also discussed that there are fundamental differences between policies and objectives particularly in business functional areas.

## **5.0 SUMMARY**

In this unit, the topics discussed include the following:

- meaning of organizational policy
- nature of organizational policy
- the purpose of policies, and
- distinctions between objectives and policy.

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

## **6.0 TUTOR-MARKED ASSIGNMENT**

Differentiate between policy and objective in business functional areas.

### **Answer to Self-Assessment Exercise**

1. Policy refers to the specific guide for operating managers and their subordinates in carrying out their routine responsibilities. Policy operates like the internal law of an organization.
2. The reasons for the formulation of organizational policies are as follows:
  - i. Policies establish indirect control over independent action by making a clear statement about how things are now to be done.
  - ii. Policies promote uniform handling of similar activities.
  - iii. Policies ensure quicker decisions by standardizing answers to previously answered questions that would otherwise recur and be pushed up the management hierarchy again and again.
  - iv. Policies help institutionalize basic aspects of organisation behaviour.
  - v. Policies reduce uncertainty in repetitive and day-to-day decision making, there providing a necessary foundation for coordinated, efficient efforts.
  - vi. Policies can counteract resistance to or rejection of chosen strategies by organisation members.
  - vii. Policies offer a predetermined answer to routine problems, giving managers more time to cope with non-routine matters.
  - viii. Policies afford managers a mechanism for avoiding hasty and ill-conceived decisions in changing operations.

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 7        FUNCTIONS AND RESPONSIBILITIES OF BUSINESS POLICY IN MANAGEMENT**

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1.0	Introduction
2.0	Objectives
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7.0	References/Further Reading

### **1.0    INTRODUCTION**

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

In this unit, you will be taken through the discussion on organizational policy on functions and responsibilities of business policy in management.

### **2.0    OBJECTIVES**

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

- Discuss business policy as they relate to different organisations;
- Enumerate the function of Business policy in management;
- State the responsibility of Business policy in management.

### **3.1    Business Policy in different Organizations**

Top-level managers consider the numerous ways in which this goal could be accomplished. In the progression from objectives to policies to procedures to rules, the limits become increasingly narrow. Rules are specific statements what should and what should not be done.

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

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

Policies in each of these operational areas will be formulated. For example, in personnel numerous policies would be established to provide consistent guides to action. Areas might

include securing, selecting, training and compensating employees. Working conditions, employee services and industrial relations also might be considered.

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

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

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

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

The focus areas will thus include:

- Production policy -
- Purchasing policy -
- Financial policy -
- Marketing policy -
- Credit policy -
- Selling and promotion policy - etc.

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

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

## Self-Assessment Exercise

Give examples of business policy.

### 3.1.1 Business Policy and Implementation in Organization

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

### 3.2 Managerial Functions and Policy Implementation

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

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

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

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

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

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

### 3.3 Business Policy – Issues, Challenges and Solutions

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

The implementation policy depends on the type of organization and the service rendered. Policy comes to form one of the structure of organization. It follows procedures, rules, programmes, budgets etc. All these gear to give policy reliable focus. Every organization including business

requires a policy as a decision rule to guide the activities and performance of the business to eventually achieve goals and objective of the organization.

### **Policy Implementation**

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

### **Further Resources**

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

## **4.0 CONCLUSION**

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

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



## 5.0 SUMMARY

In this unit, we have

- discussed business policy as they relate to different organisations;
- Enumerated the function of Business policy in management;
- Discussed the responsibility of Business policy in management.

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

## 6.0 TUTOR MARKED ASSIGNMENT

1. In what way(s) does the function of management relate to implementation of business policy in an organisation?
2. Policy comes to form one of the structures of organization. Discuss

## 7.0 REFERENCES/FURTHER READING

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## **MODULE 2 CORPORATE STRATEGY AND MANAGEMENT**

Unit 1	Corporate Strategy
Unit 2	Strategic Decision Making
Unit 3	Process of Strategic Management
Unit 4	Overview of Strategic Management
Unit 5	Developments of Strategic Management

### **UNIT 1: CORPORATE STRATEGY**

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### **1.0 INTRODUCTION**

You are welcome to the second module of this course.

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

We would start with a discussion on the concept of strategy, which is undoubtedly the most significant concept in business policy and strategic management. Then, we present a set of

definitions of strategy given by the authorities in the field and derive the main characteristics of strategy.

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

## **2.0 OBJECTIVES**

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

- explain the meaning of and the need for strategy
- explain the scope of strategy
- list and discuss criteria and steps involved in formulation of strategy
- mention and discuss the influences on strategy choice
- mention and explain the inherent advantages of strategy formulation
- Identify and explain various forms of organizational strategy.

## **3.0 MAIN CONTENT**

### **3.1 Corporate Strategy**

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

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

- Rollatainers, after divesting a major stake in ITC, is contemplating an expansion strategy. The combined turnover of Rollatainers and ITC’s packaging division, which is Rs 500 crore at present, is likely to touch Rs 1000 crore in the next five years.
- TTK Prestige is part of the diversified TTK Group. It is focusing on its core strength of manufacturing and marketing of kitchenware. It has a US-based subsidiary Mantra Inc which markets multicooking systems.
- Singer India, which has been associated with sewing machines, is entering the white goods and colour television market as part of its diversification strategy.
- Birla Trans-Asia Carpets is a sick unit from the Yash Birla group. As it is faced with excessive manpower and high interest costs, it is attempting a turnaround strategy by retrenching three-fourth of its employees, importing synthetic carpets and tiles, and exporting to the US carpet markets.

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

The above illustrations show how different companies reacted to their environment. In so doing, they adopted a course of action which seemed to be appropriate to them. Such a course of action may involve actions like expansion, diversification, focus, turnaround, stability or divestment.

When an old established company which has been profitable in the past starts facing new threats in the environment – like the emergence of competitors – it has to rethink the course of action it had been following. With such rethinking, new ways are devised to counter the threats. Alternatively, some new opportunities may emerge in the environment which had not been there in the past. In order to take advantage of these opportunities the company reassesses the approaches it had been following and changes its courses of action. These courses of action are what we may call strategies.

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

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

- The application of the concept of strategy to real-life situations may tend to oversimplify things. Actual situations are complex and contain several variables that are not amenable to structuring. The concept of strategy tends to distort reality and, as an abstraction of reality, it is anything but a true reflection of the actual situation. Of course, this limitation is not unique to strategy. It is present in any situation where modelling has to be resorted to in order to provide a structured understanding of reality. Just as several mathematical formulations start with a phrase that indicates that a certain number of variables are assumed to be constant.
- The application of the concept of strategy commits an organisation to a predetermined course of action. While this is essential to chart out the path ahead, it can often blind an organisation to emergent situations as it goes along the path. Rigidity can lead to an attitude of finality with regard to those situations that are actually not known at the time of starting

the journey. It might be better, thus, to move slowly, one step at a time, and keep in mind the maxim: look before you leap. One might say that this may already be known to perspective managers. Yet there is no harm in being cautious. ‘Discretion is certainly the better part of valour’.

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

### **3.2 Defining and Explaining Strategy**

Management is an art as well as science (Kazmi, 2006). Many of the concepts used in building management theory have been derived from practice. Unlike the pure sciences which have their foundation in experimental research, management studies draw upon the practical experiences of managers in defining concepts. Business policy is rooted in the practice of management and has passed through different phases before taking its shape in the present form of strategic management. One of the earliest contributors to this young subject was Alfred D. Chandler.

#### **3.2.1 Alfred D. Chandler (1962)**

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

- Determination of basic long-term goals and objectives;
- Adoption of courses of action to achieve these objectives; and
- Allocation of resources necessary for adopting the courses of action.

#### **3.2.2 Kenneth Andrews (1965)**

Andrews belong to the group of professors at Harvard Business School who were responsible for developing the subject of business policy and its dissemination through the case study method. Andrew defines strategy as: “The pattern of objectives, purposes, goals, and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be” (Andrews, 1965 cited in Kazmi, 2006). This definition refers to the ‘business definition’, which is a way of stating the current and desired future position of a company, and the objectives, purposes, goals, major policies and plans required to take the company from where it is to where it wants to be.

#### **3.2.3 Igor Ansoff (1965)**

Professor Ansoff is a well-known authority in the field of strategic management and has been a prolific writer for the last three decades. In one of his earlier books, *Corporate Strategy* (1965), he explained the concept of strategy as: “The common thread among the organisation’s activities

and product-markets ....that defines the essential nature of business that the organisation was or planned to be in future” (Ansoff, 1965).

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

### **3.2.4 William F. Glueck (1972)**

Another well-known author in the area of strategic management was Glueck, who was a Distinguished Professor of Management at the University of Georgia till his death in 1980. He defined strategy precisely as: “A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved” (Glueck, 1972). The three adjectives which Glueck has used to define a plan make the definition quite adequate. ‘Unified’ means that the plan joins all the parts of an enterprise together; ‘comprehensive’ means it covers all the major aspects of the enterprise, and ‘integrated’ means that all parts of the plan are compatible with each other.

### **3.2.5 Henry Mintzberg (1987)**

Mintzberg of McGill University is a noted management thinker and prolific writer on strategy. He advocates the idea that strategies are not always the outcome of rational planning. They can emerge from what an organisation does without any formal plan. He defines strategy as: “a pattern in a stream of decisions and actions” (Mintzberg, 1987). Mintzberg distinguishes between intended strategies and emergent strategies. Intended strategies refer to the plans that managers develop, while emergent strategies are the actions that actually take place over a period of time. In this manner, an organisation may start with a deliberate design of strategy and end up with another form of strategy that is actually realized.

### **3.2.6 Michael E. Porter (1996)**

Michael Porter of the Harvard Business School has made invaluable contributions to the development of the concept of strategy. His ideas on competitive advantage, the five-forces model, generic strategies, and value chain are quite popular. He opines that the core of general management is strategy, which he elaborates as: “....developing and communicating the company’s unique position, making trade-offs, and forging fit among activities” (Porter, 1996).

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

It must be noted that the different approaches referred to above to define strategy cover nearly a quarter of a century. This is an indication of what a complex concept strategy is and how various authors have attempted to define it. To put it in another way, there are as many definitions as

there are experts. The same authors may change the approach they had earlier adopted. Witness what Ansoff said 19 years later in 1984 (his earlier definition is of 1965): “Basically, a strategy is a set of decision –making rules for the guidance of organizational behavior” (Porter, 1996).

We have tried to give you an assortment of definitions out of the many available. Rather than an assortment, it may be more appropriate to call this section a bouquet of definitions and explanations of strategy. Each flower (definition) is resplendent by itself yet contributes synergistically to the overall beauty of the bouquet. The field of strategy is indeed fascinating, prompting an author to give the title – “What is Strategy and does it matter?” – to his thought-provoking book (Porter, 1996). Drucker goes to the extent of terming the strategy of an organisation as its “theory of the business” (Porter, 1996).

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

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

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

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

### **3.3 Levels at which Strategy Operates**

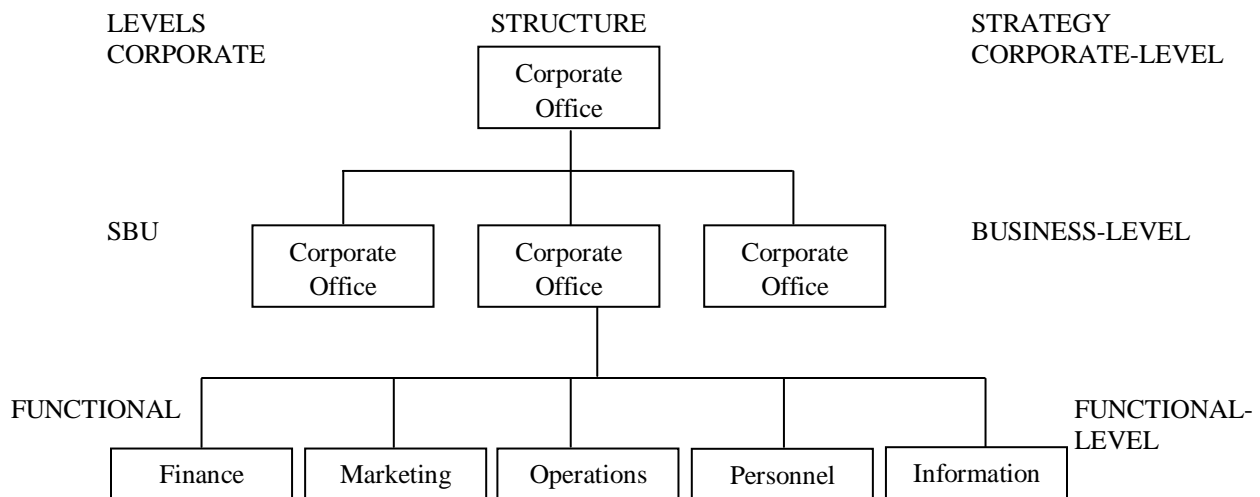
The definitions of strategy, varied in nature, depth and coverage, offer us a glimpse of the complexity involved in understanding this daunting, yet interesting and challenging, concept. In this section we shall learn about the different levels at which strategy can be formulated.

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

- Hindustan Levers, the venerable multinational subsidiary, is in several businesses, such as animal feeds, beverages, oils and dairy fat, soaps and detergents, and specialty chemicals.
- Sundaram Clayton and its associate companies – Harita Grammar, Sundaram Fasteners, TVS Suzuki, TVS Electronics and TVS Whirlpool – operate in technology areas as diverse as brake and signal systems for railways, two-wheelers, computer peripherals, and electrical appliances.
- Balmer Lawrie, a public sector company, has a diversified portfolio of businesses in the fields of cargo, chemicals, containerization, lubricants, packaging, project consultancy, tea exports, and international business.
- The Flowmore group of companies manufactures pumps for irrigation, a range of engineering products, turbines, castings, specialized conversion equipments, and has recently started the manufacture of polyester films. It also offers engineering consultancy services for power projects and environmental engineering.

For many companies, such as those illustrated above, a single strategy is not only inadequate but also inappropriate. The need is for multiple strategies at different levels. In order to segregate different units or segments, each performing a common set of activities, many companies are organized on the basis of operating divisions or, simply, divisions. These divisions may also be known as profit centres or strategic business units (SBUs). An SBU as defined by Sharplin (Sharplin, 1985 quoted in Kazmi, 2006), is “any part of a business organisation which is treated separately for strategic management purpose” (Whittington, 1993).

### Different Levels of Strategy



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

Generally, SBUs are involved in a single line of business. A complementary concept to the SBU, valid for the external environment of a company, is a strategic business area (SBA). It is defined as “a distinctive segment of the environment in which the firms does (or may want to do) business” (Drucker in Kazmi, 2006).



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

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

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

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

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

Some strategies are also required to be set at lower levels. One step down the functional level, a company could set its operations-level strategies. Each functional area could have a number of operational strategies. These would deal with a highly specific and narrowly defined area. For instance, a functional strategy at the marketing level could be subdivided into sales, distribution, pricing, product and advertising strategies. Activities in each of the operational areas of marketing, whether sales or advertising, could be performed in such a way that they contribute to the functional objectives of the marketing department. The functional strategy of marketing is interlinked with those of the finance, production and personnel departments. All these functional strategies operate under the SBU-level. Different SBU-level strategies are put into action under the corporate-level strategy which, in turn, is derived from the societal-level strategy of a corporation. Ideally, a perfect match is envisaged among all strategies at different levels so that

a corporation, its constituent companies, their different SBUs, the functions in each SBU, and various operational areas in every functional area are synchronized. Perceived in this manner, an organisation moves ahead towards its objectives and mission like a well-oiled piece of machinery. Such an ideal, though extremely difficult – if not impossible of attainment – is the intent of strategic management.

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

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

### **3.4 Forms of Organizational Strategy**

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

#### **3.4.1 Corporate Strategy**

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

Corporate strategy also involves marshalling the available resources for definite missions and planning alternative strategies in anticipation of changing contingencies and creating flexible conditions in structure and employee attitudes favourable towards achieving the corporate goal. The corporate strategy defined a company’s general posture in the broad economy. The business strategy outlined the competitive posture of its operations within the domestic movie exhibition industry. But to increase the likelihood that these strategies will be successful, more specific guidelines are needed for the business’s operating components.

#### **3.4.2 Business Strategy:**

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

### **3.4.3 Operational Strategy:**

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

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

### **3.4.4 Functional Strategy**

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

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

### **3.4.5 Grand Strategy**

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

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

## **4.0 CONCLUSION**

Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of relevant courses of action and the allocation of resources to pursue and achieve these goals. Formulation of strategy goes through a process while some factors needed to be taken into

consideration in the course of formulating strategy. There are reasons and advantages which necessitate the use of strategy, and strategy assumes various forms such as corporate strategy, business strategy, operational strategy, functional strategy and grand strategy.

## **6.0 SUMMARY**

In this unit, we have discussed the following topics: Corporate Strategy; Defining and explaining strategy; Levels of Strategy in Organisations and Forms of Organizational Strategy.

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

## **6.0 TUTOR-MARKED ASSIGNMENT**

- 1) Mention and discuss the various forms of organizational strategy.
- 2) Explain the meaning of and the need for strategy

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 2: STRATEGIC DECISION MAKING**

### **TABLE OF CONTENTS**

1.0	Introduction
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### **1.0 INTRODUCTION**

In the last unit, we discussed the following topics: Corporate Strategy and Defining and explaining strategy; Levels of Strategy in Organisations and Forms of Organizational Strategy.

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

### **2.0 OBJECTIVES**

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

- Explain strategic decision making;
- Discuss issues in strategic decision-making; and
- Enumerate and discuss the various schools of thought on strategic formation.

### **3.0 MAIN CONTENT**

#### **3.1 Strategic Decision-Making**

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

##### **3.1.1 Conventional Decision-making**

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

- objectives to be achieved are determined;

- alternative ways of achieving the objectives are identified;
- each alternative is evaluated in terms of its objective-achieving ability; and
- the best alternative is chosen.

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

### 3.1.2 Strategic Decision-making

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

#### Strategic Decision-making at Zodiac Clothing:

Zodiac, with its 'classic business statement', is one of the strongest brands in shirts and ties in India. Anees Noorani, the managing Director of Zodiac Clothing Company, answered an interviewer's queries on the prospects for his company and the intended strategy.

Zodiac is aiming at a growth of 20 percent in the topline (premium) segment and 35 percent in the bottomline segment of branded garments. The reason for the strategic decision to set these objectives is that the Indian markets are now ready for branded garments. Foreign brands have made an entry into the market and retailing is on the rise. The company is perceived to have the necessary infrastructure in terms of manufacturing, distribution and logistics to take advantage of the emerging opportunities. From a dominant position in the export market it is now focusing on the domestic market.

Another significant strategic decision has been the company's reverse backward integration. This means that Zodiac no longer wants to produce fabric for its garments. It wishes to have the flexibility of outsourcing for a changing product mix dictated by fashion. Motivated by this logic, it has abandoned its plans for manufacturing cloth for its garments. Rather, it would like to extend its product range to producing branded trousers.

**Source:** Adapted from "We expect to grow at 20 percent", An interview, Business Standard (The Smart Investor), September 13, 1999, p. 16 (quoted in Kazmi, 2006)

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

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

### **3.2 Issues in Strategic Decision-making**

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

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

1. *Criteria for decision-making.* The process of decision-making requires objective-setting. These objectives serve as yardsticks to measure the efficiency and effectiveness of the decision-making process. In this way, objectives serve as the criteria for decision-making. There are three major viewpoints regarding setting criteria for decision-making:
  - (a) The first is the concept of maximization. It is based on the thinking of economists who consider objectives as those attributes which are set at the highest point. The behavior of the firm is oriented towards achieving these objectives and, in the process, maximising its returns.
  - (b) The second view is based on the concept of satisficing. This envisages setting objectives in such a manner that the firm can achieve them realistically through a process of optimization.
  - (c) The third viewpoint is that of the concept of incrementalism. According to this view, the behavior of a firm is complex and the process of decision-making, which includes objective-setting, is essentially a continually-evolving political consensus-building. Through such an approach, the firm moves towards its objectives in small, logical and incremental steps.

2. *Rationality in decision-making.* In the context of strategic decision-making, rationality means exercising a choice from among various alternative courses of action in such a way that it may lead to the achievement of the objectives in the best possible manner. Those economists who support the maximizing criterion consider a decision to be rational if it leads to profit maximization. Behaviourists, who are proponents of the satisfying concept, believe that rationality takes into account the constraints under which a decision-maker operates. Incrementalists are of the opinion that the achievement of objectives depends on the bargaining process between different interested coalition groups existing in an organisation, and therefore a rational decision-making process should take all these interest into consideration.
3. *Creativity in decision-making.* To be creative, a decision must be original and different. A creative strategic decision-making process may considerably affect the search for alternatives where novel and untried means may be looked for and adopted to achieve objectives in an exceptional manner. Creativity as a trait is normally associated with individuals and is sought to be developed through techniques such as brainstorming. You may recall that one of the attitudinal objectives of a business policy course is to develop the ability to go beyond and think, which, in other words, is using creativity in strategic decision-making.
4. *Variability in decision-making.* It is a common observation that given an identical set of conditions two decision-makers may reach totally different conclusions. This often happens during case discussions too. a case may be analysed differently by individuals in a group of learners, and, depending on the differing perceptions of the problem and its solutions, they may arrive at different conclusions. This happens due to variability in decision-making. It also suggests that every situation is unique and there are no set formulas that can be applied in strategic decision-making.
5. *Person-related factors in decision-making.* There are a host of person-related factors that play a role in decision-making. Some of these are age, education, intelligence, personal values, cognitive styles, risk-taking, and creativity. Attributes like age, knowledge, intelligence, risk-taking ability, and creativity are generally supposed to play a positive role in strategic decision-making. A cognitive style which enables a person to assimilate a lot of information, interrelate complex variables, and develop an integrated view of the situation is specially helpful in strategic decision-making. Values, as enduring prescriptive beliefs, are culture-specific and important in matters of social responsibility and business ethics – issues that are important to strategic management.
6. *Individual versus group decision-making.* Owing to person-related factors, there are individual differences among decision-makers. These differences matter in strategic decision-making. An organisation, as it possesses special characteristics, operates in a unique environment. Decision-makers who understand an organisation's characteristics and its environment are in a vantage position to undertake strategic decision-making. Individuals such as chief executives or entrepreneurs play the most important role as strategic decision-makers. But as organisations become bigger and more complex, and face an increasingly turbulent environment, individuals come together in groups for the purpose of strategic



decision-making. We will be referring to many such groups when we deal with the role of strategists in the last section of this unit.

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

### **3.3 Schools of Thought on Strategy Formation**

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

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

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

#### ***The Prescriptive Schools***

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

#### ***The Descriptive Schools***

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

#### ***The Integrative School***

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

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

1. *The design school*, which perceives strategy formation as a process of conception developed mainly in the late 1950s and 60s. Under this school, strategy is seen as something unique

which is in the form of a planned perspective. The CEO as the main architect guides the process of strategy formation. The process of strategy formation is simple and informal and based on judgement and thinking. The major contributors to the design school are Selznick (1957) and Andrews (1965).

2. *The planning school*, which perceives strategy formation as a formal process developed mainly in the 1960s. Under this school, strategy is seen as a plan divided into substrategies and programmes. The lead role in strategy formation is played by the planners. The process of strategy formation is formal and deliberate. The major contributor to the planning school is Ansoff (1965).
3. *The positioning school*, which perceives strategy formation as an analytical process developed mainly in the 1970s and 80s. Under this school, strategy is seen as a set of planned generic positions chosen by a firm on the basis of an analysis of the competition and the industry in which they operate. The lead role in strategy formation is played by the analysts. The process of strategy formation is analytical, systematic and deliberate. The major contributors to the positioning school are Schendel and Hatten (1970s), Porter (1980s).
4. *The entrepreneurial school*, which perceives strategy formation as a visionary process developed mainly in the 1950s. Under this school, strategy is seen as the outcome of a personal and unique perspective often aimed at the creation of a niche. The lead role in strategy formation is played by the entrepreneur/leader. The process of strategy formation is intuitive, visionary, and largely deliberate. The major contributors to the entrepreneurial school are Schumpeter (1950s), Cole (1959) and several others, most of whom are economists.
5. *The cognitive school*, which perceives strategy formation as a mental process, developed mainly in the 1940s and 50s. Under this school strategy is seen as an individual concept that is the outcome of a mental perspective. The lead role in strategy formation is played by the thinker-philosopher. The process of strategy formation is mental and emergent. The major contributors to the cognitive school are Simon (1947 and 1957), and March and Simon (1958).
6. *The learning school*, which perceives strategy formation as an emergent process has had a legacy from the 1950s through the 1990s. Under this school, strategy is seen as a pattern that is unique. The lead role is played by the learner within the organisation whoever that might be. The process of strategy formation is emergent, informal and messy. The major contributors to the learning school are Lindblom (1959, 1960), Cyert and March (1963), Weick (1969), Quinn (1980), Senge (1990), and Prahalad and Hamel (early 1990s).
7. *The power school*, which perceives strategy formation as a negotiation process, developed mainly during the 1970s and 80s. Under this school, strategy is seen as a political and cooperative process or pattern. The lead role in strategy formation is played by any person in power (at the micro level) and the whole organization (at the macro level). The process of strategy formation is messy, consisting of conflict, aggression and cooperation. At the micro level the process of strategy formation is emergent while at the macro level it is deliberate.

The major contributors to the power school are Allison (1971), Pfeffer and Salancik (1978), and Astley (1984).

8. *The cultural school*, which perceives strategy formation as a collective process developed mainly in the 1960s. Under this school, strategy is seen as a unique and collective perspective. The lead role in strategy formation is played by the collectivity displayed within the organisation. The process of strategy formation is ideological, constrained, collective and deliberate. The major contributors to the cultural school are Rhenman and Normann (late 1960s).
9. *The environmental school*, which perceives strategy formation as a reactive process, developed mainly in the late 190s and 70s. Under this school, strategy is seen as something generic occupying a specific position or niche in relation to the environment. The lead role in strategy formation is played by the environment as an entity. The process of strategy formation is passive and imposed, and hence, emergent. The major contributions to the environmental school are Hannan and Freeman (1977) and contingency theorists like Pugh et. al. (late 1970s).
10. *The configuration school*, which perceives strategy formation as a transformation process developed during the 1960s and 70s. Under this school, strategy is viewed in relation to a specific context and thus could be in a form that corresponds to any process visualized under any of the other nine schools. The lead role may be played by any actor identified in the other nine schools. The process of strategy formation is integrative, episodic and sequential. In addition, the process could incorporate the elements pointed out under the other nine schools of thought. The major contributors to the configuration school are Chandler (1962), Mintzberg and Miller (late 1970s), and Miles and Snow (1978).

#### **4.0 CONCLUSION**

The unit discussed all about the levels at which strategy operates. Here, you were told how strategies can be formulated at different levels in an organisation. We explored the nature of strategic decision-making by pointing out how it is similar to conventional decision-making and yet how it differs in its coverage, reach and depth. Ten schools of thought on strategy formulation have been reviewed to provide you with a panoramic view of this interesting subject. The schools are divided into three groups: the prescriptive school consists of the design planning, and positioning schools. The descriptive school consists of the entrepreneurial, cognitive, learning, power, cultural, and environment process schools. The integrative school includes the configuration school where strategy formation is a process of transformation.

#### **5.0 SUMMARY**

In this unit, we have defined and explained strategic decision making; discussed issues in strategic decision-making; and enumerated and discussed the various schools of thought on strategic formation.

In the next unit, you will learn strategic management.

