**CHAPTER TWO**

**BUSINESS STRATEGY**

**Historical Development of Business Strategy**

Early studies carried out by management researchers concluded that increased profitability does not normally accompany the application of strategic management However, a significant number of recent investigation suggest that an efficient and effective strategic management system can increase profitability more recent evidence indicates that on the average, companies that plan outperform those that do not. In one of such studies by Rhyne, it was concluded that "firm with strategic planning systems more closely resembling strategic management theory were found to exhibit superior long-term financial performance both relative to their industry and in absolute term"

In 1957, the Stanford Research Institute (SRI) analyzed some 400 firms and concluded that those that plan outperform those that do not in terms of sales and profit growth.

One of the most convincing studies on the effectiveness of strategic management was undertaken by Thune and House in 1970. They identify two groups, formal planners and informal planners, among eighteen matched pairs of companies in six industries. The two groups were then compared by sales, return on stockholders equity and total capital, earnings per share (EPS) and stock prices. It was found that the formal planners performed significantly better on the three profit related ratios than were the informal planners. Another test of the formal planners compared their performance before planning with their performance after planning was introduced. Post-planning performance was found to be superior to preplanning performance. Also in 1970, Eastlack and McDonald showed correlation between planning and performance. In a replication of theThune and house study by Herold in 1972, the previous findings were upheld-formal planners continued to outperform informal planners. Another often cited study by Rue and Fulmer carried out in 1972 also lends to the planning performance hypothesis, at least for producers of durable goods. In 1974, Wood and LaForge found that banks that planned formally performed better than those that did not. More support for the planning performance relationship was offered by Karger and Malik in 1975 when they showed the same results for the machinery, chemicals, drugs, and electronics industries. A study carried out by David Burt in Australia in 1978 showed a positive relationship between planning and performance. Burt found that the higher the quality of the planning programme, the better was performance. Hofer and Schendel also provide evidence which suggests that the use of formal approaches to strategy formulation and implementation is associated with superior organisational performance especially for manufacturing companies. Major studies of strategic management carried out in Nigeria by Oghojafor, Oyedijo, and Ajayi have found support for the strategic management and corporate performance hypothesis. For example, the study by Oyedijo suggests that a bank's corporate financial performance tends to increase with a unit increase in the level of practice of strategic management. The higher the overall level of strategic management pracised by a bank, the higher the financial performance of the bank expressed in terms of earnings pershare (EPS), Profit before etx (PBTX), Return On Capital Employed (ROCE), net asset (MASS), current or working capital ratio (WACRATIO), and total deposits (TOTAL DEP). For all the financial performance indicators used, performance tended to increase as the level (or degree of sophistication) of strategic management increased. Thus, banks that adopted the most sophisticated strategic, management system performed better than those that had a high and established strategic management system while this latter category performed better than those that had a medium and emerging strategic management system. The banks that scored the least in the practise of strategic management, described as having a low and rudimentary strategic management system, had the worst level of financial performance.

**Implications of the Concept of Strategic Group**

Strategic group analysis provides a deeper and useful understanding of an industry and competitive environment because it directs the attention of the strategic manager to the following:

It shows that industry trends affect different strategic groups differently.It is necessary for strategic managers to study each industry trend so as to know:

* whether the trends is reducing the viability of one or more strategic groups and if so where competitors in the affected groups may try to shift.
* whether the observed trends will raise or lower the entry barriers into a strategic group and the degree to which competitive pressures in the group will be increased or decreased
* how the companies in each strategic group will be affected by the trend and their probable response to it.

It raises the question of how likely or possible it is for an organisation to move from one strategic group to another. It shows that entry barriers vary according to the particular strategic group that an extrant seeks to join (some strategic groups are easier to enter than others) Therefore, strategic manager must be alive to this.

It shows that greater numbers of strategic groups generally increase competitive rivalry in the industry because of the possibility, for both intra group and inter group competition. A company may find it better to move to an industry where there are not many strategic groups.

It helps in identifying who the most direct competitors are, on what competitive rivalry is likely to take place within strategic groupsand how this is different from that within other groups. For example, companies in the strategic groups earlier listed above are competing in terms of marketing (especially branding) and the control of management resources.

Strategic group mapping might be used to identify strategic opportunities to tap, such as vacant spaces in an industry which could provide opportunities for new strategies and new strategic groups.

Strategic group mapping can help identify significant strategies problems such as when a product occupies an insecure position in its strategic groups.

In short strategic group analysis is beneficial because it help in the selection and understanding of an industry's structural characteristics, competitive, dynamics, evolution and strategies that historically have allowed companies to be successful within an industry.

**Porter's Five-Force Analysis**

Michael E. Porter has made an immense contribution to the development of the ideas of industry and competitor analysis, and their relevance to the formulation of competitive strategies. He advocates that a structural analysis of industries be made so that a firm is in a better position to identify its strengths and weaknesses. A model consisting of five competitive forces which shape competition within an industry. They are:

* The threat of new entrants.
* The economic leverage and bargaining power of buyers.
* The economic leverage and bargaining power of suppliers.
* The competitive intrusions and threats of substitute products and service – that determine the intensity of industry competition and profitability.
* The intensity of rivalry among competitors in an industry i.e. the jockeying for position among rival firms that flows from their strategic moves and counter moves to gain competitive advantage.

**Porter's five-force Analysis model**

POTENTIAL ENTRANTS

Industry competitors’ rivalry among existing firms

SUPPLIERS

BUYERS

SUBSTITUTES

Threat of New Entrants

Threat of Substitute products or services

*Source: Adapted from M.E Porter, competitive strategy: Techniques for Analyzing Industries and competitors copyright @ 1980 1998 by the free press.*

**The Threat of New Entrants**

Any Industry that is perceived as being profitable tends to attract new entrants. These new entrants are firms that are interested in investing in the industry to share the growth prospects. Such new entrants argument the existing production capacity and often possess a desire to make large investments and secure a substantial market share. The threat of new entrants refers to the possibility that the profit of established firms in the industry may be\* eroded by new competitors. The existing firms have to either share a growing market pie with a larger number of competitors, orpart with some of their own market share to the new entrants. Either way, new entrants cause a comparatively lesser sales volume and revenue, and lower the returns for all the firms in the industry.

The extent of the threat however, depends on existing barriers to entry and the combined reactions from existing competitors. If entry barriers are high and or the newcomer can anticipate a sharp retaliation from established competitors, the threat of entry is low.

The entry barriers may arise as a consequence of several factors such as the following:

* **Economics of scale:** This refers to spreading the costs of production over the number of units produced. The cost of a product per unit declines as the absolute volume per period increases, leading to lower costs for existing firms.
* **Switching Costs:** These are costs incured by the existing customers. If a buyer were to change his source of suppliers from an established manufacturer to a newcomer, costs may be incurred in buying new ancillary equipment, retraining employees or establishing new networks of relationship. Buyers may be discourages from changing their supplier as a result of the costs involved.
* **Product differentiation:** if the existing competitors have strong brand identification and customer loyalty, differentiation creates a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties and build its own cli entele.

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

* Strategic management affects the entire organization by providing direction
* 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 involves both strategy