## **6.0 TUTOR MARKED ASSIGNMENT**

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

## **7.0 REFERENCES/FURTHER READING**

Kazmi, C. (2006). Business Policy and Strategic Management, 15th Edition, New Delhi: Tata McGraw-Hill Publishing Company Limited.

## **UNIT 3      PROCESS OF STRATEGIC MANAGEMENT**

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### **1.0      INTRODUCTION**

In the last unit, we defined and explained strategic decision making; discussed issues in strategic decision-making; and enumerated and discussed the various schools of thought on strategic formation.

In this unit, you will learn strategic management, which is a newer and broader concept of managing organizations strategically. It takes into account all the aspects of managerial problems, the processes of solving them, and the many variables that operate in a problem-solving environment.

### **2.0      OBJECTIVES**

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

- define Strategic Management and discuss the Process of Strategic Management;
- list and explain the Phases in Strategic Management;
- enumerate and discuss the Elements in Strategic Management Process;
- state and discuss the Models in Strategic Management Process, and
- Explain the term “Strategists” and their Roles in Strategic Management.

### **3.0      MAIN CONTENT**

#### **3.1      The Process of Strategic Management**

In Unit 2 of module 1, we had described the historical evolution of business policy as a course of study and said that strategic management is the emerging discipline that forms the theoretical framework for business policy. Strategic decision-making is carried out through the process of

strategic management. Like the other terms in business policy, strategic management has also been defined and interpreted differently by various authors. There are also differences of opinion regarding the phases of the strategic management process and the elements they contain. In this section, we shall deal with four aspects: the way strategic management is defined, the different phases in the process of strategic management, the elements that this process contains; and lastly, the model of strategic management adopted.

### **3.2 Definitions of Strategic Management**

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

Hofer and others (1984) consider strategic management as “the process which deals with the fundamental organizational renewal and growth with the development of strategies, structures, and systems necessary to achieve such renewal and growth, and with the organizational systems needed to effectively manage the strategy formulation and implementation processes”.

Firstly, these authors include two sub-processes within the overall strategic management process. Through the formulation and implementation sub-processes strategies, structures, and systems are developed to achieve the objectives of organizational renewal and growth. Secondly, the strategic management process is also considered as the managing of the organizational systems which are required for strategic management. For instance, the administrative arrangements necessary for the formulation and implementation of strategies would also be included in the process of strategic management.

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

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

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

The last definition, that we quote next, is of a recent origin and emphasizes the elements in the process of strategic management. It states that the main end is the satisfaction of stakeholders of the organisation. The stakeholders are groups or individuals who can significantly affect or be

affected by an organisation's activities. Harrison and St. John (1998) define strategic management as “the process through which organisations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to help achieve established goals, and execute these strategies, all in an effort to satisfy key organizational stakeholders”.

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

### Self-Assessment exercise 1

1. Provide a brief and clear explanation of the concept of strategy.
2. What are the benefits of the concept of strategy? What are its pitfalls?

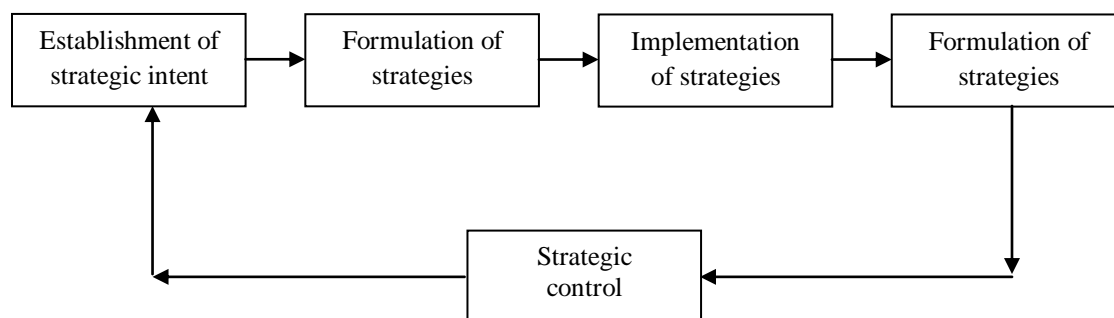
### 3.3 Phases in Strategic Management

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

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

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

Figure showing phases in the Strategic Management Process:



However, in practice, the different phases of strategic management may not be clearly differentiable from each other. In fact, we prefer to call them phases rather than stages or steps

(as some authors do) to signify that the different phases, at the interface, may exist simultaneously, and that the strategic activities gradually emerge in one phase to merge into the following phase. The feedback arising from each of the successive phases is meant to revise, reformulate or redefine the previous phases, if necessary. Such a representation yields a dynamic model of strategic management which takes into account the emerging factors as the process moves on.

### **3.4 Elements in Strategic Management Process**

Each phase of the strategic management process consists of a number of elements which are discrete and identifiable activities performed in logical and sequential steps. As many as twenty different elements could be identified in the models provided by various authors. From the literature on business policy, we note that most or all of the following activities are considered as part of the strategic management process.

**(1) *Establishing the hierarchy of strategic intent:***

- (a) creating and communicating a vision;
- (b) designing a mission statement;
- (c) defining the business;
- (d) setting objectives;

**(2) *Formulation of strategies:***

- (e) performing environmental appraisal;
- (f) doing organizational appraisal;
- (g) considering corporate-level strategies;
- (h) considering business-level strategies;
- (i) undertaking strategic analysis;
- (j) exercising strategic choice;
- (k) formulating strategies;
- (l) preparing a strategic plan;

**(3) *Implementation of strategies:***

- (m) activating strategies;
- (n) designing structures and systems;
- (o) managing behavioural implementation;
- (p) managing functional implementation;
- (q) operationalising strategies;

**(4) *Performing strategic evaluation and control:***

- (r) performing strategic evaluation;
- (s) exercising strategic control; and
- (t) reformulating strategies.

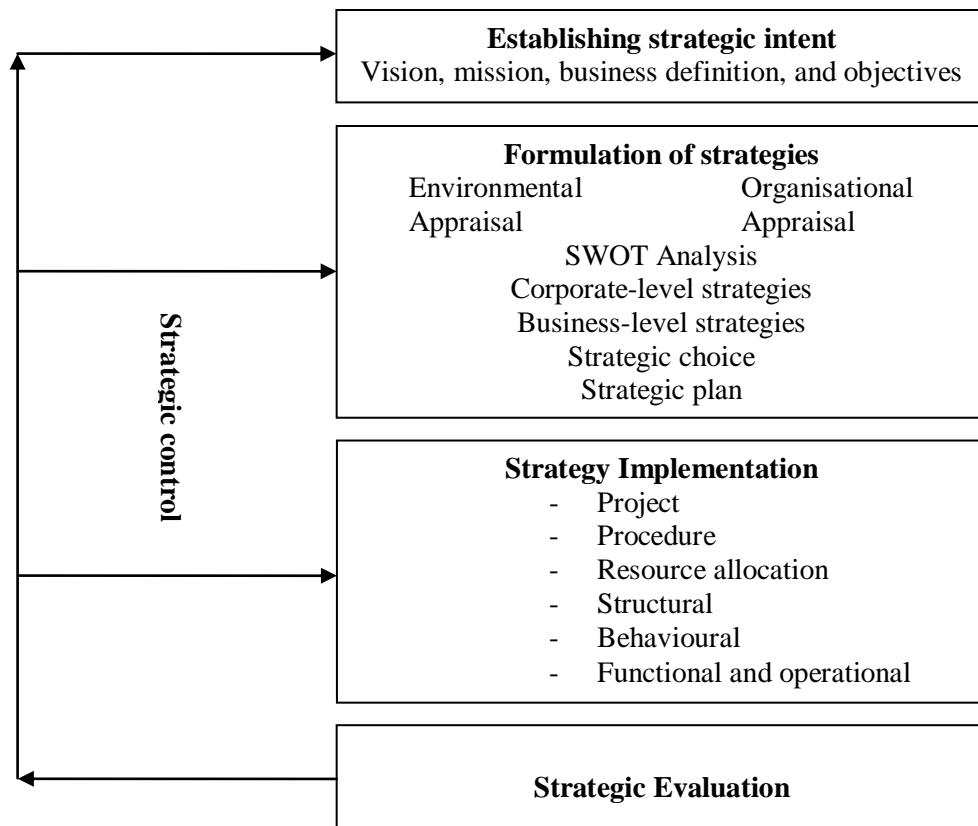
### **3.5 Models in Strategic Management Process**



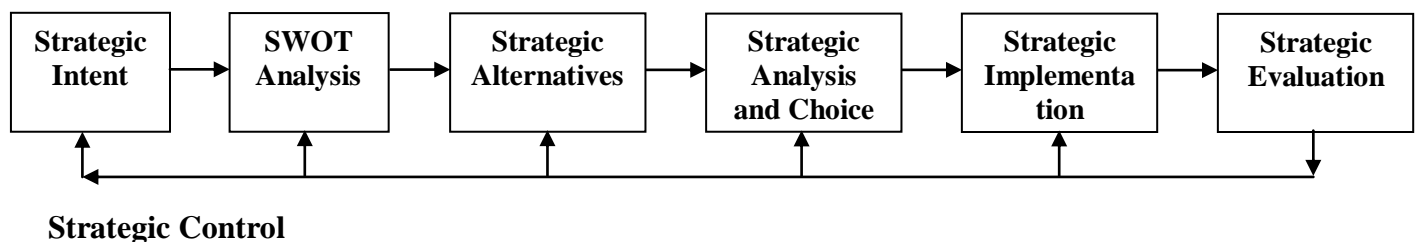
The process of strategic management is depicted through a model which consists of different phases, each phase having a number of elements. As earlier stated, most authors agree on dividing the strategic management process into four phases consisting of about 20 elements. The models of strategic management that we have adopted in this course are provided in figures 1 and 2 below:

In the first figure, we provide a vertical representation of a comprehensive model of the strategic management process. In second figure, we depict the process laterally and provide a working model. Our purpose in additionally giving a working model, devoid of the complexity observed in the comprehensive model, is to assist you in remembering and recalling it with ease. The remainder of this discourse will deal with the various elements of the strategic management process. Here, we present a bird's-eye view of the different elements of the process.

**Figure 1 Comprehensive Model of Strategic Management Process**



**Figure 2 Working Model of Strategic Management Process**



## Self-Assessment Exercise 2

State the similarities and differences in the roles of the following:

- (a) Board of Director
  - (b) Chief Executives Officers
  - (c) Entrepreneurs.
- 
1. The hierarchy of strategic intent lays the foundation for the strategic management of any organisation. In this hierarchy, the vision, mission, business definition, and objectives are established. The strategic intent makes clear what an organisation stands for. The element of vision in the hierarchy of strategic intent serves the purpose of stating what an organisation wishes to achieve in the long run. The mission relates an organisation to society. The business definition explains the businesses of an organisation in terms of customer needs, customer groups, and alternative technologies. The objectives of an organisation state what is to be achieved in a given time period. These objectives then serve as yardsticks and benchmarks for measuring organisational performance.
  2. Environmental and organisational appraisal helps to find out the opportunities and threats operating in the environment and the strengths and weaknesses of an organisation in order to create a match between them. In such a manner, opportunities could be availed of and the impact of threats neutralized in order to capitalize on the organisational strengths and minimize the weaknesses.
  3. Strategic alternatives and choices are required for evolving alternative strategies out of the many possible options, and choosing the most appropriate strategy or strategies in the light of environmental opportunities and threats and corporate strengths and weaknesses. Strategies are chosen at the corporate-level and the business-level. The process used for choosing strategies involves strategic analysis and choice. The end result of this set of elements is a strategic plan which can be implemented.
  4. For the implementation of a strategy, the strategic plan is put into action through six sub-processes: project implementation, procedural implementation, resource allocation, structural implementation, behavioural implementation, and functional and operational implementation. Project implementation deals with setting up the organisation. Procedural implementation deals with different aspects of the regulatory framework within which the organisations have to operate. Resource allocation relates to the procurement and commitment of resources for implementation. The structural aspects of implementation deal with the designing of appropriate organisational structures and systems, and reorganizing to match the structure to the needs of the strategy. The behavioural aspects consider the leadership styles for implementing strategies and other issues like corporate culture, corporate politics and use of power, personal values and business ethics, and social responsibility. The functional aspects relate to the policies to be formulated in different functional areas. The operational implementation deals with the productivity, processes, people, and pace of implementing the strategies. The emphasis in the implementation phase of strategic management is on action.

5. The last phase of strategic evaluation appraises the implementation of strategies and measures organisational performance. The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategies may be reformulated, if necessary.

### **3.6 Strategists and their Role in Strategic Management**

Strategists are individuals or groups who are primarily involved in the formulation, implementation, and evaluation of strategy. In a limited sense, all managers are strategists. There are persons outside the organisation who are also involved in various aspects of strategic management. They too are referred to as strategists. We can identify nine strategists who, as individuals or in groups, are concerned with and play a role in strategic management. In this section, we shall describe the roles of these strategists.

#### **3.6.1 Role of Board of Directors**

The ultimate legal authority of an organisation vests in the board of directors. The owners of the organisation – shareholders, controlling agencies, the government, financial institutions, the holding company or the parent company – elect and appoint the directors on the board. The board is responsible to them for the governance of the organisation. As directors, the members of the board are responsible for providing guidance and establishing the directives according to which the managers of the organisation can operate. The board exercises authority according to the memorandum of association and articles of association of that company. Legally, they have to conform to the various provisions of the Companies and Allied Matters Act 1990. Apart from the legal framework, the board has to act according to the policies, rules, procedures, and conventions of the organisation.

In practice, however, there is a wide difference between the roles played by the board in various types of organisations. These differences may arise due to the ownership patterns in public and private sector companies. Even within these sectors there might be variations. Private sector companies which are family-owned differ from multinationals. Further, professionally-managed companies may differ from family-owned concerns.

By definition, the board is only required to direct. But many operational matters of vital significance, like technology collaborations, new product development, senior management appointments, and so on, may also be referred to the board. The directing functions of the board have certain formal and informal components (Chandler, 1962). Formally, the board is involved in reviewing and screening executive decisions in the light of their environmental, business, and organisational implications. Informally, the board seeks to direct the organisation's activities so that they are in concordance with the prevailing social, economic, and political milieu. Because the board is considered a vital link between the environment and the organisation, it usually does not concern itself with operational decision-making.

In strategic management, the role of the board is to guide the senior management in setting and accomplishing objectives, reviewing and evaluating organisational performance, and appointing senior executives. The function of the board is usually seen in terms of setting the strategic

direction, which involves establishing objectives and strategy, and subsequently monitoring and reviewing achieving (Andrews, 1973). However, there is no clarity regarding the exact role that the board should play in managing the affairs of an organisation. Much depends on the relative strength, in terms of the power wielded by the board and the chief executive. Where there is a high level of clarity regarding their respective roles, the relationship between the board and the chief executive is cordial and the functioning of the board is smooth. Where such clarity is low, problems do occur.

The role of the board of directors has come under intense scrutiny in recent times leading to the emergence of the issue of corporate governance, a system by which corporate entities are directed and controlled. This means the governance of a company by its board of directors. It relates to the functioning of the board of a company and the conducting of the business internally and externally.

Globally, there has been much concern about the biased and, sometimes outright unethical practices adopted by publicly-held companies. In the UK, the Cadbury Committee (1992) and the Hampel Committee (1995) have gone into various aspects, specially the financial matters, related to the governance of the companies by its board. The reports prepared by these committees have generated a lot of interest worldwide.

### **3.6.2 Role of Chief Executive Officer (CEO)**

The CEO is the most important strategist who is responsible for all aspects of strategic management, from, the formulation to the evaluation of strategy. The CEO is variously designated as the managing director, executive director, president or general manager in business organisations. As the chief strategist, the CEO plays a major role in strategic decision-making. Due to the importance accorded to the CEO many authors and researchers have attempted to define his/her roles, functions, and responsibilities. This is understandable since the CEO of an organisation plays the most crucial role in determining whether an organisation is successful or not. Peters and Waterman say that “associated with almost every excellent company was a strong leader (or two) who seemed to have had a lot to do with making the company excellent in the first place” (Ansoff, 1965).

The role of CEO in strategic management is the most important among the roles played by different strategists. He/she is the person who is chiefly responsible for the execution of those functions which are of strategic importance to the organisation. In other words, a CEO performs the strategic tasks – actions which are necessary to provide a direction to the organisation so that it achieves its purpose. He/she plays a pivotal role in setting the mission of the organisation, deciding the objectives and goals, formulating and implementing the strategy and, in general, seeing to it that the organisation does not deviate from its predetermined path designed to move it from the position it is in to where it wants to be. In short, a CEO is primarily responsible for the strategic management of the organisation.

Defining roles theoretically owing to the primacy attached to the chief executives, many authors, researchers and practitioners have attempted to study their roles. The different approaches that have been adopted to study the roles of CEOs may be broadly classified into two categories: the role-modelling approaches and the other approaches.

1. The role-modelling approaches attempt to describe the CEOs in terms of the different roles that they play in organisations. For instance, a CEO may be considered as:
  - chief architect of organisational purpose, strategist or planner,
  - organisational leader, organizer or organisation builder
  - chief administrator, implementor or coordinator; and
  - communicator of organisational purpose, motivator, personal leader or mentor.
2. The other approaches, directly or indirectly, attempt to describe the role of CEOs in terms of different parameters like:
  - how time is spent;
  - qualities and personalities;
  - communication styles;
  - demographic characteristic, such as, age, intelligence, education, functional background, experience, and so on;
  - managerial values;
  - managerial styles; and
  - environment.

### 3.6.3 Role of Entrepreneurs

According to Drucker, “the entrepreneur always searches for change, responds to it and exploits it as an opportunity” (Glueck, 1976). The entrepreneur has been usually considered as the person who starts a new business, is a venture capitalist, has a high level of achievement-motivation, and is naturally endowed with the qualities of enthusiasm, idealism, sense of purpose, and independence of thought and action. However, not all of these qualities are present in all entrepreneurs nor are these found uniformly. An entrepreneur may also demonstrate these qualities in different measures at different stages of life. Contrary to the generally accepted view of entrepreneurship, entrepreneurs are not to be found only in small businesses or new ventures. They are also present in established and large businesses, in service institutions, and also in the bureaucracy and government. By their very nature, entrepreneurs play a proactive role in strategic management. As initiators, they provide a sense of direction to the organisation, and set objectives and formulate strategies to achieve them. They are major implementers and evaluators of strategies. The strategic management process adopted by entrepreneurs is generally not based on a formal system, and usually they play all strategic roles simultaneously. Strategic decision-making is quick and the entrepreneurs generate a sense of purpose among their subordinates. The illustrations given below shall provide a glimpse of the entrepreneurs’ role as strategists.

#### *Profiles of three Successful CEOs*

S/N	Factors	CEO A	CEO B	CEO C
1.	The company	Manages a well-established public sector monopoly using process technology, faces problems of stagnating production levels, technological obsolescence and	Manages a private sector company based on mass production technology; is market leader and operates in a competitive environment,	Manages a highly diversified multi-plant, multi-product, multinational company; has high research potential; good marketing network; emphasis on teamwork and

		low worker morale.	worker productivity is high but organisational loyalty is low.	maintaining good organisational culture, seen as a slow-moving, risk-averse company.
2.	The Person:			
	(a) Personal traits	In the group of 60 – 65 years; has a technical background; has risen from the ranks; possesses qualities of intelligence and selflessness; is principled and a man of convictions; has regular habits; spends leisure time reading; neglect family life.	In the age group of 50 -55 years; has technical and managerial background; comes from a business family; possesses qualities of foresight, determination, openness, honesty and fairness, has high aspirations, is principled, impatient, drives himself and others too hard, unforgiving, dedicated to family but finds little time for it.	In the age group of 50 – 55 years; has a scientific background; comes from middle class family, simple and modest, family man; possesses qualities of honesty and fairness; travels frequently; keeps in touch with the environment; publicity-shy; has a deep sense of patriotism and a philosophical attitude towards life.
	(b) Managerial qualities	Could be described as a motivator, leader, communicator, visionary and institution builder, is able to create rapport with the government; successful in managing interface between his company and concerned bureaucrats and politicians.	Quick decision-maker; has high business acumen; is an effective and dedicated leader; does clear thinking and has an eye for detail; is influential in government circles.	Adopts a scientific-rational approach, professional; keeps in touch with market conditions; maintains good relations with peers and subordinates; believes in delegation; has good rapport with government.
	(c) Pre-dominant management style	Motivational style; effectively manages change; believes in open communication and environment; adopts a systematic planned approach to strategic business thinking.	Believes in centralized decision-making; does strategic planning personally; closely supervises operational areas.	Professional style; believes in people and has faith in subordinates; maintains close touch with company; believes in continuity; adopts stability approach in strategy formulation.

Source: Based on Azhar Kazmi, Monograph on Roles and Responsibilities of Chief Executives (Aligarh: Department of Business Administration, Aligarh Muslim University, Aligarh, 1988).

- K. C. Raghunathan, managing director of SIP Resins Limited, and K C Sukumar, joint managing director are brothers who moved from their traditional family businesses of construction, transport, money lending, and so on to the manufacture of PVC resins. Quick to react to a business opportunity (they got the idea while on a visit to an exhibition), they set up a small-scale PVC resin compounding unit after winding up their family business. Overcoming many hurdles in production and marketing, these two entrepreneurs finally succeeded in creating a 25 percent share in a market dominated by a multinational, Hindustan Ciba-Giegy Limited by 1986 – 87. When the turnover crossed Rs 6 crores, they decided to go public in order to finance their future expansion plans.
- K. V. Kamath, CEO of ICICI, who had earlier worked as a leasing specialist with the Asian Development Bank (ADB) was the head of a small team engaged in the formulation and implementation of a long-range strategic plan at the ICICI. As a part of the new directions provided by N. Vaghul, chairman and managing director of ICICI, Kamath played an active role by taking a number of strategic initiatives and identifying new businesses in his position as the Deputy General Manager for corporate planning and policy.
- In the traditional field of banking where there is little scope for innovation and entrepreneurship, S. Kumarasundaram, as the chairman of the Bank of Madura Limited,, and

after his death in 1986, the new chairman, S.V. Shanmugavadivelu, provide an excellent example of the role of entrepreneur as strategists. They were not entrepreneurs in the generally accepted sense, asw these persons headed a bank which had been set up in 1943. They were responsible for providing a sense of direction, setting long-term strategies, improving systems and customer service, consolidation of position, organizational restructuring, and demarcating decision-making authority at various levels.

- Kiran Mazumdar, a young entrepreneur, set up an export-oriented unit manufacturing a range of enzymes. As an expert in brewing technology, Mazumdur entered the field of biotechnology after experiencing problems in getting a job. Later, she set up another plant for manufacturing two new enzymes created by her own research and development (R&D) department. As managing director, Mazumdar was actively involved in all aspects of policy formulation and implementation for her companies.

### **3.6.4 Role of Senior Management**

The senior (or top) management consists of managers at the highest level of the managerial hierarchy. Starting from the chief executive to the level of functional or profit-centre heads, these managers are involved in various aspects of strategic management. Some of the members of the senior management act as directors on the board usually on a rotational basis. All of them serve on different top-level committees set up by the board to look after matters of strategic importance and other policy issues such as: policy formulation, policy implementation, policy evaluation, and new product development. On the whole, senior managers perform a variety of roles by assisting the board and the chief executive in the formulation, implementation, and evaluation of strategy. Occasionally, they come together in the form of different types of committees, task forces, work groups, think tanks, management teams, and so forth, to play a very important role in strategic management. One may observe how senior managers act as strategists from the examples given below.

- Strategic planning at MRF Limited used senior management expertise by dividing them into five groups dealing with products and markets, environment, technology, resources, and manpower. Each group had a leader who helped to prepare position papers for presentation to the board. The executive directors in the company were actively involved in SWOT analysis through the help of managers and assistant managers.
- At Voltas, the implementation of strategies and plans was done through a corporate executive committee headed by the president and consisting of senior vice-presidents and vice-presidents from different functional areas.
- In family-owned concerns, the manner in which senior managers are involved in strategic management varies. Where these managers are family members, they constitute an informal family council, as in Lohia Machines of the Singhanian group. The professional managers at senior levels may be involved in the implementation of strategies as in the case of Arvind Mills of the Lalbhai group. Others like the Mahindra group have provided a great deal of autonomy to their senior executives in all aspects of strategic management.
- In the early 1970s, under the chairmanship of R.K. Talwar, the State Bank of India (SBI) realized the importance of decentralized planning. The bank's central office at Bombay

exercised strategic control and generated broad policy guidelines. The general managers of planning department at 13 local head offices had development managers in charge of different market segments. Lower down in the hierarchy, at the regional office levels, development officers were in charge of business planning for industry and agriculture.

### **3.6.5 Role of Corporate Planning Staff**

David Hussey has enlisted the many and varied principal responsibilities of corporate planners (Hessey, 1974). Essentially, the corporate-planning staff plays a supporting role in strategic management. It assists the management in all aspects of strategy formulation, implementation and evaluation. Besides this, they are responsible for the preparation and communication of strategic plans, and for conducting special studies and research pertaining to strategic management. It is important to note that the corporate planning department is not responsible for strategic management and usually does not initiate the process on its own. By providing administrative support, it fulfills its functions of assisting the introduction, working, and maintenance of the strategic management system.

### **3.6.6 Role of Consultants**

Many organisations which do not have a corporate planning department owing to reasons like small size, infrequent requirements, financial constraints, and so on, take the help of external consultants in strategic management. These consultants may be individuals, academicians or consultancy companies specializing in strategic management activities. According to the Management Consultants Association of India, management consultancy is “a professional service performed by specially trained and experienced persons to advise and assist managers and administrators to improve their performance and effectiveness and that of their organisation” (Drucker, 1985). Among the many functions that management consultants perform, corporate strategy and planning is one of the important services rendered. The main advantages of hiring consultants are: getting an unbiased and objective opinion from a knowledgeable outsider, cost-effectiveness, and the availability of specialists’ skills. According to a senior consultant of a large consultancy firm, the trend is that “family-owned companies and the public sector are relying moiré heavily on consultancy services than the multinationals”. There are many consultancy organisations, large and small, that offer consultancy services in the area of strategic management in India. Instances of companies seeking the help of consultants in various strategic exercises such as diversification, restructuring, and so on, are legion.

Besides, the Indian consultancy firms, such as, A.F. Ferguson, S.B. Billimoria and several others, now there are many foreign consultancy firms operating in India. Some of the better-known consultancy firms and the services they offer are: McKinsey and Company, which specializes in offering consultancy in the areas of fundamental change management and strategic visioning; Anderson Consulting, which is in business restructuring, and infotech and systems; Boston Consulting that helps in building competitive advantage; and KPMG Peat Marwick that is in strategic financial management and feasibility studies for strategic implementation. It should be noted that consultants do not perform strategic management; they only assist the organisations and their managers in strategic management by working on specific, time-bound consultancy assignments.



### **3.6.7 Role of Middle-level Managers**

The major functions of middle-level managers relate to operational matters and, therefore, they rarely play an active role in strategic management. They may, at best, be involved as ‘sounding boards’ for departmental plans, as implementers of the decisions taken above, followers of policy guidelines, and passive receivers of communication about functional strategic plans. As they are basically involved in the implementation of functional strategies, the middle-level managers are rarely employed for any other purpose in strategic management. This does not, however, preclude the possibility of using their expertise. Many of the examples that we have provided in the previous sub-sections show that managers and assistant managers can also contribute to the generation of ideas, the development of strategic alternatives, the refinement of business, functional and development plans, target-setting at departmental levels, and for various other purposes. The importance of the middle management cadres lies in the fact that they form the catchment areas for developing future strategists for the organisation.

### **3.6.8 Role of Executive Assistant**

The emergence of executive assistants in the managerial hierarchy is a relatively recent phenomenon. An executive assistant is a person who assists the chief executive in the performance of his duties in various ways. These could be: to assist the chief executive in data collection and analysis, suggesting alternatives where decisions are required, preparing briefs of various proposals, projects and reports, helping in public relations and liaison functions, coordinating activities with the internal staff and outsiders, and acting as a filter for the information coming from different sources. Among these “the most important and what one manager labels the ‘bread and butter role’ of EA (executive assistants) could be that of corporate planners” (Business India, 1986). The reason being that the increasing complexity of business and strategic decision-making has led to a situation where “it is the function of the executive assistant to monitor the changing context and evolve strategies in tandem with senior management”. But in companies where a corporate planning department exists, this function is not assigned to the executive assistants. Since executive assistants assist the chief executive they help to optimize their time utilization. In terms of skills and attitudes, the requirements for an executive assistant include a generalist’s orientation, a few years’ line experience, exposure to different functional areas, excellent written and oral communication ability, and a pleasing personality. Generally the qualification required is an MBA or a CA. The position of an executive assistant offers a unique advantage to young managers as nowhere else can he or she gain a comprehensive view of the organisation, which can help in career planning and development, and rapid advancement to the senior levels of management

### **Self-Assessment Exercise 3**

1. List the elements in the strategic management process.
2. Identify the roles that CEOs play in strategic management.

## **4.0 CONCLUSION**

This unit has provided an overview of strategic management. This is an important unit because it attempts to make you understand the two supporting pillars of the course-the concept of strategy and the process of strategic management.

## **5.0 SUMMARY**

In this unit, we discussed the Process of Strategic Management, defined Strategic Management, listed and explained the Phases in Strategic Management, enumerated and discussed the Elements in Strategic Management Process, state and discussed the Models in Strategic Management Process and explained the term “Strategists” and their Roles in Strategic Management.

The next unit would trace the Overview of strategic management.

## **6.0 TUTOR MARKED ASSIGNMENT**

1. Each phase of the strategic management process consists of a number of elements which are discrete and identifiable activities performed in logical and sequential steps. Discuss this statement with relevant diagram.
2. Using appropriate diagram explain the phases in strategic management.

## **7.0 REFERENCES/FURTHER READING**

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

Chandler, A. (1962). Strategy and Structure – Chapters in the History of the American Enterprise (Cambridge, MA: MIT Press), p. 13.

## **UNIT 4      OVERVIEW OF STRATEGIC MANAGEMENT**

### **Table of Contents**

1.0	Introduction
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5.0	Summary
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### **1.0      INTRODUCTION**

In the last unit, we discussed the process of strategic management, defined strategic management, listed and explained the phases in strategic management, enumerated and discussed the elements in strategic management process, state and discussed the models in strategic management process and explained the term “strategists” and their roles in strategic management.

In this unit, we shall discuss the overview of strategic management.

### **2.0      OBJECTIVES**

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

- Define the Concepts/Approaches of Strategic Management;
- Discuss the Strategic Formation (Classical School);
- Explain what is meant by Strategic Evaluation and Choice;
- Define and explain the concepts Strategic Implementation and Control;
- Enumerate the reasons for Testing the Strategic Alignment of the Organisation;
- Define and discuss Strategic Hierarchy;

### **3.0      MAIN CONTENT**

Strategic management is a field that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments.<sup>[1]</sup> It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and

programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives. Recent studies and leading management theorists have advocated that strategy needs to start with stakeholders expectations and use a modified balanced scorecard which includes all stakeholders. 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 includes not only the management team but can also include the Board of Directors and other stakeholders of the organization. It depends on the organizational structure.

“Strategic management is an ongoing process that evaluates and controls 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 needs 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) <sup>[2]</sup> Strategic Management can also be defined as "the identification of the purpose of the organisation and the plans and actions to achieve the purpose. It is that set of managerial decisions and actions that determine the long term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organisation and its environment to achieve organisational goals."

### **3.1 Concepts/Approaches of Strategic Management**

Strategic management can depend upon the size of an organization, and the proclivity to change of its business environment. These points are highlighted below:

- A global/transnational organization may employ a more structured strategic management model, due to its size, scope of operations, and need to encompass stakeholder views and requirements.
- An SME (Small and Medium Enterprise) may employ an entrepreneurial approach. This is due to its comparatively smaller size and scope of operations, as well as possessing fewer resources. An SME's CEO (or general top management) may simply outline a mission, and pursue all activities under that mission.
- Whittington (2001) highlighted four approaches to strategic management, utilising different factors that organisations may face. These are the Classical, Processual, Evolutionary and Systemic approaches. Each paradigm is suited to specific environmental factors, of which global firms have faced over the past 4/5 decades.

- Mintzberg has stated there are prescriptive (what should be) and descriptive (what is) schools, in the sense that the prescriptive schools are "one size fits all" approaches designed to work as best practice methods, and the descriptive schools merely describe how corporate strategy is devised in given contexts.

It can be said that there is no overriding strategic managerial method, and that a number of differing variables must be taken into account, relative to how a corporate strategic plan is outlined. It can also be said to be a subjective and highly contextual process.

### **3.2 Strategy Formation (Classical School)**

The Classical School of strategic management is the most taught and deployed approach, of which most textbooks on the subject convey. The essential points of the approach are "where are we now?", "where do we want to be?" and "how do we get there?". It thus comprises an environmental analysis, a choice of available options, and determining a path for action and implementation. The initial task in strategic management is typically the compilation and dissemination of a mission statement. This document outlines, in essence, the *raison d'être* of an organization. Additionally, it specifies the scope of activities an organization wishes to undertake, coupled with the markets a firm wishes to serve.

Following the devising of a mission statement, a firm would then undertake an environmental scanning within the purview of the statement. Strategic formation 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 time-line; 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 statements (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.

### **3.3 Strategy Evaluation and Choice**

An environmental scan will highlight all pertinent aspects that affect an organization, whether external or sector/industry-based. Such an occurrence will also uncover areas to capitalise on, in addition to areas in which expansion may be unwise. These options, once identified, have to be vetted and screened by an organization. In addition to ascertaining the suitability, feasibility and acceptability of an option, the actual modes of progress have to be determined. These pertain to:

#### **(a) The basis of competition**

The basis of competition is the competitive advantage used or established by the strategy. This advantage may derive from how an organization produces its products, how it acts within a market relative to its competitors, or other aspects of the business. Specific approaches may include:

- Differentiation, in which a multitude of market segments are served on a mass scale. An example will include the array of products produced by Unilever, or Procter and Gamble, as both forge many of the world's noted consumer brands serving a variety of market segments.
- Cost-based, which often concerns economy pricing. An example would be dollar stores in the United States.
- Market segmentation (or niche), in which products are tailored for the unique needs of a niche market, as opposed to a mass market. An example is Aston Martin cars.

#### (b) **Mode of action**

Measuring the effectiveness of the organizational strategy, it's extremely important to conduct a SWOT analysis to figure out the internal strengths and weaknesses, and external opportunities and threats of the entity in business. This may require taking certain precautionary measures or even changing the entire strategy.

In corporate strategy, Johnson, Scholes and Whittington present a model in which strategic options are evaluated against three key success criteria:<sup>[3]</sup>

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

#### (c) **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 organization obtain economies of scale or economies of scope?
- Would it be suitable in terms of environment and capabilities?

Tools that can be used to evaluate suitability include:

- Ranking strategic options
- Decision trees

#### (d) **Feasibility**

Feasibility is concerned with whether the resources required to implement the strategy are available, can be developed or obtained. Resources include **funding, people, time, and information**. or cash flow in the market

Tools that can be used to evaluate feasibility include:

- cash flow analysis and forecasting
- break-even analysis

- resource deployment analysis

**(e) 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/stakeholders reactions.

- **Return** deals with the benefits expected by the stakeholders (financial and non-financial). For example, shareholders 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
- stakeholder mapping

**(f) The direction of action**

Strategic options may span a number of options, including:

- Growth-based (inspired by Igor Ansoff's matrix – market development, product development, market penetration, diversification)
- Consolidation
- Divestment
- Harvesting

The exact option depends on the given resources of the firm, in addition to the nature of products' performance in given industries. A generally well-performing organisation may seek to harvest (i.e. let a product die a natural death in the market) a product, if via portfolio analysis it was performing poorly comparative to others in the market.

Additionally, the exact means of implementing a strategy needs to be considered. These points range from:

- Strategic alliances
- Capital Expenditures (CAPEX)
- Internal development (,i.e. utilising one's own strategic capability in a given course of action)
- M&A (Mergers and Acquisitions)

The chosen option in this context is dependent on the strategic capabilities of a firm. A company may opt for an acquisition (actually buying and absorbing a smaller firm), if it meant speedy entry into a market or lack of time in internal development. A strategic alliance (such as a network, consortium or joint venture) can leverage on mutual skills between companies. Some

countries, such as India and China, specifically state that FDI in their countries should be executed via a strategic alliance arrangement.

### **3.4 Strategic Implementation and Control**

Once a strategy has been identified, it must then be put into practice. The implementation of strategy is of great importance. Conducting a corporate strategy is worthless as long as it is not implemented correctly by each department of the organization. This may involve organising, resourcing and utilising change management procedures:

#### **(a) Organizing**

Organizing relates to how an organizational design of a company can fit or align with a chosen strategy. This concerns the nature of reporting relationships, spans of control, and any strategic business units (SBUs) that require to be formed. Typically, an SBU will be created (which often has some degree of autonomous decision-making) if it exists in a market with unique conditions, or has/requires unique strategic capabilities (i.e. the skills needed for the running and competition of the SBU are different).

#### **(b) Resourcing**

Resourcing is literally the resources required to put the strategy into practice, ranging from human resources, to capital equipment, and to ICT-based implements.

#### **(c) Change management**

In the process of implementing strategic plans, an organization must be wary of forces that may legitimately seek to obstruct such changes. It is important then that effectual change management practices are instituted. These encompass:

- The appointment of a change agent, as an individual who would champion the changes and seek to reassure and allay any fears arising.
- Ascertaining the causes of the resistance to organizational change (whether from employees, perceived loss of job security, etc.)
- Via change agency, slowly limiting the negative effects that a change may uncover.

### **3.5 Testing the Strategic Alignment of the Organization**

The optimal performance of organizations is highly dependent on the level of Strategic Alignment. Until 2010 Change management was used to implement a strategy. In 2010 the Rotterdam School of Management together with the Erasmus School of Economics conducted research on the measurement possibilities of Strategic Alignment. This cooperation led to the introduction of the S-ray Alignment Scan.

The S-ray Alignment Scan is a visual of the Corporate Strategy measured against the level of understanding and implementation of the organizational departments. In 2011 Erasmus University of Rotterdam introduced S-ray Diagnostics, which is a spin-off of this cooperation, solely focused on measuring strategic alignment of organizations.

#### **3.5.1 Whittington's Perspectives**



Apart from the Classical approach, Whittington outlined three other schools with reference to strategic management thinking.

**(a) Processual**

The Classical school was the prominent paradigm in the 1960s. However, with the advent of stagflation in the 1970s, rising trade union actions in some countries, wide-scale regional conflicts, rising oil prices, etc. it became apparent that firms needed to balance numerous stakeholder standpoints. A rational planning model could not be exercised, if internal (and sometimes external) powers needed to be heeded, consulted and even accommodated to. Processual strategic management thus emphasises politics, in terms of resolving/managing internal conflicts and reaching compromises in strategic decision-making. Internal politics may be required for the following purposes. Some SBUs/functional areas may require more resources, or be competing for the same items from top management. An SBU/functional area could be headed by a powerful manager, who by virtue of his or her influence can impede general strategic actions.

In these cases, satisfying differing viewpoints is key, in an effort to resolve conflict and provide a common path for the organisation.

**(b) Evolutionary**

In the 1980s, business environments became more dynamic. It thus became key to "sink or swim", and adapt to the needs, challenges and rigours of one's business landscape. In this sense, evolutionary strategic management is essentially Darwinist, and follows a classical Darwinian path. Organisations must develop or nurture traits that will help them survive and prosper within their given markets. If they do not, they will perish. A major facet of evolutionary strategic management is a population ecology model, in which firms in an industry are seen akin to a population of animals.

Evolutionary strategy stems from an inability to track properly complex environments. If an industry has continuously changing factors, rational planning (as per the Classical school) is futile. An organisation holds no choice but to "adapt or die".

**(c) Systemic**

In recent years, there has been greater emphasis on consumer rights and the general social responsibility of companies. Consumers are now expecting firms to act responsibly in their business operations, and to take heed of numerous needs in this process. It can be said, consequent from this eventuality, that firms operate in a connected fashion with their communities and societies, and necessarily impact and "give and take" from such bodies.

Systemic strategy views the organisation as an open system, in that it takes inputs from society and imparts outputs into it. It thus is an integral and interconnected facet of the wider society, and not an entity distinct from it. A rational planning model is not seen as optimal, as it detracts from attuning to the needs of the community and the wider society a firm engages in.

**(d) Drivers**

The end goal of Classical planning is a deliberate need for profit maximisation. Deliberate in this instance means that it is consciously designed by top management as such. Conversely, evolutionary strategy is emergent, and not consciously planned or executed.

Processual strategy is typically seen as deliberate and pluralistic, as a firm in the model cannot always seek to maximise profits. Systemic strategy is emergent and pluralistic, due to the continuous determining of social needs.

### 3.5.2 General Approaches

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

- **The Industrial Organizational Approach**
  - based on economic theory — deals with issues like competitive rivalry, resource allocation, economies of scale;
  - assumptions — rationality, self discipline behaviour, profit maximization.
- **The Sociological Approach**
  - deals primarily with human interactions
  - assumptions – bounded rationality, satisficing behaviour, profit sub-optimality. An example of a company that currently operates this way is Google. The stakeholder focused approach is an example of this modern approach to strategy.

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 most 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.

Strategic decisions should focus on Outcome, Time remaining, and current Value/priority. The outcome comprises both the desired ending goal and the plan designed to reach that goal. Managing strategically requires paying attention to the time remaining to reach a particular level or goal and adjusting the pace and options accordingly. Value/priority relates to the shifting, relative concept of value-add. Strategic decisions should be based on the understanding that the value-add of whatever you are managing is a constantly changing reference point. An objective that begins with a high level of value-add may change due to influence of internal and external factors. Strategic management by definition, is managing with a heads-up approach to outcome, time and relative value, and actively making course corrections as needed.

Simulation strategies are also used by managers in an industry. The purpose of simulation gaming is to prepare managers make well rounded decisions. There are two main focuses of the different simulation games, generalized games and functional games. Generalized games are those that are designed to provide participants with new forms of how to adapt to an unfamiliar

environment and make business decisions when in doubt. On the other hand, functional games are designed to make participants more aware of being able to deal with situations that bring about one or more problems that are encountered in a corporate function within an industry.<sup>[4]</sup>

### 3.6 The Strategy Hierarchy

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

**Corporate strategy** refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "which businesses should we be in?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the corporation as a whole?" **Business strategy** refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates either cost leadership, differentiation, or focus to achieve a sustainable competitive advantage and long-term success. These three rules are also known as Porter's three generic Strategies; this concept can be applied to any size or form of business. Porter considered this concept as tradeoff strategy and argued that a person or company must only choose ONE strategy or risk having no strategy at all. Alternatively, according to W. Chan Kim and Renée Mauborgne, an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the previous value-cost trade off by simultaneously pursuing both differentiation and low cost.

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

Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or SBUs. A **strategic business unit** is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters. A technology strategy, for example, although it is focused on technology as a means of achieving an organization's overall objective(s), may include dimensions that are beyond the scope of a single business unit, engineering organization or IT department.

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

Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process. This notion of strategy has been captured under the rubric of **dynamic strategy**, popularized by Carpenter and Sanders's textbook [1].

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.

#### **4.0 CONCLUSION**

Strategic management was seen, in this unit, as a level of managerial activity under setting goals and over tactics. It also provides overall direction to the enterprise and is closely related to the field of Organization Studies.

#### **5.0 SUMMARY**

In this unit, we have defined the Concepts/Approaches of Strategic Management; discussed the Strategic Formation (Classical School); Explained what is meant by Strategic Evaluation and Choice; Defined and explained the concepts Strategic Implementation and Control; Enumerated the reasons for Testing the Strategic Alignment of the Organisation and Defined and discussed Strategic Hierarchy.

In the next unit, we shall discuss the historical developments of strategic management.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. What do you understand by strategic implementation and control? Briefly discuss this.
2. List the options involved in strategic evaluation and choice.
3. What is strategic formation? List and explain the three main processes of strategic formation.

## 7.0 REFERENCES/FURTHER READINGS

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## **UNIT 5        HISTORICAL DEVELOPMENT OF STRATEGIC MANAGEMENT**

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### **1.0    INTRODUCTION**

In the last unit, we have defined the Concepts/Approaches of Strategic Management; discussed the Strategic Formation (Classical School); explained what is meant by Strategic Evaluation and Choice; defined and explained the concepts Strategic Implementation and Control; enumerated the reasons for Testing the Strategic Alignment of the Organisation; defined and discussed Strategic Hierarchy.

In this unit, we shall discuss the historical developments of strategic management.

### **2.0    OBJECTIVES**

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

- Trace the Birth of Strategic Management;
- Discuss the Growth and Portfolio Theory;
- Discuss the Marketing Revolution and the Japanese Challenge;
- Define Competitive Advantage;
- Explain the Military Theorists in relation to strategic management;
- Define and discuss Strategic Change;

- Explain Information and Technology-driven Strategy and Knowledge Adaptive Strategy in relation to strategic management;
- Discuss Strategic Decision-making Strategy;
- Discuss Psychology of Strategic Management;
- Enumerate and discuss the Limitations to Strategic Management;
- Define and explain the Linearity Trap'
- Discuss what is meant by Putting Creativity and Innovation into Strategy.

### 3.1 Birth of Strategic Management

The Strategic management discipline is originated in the 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. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years.

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 or between departments 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 ground breaking 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.”<sup>[5]</sup>

In 1957, Philip Selznick introduced the idea of matching the organization's internal factors with external environmental circumstances.<sup>[6]</sup> This core idea was developed into what we now call SWOT analysis by Learned, Andrews, and others at the Harvard Business School General Management Group. Strengths and weaknesses 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 where we are currently and where we would like to be, then develop what he called “gap reducing actions”.<sup>[7]</sup>

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 two are most important. Firstly, he stressed the importance of objectives. An organization without clear objectives is like a ship without a rudder. He was developing a theory of management based on objectives which 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 thus:

- 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 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 provides volume and economies of scale. It also provides experience and learning curve advantages. One of the most valuable concepts in the strategic management of multi-divisional companies is **portfolio theory**.

### **3.3 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 at 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. 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.



### 3.4 Competitive Advantage

The Japanese challenge shook the confidence of the western business elite, but detailed comparisons of the two management styles and examinations of successful businesses convinced westerners that they could overcome the challenge. The 1980s and early 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.

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 a 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.

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 resource 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.

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.

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 customized 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 thought 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 identity — 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 it is 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 persona.

There are numerous ways by which a firm can try to create a competitive advantage – some will work but many will not. To help firms avoid a hit and miss approach to the creation of competitive advantage, Will Mulcaster suggests that firms engage in a dialogue that centres around the question "Will the proposed competitive advantage create Perceived Differential Value?" The dialogue should raise a series of other pertinent questions, including:

- "Will the proposed competitive advantage create something that is different from the competition?"
- "Will the difference add value in the eyes of potential customers?" – This question will entail a discussion of the combined effects of price, product features and consumer perceptions.
- "Will the product add value for the firm?" – Answering this question will require an examination of cost effectiveness and the pricing strategy.

### **3.5 The Military Theorists**

In the 1980s some business strategists realized that there was a vast 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 became 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. 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 out 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. Kordis 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.<sup>[42]</sup> Instead of using military terms, 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.

### 3.6 Strategic Change

In 1968, Peter Drucker (1969) coined the phrase **Age of Discontinuity** to describe the way change forces disruptions into the continuity of our lives.<sup>[43]</sup> 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 1970, Alvin Toffler in *Future Shock* described a trend towards accelerating rates of change.<sup>[44]</sup> He illustrated how social and technological norms had shorter life-spans with each generation, and he questioned society's 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).<sup>[45]</sup> 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 2000, Gary Hamel discussed **strategic decay**, the notion that the value of all strategies, no matter how brilliant, decays over time.<sup>[46]</sup>

In 1978, Dereck Abell (Abell, D. 1978) described **strategic windows** and stressed the importance of the timing (both entrance and exit) of any given strategy. This has led some strategic planners to build planned obsolescence into their strategies.<sup>[47]</sup>

In 1989, Charles Handy identified two types of change.<sup>[48]</sup> **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 (or 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 **tipping point**, that point where a trend or fad acquires critical mass and takes off.<sup>[49]</sup>

In 1983, Noel Tichy wrote that because we are all beings of habit we tend to repeat what we are comfortable with.<sup>[50]</sup> 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 systematic method of dealing with change that involved looking at any new issue

from three angles: technical and production, political and resource allocation, and corporate culture.

In 1990, Richard Pascale (Pascale, R. 1990) wrote that relentless change requires that businesses continuously reinvent themselves.<sup>[51]</sup> His famous maxim is “Nothing fails like success” by which he means that what was a strength yesterday becomes the root of weakness today, We tend to depend on what worked yesterday and refuse to let go of what worked so well for us in the past. Prevailing strategies become self-confirming. To avoid this trap, businesses must stimulate a spirit of inquiry and healthy debate. They must encourage a creative process of self renewal based on constructive conflict.

Peters and Austin (1985) 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 people in the organization that have the courage to put their career and reputation on the line for an unproven idea.

In 1996, Adrian Slywotzky showed how changes in the business environment are reflected in value migrations between industries, between companies, and within companies.<sup>[52]</sup> He claimed that recognizing the patterns behind these value 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 industry after industry.<sup>[53]</sup>

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 disabilities.<sup>[54]</sup> 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. The way Peter Schwartz put it in 1991 is that strategic outcomes cannot be known in advance so the sources of competitive advantage cannot be predetermined.<sup>[55]</sup> 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 implications assessed, and their likeliness of occurrence evaluated. According to Pierre Wack, scenario planning is about insight, complexity, and subtlety, not about formal analysis and numbers.<sup>[56]</sup>

In 1988, Henry Mintzberg looked at the changing world around him and decided it was time to reexamine how strategic management was done.<sup>[57][58]</sup> He examined the strategic process and concluded it was much more fluid and unpredictable than people had thought. Because of this, he could not point to one process that could be called strategic planning. Instead Mintzberg concludes that there are five types of strategies:

- 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 behaviour – 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, an hybrid of the other schools organized into stages, organizational life cycles, or “episodes”.<sup>[59]</sup>

In 1999, Constantinos Markides also wanted to reexamine the nature of strategic planning itself.<sup>[60]</sup> He describes 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. Moncrieff (1999) also stresses strategy dynamics.<sup>[61]</sup> 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.

### 3.7 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 more would be applying their minds. In 1984, John Naisbitt 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 (1985) examined the sociological consequences of information technology, while Gloria Schuck and Shoshana Zuboff looked at psychological factors.<sup>[62]</sup> Zuboff, in her five year study of eight pioneering corporations made the important distinction between “automating

technologies” and “infomating 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 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”.<sup>[63]</sup>

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.) To do this, Senge claimed that an organization would need to be structured such that:<sup>[64]</sup>

- 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.
- Mental models – We need to explore our personal mental models to understand the subtle effect they have on our behaviour.
- 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,<sup>[65]</sup> J. Carlos Jarillo,<sup>[66]</sup> D.L. Barton,<sup>[67]</sup> Manuel Castells,<sup>[68]</sup> J.P. Lieleskin,<sup>[69]</sup> Thomas Stewart,<sup>[70]</sup> K.E. Sveiby,<sup>[71]</sup> Gilbert J. Probst,<sup>[72]</sup> and Shapiro and Varian<sup>[73]</sup> 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 heads 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, organizations structured as a network, instability of employment, and a social divide between those with access to information technology and those without.

Geoffrey Moore (1991) and R. Frank and P. Cook<sup>[74]</sup> also detected a shift in the nature of competition. In industries with high technology content, technical standards become established and this gives the dominant 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 its product becomes a *de facto* standard.

Evans and Wurster describe how industries with a high information component are being transformed.<sup>[75]</sup> They cite Encarta's demolition of the Encyclopædia Britannica (whose sales have plummeted 80% since their peak of \$650 million in 1990). Encarta's reign was speculated to be short-lived, eclipsed by collaborative encyclopedias like Wikipedia that can operate at very low marginal costs. Encarta's service was subsequently turned into an on-line service and dropped at the end of 2009. 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 dis-intermediating 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 to achieve a 'balanced' perspective.

### **3.8 Knowledge Adaptive Strategy**

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 favored source of advantage, but they were at best temporary, as they could be copied and adapted by competitors.
- Owning 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 emerge all the time.

In such a world, differentiation, as elucidated by Michael Porter, Botten and McManus 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.

This principle is based on the idea of evolution: differentiation, selection, amplification and repetition. It is a form of strategy to deal with complex adaptive systems which individuals, businesses, the economy are all based on. The principle is based on the survival of the “fittest”. The fittest strategy employed after trial and error and combination is then employed to run the company in its current market. Failed strategic plans are either discarded or used for another aspect of a business. The trade off between risk and return is taken into account when deciding which strategy to take. Cynefin model and the adaptive cycles of businesses are both good ways to develop KAS, reference Panarchy and Cynefin. Analyze the fitness landscapes for a product, idea, or service to better develop a more adaptive strategy.

(For an explanation and elucidation of the “post-industrial” worldview, see George Ritzer and Daniel Bell.)

### **3.9 Strategic Decision-making Processes**

Will Mulcaster<sup>[76]</sup> argues that while much research and creative thought has been devoted to generating alternative strategies, too little work has been done on what influences the quality of strategic decision making and the effectiveness with which strategies are implemented. For instance, in retrospect it can be seen that the financial crisis of 2008–9 could have been avoided if the banks had paid more attention to the risks associated with their investments, but how should banks change the way they make decisions to improve the quality of their decisions in the future? Mulcaster's Managing Forces framework addresses this issue by identifying 11 forces that should be incorporated into the processes of decision making and strategic implementation. The 11 forces are: Time; Opposing forces; Politics; Perception; Holistic effects; Adding value; Incentives; Learning capabilities; Opportunity cost; Risk; Style—which can be remembered by using the mnemonic ‘TOPPHAILORS’.

### 3.10 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-routinized, and involving primarily oral, 2-way communications. Barnard 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”, “judgement”, “sense”, “proportion”, “balance”, “appropriateness”. It is a matter of art rather than science.”<sup>[77]</sup>

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.”<sup>[78]</sup>

In 1982, John Kotter studied the daily activities of 15 executives and concluded that they spent most of their time developing and working a network of relationships that provided general insights and specific details for strategic decisions. They tended to use “mental road maps” rather than systematic planning techniques.<sup>[79]</sup>

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.<sup>[80]</sup> He claimed in 1986 that one of the reasons for this is the complexity of strategic decisions and the resultant information uncertainty.<sup>[81]</sup>

Shoshana Zuboff (1988) claims that information technology is widening the divide between senior managers (who typically make strategic decisions) and operational level managers (who typically make routine decisions). She claims that prior to the widespread use of computer systems, managers, even at the most senior level, engaged in both strategic decisions and routine administration, but as computers facilitated (She called it “deskilled”) routine processes, these activities were moved further down the hierarchy, leaving senior management free for strategic decision making.

In 1977, Abraham Zaleznik identified a difference between leaders and managers. He describes leadership as visionaries who inspire. They care about substance. Whereas managers are claimed to care about process, plans, and form.<sup>[82]</sup> He also claimed in 1989 that the rise of the manager was the main factor that caused the decline of American business in the 1970s and 80s. The main difference between leader and manager is that, leader has followers and manager has subordinates. In capitalistic society leaders make decisions and manager usually follow or execute.<sup>[83]</sup> Lack of leadership is most damaging at the level of strategic management where it can paralyze an entire organization.<sup>[84]</sup>

In 1997, Elliott Jacques book *Requisite organization* was published based on his 'Stratified Systems Theory'. From over 20 years of research Jacques concluded that the strategic leader works in an increasingly complex, ambiguous, volatile and uncertain environment. Dr Maretha Prinsloo developed the Cognitive Process Profile (CPP) psychometric from the work of Elliott Jacques. The CPP is a computer based psychometric which profiles a person's capacity for strategic thinking. It is used worldwide in selecting and developing people into strategic roles.

According to Corner, Kinichi, and Keats,<sup>[85]</sup> 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 that both involve getting attention, encoding information, storage and retrieval of information, strategic choice, strategic outcome, and feedback. The individual and organizational processes are not independent however. They interact at each stage of the process. For instance, competition-oriented objectives are based on the knowledge of the financial status of competing firms, such as their market share.<sup>[86]</sup>

### 3.11 Limitations of Strategic Management

Although a sense of direction is important, it can also stifle creativity, especially if it is 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 brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias (itself an area of research in strategic management). Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. 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.

In 2000, Gary Hamel coined the term **strategic convergence** to explain the limited scope of the strategies being used by rivals in greatly differing circumstances. He lamented that strategies converge more than they should, because the more successful ones are imitated by firms that do not understand that the strategic process involves designing a custom strategy for the specifics of each situation.<sup>[46]</sup>

Ram Charan, aligning with a popular marketing tagline, believes that strategic planning must not dominate action. "Just do it!" while not quite what he meant, is a phrase that nevertheless comes to mind when combatting analysis paralysis.

### 3.12 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 (iii) 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 where strategies must be implemented, the three elements are interdependent. Means are as likely to determine ends as ends are to determine means.<sup>[87]</sup> 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 only 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 “strategy 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?"<sup>[88]</sup>

The answer is that the process of developing organizational strategy must be iterative. Such an approach has been called the Strategic Incrementalisation Perspective.<sup>[89]</sup> 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.<sup>[90]</sup> Formulation and implementation of strategy must thus occur side-by-side rather than sequentially, because strategies are built on assumptions that, in the absence of perfect knowledge, are never perfectly correct. Strategic management is necessarily a "...repetitive learning cycle [rather than] a linear progression towards a clearly defined final destination."<sup>[91]</sup> 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 except by learning from experience; and modest probes, serially modified on the basis of feedback, usually are the best method for such learning."<sup>[92]</sup>

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.<sup>[citation needed]</sup> 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”<sup>[93]</sup> 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, rather, as laying out the general path—but not the precise steps—an organization will follow to create value.<sup>[94]</sup> Strategic management is a question of interpreting, and continuously reinterpreting, the possibilities presented by shifting circumstances for advancing an organization's objectives. Doing so requires strategists to think *simultaneously* about desired 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.

It may not be so limiting as suggested in “The linearity trap” above. Strategic thinking/identification takes place within the gambit of organizational capacity and Industry dynamics. The two common approaches to strategic analysis are value analysis and SWOT analysis. Yes Strategic analysis takes place within the constraints of existing/potential organizational resources but its would not be appropriate to call it a trap. For e.g., SWOT tool involves analysis of the organization's internal environment (Strengths & weaknesses) and its external environment (opportunities & threats). The organization's strategy is built using its strengths to exploit opportunities, while managing the risks arising from internal weakness and external threats. It further involves contrasting its strengths & weaknesses to determine if the organization has enough strengths to offset its weaknesses. Applying the same logic, at the external level, contrast is made between the externally existing opportunities and threats to determine if the organization is capitalizing enough on opportunities to offset emerging threats.

### **3.13 Putting Creativity and Innovation into Strategy**

Given that companies of all sizes are competing on the global stage, and the pace of change and level of complexity have skyrocketed in the last decade, creative strategy development is needed more than ever. In 2010, IBM released a study summarizing three conclusions of 1500 CEOs around the world: 1) complexity is escalating, 2) enterprises are not equipped to cope with this complexity, and 3) creativity is now the single most important leadership competency. IBM said that it is needed in all aspects of leadership, including strategic thinking and planning.<sup>[95]</sup>

James Bandrowski declared in 1990 that strategy development should no longer be just an analytical exercise, but should be highly creative with an aim to conceiving and executing an innovative strategy that creates competitive distinction and elates customers.<sup>[96]</sup> He introduced a sine wave approach that amplifies the strategic thinking of all participants in the development and execution of strategy. It can be used at the corporate level, for every function in the

organization, as well as in mergers, acquisitions, divestitures, and turnarounds. He states, the bigger the amplitude (measure of the height and depth of a sine wave) of one's thinking and feeling, the greater the chance of value-added breakthrough thinking and achieving stretch goals. In 2009, he declared that a small amplitude both positively and negatively in one's thinking is the metaphorical "box" in thinking outside the box.

Similarly, Mckeown argued that "over-reliance on any particular approach to strategy is dangerous" such that multiple methods can be used to combine the "creative human side" with the "more analytic side of strategy" in order to create strategy, or an "approach to shaping the future", that is "difficult to copy" <sup>[97]</sup>. He recommends introducing both approaches to leaders, organisations and teams and discussing how best to alter the balance in the future.

#### **4.0 CONCLUSION**

We learnt from the discussion in this unit that strategic management discipline originated in the 1950s and 60s with numerous early contributors to the literature such as Alfred D. Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years.

### **5 SUMMARY**

In this unit, we have, traced the Birth of Strategic Management; discussed the Growth and Portfolio Theory; the Marketing Revolution and the Japanese Challenge; defined Competitive Advantage; explained the Military Theorists in relation to strategic management; Strategic Change; Information and Technology-driven Strategy and Knowledge Adaptive Strategy in relation to strategic management; Strategic Decision-making Strategy; Psychology of Strategic Management; Limitations to Strategic Management; Linearity Trap' and discussed what is meant by Putting Creativity and Innovation into Strategy.

In the next unit, we shall examine hierarchy of strategic intent.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. What is psychology of strategic management? How would you compare this with strategic decision making?
2. Explain what is meant by information and technology-driven strategy and compare this with knowledge adaptive strategy in relation to strategic management.

#### **7.0 REFERENCES/FURTHER READINGS**

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## **MODULE 3 STRATEGY FORMULATION**

**Unit 1 Hierarchy of Strategic Intent**

**Unit 2 Environmental Appraisal**

**Unit 3 Organizational Appraisal**

**Unit 4 Strategic Analysis and Choice**

### **UNIT 1: HIERARCHY OF STRATEGIC INTENT**

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#### **1 INTRODUCTION**

In the last unit, we discussed the historical development of Strategic Management including Strategic Change; Information and Technology-driven Strategy; Knowledge Adaptive Strategy; Strategic Decision-making Strategy; Psychology of Strategic Management; Limitations to Strategic Management; Linearity Trap' and Putting Creativity and Innovation into Strategy.

In this unit, we shall introduce you to the first phase of the strategic management process, that is, the hierarchy of intent.

#### **2.0 OBJECTIVES**

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

- explain the concepts of strategic intent, stretch, leverage and fit;
- describe evaluate the concept of vision and mission in business
- describe the role, process and characteristics of objectives
- distinguish between well-formulated and badly-formulated objectives;



### **3.0 MAIN CONTENT**

Strategic intent is a high-level statement of the means by which your organization will achieve its vision. It is a statement of design for creating a desirable future (stated in present terms). Putting it simple, a strategic intent is your company's vision of what it wants to achieve in the long term. In complex science terms, strategic intent is decomposition of exploration rules into the next level of detail, the linkages to the exploration rules and the transition rules that define how it will migrate from its current design and ecosystem to a future business design and ecosystem. At the same time, strategic intent is more than simply unfettered ambition. (Many companies possess an ambitious strategic intent yet fall short of their goals). The concept also encompasses an active management process that includes: focusing the organisation's attention on the essence of winning, motivating people by communicating the value of the target; leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocations.

#### **3.1 Definition of Strategic Intent**

By strategic intent, we refer to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. Broadly stated, these could be in the form of a vision and mission statement for the organisation as a corporate whole. At the business level of a firm these could be expressed as the business definition. When stated in precise terms, as an expression of the aims to be achieved operationally, these may be the goals and objectives.

##### **3.1.1 Understanding Strategic Intent**

Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession with an organisation – an obsession with having ambitious that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation while sustaining that obsession in the quest for global leadership. They explain the term 'strategic intent' like this: "On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress.... At the same time, strategic intent is more than simply unfettered ambition.... The concept also encompasses an active management process that includes: focusing the organisation's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations". They quoted several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intent – as evident from their path-breaking article, published in 1989 in the Harvard Business Review – seems to have been proposed by them to explain the lead taken by Japanese firms over their American and European counterparts. Yet, strategic intent has wider implications and carries a lot of meaning for the strategic management of firms. There is merit in their view as business groups and companies, which have aspired for global leadership can be found in the Indian context too (Azhar, 2002).

##### **3.1.2 Concepts of Stretch, Leverage and Fit**

Subsequent to the idea of strategic intent, Hamel and Prahalad had added the dual concepts of 'stretch' and 'leverage'. Stretch is "a misfit between resources and aspirations" (Hamel and

Prahalad, 1989). Leverage refers to concentrating, accumulating, complementing, conserving, and recovering resources in such a manner that a meagre resource base can be stretched to meet the aspirations that an organisation dares to have. The idea of stretch is diametrically opposite to the idea of 'fit' that means positioning the firm by matching its organisational resources to its environment. The strategic fit is central to the strategy school of positioning where techniques such as SWOT analysis are used to assess organisational capabilities and environmental opportunities. Strategy then becomes a compromise between what the environment has got to offer in terms of opportunities and the counteroffer that the organisation makes in the form of its capabilities. The ideas of stretch and leverage belong appropriately to the learning school of strategy where the capabilities are not seen as constraints to achieving, and the environment is perceived not as something which is considered as given but as something which can be created and moulded. You would appreciate that the idea of strategic intent could work in both cases though it might be perceptively different in terms of the levels at which aspirations are set. Under fit, the strategic intent would seem to be more realistic; under stretch and leverage it could be idealistic. Yet, in both cases, it is essentially a desired aim to be achieved.

We can therefore define strategic intent as the hierarchy of intentions ranging from a broad vision through mission and business definition down to specific objectives and goals. Vision is at the top level of the hierarchy of strategic intent and that is what we try to understand in the next section.

## **3.2 Vision**

Aspirations, expressed as strategic intent, should lead to an end; otherwise they would just be castles in the air. That end is the vision of an organisation or an individual. It is what the firm or a person would ultimately like to become. For instance, some of you, say in 10 years, or may be even earlier, would like to become general managers managing an SBU in a large, diversified multinational corporation. Or some others among you would like to believe that you will be an entrepreneur in 10 – 15 years owning your own company dealing with IT services and employing cutting-edge technology to serve a global clientele. A firm thinks like that too.

### **3.2.1 Understanding Vision**

A vision is more dreamt of than it is articulated. This is the reason why it is difficult to say what vision an organisation has. Sometimes it is not even evident to the entrepreneur who usually thinks of the vision. By its nature, it could be as hazy and vague as a dream that one experienced the previous night and is not able to recall perfectly in broad daylight. Yet it is a powerful motivator to action. And it is from the actions that a vision could often be derived (Azhar, 2002). Henry Ford wished to democratize the automobile when he visualized that an affordable vehicle could be available for the masses. Walt Disney probably wanted to make people happy.

### **3.2.2 Defining Vision**

Vision has been defined in several different ways. Kottre (1990) defines it as a “description of something (an organisation, corporate culture, a business, a technology, an activity) in the future”. El-Namaki (1992) considers it as a “mental perception of the kind of environment an individual, or an organisation, aspires to create within a broad time horizon and the underlying conditions for the actualisation of this perception”. Miller and Dess (1966) view it simply as the

“category of intentions that are broad, all-inclusive, and forward thinking”. The common strand of thought evident in these definitions and several others available in strategic management literature relates to ‘vision’ being future aspirations that lead to an inspiration to be the best in one’s field of activity.

### 3.2.3 Benefits of Having a Vision

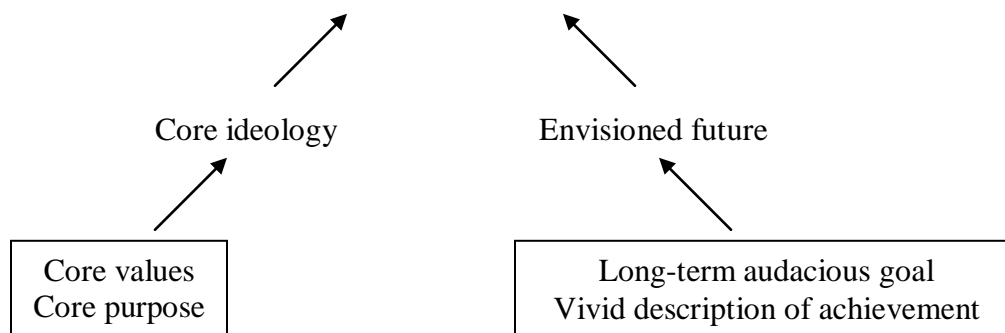
Parikh and Neubauer (1993) point out the several benefits accruing to an organisation having a vision. Here is what they say:

- Good visions are inspiring and exhilarating;
- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be;
- Good visions help in the creation of a common identity and a shared sense of purpose;
- Good visions are competitive, original and unique. They make sense in the marketplace as they are practical;
- Good visions foster risk-taking and experimentation;
- Good visions foster long-term thinking;
- Good visions represent integrity, they are truly genuine and can be used for the benefit of people.

### 3.2.4 The Process of Envisioning

The process of envisioning is a difficult one as we see from what Collins and Porras (1996) have to say about it. According to them, a well-conceived vision consists of two major components: core ideology and envisioned future. The core ideology defines the enduring character of an organisation that remains unchangeable as it passes through the vicissitudes of vectors, such as, technology, competition, or management fads. The core ideology rests on the core values (the essential and enduring tenets of an organisation) and core purposes (an organisation’s reason for being). The envisioned future too consists of two components: a 10 – 30 years audacious goal, and a vivid description of what it will be like to achieve that goal. The process of envisioning is indeed fascinating.

Figure showing the Process of envisioning  
Well-conceived vision



**Source:** Based on ideas in J. Parikh and F. Neubauer, ‘Corporate Visioning’ International Review of Strategic Management. Vol. 4, Ed; D.E. Hussey, West Sussex, England, John Wiley & Sons, 1993, pp. 109 – 111.

From vision, we now move on to the second level of strategic intent that is the mission.

## **Self Assessment Exercise 1**

1. What is meant by 'strategic intent'?
2. Give brief explanations of each of these concepts: (a) stretch, (b) leverage, and (c) fit.

### **3.3 Mission**

While the essence of vision is a forward-looking view of what an organisation wishes to become, mission is what an organisation is and why it exists. Several years ago, Peter F. Drucker raised important philosophical questions, though simply worded, are in reality the most fundamental questions that any organisation can put to itself. The answers are based on the analysis of the underlying needs of the society that any organisation serves to fulfill. The satisfaction of that need is, then, the business of the organisation.

#### **3.3.1 Understanding Mission**

Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission. Mission is a statement which defines the role that an organisation plays in a society. It refers to the particular needs of that society, for instance, its information needs. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner. Both have different objectives but an identical mission.

#### **3.3.2 Defining Mission**

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organisation. Thompson (1997) defines mission as the "essential purpose of the organisation, concerning particularly why it is in existence, the nature of the businesses it is in, and the customers it seeks to serve and satisfy". Hunger and Wheelen (1999) say that mission is the "purpose or reason for the organisation's existence". This an indication that there is not much difference of opinion about the definition of mission. Yet, one finds instances of organisations confusing mission with vision or objectives. In strategic management literature, mission occupies a definite place as a part of strategic intent.

#### **3.3.3 How are Mission Statements Formulated?**

Most organisations derive their mission statements from a particular set of tasks they are called upon to perform in the light of their individual, national or global priorities. Several organisations, set up owe their existence to their prime movers. Mission statements, whether derived from set priorities or not, could be formulated either formally or informally. Usually, entrepreneurs lay down the corporate philosophy which an organisation follows in its strategic and operational activities. Such a philosophy may not be consciously and formally stated but may gradually evolve due to the entrepreneur's actions. Generally, an entrepreneur has a perception of the type of organisation that he wants his company to be. Mission statements could be formulated on the basis of the vision that an entrepreneur decides on in the initial stages of an organisation's growth.

Major strategists could also contribute to the development of a mission statement. They do this informally by lending a hand in the creation of a particular corporate identity or formally through discussions and the writing down of a mission statement. Chief executives play a major role in formulating a mission statement both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management. Consultants may also be called upon to make an in-depth analysis of the organisation to suggest an appropriate mission statement.

A mission statement, once formulated, should serve an organisation for many years. But a mission may become unclear as the organisation grows and adds new products, markets and technologies to its activities. Then the mission has to be reconsidered and reexamined to either change or discard it, and evolve a fresh statement of organisational mission.

### **3.3.4 Characteristics of a Mission Statement**

Organisations legitimize themselves by performing some functions which are valued by society. A mission statement defines the basic reason for the existence of that organisation. Such a statement reflects the corporate philosophy, identity, character, and image of an organisation. It may be defined explicitly or could be deduced from the management's actions, decisions, or the chief executive's press statements. When explicitly defined it provides enlightenment to the insiders and outsiders on what the organisation stands for. In order to be effective, a mission statement should possess the following seven characteristics:

1. *It should be feasible.* A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable – its followers must find it to be credible. But feasibility depends on the resources available to work towards a mission.
2. *It should be precise.* A mission statement should not be so narrow as to restrict the organisation's activities nor should it be too broad to make itself meaningless. For instance, 'Manufacturing bicycles' is a narrow mission statement since it severely limits the organisation's activities, while 'mobility business' is too broad a term as it does not define the reasonable contour within which the organisation could operate.
3. *It should be clear.* A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organisations do adopt such statements but probably they do so for emphasizing their identity and character. To be useful, a mission statement should be a clear enough to lead to action.
4. *It should be motivating.* A mission statement should be motivating for members of the organisation and of society, and they should feel it worthwhile working for such an organisation or being its customers. A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients. Customer service, therefore, is an important purpose for a banking institution.
5. *It should be distinctive.* A mission statement which is indiscriminate is likely to have little impact. If all textile manufacturers defined their mission in a similar fashion, there would

not be much of a difference among them. But if one defines it as providing textiles that would provide 'value for money, for years' it will create an important distinction in the public mind.

6. *It should indicate major components of strategy.* A mission statement, along with the organisational purpose should indicate the major components of the strategy to be adopted. The mission statement should indicate a combination of stability, growth and diversification strategies in the future.
7. *It should indicate how objectives are to be accomplished.* Besides indicating the broad strategies to be adopted, a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished. The mission statement should deal with the objectives to be achieved within a given time period.

In day-to-day decision-making, managers are not concerned about survival and, therefore, do not actively think about their organisation's mission for society. Thus, a mission statement becomes an ideology that can be used occasionally for legitimization. But, for strategic decision-making it is important to consider the mission in each phase of the strategic management process. A helpful approach to defining as well as refining a mission statement is to define the business itself.

### **Self Assessment Exercise 2**

1. What are the possible pitfalls of not having a vision for an organisation?
2. Define 'mission' in your own words.
3. Mention the characteristics of a good mission statement.

### **3.4 Business Definition**

Understanding business is vital to defining it and answering the question 'What is our business?' It could also be a pointer to the answers to the questions: 'What will it be?' and 'What should it be?' Mission statements can use the ideas generated through the process of understanding and defining business.

#### **3.4.1 Defining Business**

A watch manufacturing company may call itself the 'timekeepers to the nation'. The following illustrative diagram can be helpful in understanding business. In this diagram, we have attempted to relate societal needs to the business of timekeeping.

Each successive step provides alternative ways through which the timekeeping needs of the society could be satisfied. Consider the following illustrative examples:

- Wristwatches could be of different types, for example, ladies', men's, children's, and sports watches. Ladies' wristwatches could be either utility or ornamental watches.
- Other types of watches could be timepieces, wall clocks, and pocket watches.
- Other products could be an hourglass or a sundial.

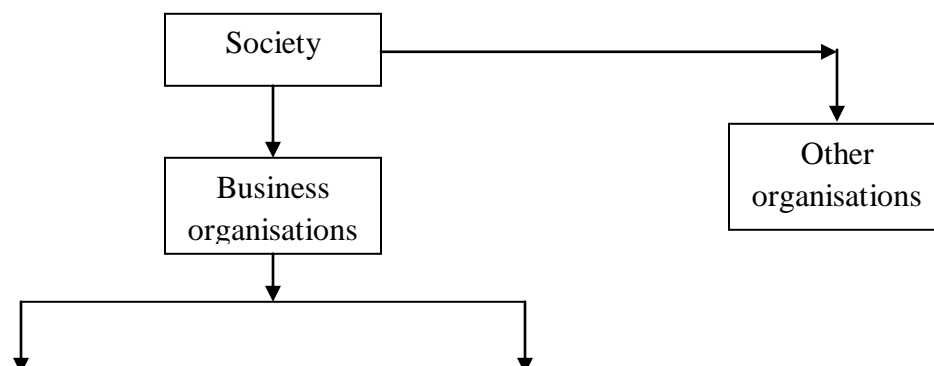
- Specialty watches could be video-timers, calculator watches, and car clocks.
- Consumer non-durables could be time-punching machines and stop watches.
- Services could be telephone or teletext time services.
- Other organisations which roughly meet the timekeeping needs could be, for instance, a church bell chiming at appointed hours, or a call to the faithful from mosques.

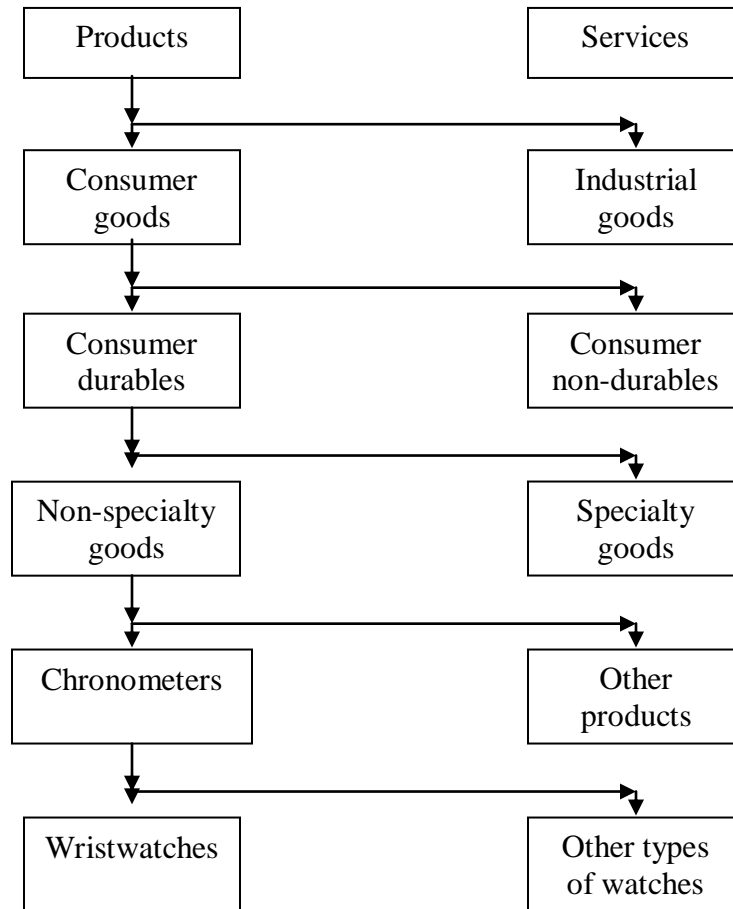
All the above options or their combinations, lead to the satisfaction of the timekeeping needs of a society. Four other variables are useful in understanding the business of timekeeping. These are:

1. The functions which watches can perform, such as, providing the time, day, date, and direction.
2. Customer needs satisfied by actions like finding time, recording time, using watches as fashionable accessories, and presenting them as gift items.
3. End usages, like, direct use by customers, and indirect use, as subassemblies in the form of watch and clock movements, by industry.
4. The technology used, based on mechanical, quartz digital or quartz analog manufacturing.

All the above options and variables are, however, relevant to the current ‘state of the art’. The timekeeping business could change radically if a breakthrough occurs any time in the future. For instance, if it could somehow be possible to embed sensors in the human brain that would enable a person to just know and feel the time rather than finding time by looking at a watch, timekeeping could become just another neurological function. The implications of such a breakthrough for society and business are exciting. Naming just two of these, we could say that visually-challenged persons could benefit a lot by such a technological advancement, and the business of timekeeping would never be the same: all timekeeping equipment that we use today could face the risk of becoming redundant. The business of timekeeping is, therefore, certainly not making more, better, sophisticated and a variety of watches but providing the means – whatever they might be – to simply know the time.

## Graphical Picture





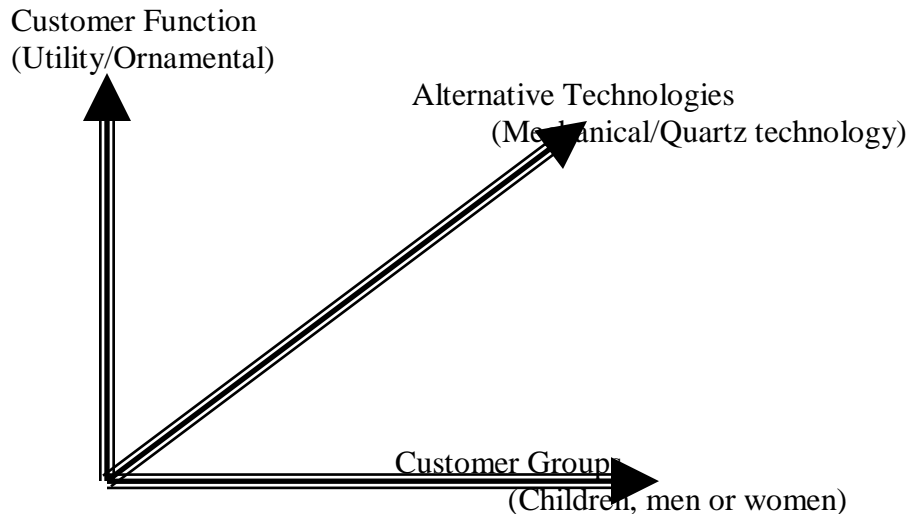
Drawing an example from the above graphical picture, it can be said that a particular company providing only ladies wristwatches of utility and ornamental types using the quartz analogue technology could define its business in one way. Another company, a government supplier, may choose to make mechanical wall clocks. Both the companies are in the timekeeping business but they cater to different customer groups, provide different customer functions, and use alternative technologies.

### 3.4.2 Dimensions of Business Definition

In a path-breaking analysis, Derek Abell suggests defining business along the three dimensions of customer groups, customer functions, and alternative technologies. Customer groups relate to ‘who’ is being satisfied, customer needs describe ‘what’s being satisfied, and alternative technologies means ‘how’ the need is being satisfied (). The figure below presents a diagrammatic view of these three dimensions.



**Figure: Abell's Three Dimensions for Defining a Business**



Customer groups are created according to the identity of the customers. Customer functions are based on what the products or services provide to the customers. Alternative technologies describe the manner in which a particular functional can be performed for a customer.

Applying Abell's three-dimensional model to the illustration of timekeeping business, we could identify the three dimensions as follows:

1. Customers groups are individual customers and industrial users.
2. Customer functions are of finding time, recording time, using watches as a fashionable accessory, and as a gift item.
3. Alternative technologies are of the mechanical, quartz digital, and quartz analogue types.

Such a clarification helps in defining a business explicitly. A clear business definition is helpful for strategic management in many ways. For instance, a business definition can indicate the choice of objectives, help in exercising a choice among different strategic alternatives, facilitate functional policy implementation, and suggest appropriate organisational structure. A watch manufacturer who makes ladies watches of the utility type could extend its business definition along the customer dimension and make ornamental watches also. It could also diversify further by moving into the manufacture of wall clocks. Having decided to manufacture ornamental watches may require a production-to-order system of manufacturing. Technological choice will vary from making mechanical hand-wound watches to making battery-operated quartz digital watches, which are two entirely different processes. We could, of course, go on pointing out various other implications of defining a business along these three dimensions. In sum, we can observe that the model provides powerful insights into understanding and defining business.

### **3.4.3 Levels at which Business could be Defined**

Like strategy, business could either be defined at the corporate-or SBU-levels. A single-business firm is active in just one area so its business definition is simple. A large conglomerate operating in several businesses would have a separate business definition for each of its businesses.

Rather, as Hill and Jones (1998) suggest, a diversified company's business is to manage a collection of businesses. The important question here is how a corporate business adds value to the constituent businesses of that company.

At the corporate level, the business definition will concern itself with the wider meaning of customer groups, customer functions, and alternative technologies. A highly diversified company organised on a divisional basis could benefit by having a business definition covering all the three definitions. Each division could again have more accurate business definition at the SBU-level. For example, Voltas Limited broadly performs the customer functions of trading and manufacturing a large variety of items from agro-industrial pumps to textile machinery, catering to two broad customer groups of individual and institutional customers, and using diverse technologies for manufacturing switchgears and transformers as well as pesticides. In fact such is the diversity in its operations, that observers attribute many problems that occur at Voltas to a hazy and ill-defined business definition.

When a company takes up activities outside the domain of its business definitions, it generally faces the accompanying risk of adding new businesses, divisions or products unrelated to its present activities and at variance with its corporate identity. This crisis of identity is a serious problem which results either in inefficiency or ineffectiveness. On the other hand, if the various acquisition, growth and diversification plans of a company are linked through a business definition, it results in a considerable amount of synergy (more commonly known as 'the two-plus-two-is-equal-to-five effect'). An example of such a company is ITC Limited, which believes in the 'professional management of planned growth' through a 'pursuit of excellence' by operating in the areas of agro-industry, packaging and printing, pulp and paper – seemingly diverse but intrinsically related to its main activity of cigarette manufacturing. Incidentally, ITC defines its SBU-level mission for its cigarette division as 'making a quality product that will offer the smoker satisfaction at a price he can afford'.

### **Self Assessment Exercise 3**

1. Explain the three dimensions of a business definition.

#### **3.4.4 Business Model**

The Internet boom and bust of the 1990s revitalized the term 'business model'. Though not expressing a novel thought, it has become quite a popular term now and used frequently to express a number of ideas, among them 'creation and marketing of value' being the major theme. The success of Wal-Mart as a retailer, Google as a search engine, Dell Computers as an Internet-based marketer or Amazon.com as a virtual book seller is attributed to their respective business models.

Colloquially, business models are often expressed in the form of a question: how does the organisation make money? E-newspapers are able to offer free Internet editions on account of the online advertisement revenues they earn from the advertisers. A *kirana dukan* (provision store) owner buys commodities and products at a price and then, applying a mark-up, sells them at retail prices thus earning revenue and profit. Budget airlines share certain features such as e-

ticketing, no-frills service and uniformity in the types of planes used. Each of these organisations is using a particular business model.

Formally, a business model could be defined as ‘a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network ( ).

Business models have an intimate relationship with the strategy of an organisation. Strategies result in choices; a business model can be used to help analyse and communicate these strategic choices. Companies in the same industry, competing with each other, can rely on different models as a matter of strategic choice. Tata Consultancy Services adopts a traditional fixed-price, fixed-time business model, where payments by clients are based on time related milestones. Infosys and Wipro have a time and material business model where clients pay on an ongoing basis, depending on the amount of work done rather than the time elapsed ( ).

From the abstraction that strategies actually are, business models are down-to-earth prescriptions to implement the strategies. Strategies are not expected to answer the question: how to make money? Business model can enable us to do precisely that.

The vision, mission, business definition, product/service concept and business model serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realize its vision and mission and achieve its strategic intent, any organisation will have to set goals and objectives to be pursued in the medium and short run.

### **3.5 The Product/Service Concept**

Like the business definition, an explicit product/service concept could have far-reaching implications for strategic management. A product/service concept is the manner in which a company perceives its product or service. Such a perception is based on how the product or service provides functions that satisfy customer needs.

A product/service concept, when defined carefully and innovatively, can prove to be of significant worth to strategists in different phases of strategic management. An explicit business definition and product/service concept are powerful tools for strategic management.

The vision, mission, business definition, and product/service concept serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realise its mission and to achieve its intent, any organisation will have to set goals and objectives to be pursued in the short run. The section deals with objectives and goals.

### **Self Assessment Exercise 4**

1. Relate the product/service concept to the strategic intent of an organisation.

### **3.6 Goals and Objectives**

Goals denote what an organisation hopes to accomplish in a future period of time. They represent a future state or an outcome of the effort put in now. A broad category of financial and non-financial issues are addressed by the goals that a firm sets for itself.

Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals which are generalised. In this manner, objectives make the goals operational. While goals may be qualitative, objectives tend to be mainly quantitative in specification. In this way they are measurable and comparable. In strategic management literature, there has been confusion with regard to the usage of these terms: goals and objectives. The meaning assigned to these terms is sometimes in contrast to what we have adopted here. Also, often they are used interchangeably. Goals connote the broader sense of the term objectives. However, we would prefer to use only the term objective to denote both. After all, it must be remembered that objectives are the manifestations of goals, whether quantified and specifically stated or not. Besides, it is more convenient to use one term rather than both every time one refers to a future state or the outcome of an effort.

Any organisation shall always have a potential set of goals. It has to exercise a choice from among these goals. This choice must be further elaborated and expressed in terms of operational and measurable objectives.

### **3.6.1 Roles of Objectives**

Objectives play an important role in strategic management. We could identify the various facets of such a role as shown below:

- *Objectives define the organisation's relationship with its environment.* By stating its objectives, an organisation commits itself to what it has to achieve for its employees, customers and society at large.
- *Objectives help an organisation to pursue its vision and mission.* By defining the long-term position that an organisation wishes to attain and the short-term targets to be achieved, objectives help an organisation in pursuing its vision and mission.
- *Objectives provide the basis for strategic decision-making.* By directing the attention of strategists to those areas where strategic decisions need to be taken, objectives lead to desirable standards of behaviour and, in this manner, help to coordinate strategic decision-making.
- *Objectives provide the standard for performance appraisal.* By stating the targets to be achieved in a given time period and the measures to be adopted to achieve them, objectives lay down the standards against which organisational as well as individual performance could be judged. In the absence of objectives, an organisation would have no clear and definite basis for evaluating its performance.

Managers who set objectives for themselves and their organisations are most likely to achieve them than those who do not specify their performance targets.

### **3.6.2 Characteristics of Objectives**

Objectives, as measures of organisational behaviour and performance, should possess certain desirable characteristics in order to be effective. Given below are seven such characteristics.

1. *Objectives should be understandable.* Because objectives play an important role in strategic management and are put to use in a variety of ways, they should be understandable to those

who have to achieve them. A chief executive who says that ‘something ought to be done to set things right’ is not likely to be understood by his managers. Subsequently, no action will be taken, or even a wrong action might be taken.

2. *Objectives should be concrete and specific.* To say that our company plans to achieve a 12 percent increase its sales’ is certainly better than stating that our company seeks to increase its sales’. The first statement implies a concrete and specific objective and is more likely to lead and motivate the managers.
3. *Objectives should be related to a timeframe.* If the first statement given above restated as our company plans to increase its sales by 12 percent by the end of two years’, it enhances the specificity of the objective. If objectives are related to a timeframe, then managers know the duration within which they have to be achieved.
4. *Objectives should be measurable and controllable.* Many organisations perceive themselves as companies which are attractive to work for. If measures like the number and quality of job applications received, average emoluments offered, or staff turnover per year could be devised, it would be possible to measure and control the achievement of this objective with respect to comparable companies in a particular industry, and in general.
5. *Objectives should be challenging.* Objectives that are too high or too low are both demotivating and, therefore, should be set at challenging but not unrealistic levels. To set high sales targets in a declining market does not lead to success. Conversely a low sales target in a burgeoning market is easily achievable and, therefore, leads to a suboptimal performance.
6. *Different objectives should correlate with each other.* Organisations set many objectives in different areas. If objectives are set in one area disregarding the other areas such an action is likely to lead to problems. A classic dilemma in organisations, and a source of interdepartmental conflicts, is setting sales and production objectives. Marketing departments typically insist on a wider variety of products to cater to a variety of market segments while production departments generally prefer to have greater product uniformity in order to have economies of scale. Obviously, tradeoffs are required to be made so that different objectives correlate with each other, are mutually supportive, and result in synergistic advantages. This is especially true for organisations which are organised on a profit-centre basis.
7. *Objectives should be set within constraints.* There are many constraints – internal as well as external – which have to be considered in objective-setting. For example, resource availability is an internal constraint which affects objective-setting. Different objectives compete for scarce resources and tradeoffs are necessary for optimum resource utilisation. Organisations face many external constraints like legal requirements, consumer activism and environmental protection. All these limit the organisation’s ability to set and achieve objectives.

We will further examine a few issues relevant to objectives, in order to understand this complex process.

### **3.6.3 Issues in Objective-Setting**

There are many issues which have a bearing on different aspects of objective-setting. Here we shall deal with six such issues (Azhar, 2002).

1. *Specificity*. Objectives may be stated at different levels of specificity. At one extreme, they might be very broadly stated as goals while at the other they might be specifically stated as targets. Many organisations state corporate as well as general, specific, functional, and operational objectives. Note that specificity is related to the organisational levels for which a set of objectives has been stated. The issue of specificity is resolved through stating objectives at different levels, and prefixing terms
2. *Multiplicity*. Since objectives deal with a number of performance areas, a variety of them have to be formulated to cover all aspects of the functioning of an organisation. No organisation operates on the basis of single or a few objectives. The issue of multiplicity deals with different types of objectives with respect to organisational levels (e.g. higher or lower levels), importance (e.g. primary or secondary), ends (e.g. survival or growth), functions (e.g. marketing or finance), and nature (e.g. organisational or personal). Too few or too many objectives are both unrealistic. Organisations need to set adequate and appropriate objectives so as to cover all the major performance areas.
3. *Periodicity*. Objectives are formulated for different time periods. It is possible to set long-term, medium-term and short-term objectives. Generally, organisations determine objectives for the long-and short-term. Whenever this is done, objectives for different time periods have to be integrated with each other. Long-term objectives are, by nature, less certain, and are therefore stated in general terms. Short-term objectives, on the other hand, are relatively more certain, specific, and comprehensive. One long-term objective may result in several short-term objectives; many short-term objectives converge to form a long-term objective. For example, a long-term objective may be continual profitability. Short-term objectives which support continual profitability may be the return on investment, profit margin, return on net worth, and so on, computed on an annual basis.
4. *Verifiability*. Each objective has to be tested on the basis of its verifiability. In other words, it should be possible for a manager to state the basis on which to decide whether an objective has been met or not. Only verifiable objectives can be meaningfully used in strategic management. Related to verifiability is the question of quantification. A definite way to measure any objective is to quantify it. But it may be neither possible nor desirable to quantify each and every objective. In such cases, qualitative objectives have to be set. These objectives could also be verified but not to the degree of accuracy possible for quantitative objectives. For example, a qualitative objective may be stated as – to create a congenial working environment within the factory. In order to make such an objective verifiable; the value judgement of informed experts – both insiders and outsiders – could be used. A few quantitative measures could also be devised which can serve as indicators of a congenial working environment. Some of these could be staff turnover, absenteeism, accident rates, productivity figures, and so forth. In general, it can be said that the issue of verifiability could be resolved through a judicious use of a combination of quantitative and qualitative objectives.
5. *Reality*. It is a common observation that organisations tend to have to sets of objectives – official and operative. Official objectives are those which organisations profess to attain while operative objectives are those which they seek to attain in reality. Probably no one would be in a better position to appreciate the difference between these two objectives than a harried client of a public sector bank who, on being maltreated by an arrogant bank employee, looks up to find a poster of a smiling and beautiful girl with folded hands looking

down at him. The poster carries the caption: Customer service with a smile!’ Many organisations state one of their official objectives as the development of human resource. But whether it is also an operative objective depends on the amount of resources allocated to human resource development.

6. *Quality.* Objectives may be both good and bad. The quality of an objective can be judged on the basis of its capability to provide a specific direction and a tangible basis for evaluating performance. An example of a bad objective is: ‘To be the market leader in our industry’. It is insufficient with respect to its measurability. To restate the same objective as: ‘To increase market share to a minimum of 40 percent of the total with respect to Product A over the period of the next two years and to maintain it thereafter’ turns it into a good objective since it is specific, relates to performance, is measurable, and provides a definite direction.

Recapitulating what we have said in this and the previous subsection, it can be stated that objectives have a number of characteristics and a variety of issues are involved in setting those. The determination of objectives is, therefore, a complex task. Further, two important questions need to be asked: what objectives are to be chosen for achievement and how are they to be determined. We attempt to answer the first question in the following subsection and the second in the next.

#### **3.6.4 What Objectives are Set?**

To put it straight, objectives have to be set in all those performance areas which are of strategic importance to an organisation. In general, according to Drucker, objectives need to be set in the eight vital areas of *market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility*. A prescriptive approach, such as the one suggested by Drucker, is based on those strategic factors which are supposedly vital for all types of organisations. But in practice organisations differ widely with regard to the objectives that they choose to set.

Research studies, based on a survey of a large number of companies, too lead to a set of objectives that the companies determine for themselves. But even here, the list of objectives is more of a least common denominator rather than a true reflection of the objectives that the companies actually set for themselves. to illustrate this point, we shall consider one such study in the Indian context. B.R. Singh, who has studied 28 large companies, each having a turnover of more than Rs 50 crore at the time of the study, reports that the objectives were set in areas like;

- profit (return on investment, return on shareholder’s capital, net profits as a percentage of sales);
- marketing (increase in sales volume, market development for existing products, new product development, reduction in marketing cost, improving customer service);
- growth (output, sales turnover, investment);
- employees (industrial relations, welfare and development);
- social responsibility (community service, rural development, auxiliary industry development, family welfare).

Consider the following examples of objective-setting by different types of organisations. We are not including the usual financial parameters used to judge performance to provide you with an idea of how the context could dictate the criteria for objective-setting.

- Two wheeler companies can use measures of performance such as the number of vehicles manufactured per annum, market share in percent, level of indigenization achieved in percent, average cost per vehicle and fuel efficiency achieved in kilometers per litre.
- Advertising agencies set objectives in terms of billings achieved in rupees per year.
- For steel manufacturing companies, a basic measure is the quantity of saleable steel, both in terms of installed capacity and actual production leading to capacity utilization in percent. Another operational measure is energy consumed per tonne of saleable steel.
- Insurance companies may set objectives in terms of the number of policies executed, sum assured, and expense-income ratio. Social objectives could be measured in terms of the percentage of insurable population covered and an investment mix consisting of government securities, social schemes, and corporate securities.
- Railways are basically concerned with objectives in the area of passenger traffic and freight handling. Passenger traffic is indicated by the volume of traffic handled in terms of the number of passengers and the number of seats and berths available. Freight traffic is in terms of the volume of traffic handled, expressed in weight and utilization percent of wagons and locomotives.
- Hotels may set objectives in terms of the number of rooms' available, occupancy rate, and cost per room. Subjective measures are maintaining the quality of hotel properties and the quality of customer service provided.

The question that now remains to be addressed is how are the objectives to be formulated. The next subsection takes up this issue.

### **3.6.5 How are Objectives Formulated?**

From the foregoing discussion, it is clear that organisations need to set objectives at different levels, of various types and for different time periods, and that such objectives should possess certain desirable characteristics and should resolve certain issues before being used. The question that we now face is: how are objectives formulated? For an answer, we shall consider the factors that have to be taken into account for the formulation of objectives.

Glueck identifies four factors that should be considered for objective-setting. These factors are: *the forces in the environment, realities of an enterprise's resources and internal power relationships, the value system of top executives, and awareness by management of the past objectives of the firm.* Here is a description of each of these factors.

1. *The forces in the environment.* These take into account all the interests – sometimes coinciding but often conflicting – of the different stakeholders in an organisation. Each group of stakeholders, whether they are company employees, customers, or the government, put forward a set of claims or have expectations that have to be considered in setting



objectives. It is important to note that the interests of various stakeholders may change from time to time, necessitating a corresponding shift in the importance attached to different objectives.

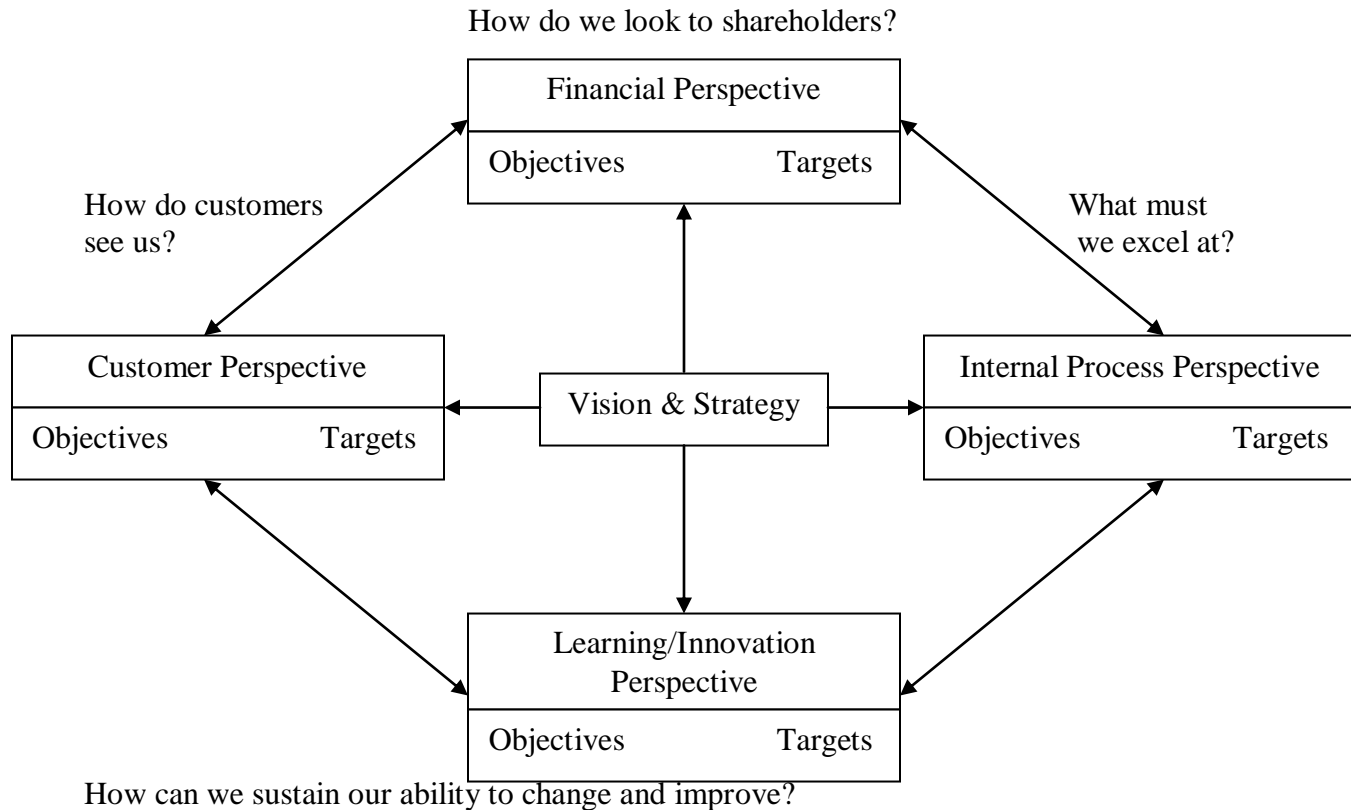
2. *Realities of enterprise's resources and internal power relationships.* This means that objective are dependent on the resource capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resources, both material and human, place restrictions on the objective-achieving capability of the organisation and these have to be considered in order to set realistic objectives. Internal power relationships have an impact on objectives in different ways. A dominant group of strategists such as the board of directors, or an individual strategist, such as, a chief executive, may wield considerable power to set objectives in consonance with their respective views. Again, since power configurations within a firm are continually changing, the relative importance attached to different objectives may also vary over a period of time.
3. *The value system of the top executives.* This has an impact on the corporate philosophy that organisations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or undesirable. This applies to the choice of objectives too. for example, entrepreneurial values may result in prominence being given to profit objectives while a philanthropic attitude and values of social responsibility may lead to the setting of socially-oriented objectives.
4. *Awareness by management.* Awareness of the past objectives and development of a firm leads to a choice of objectives that had been emphasized in the past due to different reasons. For instance, a dominant chief executive lays down a set of objectives and the organisation continues to follow it, or deviates marginally from it in the future. This happens because organisations do not depart radically from the paths that they had been following in the recent past. Whatever changes occur in their choice of objectives take place incrementally in an adaptive manner.

Keeping in view the four factors described above, we observe that objective-setting is a complex task which is based on consensus-building and has no precise beginning or end. Vision and mission provide a 'common thread' to bind together the different aspects of the objective-setting process by providing a specific direction along which an organisation can move.

### **3.6.6 Balanced Scorecard Approach to Objectives-setting**

The performance management system called balanced scorecard, developed by Robert S. Kaplan and David Norton of Harvard Business School, seeks to do away with the undue emphasis on short-term financial objectives and seeks to improve organizational performance by focusing attention on measuring and managing a wide range of non-financial, operational objectives. Later, the system application was enlarged to include its usage as a comprehensive strategic planning technique. In doing so, the balance scorecard approach advocates a top-down approach to performance management, starting with strategic intent being expressed through the organisation, down to operationally relevant targets.

**Figure shows the Balance Scorecard Model.**



**Source:** Based on R.S. Kaplan and D.P. Norton, *The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment*, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan and D.P. Norton, *The Balanced Scorecard: Translating Strategies into Action*, Boston, Harvard Business School Press, 1996.

The balance scorecard model requires an evaluation of organizational performance from four different perspectives.

*Financial Perspective.* This perspective considers the financial measures arising from the strategic intent of the organisation. Examples of such measures are revenues, earnings, return on capital and cash flow.

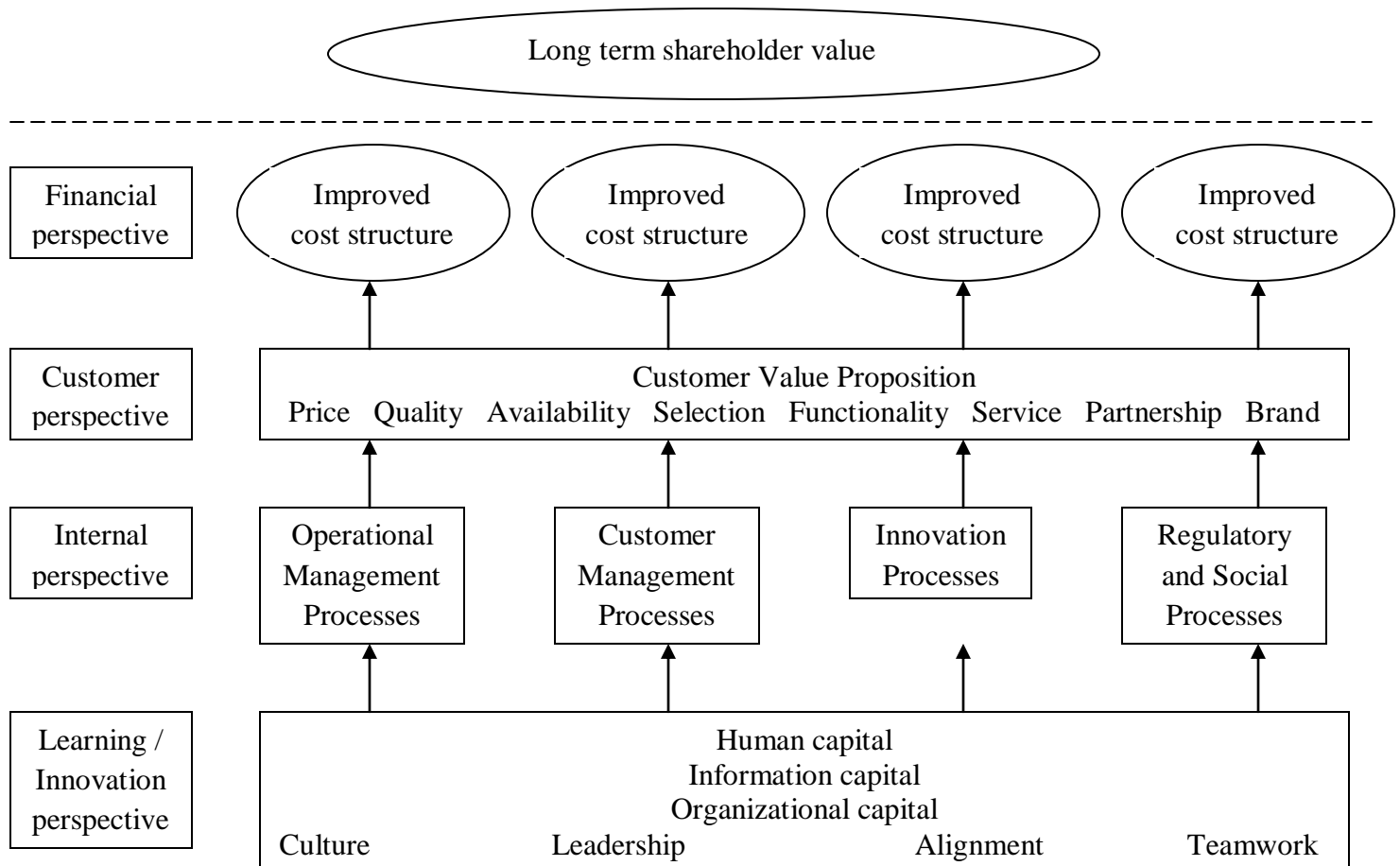
*Customer Perspective.* This perspective measures the ability of the organisation to provide quality goods and services, effective delivery and overall customer satisfaction. Examples of such measures are market share, customer satisfaction measures and customer loyalty.

*Internal Businesses Perspective.* Internal business processes are the mechanisms through which performance expectations are achieved. The internal business perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organizational objectives and customers expectations, organisations must identify the key business processes at which they must excel. Examples of such measures are productivity indices, quality measures and efficiency.

*Learning and Growth Perspective.* This perspective focuses on the ability of the organisation to manage its businesses and adapt to change. In order to face the challenges of changes in the environment and customer expectations, organisations take on new responsibilities that require its employees to develop new skills and capabilities. Examples of such measures are morale, knowledge, employee turnover, usage of best practices, share of revenue from new products and employee suggestions.

Kaplan and Norton used the technique of strategy maps that provide a visual representation of the organisation's strategy. In such maps, the four perspectives were connected to each other in a 'cause and effect' fashion, thus making clear the relationship of all the strategic objectives to the strategic intent of the organisation. A typical strategic map is shown in the figure below.

**Figure showing a typical strategy map**



**Source:** Based on R.S. Kaplan and D.P. Norton. The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan and D.P. Norton, The Balanced Scorecard: Translating Strategies into Action, Boston, Harvard Business School Press, 1996.

The purpose here is to note that objective-setting can use the balanced scorecard approach. The four perspectives above can help an organisation to set objectives. The utility of the balanced scorecard approach lies in the prioritisation of key strategic objectives that can be allocated to

each of these four perspectives and the identification of associated measures that can be used to evaluate organizational progress in meeting the objectives.

In practice, the balanced scorecard approach works something like this:

1. The development of the scorecard begins with the establishment of the organisation's strategic intent, including the vision and mission.
2. Next, the design of the balanced scorecard is determined by identifying the specific measures related to the four perspectives.
3. The following step involves mapping the strategy through the identification of organizational activities that are derived from the strategies. For example, achieving financial growth may be expressed in terms of sales growth and revenue growth.
4. In the final stage, metrics that can be used to accurately measure the performance of the organisation in the specific areas are established. In the example above, metrics for revenue growth may be expressed in terms of sales to new customers, sales of new services or products or entry into new markets.

### **3.7 Critical Success Factors**

Many of us occasionally ask ourselves questions like: What do we need to do in order to be successful in our studies? our career? our profession? our marriage? Similarly, managers too are concerned about identifying those critical factors which will lead to success for their organisations. Critical success factors (CSFs), sometimes referred to as strategic factors or key factors for success, are those which are crucial for organisational success. When strategists consciously look for such factors and take them into consideration for strategic management, they are likely to be more successful, while putting in relatively lesser effort.

Some of the important points that can be used in objective-setting as well as for exercising a strategic choice relative to critical success factors are:

1. A set of CSFs results from asking the question: what do we need to do in order to be successful in a particular context?
2. CSFs are based on practical logic, heuristic, or a rule of thumb rather than an elaborate procedure or an esoteric theoretical model.
3. CSFs are the result of long years of managerial experience, which leads to the development of intuition, judgement and a hunch that can be used in strategic decision-making.
4. An analysis of what relevant CSFs operate in a particular context could be based on the manager's statements, expert opinions and organisational success stories.
5. CSFs could also be generated internally through creative techniques such as brainstorming.

6. The use of CSFs in objective-setting and strategic choice distinguishes the successful organisations from the unsuccessful ones.
7. CSFs are used to pinpoint the key result areas, determining objectives in those areas, and devising measures of performance for judging the objective-achieving capability of any organisation.

Having seen what CSFs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. This is the subject matter of the last subsection in this unit.

The binding together of the different levels of the hierarchy of strategic intent is facilitated by techniques such as the balanced scorecard that we would discuss next.

CSFs need key performance indicators in order to be measured.

### **3.8 Key Performance Indicators (KPIs)**

Performance indicators are well understood as being metrics or measures in terms of which performance is measured, evaluated or compared. Key performance indicators (KPIs) are the metrics or measures in terms of which the critical success factors are evaluated. What makes the KPIs 'key' is their relationship to the CSFs and ultimately, to the vision of the organisation. An organisation might have the vision 'to be the most profitable company in our industry'. For making this vision operational, it needs to determine KPIs such as pre-tax profit or shareholder equity that measure profitability. In the case of this organisation, the percent of profit contributed to community causes will not be a relevant KPI. For an organisation, that states its vision 'to be a responsible corporate citizen' the KPI of percent of profit contributed to community causes is appropriate.

Identification of which KPIs to use is important. A shoe manufacturing company that considers high manufacturing quality or cost efficiency as its critical success factors, has to think of metrics in terms of which it will measure these parameters. High manufacturing quality will have to be expressed in terms of an indicator such as recall rate after delivery, product reject rate, on-time delivery or number of complaints. The company has to determine which combination of metrics it would use to determine whether it is successful. KPIs thus help to quantify the critical success factors.

Selecting the right measures is vital for effectiveness. Even more importantly, the metrics must be built into a performance measurement system that allows individuals and groups to understand how their behaviours and activities are fulfilling the overall corporate goals. If a KPI is going to be of any value, there must be a way to accurately define and measure it. 'To Generate More Repeat Customers' may apparently seem to be impressive as an objective, but it could be inappropriate as a KPI without some way to distinguish between new and repeat customers. 'To Be The Most Popular Company' may not work if there is no way to measure the company's popularity or compare it to its competitors. If a company wishes to be 'an employer

of choice' then a relevant KPI might be 'the number of voluntary resignations divided by the total number of employees at the beginning of the measurement period'. To make this KPI practical, the human resource management information system should be able to provide information required to measure on the basis of this metrics, otherwise the KPI itself becomes redundant.

### **3.8.1 Benefits of KPIs**

KPIs have gained importance as well as popularity in the corporate world as they have several benefits. The major benefit in using KPIs is to help an organisation define and measure progress toward its objectives. KPIs give everyone in the organisation a clear picture of what is important and what they need to do to accomplish objectives. They are a helpful tool for organisations to motivate their employees towards achievement of its objectives. KPIs are applied in business intelligence to gauge business trends. Developments in the areas of business intelligence and business performance management are enabling the development of sophisticated information technology based tools such as dashboards that show organizational performance at a glance, in the form of visual charts and videos. KPIs can also be used for benchmarking the performance of an organisation over time and to compare its performance with rivals in the same industry.

Having seen what CSFs and KPIs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. An explicit structuring of the hierarchy of a strategic intent has important implications for strategic management. First, it serves as a charter of aims the organisation plans to achieve. Second, it is helpful in laying down the aims of different subsystems within an organisation. Third, it is a powerful means of communicating the organizational intent down the line. And, lastly, it ensures the creation of a result-oriented organizational system set to attain the mission and realise the vision of the organisation.

With the hierarchy of strategic intent, the organisation knows the answer to the question: What is to be achieved? The next important question is: What are the means to be adopted in order to realise the intent? The next part of this course will answer this question.

Summary – business models are often expressed in the form of a question: how does the organisation make money? Strategic result in choices; a business model can be used to help analyse and communicate these strategic choices. Business models are down-to-earth prescriptions to implement the strategies.

### **Self Assessment Exercise 5**

1. Propose the factors that should be taken into account while setting objectives.
2. Why are critical success factors 'critical'?
3. Point out the similarity, if any, between the critical factors (CSF) approach and the management by exception technique.
4. To what different uses can CSFs be put in strategic management?

### **Self Assessment Exercise 6**

1. Formulate a mission statement for your business, school or for the organisation you work for.
2. Only verifiable objectives can be used meaningfully in strategic management. Why?
3. Name some important constraints under which objectives are set.
4. What is key performance indicator (KPI)? Explain briefly.

### **Self Assessment Exercise 7**

1. State any two objectives, which, in your opinion are of bad quality. Now alter them in such a way that their quality improves.
2. In what terms can a power corporation set its objectives? a business school? a graduate aspiring for admission to an MBA programme?
3. Why can parameters such as shareholder value, economic value-added or market value-added be better for objective setting?

## **4.0 CONCLUSION**

Organisational performance is judged on the basis of key result areas which depend on an analysis of critical success factors for any organisation. The various components of strategic intent, as we know, are set at different levels. When placed at different levels and linked to each other, strategic intent takes the shape of a hierarchy.

## **5 SUMMARY**

In this unit, we have defined the concept strategic intent; differentiated between vision, mission statement and business definition; explained product/service concept; distinguished between goals and objectives; discussed critical success factors. And explained the concept key performance indicators (KPIs).

## **6.0 TUTOR-MARKED ASSIGNMENT**

1. Give a lucid description of these concepts:
  - (a) Strategic intent
  - (b) Stretch
  - (c) Leverage
  - (d) Fit

Discuss the manner in which these concepts aid our understanding of strategic management.

2. Consider any organisation of your choice. Attempt to define its business along the dimensions of customer groups, customers' functions, and alternative technologies. What insight does such a definition offer to you for the strategic management of your chosen organisation?
3. Consider any industry of your choice and point out the critical success factors (CSFs) for an organisation in that industry. Attempt to formulate objectives and devise measures of performance on the basis of the CSFs you have identified.

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## **UNIT 2 ENVIRONMENTAL APPRAISAL AND SWOT ANALYSIS**

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3.5	Environmental Sectors
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3.7	Appraising the Environment
4.0	Conclusion
5.0	Summary
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7.0	References/Further Readings

### **1.0 INTRODUCTION**

In this unit, we shall examine environmental appraisal and this study will take us through to the concept of environment, classification of environment, SWOT analysis, environmental sectors and scanning as well as appraisal of the environment.

### **2.0 OBJECTIVES**

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

- define the concept environment as it relates to business organisation;
- distinguish between external and internal environment;
- discuss SWOT analysis;
- differentiate between general and relevant environment;
- define and explain the concept environment sectors;
- Discuss environmental scanning and appraisal of the environment.

### **3.0 MAIN CONTENT**

The environment in which an organization exists could be broadly divided into two parts: the external and the internal environment. In this unit, we shall deal with the appraisal of the external environment. We shall start with attaining an understanding of the concept of environment. This will be done through: a description of four important characteristics of the environment, dividing the environment into its external and internal parts, observing how systematic approach like SWOT analysis can help in environmental appraisal, and classifying the external environment into two parts – the general and the relevant environment.

We will now discuss how the external environment – especially that part which is more relevant to an organization – can be divided into different components. For the purpose of understanding and analysis, we have discussed eight components of the external environment: the market, technological, supplier, economic, regulatory, political, socio-cultural, and international environment. In the third section of this unit, we dealt with environmental scanning – the process through which strategists monitor the external environment and collect information for strategy formulation, and the methods and techniques for environmental scanning. Lastly, we describe the manner in which environmental appraisal takes place. We have pointed out the various factors that affect environmental scanning, how environmental issues can be identified, and the way in which environmental appraisal can be structured.

### **3.1 Concept of Environment**

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is “the aggregate of all conditions, events and influences that surround and affect it” ( ). Since the environment influences an organization in multitudinous ways, it is of crucial importance to understand it. The concept of environment can be understood by looking at some of its characteristics.

#### **3.1.1 Characteristics of Environment**

Business environment (or simply environment) exhibits many characteristics. Some of the important, and obvious, characteristics are briefly described here.

1. *Environment is complex.* The environment consists of a number of factors, events, conditions, and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex phenomenon relatively easier to understand in parts but difficult to grasp in its totality.
2. *Environment is dynamic.* The environment is constantly changing in nature. Due to the many and varied influences operating; there is dynamism in the environment, causing it to change its shape and character continuously.
3. *Environment is multi-faceted.* What shape and character an environment will assume depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is seen frequently when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
4. *Environment has a far-reaching impact.* The environment has a far-reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization in several different ways.

Since the environment is complex, dynamic, multi-faceted, and has a far-reaching impact, dividing it into external and internal components enables us to understand it better. But before we do that it is important to understand that strategic management is becoming increasingly conscious of the nature that affects organisations and environment. The traditional approach to strategic management has led to an emphasis on control, order, and predictability. But these are antithetical to the concept of organisations and environment as we now realize. The organisation and the environment are, in reality, more unpredictable, uncertain, and non-linear. The exhibit below presents an overview of the chaos theory and its application to strategic management.

Exhibit	Chaos Theory in Strategic Management
<p>Chaos theory, as proposed by Edward Lorenz and Mitchel Feigenbaum, postulates that at the root of all complex systems – whether they are organisations or the environment – lies a set of rules that provide a dynamic order to the surface complexity. These systems cannot be considered as linear systems where a simple cause-and-effect model can explain the behaviour of these systems. Rather, these systems are non-linear and dynamic in nature. Any change that takes place in the non-linear systems is chaotic. Chaos theory uses mathematical models, known as chaotic models, to interpret the process of non-linear and dynamic systems. The phenomenon of chaos is observed in a wide variety of processes – biological, sociological, economic, and meteorological. The applications of chaos theory in management may range from predicting market behaviour, financial forecasting, and anticipating competitive strategies. Organisations and environments, as these are also dynamic, ever-changing systems, display some of the characteristics of the living ecosystems making it possible to apply the tenets of chaos theory to them.</p>	
<p>While suggesting the use of chaos theory to strategic management, D. Levy gives the following reasons:</p>	
<ul style="list-style-type: none"> <li>• Long-term planning is difficult;</li> <li>• Industries do not reach a stable equilibrium;</li> <li>• Dramatic changes can occur unexpectedly;</li> <li>• Short-term forecasts and predictions of patterns can be made;</li> <li>• Guidelines are needed to cope with complexity and uncertainty.</li> </ul>	
<p>The lesson that students of strategic management need to learn is that, in a dynamic environment, it is suicidal for organisations to remain static. They have to forego keeping an internal orientation and attempt to change dynamically as the environment changes.</p>	

**Source:** D. Levy, “Chaos theory and strategy: Theory, application and managerial implications”, Strategic Management Journal, Vol. 13, 1992, pp. 111-125; D.N. Chorafas: Chaos Theory in the Financial Markets, Irwin, Chicago, 1994, and R.T. Pascale, M. Millemann and L. Gioja, Surfing the Edge of Chaos: The Laws of Nature and the New Laws of Business, Crown Business, 2000.

Let us go ahead to grapple with the complexity of the environment by dividing it into external and internal environments.

### 3.2 External and Internal Environment

The external environment includes all the factors outside the organisation which provide opportunities or pose threats to the organisation. The internal environment refers to all the factors within an organisation which impart strengths or cause weaknesses of a strategic nature.

The environment in which an organisation exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The four environmental influences could be described as follows:

1. *An opportunity* is a favourable condition in the organisation's environment which enables it to consolidate and strengthen its position. An example of an opportunity is a growing demand for the products or services that a company provides.
2. *A threat* is an unfavourable condition in the organisation's environment which creates a risk for, or causing damage to the organisation. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.
3. *Strength* is an inherent capacity which an organisation can use to gain strategic advantage. An example of a strength is superior research and development skills which can be used for new product development so that the company can gain a strategic advantage.
4. *A weakness* is an inherent limitation or constraint which creates strategic disadvantages. An example of a weakness is overdependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of opportunities and threats, and the internal environment, in terms of strengths and weaknesses, is crucial for the existence, growth, and profitability of any organisation. A systematic approach to understanding the environment is the SWOT analysis.

### 3.3 SWOT Analysis

SWOT analysis, evolved during the 1960s at Stanford Research Institute, is a very popular strategic planning technique having applications in many areas including management. Organisations perform a SWOT analysis to understand their internal and external environments. Business firms undertake SWOT analysis to understand their external and internal environments. SWOT, which is the acronym for strengths, weaknesses, opportunities and threats, is also known as WOTS-UP or TOWS analysis. Through such an analysis, the strengths and weaknesses existing within an organisation can be matched with the opportunities and threats operating in the environment so that an effective strategic can be formulated. An effective organizational strategy, therefore, is one that capitalizes on the opportunities through the use of strengths and neutralizes the threats by minimizing the impact on weaknesses, to achieve predetermined objectives. A simple application of the SWOT analysis technique involves these steps:

1. Setting the objectives of the organisation or its unit;
2. Identifying its strengths, weaknesses, opportunities and threats;
3. Asking four questions:
  - (a) How do we maximize our strengths?
  - (b) How do we minimize our weaknesses?
  - (c) How do we capitalize on the opportunities in our external environment?
  - (d) How do we protect ourselves from threats in our external environment?
4. Recommending strategies that will optimize the answers from the four questions.

The SWOT analysis is usually done with the help of a template in the form of a four-cell matrix, each cell of the matrix representing the strengths, weaknesses, opportunities and threats. The

analysis for preparing the SWOT matrix could be done by a group of managers in a workshop session. The session could use the brainstorming technique for generating ideas about the SWOT factors. A typical SWOT analysis matrix for a hypothetical organisation is shown in the figure below.

**Figure showing a typical SWOT matrix**

<b>STRENGTHS</b> <ul style="list-style-type: none"> <li>- Favourable location</li> <li>- Excellent distribution network</li> <li>- ISO 9000 quality certification</li> <li>- Established R &amp; D Centre</li> <li>- Good management reputation</li> </ul>	<b>WEAKNESSES</b> <ul style="list-style-type: none"> <li>- Uncertain cash flow</li> <li>- Weak management information system</li> <li>- Absence of strong USP for major product lines</li> <li>- Low worker commitment</li> </ul>
<b>OPPORTUNITIES</b> <ul style="list-style-type: none"> <li>- Favourable industry trends</li> <li>- Low technology options available</li> <li>- Possibility of niche target market</li> <li>- Availability of reliable business partners</li> </ul>	<b>THREATS</b> <ul style="list-style-type: none"> <li>- Unfavourable political environment</li> <li>- Weak management information system</li> <li>- Uncertain competitors' intentions</li> <li>- Lack of sustainable financial backing</li> </ul>

SWOT analysis has several benefits, among the major being:

- Simple to use;
- Flexible and can be adapted to varying situations;
- Leads to clarification of issues;
- Development of goal-oriented alternatives;
- Useful as a starting point for strategic analysis.

The following could be the pitfalls of using the SWOT analysis indiscriminately:

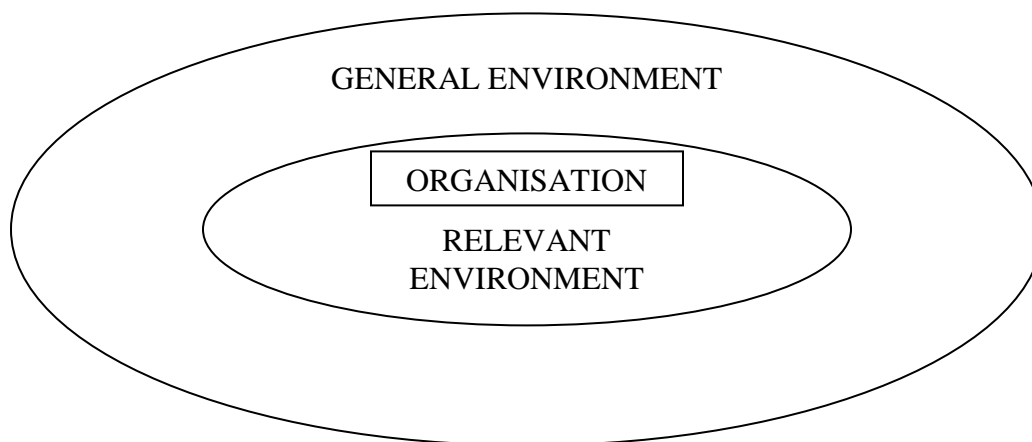
- Simplicity of use may turn to be simplistic by trivializing the reality that may be more complex than represented in the SWOT matrices.
- May result in just compiling lists rather than think about what is really important for achieving objectives.
- Usually reflects an evaluator's position and viewpoint that can be misinterpreted to justify a previously decided course of action, rather than be used as a means to open new possibilities.
- Chances exist where strengths may be confused with opportunities or weaknesses with threats.
- May encourage organisations to take a lazy course of action of looking for strengths that match opportunities rather than developing new strengths that could match the emerging opportunities.

The process of strategy formulation starts with, and critically depends on the appraisal of the external and internal environment of an organisation. In this unit, we will attempt to understand the external environment and, in the next unit, we will take up the internal environment for discussion.

### 3.4 General and Relevant Environment

As we said earlier, the external environment consists of all those factors which provide opportunities or pose threats to an organisation. In a wider sense, the external environment encompasses a variety of factors, like: international, national and local economy; social changes; demographic variables; political systems; technology; attitude towards business; energy sources; raw materials and other resources; and many other macro-level factors. We could designate such a wider perception of the environment as the general environment. All organisations, in some way or the other, are concerned about the general environment. But the immediate concerns of any organisation are confined to just a part of the general environment which is of high strategic relevance to the organisation. This part of the environment could be termed as the immediately relevant environment, or simply, the relevant environment. The conception of the business environment of an organisation is presented in the diagram below.

**Diagram showing the business environment of an organisation**



A conscious identification of the relevant environment enables an organisation to focus its attention on those factors which are intimately related to its mission, purpose, objectives, and strategies. Depending on its perception of the relevant environment, an organisation takes into account those influences in its surrounding which have an immediate impact on its strategic management process. Having identified its relevant environment, an organisation can systematically appraise it and incorporate the results of such an appraisal in strategic planning. In order to cope with the complexity of the environment, it is feasible to divide it into different components or sectors.

#### 3.4.1 Classification of Environmental Sectors

Aguilar evolved a categorisation scheme for grouping different kinds of information related to the environment into sectors such as customers, competitors, suppliers, technology; social, political, economic conditions, etc. Keegan suggests that the sector categorisation should be such that these sectors must be exhaustive, i.e., each item of information should find a place in one of the sectors; the sectors must be mutually exclusive so that any given item of information must belong to one of the category; and the classification must be functional and relate to actual scanning practices. There are several sectors into which the external/general environment could be divided into. But, in a given context, there are certain sectors that merit greater attention than the others.

### 3.5 Environmental Sectors

The classification of the general environment into sectors helps an organisation to cope with its complexity, to comprehend the difference influences operating in the environment, and to relate the environmental changes to its strategic management process. Different bases for classification have been adopted by different authors but the basis itself is not as important as the fact that all the relevant factors in the environment have to be considered. Depending on a variety of factors, such as, the size of the organisation, the level and scope of activities, the geographical spread of markets, the nature of the product, the type of technology used, and managerial philosophy, an organisation may divide its environment into sectors capable of being analysed conveniently.

In this unit we are using an eight-category classification of the environment. These eight sectors of the environment are: market, technological, supplier, economic, regulatory, political, socio-cultural, and international sectors of environment. We will now take up each of these sectors for discussion.

#### 3.5.1 Market Environment

The market environment consists of the factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business. Some of the important factors and influences operating in the market environment are as follows:

1. Customer or client factors, such as, the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.
2. Product factors, such as the demand, image, features, utility, function, design, lifecycle, price, promotion, distribution, differentiation, and the availability of substitutes of products or services.
3. Marketing intermediary factors, such as, levels and quality of customer service, middlemen, distribution channels, logistics, costs, delivery systems, and financial intermediaries.
4. Competitor-related factors, such as, the different types of competitors, entry and exit of major competitors, nature of competition, and the relative strategic position of major competitors.

The market environment depends largely on the type of the industrial structure. In monopolies and oligopolies, the concern for the market environment is lesser than what it is in the face of pure competition. In a controlled economy, like that of India, public utilities like electricity boards and most public sector companies such as petrol and cooking gas companies operated in a protected environment.

Here are several examples to show how the market environment affects, and is taken into consideration by the companies.

- Growing international trade, massive investment in infrastructure, increasing levels of disposable income and strong manufacturing and retail sectors have combined to produced a dynamic market environment. Customers and their needs have been featuring more prominently in the business strategies in several industries. Other marketing-related actions

include investments in retail networks, increasing opportunities for customer interactions, improving customer service, customer-focused advertising, demonstrating a more visible presence and improving the overall customer experience.

- There is a distinct trend of growing preference for natural products around the world and this trend is also prevalent in Nigeria. Eco-friendly products whether in agriculture, clothing, cosmetics or healthcare are seen as better substitutes for synthetic products.
- Nigerians are paying increasingly greater attention to personal grooming. Changing lifestyles, increasing disposable incomes, availability of local and internal brands, and influence of satellite television and better awareness of global brands are some of the major factors that have led to an increasing demand for cosmetics. The cosmetics and personal care industry has been growing at a high rate during the last few years. With the demand for cosmetics on the rise and opening of the market to foreign companies, there is increasing competition offering greater product choice and availability to the fashion-conscious Nigerian women and men in urban as well as rural areas.
- Sales promotion, advertising, and market research, all of which had not occupied an important position in the marketing policies of companies have now assumed a greater significance. Distribution has been strengthened so that customers are not put to inconvenience. After-sales services, especially for consumer durables, have become a significant component of the marketing strategies of many companies.

The market environment is one of the most dynamic sectors of the environment. Nigerian marketers are facing a daunting challenge in coming to terms with the dynamism and the ever-changing nature of the Nigerian markets.

### **3.5.2 Technological Environment**

The technological environment consists of those factors that are related to the knowledge applied and the materials and machines used in the production of goods and services which have an impact on the business of an organisation. Some of the important factors and influences operating in the technological environment are as follows:

1. Sources of technology, like company sources, external sources, and foreign sources; cost of technology acquisition; collaboration in and transfer of technology.
2. Technology development, stages of development, change and rate of change of technology, and research and development.
3. Impact of technology on human beings, the man-machine system, and the environmental effects of technology.
4. Communication and infrastructural technology in environment.

Strategists can ill afford to ignore the technological environment, as technology, besides customer groups and customer functions, defines the business of their organisations. According to Boris Petrov, there are three strategic implications of technological change: it can change relative competitive cost position within a business, it can create new markets and new business segments, and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.



### **3.5.3 Supplier Environment**

The supplier environment consists of factors related to the cost, reliability, and availability of the factors of production or service that have an impact on the business of an organisation. Some of the important factors and influences operating in the supplier environment are as follows:

1. Cost, availability and continuity of supply of raw materials, subassemblies, parts and components.
2. Cost and availability of finance for implementing plans and projects.
3. Cost, reliability and availability of energy used in production.
4. Cost, availability and dependability of human resources.
5. Cost, availability and existence of sources and means for the supply of plants and machinery, spare parts and after-sales service.
6. Infrastructural support and ease of availability of the different factors of production, the bargaining power of suppliers, and the existence of substitutes.

The supplier environment occupies a dominant position in strategy formulation because of the fact that Nigeria is a developing country with problems of scarcity of capital. Unlike some of the western nations and Japan, the reliability of supply is very low causing companies to devote a lot of attention and energy to maintain the continuity of supply. Almost all annual company reports lament the shortage of power and cite the high costs of petroleum products as the reason for low profitability.

### **3.5.4 Economic Environment**

The economic environment consists of macro-level factors related to the means of production and distribution of wealth which have an impact on the business of an organisation. Some of the important factors and influences operating in the economic environment are:

1. The economic stage at which a country exists at a given point of time.
2. The economic structure adopted, such as, a capitalistic, socialistic or mixed economy.
3. Economic policies, such as, industrial, monetary and fiscal policies.
4. Economic planning, such as, five-year plans, annual budgets, and so on.
5. Economic indices like national income, distribution of income, rate and growth of gross national product (GNP), per capita income, disposable personal income, rate of savings and investments, value of exports and imports, the balance of payments, etc. and so on.
6. Infrastructural factors, such as, financial institutions, banks, modes of transportation, communication facilities, and so on.

Strategists are acutely aware of the importance and impact of the economic environment on their organisations. Almost all annual company reports presented by the chairman devote attention to the general economic environment prevailing in the country and an assessment of its impact on their companies.

### **3.5.5 Regulatory Environment**

The regulatory environment consists of factors related to planning, promotion, and regulation of economic activities by the government that have an impact on the business of an organisation. Some of the important factors and influences operating in the regulatory environment are as follows:

- The constitutional framework, directive principles, fundamental rights, and division of legislative powers between central and state governments;
- Policies related to licensing, monopolies, foreign investment, and financing of industries;
- Policies related to distribution and pricing, and their control;
- Policies related to imports and exports;
- Other policies related to the public sector, small-scale industries, sick industries, development of backward areas, control of environmental pollution, and consumer protection.

### **3.5.6 Political Environment**

The political environment consists of factors related to the management of public affairs and their impact on the business of an organisation. Some of the important factors and influences operating in the political environment:

1. The political system and its features, like the nature of the political system, ideological forces, political parties and centres of power;
2. The political structure, its goals and stability;
3. Political processes, like the operation of the party system, elections, funding of elections, and legislation with respect to economic and industrial promotion, and regulation;
4. Political philosophy, government's role in business, and its policies and interventions in economic and business development.

### **3.5.7 Socio-cultural Environment**

The socio-cultural environment consists of factors related to human relationships within a society; the development, forms and functions of such a relationship; and the learnt and shared behaviour of groups of human beings which have a bearing on the business of an organisation. Some of the important factors and influences operating in the social environment are:

1. Demographic characteristics, such as, population, its density and distribution, changes in population and age composition, inter-state migration and rural-urban mobility, and income distribution;
2. Socio-cultural concerns such as environmental pollution, corruption, use of mass media, the role of business in society, and consumerism;
3. Socio-cultural attitudes and values, such as, expectation of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism;
4. Family structure and changes in it, attitude towards and within the family, and family values;
5. The role and position of men, women, children, adolescents, and the aged in family and society;
6. Educational levels, awareness and consciousness of rights, the work ethic of the members of society, and the attitude towards minority and disadvantaged groups.

The socio-cultural environment primarily affects the strategic management process within the organisation in the areas of mission and objective-setting, and decisions related to products and markets. Strategists do not seem to be fully aware of the impact of the socio-cultural environment on business or they are so preoccupied with other environment influences that they do not give a high priority to socio-cultural factors. One reason for such a lack of interest could be the nature of socio-cultural influences. Socio-cultural changes take place very slowly and do not seem to have an immediate and direct impact on short-term strategic decisions.

### **3.5.8 International Environment**

The international (or global) environment consists of all those factors that operate at the transnational, cross-cultural, and across-the-border level which have an impact on the business of an organisation. Some of the important factors and influences operating in the international environment are as below:

1. Globalisation, its process, content, and direction;
2. Global economic forces, organisations, blocs, and forums;
3. Global trade and commerce, its process and trends;
4. Global financial system, sources of financing, and accounting standards;
5. Geopolitical situation, equations, alliances, and strategic interests of nations;
6. Global demographic patterns and shifts;
7. Global human resource – institutions, availability, nature and quality of skills and expertise, mobility of labour and other skilled personnel;
8. Global information systems, communication networks, and media;
9. Global technological and quality systems and standards;
10. Global markets and competitiveness;
11. Global legal system, adjudication and arbitration mechanisms;
12. Globalisation of management and allied disciplines, and the diffusion of management techniques in industry.

The international environment constitutes a special class of the environmental sector. While the preceding seven sectors are largely limited and exclusive in nature, the international environment encompasses all the sectors, albeit in the global context. What we mean to say is that while for instance, the political environment within a country could consist of certain factors related to national politics; the international environment would also have a geopolitical component including the political factors and influences at the global level.

This section of the unit has been devoted to a discussion of eight different sectors constituting the environment of an organisation. By no means is it claimed that our coverage of environmental sectors is all-encompassing. There are other sectors too which are worthy of consideration. For instance, the natural, physical or geographical environment, to which a passing reference has been made while discussing regulatory environment, is also of great concern to companies. Environmental protection is of paramount importance in a world where the issues of sustainable development have assumed great significance. The corporate sector is now required to adhere to a plethora of regulations for environmental protection and control of pollution. This is especially relevant for polluting industries, like, processing plants and refineries.

It should be noted that any classification of the environment into sectors is artificial and is meant solely to gain an understanding of the different environmental factors. In reality, the dividing line between the different sectors of the environment is hazy and there is a high level of interaction between variables belonging to various environmental sectors. For example, market demand, which is a part of the market environment, does not exist in isolation but is dependent on other factors, such as, the general state of the economy, buyer motivation or technical quality of the products.

Apart from the inter-sectoral interaction, there are complex inter-linkages existing among the factors in the same sector of the environment. To consider an example of such an inter-linkage, the technological environment has a number of factors and influences. Among these, collaboration in and transfer of technology affect the development of technology in a particular company and also in the industry as a whole. When the technological level is raised, it has repercussions on human beings and the man-machine system. There are also implications for the environmental effects of technology.

The intersectoral and intrasectoral nature of the environmental factors have to be considered while understanding the different environmental sectors. Strategists have to constantly monitor the environment and its different sectors for opportunities and threats that have, or are likely to have, an impact on their organisations. Such a monitoring is done through environmental scanning.

### **3.6 Environmental Scanning**

In the two preceding sections, we have seen how organisation exists consists of a bewildering variety of factors. These factors (may also be termed as influences) are events, trends, issues, and expectations of different interested groups. These factors are explained below.

- Events are important and specific occurrences taking place in different environmental sectors;
- Trends are the general tendencies or the courses of action along which events take place;
- Issues are the current concerns that arise in response to events and trends;
- Expectations are the demands made by interested groups in the light of their concern for issues.

Environmental influences are a complex amalgam of the events, trends, issues and expectations that continually shape the business environment of an organisation. By monitoring the environment through environmental scanning, an organisation can consider the impact of the different events, trends, issues and expectations on its strategic management process. Since the environment facing any organisation is complex and scanning it is absolutely essential, strategists have to deal cautiously with the process of environmental scanning. It has to be done in a manner that unnecessary time and effort is not expended, while important factors are not ignored. For this to take place, it is important to devise an approach, or a combination of different approaches, to environmental scanning.

### 3.6.1 Approaches to Environmental Scanning

Kubr has suggested three approaches which could be adopted for sorting out information for environmental scanning. We could call these approaches as systematic, ad-hoc and processed-form approaches.

1. *Systematic Approach.* Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organisation's activities, government policy statements pertaining to the organisation's business and industry, etc. could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.
2. *Ad-hoc Approach.* For adopting this approach, the organisation uses information in a processed form, available from different sources both inside and outside the organisation. When an organisation uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form. Since environmental scanning is absolutely necessary for strategy formulation, organisations use different practical combinations or approaches to monitor their relevant environments. These approaches may range from an informal assessment of the environmental factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and ad-hoc studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure in anticipation of changes in environmental factors and structured data collection and processing system may be used continuously.
3. *Processed-form Approach.* Between the two extremes of the informal and formal approaches, different stances adopted by organisations might exist, depending on varying degrees of concern for the environment. Such stances are situational. For example, when an issue-related decision has to be taken, a periodic monitoring of the environment may be done. Systematic and ad-hoc approaches can be used for the relevant environment of the organisation while the processed-form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning, data collection is necessary for deriving information about environmental factors.

### 3.6.2 Sources of Information for Environmental Scanning

The various sources of information tapped for collecting data for environmental scanning could be classified in different ways. There could be formal and informal sources. Then there could be written as well as verbal sources. In terms of origin, data sources could be external and internal.

Given below are some of the important types of sources of information.

1. *Documentary or secondary sources* of information like different types of publications. These could be newspapers, magazines, journals, books, trade and industry association newsletters, government publications, annual reports of competitor companies, commercial databases, etc.
2. *Mass media* such as radio, television and Internet.
3. *Internal sources* like company files and documents, internal reports and memoranda, management information system, databases, company employees, sales staff, etc.
4. *External agencies* like customers, marketing intermediaries, suppliers, trade associations, government agencies, etc.
5. *Formal studies* done by employees, market research agencies, consultants and educational institutions
6. *Spying and surveillance* through ex-employees of competitors, industrial espionage agencies, or by planting ‘moles’ in rival companies. The ethicality of these sources is doubtful but nevertheless, these are used and so need a mention.

Strategists use different information sources depending on their needs for environmental scanning. Government publications – though a rich and comprehensive source of information – usually are available after a considerable time lag. Private sources, though relevant and timely, are quite expensive to tap. Therefore, whenever a particular information source is used, it should be checked for its reliability, timeframe, methods of data collection and analysis used, form of presentation, etc.

### **3.6.3 Methods and Techniques Used for Environmental Scanning**

The range of methods and techniques available for environmental scanning is wide. There are formal and systematic techniques as well as intuitive methods available. Strategists may choose from among these methods and techniques, those which suit their needs in terms of the quantity, quality, availability, timeliness, relevance and cost of environmental information.

Various authors have mentioned the methods and techniques used for environmental scanning. LeBell and Krasner outline nine groups of techniques: single-variable extrapolation, theoretical limit environments, dynamic modes, mapping, multivariable interaction analysis, unstructured expert opinion, structured expert opinion, structured inexpert opinion and unstructured inexpert speculation.

Fahey, King and Narayanan have included ten techniques in their survey of environmental scanning and forecasting in strategic planning. These are: scenario-writing, simulation, morphological analysis, project-program-budget system (PPBS), game theory, cross-impact analysis, field anomaly-relation, multi-echelon coordination and other forecasting techniques. Of particular interest is the emerging set of techniques based on the complexity theory that is a group of mathematical techniques designed to deal with the dynamic nature of real-world problems. Among the techniques are the applications of the mathematical concepts of fractals, fuzzy logic, genetic algorithms, swarm stimulation, Monte Carlo method and the more popular of them, the chaos theory.

Owing to the increasing complexity of the external environment, inevitably there have been attempts to utilise the emerging information technologies in assisting strategic planners in environmental scanning. Techniques based on artificial intelligence, neural networks, data mining and a knowledge-based system have been proposed. An example is that of a software agent-based system for continuous environmental surveillance. Another is Futurus, a business solutions-software by Satyam Computer Services, for designing and simulating future scenarios.

While many of the environmental techniques are based on statistical methods and increasingly, the use of sophisticated software in computer-assisted environmental scanning and forecasting, some of them, like scenario-writing, may not use statistical information but employ informed judgement and intuition to predict what the future is most likely to be, expressed in the form of a descriptive statement or report.

Process based techniques for environmental scanning have been proposed from time to time. For instance, a four-step technique called QUEST (quick environmental scanning technique), proposed by B. Nanus uses scenario writing by a team of strategists. Day and Schoemaker have proposed a seven-step process for developing peripheral vision that vigilant organisations should develop, based on the assumption that opportunities and threats often begin as weak signals from the periphery of the external environment hence Strategists have to be aware of the pitfalls of the environmental scanning process so as to use it judiciously.

### **3.6.4 Pitfalls in Environmental Scanning**

Just like any other strategic planning technique, environmental scanning has its soft underbelly. We could enumerate at least five pitfalls faced while using environmental scanning.

- Sometimes, strategic planners may focus excessively on the influences in the relevant environment that they miss out on the trends and issues in the general environment that really matter.
- There is a danger of ‘paralysis by analysis’, meaning that environmental scanning can create such an overload of information that it may prevent timely action. Environmental scanning should not become a number-crunching routine.
- The purpose of environmental scanning is to uncover influences that matter for the future of the organisational strategic decision-making. This purpose should not be lost and environmental scanning should not be used for purposes other than this. For instance, scanning results cannot be used for political manoeuvring by strategists to favour their own viewpoint, functional interests or departmental aims.
- The environmental scanning function should not be integrated too closely with the operational and functional activities of the organisation. This means that it should not become a line function, thus aligning it too closely with the interests of those activities.
- Similarly, environmental scanning should not be too far from the realities of the organisation, making it an impersonal, staff function.

After environmental scanning process is complete, the strategists are faced with the question of how to structure the mass of information available to them. The problem boils down to sifting

the information in such a manner that a clear picture emerge of what opportunities and threats operating in different sectors of the environment facing the organisation.

### **3.7 Appraising the Environment**

In order to draw a clear picture of what opportunities and threats are faced by the organisation at a given time, it is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal, identifying the environmental factors and structuring the results of this environmental appraisal.

#### **3.7.1 Factors affecting Environmental Appraisal**

Given the same environmental conditions, no two strategists or two organisations would appraise the environment in a similar fashion. This is due to the many factors that affect the process of environmental appraisal. We could identify these factors by classifying them into three categories: the strategist-related, organisation-related and environment-related factors.

1. *Strategist-related factors.* There are many factors related to the strategist, which affect the process of environmental appraisal. Since strategists play a central role in the formulation of strategies, their characteristics such as age, education, experience, motivation level, cognitive styles, ability to withstand time pressures and strain of responsibility have an impact on the extent to which they are able to appraise their organisation's environment and how well they are able to do it. Apart from these factors that are related to the strategists as individuals, group characteristics could be the interpersonal relations between the different strategists involved in appraisal, team spirit and the power equations operating between them. Information consciousness is yet another variable denoting the attitude of top managers towards environmental scanning and the communication patterns established among managers with the organisation.
2. *Organisation-related factors.* Like those of strategists, many characteristics of the organisation also have an impact on the environmental appraisal process. These characteristics are the nature of business the organisation is in, its age, size and complexity, the nature of its markets and the product or services that it provides. Another variable identified is of information climate, which as assessed through the information infrastructure implemented, i.e. the processes, technologies and people used in information acquisition and handling.
3. *Environment-related factors.* The nature of environment facing an organisation determines how its appraisal could be done. The nature of the environment depends on its complexity, volatility or turbulence, hostility and diversity. Information processing perspectives suggest that scanning activity will increase in response to increasing environmental uncertainty. Social cognition perspectives suggest that scanning decreases at high and low levels of uncertainty since useful information is either unattainable or is already known.

In sum, how well environmental appraisal is done depends on the strategists, their organisations and their environment in which their organisations exist. Before strategists can structure the environmental appraisal, it is necessary to identify the environmental factors.



### 3.7.2 Identifying the Environmental Factors

Environmental scanning results in a mass of information related to different sectors of the environment. Without a technique to deal with this information, a strategist would be at a loss to comprehend and analyse the environmental influences. These influences, as we have seen, are the events, trends, issues and expectations of different interested groups. A feasible approach to identifying the important environmental factors is to test each factor with regard to its impact on the business of the organisation and the probability of such an impact. The figure below provides a matrix which can help a strategist to identify the high priority environmental factors (termed as issues by Boulton).

**Figure identifying high priority environmental issues**

Probability of impact	High	Medium	Low
High	Critical	High priority	Low priority
Medium	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

**Source:** Adapted from William R. Boulton, *Business Policy: The Art of Strategic Management*, New York, Macmillan Publishing Co., 1984, p. 120.

Environmental scanning leads to the identification of many issues that affect the organisation. These issues could be judged on the basis of the intensity of their impact on the business of the organisation and the relative probability of such an impact. In such a manner, environmental issues (and all the factors) could be distributed among the nine cells of the matrix. The issues which are most likely to have a high level of impact on the organisations are the critical issues and need immediate attention of the strategists. High priority issues are those which have a medium to a high probability of impact, while those currently having a high level of impact but a low probability of occurrence need to be kept under watch. All other issues could be considered as being of low priority but still requiring continuous monitoring as conditions may change later. In this way, strategists could narrow the range of environmental issues they have to focus their attention upon. These issues help in structuring of the environmental appraisal, when divided into opportunities and threats and allocated to different sectors of the environment.

### 3.7.3 Structuring Environmental Appraisal

The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. Structuring the environmental appraisal is a difficult process as environmental issues do not lend themselves to a straightforward classification into neat categories. An issue may arise simultaneously from more than one sector of the environment. Strategists have to use their experience and judgement to place the different environmental issues where they mainly belong, so that clarity emerges. There are many techniques available to structure the environmental appraisal. One such technique, suggested by Glueck, is that of preparing an environmental threat and opportunity profile (ETOP) for an organisation.

The preparation of an ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. A comprehensive ETOP requires subdividing each environmental sector into sub factors and then the impact of each sub factor on

the organisation is described in the form of a statement. A summary ETOP may only show the major factors for the sake of simplicity. The table below shows an example of an ETOP prepared for an established company which is in the bicycle industry. The main business of the company is in sports cycle manufacturing for the domestic and exports market. This example relates to a hypothetical company but the illustration is realistic and based on the current Indian business environment.

**Table Environment threat and opportunity profile (ETOP) for a bicycle company**

Environmental Sectors	Nature of impact	Impact of each sector
Economic	↑	Growing affluence among urban consumers; rising disposable incomes and living standards.
Market	→	Organised sector a virtual oligopoly with four major manufacturers, buyers critical and better informed; Overall industry growth rate not encouraging; Growth rate for niche segments like sports, trekking, racing and fancy city cycles is high; largely unsaturated demand in niche segments; slender margins; traditional distribution systems.
International	↓	Global imports growing but India's share shrinking; India second globally as manufacturer; consumer and exporter after China; major importers are the US and EU but India exports mainly to Africa; threat of cheap Chinese imports.
Political	→	Bicycle principal mode of transport for low and lower-middle income; industry too small for any major political attention.
Regulatory	→	Parts and components reserved for small-scale industry, bicycle industry a thrust area for exports; regulatory restrictions heavy; duty drawback rates lowered.
Social	↑	Environment- and health-friendly transport option; wide usage like commuting to work or school and as recreation and physical fitness equipment; easier negotiating traffic congestions; customer preference for sports cycles which are easy to ride and durable.
Supplier	→	Mostly ancillaries and associated companies in small-scale sector supply parts and components; rising steel prices; increasing use of aluminium; industrial concentration in Punjab and Tamilnadu.
Technological	↑	Technological up-gradation of industry in progress; import of machinery simple; product innovations ongoing such as battery-operated and lightweight foldable cycles.

**Source:** Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, New York, Macmillan Publishing Co., 1984, p. 120.

Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact. As observed from the above table, sports cycle manufacturing is an attractive proposition due to the many opportunities operating in the environment. Prospects in the economic, social and technological sectors are bright. Market environment can throw up opportunities in the niche segment that the company operates in. The company can capitalise on the burgeoning demand by taking advantage of the various government policies and concessions that still exist despite the low attention value of the industry. It can also take advantage of the high exports potential that already exists and has not been adequately capitalized upon. Since the company is an established manufacturer of bicycles, it has a favourable supplier environment with traditional ties binding it to its vendors. But contrast the implications of this ETOP for a new manufacturer, who is planning to enter this industry. Though the economic, social and technological environment sectors would still be favourable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, have access to the latest technology have the facilities to use it.

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favourable impact on the organisation. By the means of an ETOP, the organisation knows where it stands with respect to its environment. Obviously, such an understanding can be of great help to an organisation in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment. Before the formulation of strategies can be undertaken, strategists have to assess whether the organisation has the required strengths or whether it has weaknesses which can affect its capability of taking advantage of the opportunities. This assessment is done through an analysis of the strengths and weaknesses of the organisation and forms a part of the SWOT analysis. The strengths and weaknesses can be analysed through an organisational appraisal, which is the subject matter of the next unit.

#### **4.0 CONCLUSION**

The subject matter of the unit is environmental appraisal, which is the process of identifying opportunities and threats facing an organisation, for the purpose of strategy formulation. SWOT analysis is a systematic approach to find the strengths, weaknesses, opportunities and threats pertaining to an organisation and its environment. Organisations are concerned about their external environment in general, but more attention is paid to the relevant environment, which has an immediate and a direct impact on their activities. The structuring of environmental appraisal is done by the preparation of the environmental threats and opportunities profile (ETOP) that involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation.

#### **5.0 SUMMARY**

In this unit, we have defined the concept environment as it relates to business organisation; distinguished between external and internal environment; discussed SWOT analysis; differentiated between general and relevant environment; defined and explained the concept environment sectors; discussed environmental scanning, listed the methods and techniques for

environmental scanning and drew and analysed the structuring of environmental appraisal and its impact on each sector of the organisation.

In the next unit, our focus will be on appraisal of the internal organisation or simply put, organisational appraisal.

## **6.0 TUTOR-MARKED ASSIGNMENT**

1. Discuss some of the important characteristics of environment and demonstrate how a strategist can understand it better by dividing it into external and internal components and general and relevant environment.
2. A small scale industrialist recently attended a seminar on strategic management. She is quite enthusiastic but does not understand exactly how to use the SWOT analysis for her company. Act as a consultant and advise her on how to use the SWOT analysis.
3. What different types of factors affect the process of environmental appraisal? Select any organisation of your choice. Identify the high priority environmental factors in its relevant environment. Use this information to prepare a summary of ETOP for the organisation.

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## **UNIT 3        ORGANISATIONAL APPRAISAL**

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### **1.0    INTRODUCTION**

In the last unit, we defined the concept environment as it relates to business organisation; distinguished between external and internal environment; discussed SWOT analysis; differentiated between general and relevant environment; defined and explained the concept environment sectors; discussed environmental scanning, listed the methods and techniques for environmental scanning and drew and analysed the structuring of environmental appraisal and its impact on each sector of the organisation. In this next unit, we shall discuss appraisal of the internal organisation or in another way, organisational appraisal.

### **2.0    OBJECTIVES**

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

- Explain the manner in which strategic and competitive advantage is developed.
- Describe six factors of organisational capability.
- Explain the process of conducting organisational appraisal.
- Discuss the major methods and techniques used for organisational appraisal.
- Prepare strategic advantages profile (SAP) for an organisation.

### **3.0    MAIN CONTENT**

Like individuals, all organisations have strengths and weaknesses that lead to their having capabilities. These capabilities stand the organisations in good stead when they compete for resources, customers and market share. In strategic management, we give a lot of importance to an organisation's capabilities as these are central to their achieving strategic advantage for gaining long-term success.

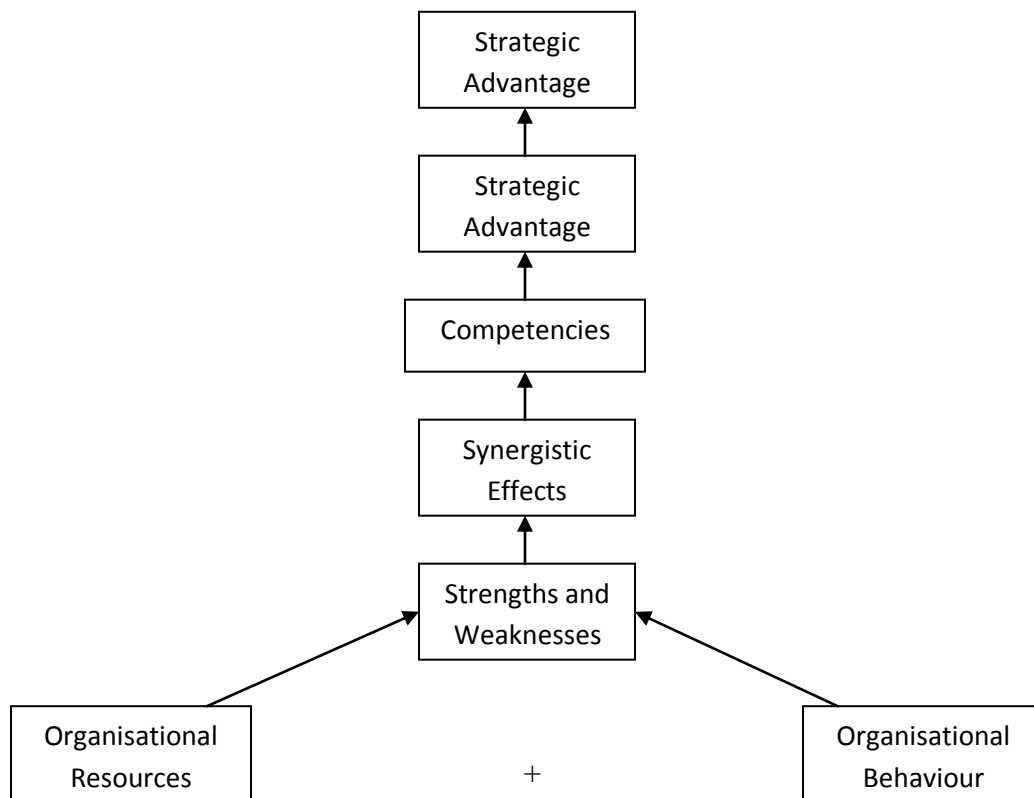
The appraisal of the external environment of a firm helps it to think of what it might choose to do. The appraisal of the internal environment, on the other hand, enables a firm to decide about

what it can do. We attempt to understand the internal environment of an organisation in terms of the organisational resources and behaviour, strengths and weaknesses, synergistic effects and the competencies that create strategic advantage.

### 3.1 Dynamics of Internal Environment

An organisation uses different types of resources and exhibits a certain type of behaviour. The interplay of these different resources along with the prevalent behaviour produces synergy or dysergy within an organisation, which leads to the development of strengths or weaknesses over a period of time. Some of these strengths make an organisation especially competent in a particular area of its activity causing it to develop competencies. Organisational capability rests on an organisation's capacity and the ability to use its competencies to excel in a particular field, thereby giving it strategic advantage. The resources, behaviour, strengths and weaknesses, synergistic effects and competencies of an organisation determine the nature of its internal environment. The diagram below shows the framework that we adopt for an explanation of the process of development of strategic advantage by an organisation. It is expected that students should be aware of these terms in general. However, we explain each of these terms here to place them in the specific context of strategic management and business policy.

Diagram below shows the framework for the development of strategic advantage by an organisation



**Source:** C.K. Prahalad and Gary Hamel, "The Core Competence of the Corporation", Harvard Business Review, Vol. 68, No. 3, May-June, 1990, pp. 79-91.

### **3.1.1 Organisational Resources**

The dynamics of the internal environment of an organisation can be best understood in the context of the resource-based view of firms or the resource-based theory of strategy. According to Barney (1991), who is credited with developing this view of strategy as a theory, a firm is a bundle of resources – tangible and intangible – that include all assets, capabilities, organisational processes, information, knowledge, etc. These resources could be classified as physical, human and organisational resources. The physical resources are the technology, plant and equipment, geographic location, access to raw materials, etc. The human resources are the training, experience, judgement, intelligence, relationships, etc. present in an organisation. The organisational resources are the formal systems and structures as well as informal relations among groups. Elsewhere, Barney says that resources of an organisation can ultimately lead to strategic advantage for it if they possess four characteristics, i.e., if these resources are valuable, rare, costly to imitate and non-substitutable. The resource-based theory of strategic management holds that firms possess resources of which those that are valuable and rare enable them to achieve strategic advantage. Other resources that cannot be imitated or substituted lead to superior long-term performance and a sustainable strategic advantage. Empirical studies over the years have generally supported the resource-based theory.

We observe here that the resource-based theory is concerned with the efficiency of resource utilization. It clearly focuses on the internal environment of the firm and postulates that the strategic advantage would flow from the efficiency with which the resources would be utilised. When firms possess superior resources, they enable them to produce more efficiently and better satisfy customer needs, delivering better value for a given cost and yielding a superior strategic advantage to them. Very few organisations, like individuals, are born with a silver spoon in the mouth; most organisations have to acquire resources the hard way. The cost and availability of resources are the most important factors on which the success of an organisation depends. If an organisation is favourably placed with respect to the cost and availability of a particular type of resource, it possesses an enduring strength which may be used as a strategic weapon by it against its competitors. Conversely, the high cost and scarce availability of a resource are a handicap which causes a persistent strategic weakness in an organisation. It is worthy of note that mere possession of resources does not make an organisation capable. Much depends on their usage within the organisation. The usage, in turn, is based on the organisational behaviour that we study next.

### **3.1.2 Organisational Behaviour**

Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability for, or place constraints on, the usage of resources. Organisational behaviour is unique in the sense that it leads to the development of a special identity and character of an organisation. Some of the important forces and influences that affect organisational behaviour are: the quality of leadership, management philosophy, shared values and culture, quality of work environment and organisational climate, organisational politics, use of power, etc.

The perspective reader would note that what we are proposing here is marrying of the hard side of an organisation, i.e., its resource configuration, with the soft side of the behaviour. The

resources and the behaviour are thus the yin and yang of organisations. What they collectively produce are the strengths and weaknesses.

### **3.1.3 Strengths and Weaknesses**

Organisational resources and behaviour do not exist in isolation. They combine in a complex fashion to create strengths and weaknesses within the internal environment of an organisation. Strengths is an inherent capability which an organisation can use to gain strategic advantage. A weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organisation. Financial strength, for example, is a result of the availability of sources of finances, low cost of capital, efficient use of funds, etc. Another example is of a weakness in the operation area which results due to inappropriate plant location and layout, obsolete plants and machinery, uneconomical operations, etc. In the following sections, we will take up a comprehensive discussion of possible strengths and weaknesses in different functional areas within an organisation. Strengths and weaknesses do not exist in isolation but combine within a functional area, and also across different functional areas, to create synergistic effects.

### **3.1.4 Synergistic Effects**

It is the inherent nature of organisations that strengths and weaknesses, like resources and behaviour, do not exist individually, but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where attributes do not add mathematically, but combine to produce an enhanced or a reduced impact. Such a phenomenon is known as the synergistic effect. Synergy is an idea that the whole is greater or lesser than the sum of its parts. It is also expressed as ‘the two plus two is equal to five or three effect’.

Within an organisation, synergistic effects occur in a number of ways. For example, within a functional area, say of marketing, the synergistic effect may occur when the product, pricing, distribution and promotion aspects support each other, resulting in a high level of marketing synergy. At a higher level, the marketing and production areas may support each other leading to operating synergy. On the other hand, a marketing inefficiency reduces production efficiency, the overall impact being negative, in which case dysergy (or negative synergy) occurs. In this manner, synergistic effects are an important determinant of the quality and type of the internal environment existing within an organisation and may lead to the development of competencies.



### 3.1.5 Competencies

On the basis of its resources and behaviour, an organisation develops certain strengths and weaknesses which when combined lead to synergistic effects. Such effects manifest themselves in terms of organisational competencies. Competencies are special qualities possessed by an organisation that make them withstand the pressures of competition in the marketplace. In other words, the net results of the strategic advantages and disadvantages that exist for an organisation determines its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core capabilities, invisible assets, embedded knowledge, etc.

When an organisation develops its competencies over a period of time and hones them into a fine art of competing with its rivals, it tends to use these competencies exceedingly well. The capability to use the competencies exceedingly well turns them into core competencies. When a specific ability is possessed by a particular organisation exclusively or relatively in large measure, it is called a distinctive competence. Many organisations achieve strategic success by building distinctive competencies around the critical success factors. Recall that critical success factors are those which are crucial for organisational success (for a detailed discussion refer to Unit 4, Module 2). A few examples of distinctive competencies are given below.

- Superior product quality on a particular attribute, say, a two-wheeler, which is more fuel efficient than its competitor products.
- Creation of a marketing niche by supplying highly specialised products to a particular market segment.
- Differential advantage based on superior research and development skills of an organisation, not possessed by its competitors.
- Access to a low-cost financial source, like equity shareholders, not available to its competitors.

A distinctive competence is 'any advantage a company has over its competitors because it can do something which they cannot or it can do something better than they can'. It is not necessary, of course, for all organisations to possess a distinctive competence. Neither do all organisations, which possess certain distinctive competencies, use them for strategic purposes. Nevertheless, the concept of distinctive competence is useful for the purpose of strategy formulation. The importance of distinctive competence to strategy formulation rests with 'the unique capability it gives an organisation in capitalising upon a particular opportunity; the competitive edge it may give a firm in the market place; and the potential for building a distinctive competence and making it the cornerstone of strategy'.

You may think that a hairline distinction is being made between the three terms: competencies, core competencies and distinctive competencies. The difference, as you must have noted, lies in the degree of uniqueness associated with the net synergistic effects occurring within an organisation. You could think of them as being synonymous so long as you are able to make a distinction among them when necessary. Among the three, it is the term 'core competence' that has gained greater currency and popularity. The term 'core competence' has been popularised by Prahalad and Hamel as an idea around which strategies could be formulated by an organisation.

### 3.1.6 Understanding the idea of 'Core Competence'

C.K. Prahalad and Gary Hamel are mainly credited for the dynamic capabilities approach that consider strategic management as a collective learning process aimed at developing and then exploiting distinctive competencies by an organisation that are difficult to replicate by their rivals. Through a series of publications such as 'The Core Competence of the Corporation' (1990) and 'Strategy as Stretch and Leverage' (1993) in the Harvard Business Review, and a book 'Competing for the Future' (1994), they have sought to propagate the idea of dynamic capabilities. This idea rests on the thinking that strategy depends on learning, and learning depends on the capabilities of an organisation.

According to Prahalad and Hamel, the competitive (or strategic, as we call it here) advantage can be traced to the core competencies of an organisation. They take the analog of a tree in describing core competence. 'The diversified corporation is a large tree. The trunk and major limbs are core products, the smaller branches are business units; the leaves, flowers, and fruit are end products. The root system that provides nourishment, sustenance, and stability is the core competence'. To identify a core competence, Prahalad and Hamel prescribe three tests:

- It should be able to provide potential access to a wide variety of markets;
- It should make a significant contribution to the perceived customer benefits of the end products; and
- It should be difficult for the competitors to imitate.

From the several examples of corporations that Prahalad and Hamel use to exemplify their concept of core competence, we quote here a few. Canon's core competence lies in optics, imaging and microprocessor controls. Sony's in miniaturisation, Philip's in optical-media, 3M's in stick tape and Honda's in engines and power trains. The core competencies of these corporations have enabled them to operate in diverse markets offering different products. For instance, Canon has entered, and even dominated, diverse markets such as copiers, laser printers, cameras and image scanners.

The idea of core competence, presented above, seems to be a brilliant way to focus upon the latent strength of an organisation. Yet there are pitfalls of which an organisation has to be aware of. Core competencies can be developed but so also, lost. They cannot be taken for granted. The ability of a core competence to provide strategic advantage can diminish over time as they do not exist perpetually. A dilemma associated with all core competencies is that they have the potential of turning into core rigidities. External environment is responsible for this sad turn of events. New competitors may figure out a way to serve customers better or new technologies may emerge, causing the existing company to lose its strategic advantage. Over-reliance on core competencies to the extent of becoming prisoners of one's own excellence may result in strategic myopia.

Core competence acting as a double-edged sword is demonstrated by the concept of strategic commitment enunciated by Pankaj Ghemawat. This term refers to an organisation's commitment to a particular way of doing business, i.e., developing a particular set of resources and capabilities. Ghemawat's contention is that once a company has made a strategic

commitment, it finds it difficult to respond to new competition if doing so requires a break with its commitment.

The idea of a single core competence as the bedrock for strategy formulation has not gone unchallenged. Critics feel that a core competence, narrowly defined, may restrict an organisation's freedom to act when fresh opportunities in the business environment lure it towards a new direction. In a situation where organised retail is just taking off, the country still remains under-insured, agriculture has not yet been exploited as an organised industry and the infrastructure sector needs overhauling, it would be imprudent for organisations to stick to a single core competence and deprive itself of taking advantage of the opportunities. There might be several different core competencies required. In one case, it may be the ability to raise and manage capital, in another, it might be the ability to manage the regulatory environment or simply, the ability to roll out operation quickly.

Core or distinctive competencies serve a useful purpose if they are used to develop a sustained strategic advantage through building up of organisational capability, which is the subject of the next subsection.

### **3.2 Organisational Capability**

Organisational capability is the inherent capacity or potential of an organisation to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources – even though valuable and unique – may be worthless. Since organisational capability is the capacity or potential of an organisation, it means that it is a measurable attribute. As an attribute, it is the sum total of resources and behaviour, strengths and weaknesses, synergistic effects occurring in and the competencies of any organisation.

Several thinkers in the field of strategy favour the line that capabilities are the outcomes of an organisation's knowledge base, i.e., the skill and knowledge of its employees. There is a growing body of opinion that considers organisations as reservoirs of knowledge, in which case they are all learning organisations. In fact, the concept of organisational learning has spawned a whole school of strategy thought. Students are advised to refer to the subsection below which provides some basic understanding of the learning organisation. It is to be noted that while the concept of a learning organisation is applicable to strategic management in a wider sense at several places, here we are referring to it in the specific context of a capability that is seen as an outcome of organisational learning.

Strategies are primarily interested in organisational capability because of two reasons. First, they wish to know what capacity exists within the organisation to exploit opportunities or face threats in its environment. Secondly, they are interested in knowing what potential should be developed within the organisation so that opportunities could be exploited and threats could be faced in future.

### **3.2.1 Understanding Organisational Learning**

Crossan, Lane and White (1997) define organisational learning as ‘the process of change in individual and shared thought and action, which is effected by and embedded in the institutions of the organisation’. Four basic processes of organisational learning are: intuiting (subconscious process of learning that occurs at the individual level); interpreting (sharing learning at the group level); integrating (collective understanding at the group level and taking it to the level of organisation); and institutionalizing (incorporating learning across the organisation by embedding it in systems, structures, routines and practices).

Nonaka and Takeuchi (1995) place value on knowledge creation within organisations through focusing on insight, intuition and hunch that are gained through experience. Chris Argyris (1977) earlier and later Garratt (1987), differentiated single-loop learning that questions the existing framework in which decisions take place. Organisations that engage in double-loop learning are able to discover new things and act in novel ways that enable them to adapt to changes and sustain and improve their capability and competitiveness.

Peter Senge (1990) popularised the concept of a learning organisation which could be explained as an organisation skilled at creating, acquiring and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights. From the classic term of Peter Drucker: the knowledge worker down to the emerging discipline of knowledge management – which is considered as gathering and managing intellectual capital that can be leveraged for generating internal responsiveness of organisation – the focus is clearly on the capability of an organisation for developing and sustaining strategic advantage.

Organisational capability is measured and compared through the process of organisational appraisal which is the subject matter of this unit. A feasible approach to appraising the organisation is to start with the factors and influences operating within the organisation. These could be called the organisational capability factors.

### **3.2.2 Strategic and Competitive Advantage**

Strategic advantages are the outcomes of organisational capabilities. They are the results of organisational activities leading to rewards in terms of financial parameters, such as profit or shareholder value and/or non-financial parameters, such as market share or reputation. In contrast, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly, such advantages or disadvantages are the outcomes of the presence or absence of organisational capabilities. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage: the higher the profitability, the better is the strategic advantage. They are comparable in terms of the historical performance of an organisation over a period of time or its current performance with respect to its competitors in the industry.

Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measured. So, outperforming rivals in profitability or market standing could be a competitive advantage for an organisation. Competitive advantage is relative rather than absolute and it is to be measured and compared with respect to other rivals in an industry.

With rising competitiveness in industry, mainly owing to the liberalisation and reform process, the usage of the term ‘competitive advantage’ has become more pronounced. The term ‘competitive advantage’ is more popular since it has been used as an important concept by the proponents of the positioning school of thought in strategy. For instance, Michael Porter uses competitive advantage as one of the important concepts in his seminal contributions to the area of competitive strategy. Here, we take the position as described above. Strategic advantage is a broader concept while competitive advantage is one of its subset. The obvious purpose of gaining strategic advantage is to empower organisations to realise their strategic intent.

### **3.2.3 Organisational Capability Factors**

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas. Thus, a company could be considered as inherently strong in marketing owing to a competence in distribution skills. Or a company could be competitive in operations owing to superior research and development infrastructure.

Organisational capability factors (or, simply, capability factors) are the strategic strengths and weaknesses existing in different functional areas within an organisation, which are of crucial importance to strategy formulation and implementation. Other terms synonymous to organisational capability factors are: strategic factors, strategic advantage factors, corporate competence factors, etc.

Different types of capability factors exist within the internal environment of an organisation. For the purpose of explanation, authors divided them into different functional areas. In this course, we follow an approach of dividing the organisation into six largely accepted and commonly understood functional areas. These are: finance, marketing, operations, personnel, information and general management areas.

You will note that we are designating information and general management as functional areas within the organisation though these are not per se considered as such. These are rather overarching functions, concerned with the interaction and coordination of activities, covering the other four functional areas. But here we consider them as functional areas to draw attention to the fact that these two areas too merit consideration and possess embedded capabilities that have the potential to provide strategic advantage to organisations. It should be remembered, however, that a segregation of an organisation into four functional areas is arbitrary and organisations need to choose a basis for classification that would be the most relevant to their structure, functions and activities. You would need to keep a particular scheme of segregation of the organisation into functional areas when you do a case analysis. For instance, a service organisation like a corporate hospital may have, besides different specialties, functions such as a laboratory, radiology unit, therapy, purchase and stores, personnel, housekeeping and accounting. The organisation of such a type would have functional areas based on its typical activities.

We now describe capability factors in the six functional areas of finance, marketing, operations, personnel, information and general management. For each capability factor, we first define that

factor, point out some of the important elements that support capability in an area, give a few illustrations of typical strengths to help enhance your understanding.

**(a) Financial Capability**

Financial capability factors relate to the availability, usages and management of funds and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the financial capability of any organisation are as follows:

1. *Factors related to sources of funds.* Capital structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus and relationship with lenders, banks and financial institutions.
2. *Factors related to usage of funds.* Capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution and relationship with shareholders.
3. *Factors related to management of funds.* Financial, accounting and budgeting systems; management control system, state of financial health, cash, inflation, credit, return and risk management; cost reduction and control and tax planning and advantages.

Based on the above factors, a number of strengths and weaknesses can be found that affect the financial capability of an organisation. The below provides a few illustrations of strengths that support financial capability. The absence or unavailability of these factors leads to the occurrence of weaknesses. For instance, access to financial resources is a strength, while inaccessibility to them is a weakness. Typical strengths that support financial capability

- Access to financial resources;
- Amicable relationship with financial institutions;
- High level of credit-worthiness;
- Efficient capital budgeting system;
- Low cost of capital as compared to competitors;
- High level of shareholder's confidence;
- Effective management control system;
- Tax benefits due to various government policies.

**(b) Marketing Capability**

Marketing capability factors relate to the pricing, promotion and distribution of products or services, and all the allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

**(c) Personnel Capability**

Some of the important factors which influence the personnel capability of an organisation are as follows:

1. *Factors related to the personnel system.* Systems for manpower planning, selection, development, compensation, communication and appraisal, position of the personnel department within the organisation, procedures and standards, etc.
2. *Factors related to organisational and employee characteristics.* Corporate image, quality of managers, staff and workers perception about and image of the organisation as an employer, availability of developmental opportunities for employees, working conditions, etc.
3. *Factors related to industrial relations.* Union-management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, etc.

Some of the typical strengths supporting the development of personnel capability are provided below:

- Genuine concern for human resources management and development;
- Efficient and effective personnel systems;
- The organisation perceived as a fair and model employer;
- Excellent training opportunities and facilities;
- Congenial working environment;
- Highly satisfied and motivated workforce;
- High level of organisational loyalty;
- Low level of absenteeism;
- Safe and salutary working conditions.

#### **4.0 CONCLUSION**

We read from this unit that all organisations have strengths and weaknesses that lead to their having capabilities. These capabilities stand the organisations in good stead when they compete for resources, customers and market share. The resources, behaviour, strengths and weaknesses, synergistic effects and competencies of an organisation determine the nature of its internal environment. The dynamic of internal environment of an organisation can best be understood in the context of the resource-based view of firms or the resource-based theory of strategy. Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability for, or place constraints on, the usage of resources. Organisational resources and behaviour do not exist in isolation but combine in a complex fashion to create strengths and weaknesses within the internal environment of an organisation. It is the inherent nature of organisations that strengths and weaknesses like resources and behaviour do not exist individually but combine in a variety of ways.

#### **.0 SUMMARY**

In this unit, we explained the manner in which strategic and competitive advantage is developed; described and exemplify six factors of organisational capability; explained the process of conducting organisational appraisal; described the major methods and techniques used for organisational appraisal and prepared strategic advantages profile (SAP) for an organisation.

In the next unit, you will learn about hierarchical levels of management.

#### **6.0 TUTOR MARKED ASSIGNMENT**

1. With the aid of a diagram, explain what is meant by the dynamics of internal environment.
2. Write short notes on the following:
  - (a) Organisational resources;
  - (b) Organisational behaviour;
  - (c) Strengths and weaknesses;

- (d) Synergistic effects;
  - (e) Competencies;
  - (f) Core competencies.
3. What do you understand by the term organisational capability? Explain briefly showing its relationship with organisational learning, strategic and competitive advantage, organisational capability factors.

## **7.0 REFERENCES/FURTHER READING**

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## **Unit 4            HIERARCHICAL LEVELS OF STRATEGY**

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7.0	References/Further Reading

### **1.0 INTRODUCTION**

In the last unit, we explained the manner in which strategic and competitive advantage is developed; described and exemplify six factors of organisational capability; explained the process of conducting organisational appraisal; described the major methods and techniques used for organisational appraisal and prepared strategic advantages profile (SAP) for an organisation.

In the next unit, you will learn about hierarchical levels of management.

### **2.0 OBJECTIVES**

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

- define and explain corporate level strategy;
- list the functions of corporate level strategy;
- Discuss strategy levels;
- describe the relationship between corporate level strategy and other levels of planning;
- Explain decisions in corporate level strategy and corporate level strategic questions.

### **3.0 MAIN CONTENT**

Strategy can be formulated on three different levels: corporate level, business unit level and functional or departmental level.

While strategy may be about competing and surviving as a firm, one can argue that products, not corporations compete, and products are developed by business units. The role of the corporation then is to manage its business units and products so that each is competitive and so that each contributes to corporate purposes.

Consider Textron, Inc., a successful conglomerate corporation that pursues profits through a range of businesses in unrelated industries. Textron has four core business segments:

- Aircraft - 32% of revenues
- Automotive - 25% of revenues
- Industrial - 39% of revenues
- Finance - 4% of revenues.

While the corporation must manage its portfolio of businesses to grow and survive, the success of a diversified firm depends upon its ability to manage each of its product lines. While there is no single competitor to Textron, we can talk about the competitors and strategy of each of its business units. In the finance business segment, for example, the chief rivals are major banks providing commercial financing. Many managers consider the business level to be the proper focus for strategic planning.

### **3.1 Corporate Level Strategy**

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses.

Corporate level strategy is concerned with:

- Reach - defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.
- Competitive Contact - defining where in the corporation competition is to be localized. Take the case of insurance: In the mid-1990's, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products. The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level, through its subsidiary, Paul Revere. (Textron divested itself of The Paul Revere Corporation in 1997.)
- Managing Activities and Business Interrelationships - Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.
- Management Practices - Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

### **3.1.1 Business Unit Level Strategy**

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm.

At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with:

- positioning the business against rivals
- anticipating changes in demand and technologies and adjusting the strategy to accommodate them
- influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies (*cost leadership*, *differentiation*, and *focus*) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

### **3.1.2 Functional Level Strategy**

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively.

Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be based. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

## **3.2 Function of Corporate Level Strategy**

Corporate level strategy covers the strategic scope of the organization as a whole. For most organizations the corporate strategic plan is the only strategic plan required. Often strategy at the corporate level is simply referred to as corporate strategy, or in unified companies the corporate business strategy. The process that produces it is called corporate strategic planning, or sometimes simply corporate planning. In a few situations however, it may be justified to speak of corporate level strategy to distinguish it from other kinds of planning.

## **3.3 Strategy Levels**

In the first case the organisation may be multidivisional in nature to the extent that in principle or even in law, separate parts of the enterprise could operate as viable entities in their own right.

These 'group structures' may undertake strategic planning as group exercise where under the corporate level strategy, each separate subsidiary or division has its own strategic planning process and strategic plan. In these cases however, one of the most significant inputs to each

divisions' strategic planning is the output of the corporate strategic planning. These outputs from corporate level strategy; usually in the form of performance targets for the divisions cannot be ignored by the subsidiary unit. The corporate business strategy may also set down a small number of other factors that the divisions, or strategic business units as they may sometimes be called. These might include guidance on market definition, including geographic scope. For example the subsidiaries of a multinational bank may be defined by the country they operate in. In this case the corporate business strategy would set profit targets for each country bank. The corporate strategy would yield to the country banks as to the strategies they pursue in generating these profits. The country level banks would have their own business unit level strategies.

In the second case corporate level strategy is used to distinguish it from the many other plans and planning processes that get the term 'strategic' in their names. The word strategy has acquired a kind of aura that seems to make many people want to use it, regardless of how actually strategic the matter at hand is in relation to the overall performance of an organisation. So we can end up with strategic plans for every level, part and functional process in the organization.

Here we emphasize the use of strategic plan as far as possible according to this definition. Strategic planning is a systematic, formally documented process for deciding the handful of key decisions that an organisation, viewed as a corporate whole, must get right in order to thrive over the next few years.

However, because of this wide spread usage in a variety of contexts we also use the description 'corporate level strategy' or 'corporate strategy', and refer sometimes to 'corporate strategic planning' to make it clear we are not talking about all these other partial or 'non corporate' forms.

Because the successful implementation of corporate level strategy relies on cooperation and alignment across the organization as a whole, it is useful to distinguish the various levels of strategy.

### 3.4 Corporate level strategy and other levels of planning

Let us illustrate the place of strategic planning in the overall set of plans involved with corporate strategic planning, according to this sequence –

<b>Responsibility Level →</b>	<b>Strategic Result Area →</b>	<b>Performance Indicators</b>
Corporate level strategy	Corporate performance	Overall profitability
Corporate level strategy	Market definition	Market geographic scope
Business unit level strategy	Business performance	Business unit profits
Business unit level strategy	Market development	New product sales
Function level strategy	Corporate support	Service cost savings

Note when we say business unit, it may also, among other designations, be known as strategic business unit strategy or divisional strategy. And functional strategy may also apply to cross divisional or cross functional processes, or major projects. Confusing isn't it!

### **3.5 Decisions in corporate level strategy**

Remember that at the beginning we said that corporate-level strategies address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and may include deciding in which product or service markets to compete and the geographic boundaries of the organizations' operations.

For multi-divisional organizations or enterprises, how capital, staffing, and other resources are allocated is usually established at the corporate level. Additionally, because market definition is usually the domain of corporate-level strategy, the responsibility for diversification, or the addition of new products or services to the existing offerings, also mostly comes within the responsibility of corporate-level strategy. Also, whether to compete head on with other companies or to selectively establish cooperative partnering arrangements, or 'strategic alliances' is a decision for corporate-level strategy, while requiring ongoing input from business unit or divisional level managers.

### **3.6 Corporate level strategic questions**

So crucial questions addressed by corporate-level strategy, among other possibilities may include:

1. What should be the scope of operations; i.e.; what businesses should the firm be in? And where should it be in business?
2. How should the organization allocate its resources its various existing lines of business or business units?
3. What level of diversity should exist in the business as it moves into the future? Are there other activities the enterprise should be in or are there current activities that should be targeted for stopped or sold off to others?
4. What should be the nature of this diversity or how diversified should the organization be? Should it diversify in similar product or service markets, or into completely different areas; becoming a more conglomerate entity.
5. How should the firm be organized? What will be the boundaries of the enterprise? How will these boundaries impact relationships among parts of the business, with suppliers, customers and other interest groups? How will the organizational functions such as product development, production, distribution finance, marketing, sales customer service, etc. fit together? Are the responsibilities for each business unit clearly identified and is accountability established? Which will be carried out in-house, and which will be contracted out?
6. Should the firm enter into cooperative, mutually-beneficial relationships or alliances with others? If so, on what basis? If not, what impact might this have on future organizational performance?

As these questions show, corporate strategies address the long-term direction for the organization as a whole. Corporate strategies deal with plans for the entire organization and change as the capabilities of the organization develop and as the environment of the organization changes.

Top management has primary decision making responsibility in developing corporate strategies and these managers are directly responsible to providers of capital to the organization, whether shareholders, donors, members, and so on depending on the type of organization. The role of the governing board of is to ensure that top managers actually act to address these owner or primary beneficiary interests.

### **3.6.1 Business-Level Strategies**

Business-level strategies are similar to corporate-strategies in that they focus on overall performance. As distinct from corporate-level strategy, however, they focus on just one instead of a range of businesses. The corporate level strategy of a multi division operation is like a strategy for managing an investment portfolio.

Business units are usually individual enterprise-like entities oriented toward a particular industry, product or service type, and or market. Business-level strategies are thus primarily concerned with:

1. Managing unit activities so they conform to organizational corporate level strategies, sometimes including cooperation with other business units to achieve 'strategic synergy'.
2. Developing distinctive capabilities, resources and competitive advantage in each unit.
3. Identifying product or service-market opportunities and developing strategies for succeeding in each.
4. Monitoring the business industry environment so that strategies conform to the needs of the markets at the current stage of development.

In a single-product company, corporate-level and business-level strategies are the same. Business-level strategies look at the business unit strengths, weaknesses, opportunities and threats; much like corporate-level strategies, except the emphasis in business-level strategies is on the specific product or service, not on the corporate level investment portfolio. Business-level strategies thus contribute to corporate-level strategies. Corporate-level strategies attempt to deliver benefits to the primary beneficiaries, such as increasing the wealth of shareholders through profitability of the overall corporate portfolio, and business-level strategies are concerned with:

1. matching their operations with the overall objectives of corporate-level strategy while simultaneously
2. navigating the environment in which they are active in such a way that they are among the better performers in their industry.

### **3.6.2 Functional-Level Strategies**

Functional-level strategies are concerned with managing the functional areas of the organization, such as product or service development and design, marketing and sales, finance, human resources, production, research and development, etc., so that each function upholds contributes

to individual business unit strategies and the overall corporate-level strategy. Functional strategies are primarily concerned with:

- Efficiently deploying specialists within the functional area.
- Integrating activities within the functional area
- Making sure that functional strategies link effectively and efficiently with business strategies and the overall corporate-level strategy.

#### **4.0 CONCLUSION**

Strategies for an organization may be classified by the level of the organization responsible for the strategy. Corporate-level strategies concern top management and address strategic issues of facing the organization as a corporate whole. Business-level strategies deal with major business units or divisions of the corporate portfolio. Business-level strategies are generally developed by upper and middle-level business unit managers, in negotiation on key targets with the top corporate managers, and are intended to help the organization achieve its corporate level strategy. Functional or business process strategies address issues usually faced by lower-level managers and deal with strategies for the major organizational functions such as marketing, finance, production, and research, which are considered important to achieving the business strategies and enabling the corporate-level strategy.

#### **5.0 SUMMARY**

In this unit, we defined and explained corporate level strategy; listed the functions of corporate level strategy; discussed strategy levels; described the relationship between corporate level strategy and other levels of planning and explained decisions in corporate level strategy and corporate level strategic questions.

With this, we have come to the conclusion of the course. Please read through your material again and assimilate it. We wish you all the best in your examination.

#### **6.0 TUTOR MARKED ASSIGNMENT**

1. What are strategy levels? Briefly discuss them.
2. What is the relationship between corporate level strategy and other levels of planning?

#### **7.0 REFERENCES/FURTHER READINGS**

Mintzberg, Henry, Lampel, J., Ahlstrand, B., [\*Strategy Safari: A Guided Tour through the Wilds of Strategic Management\*](#)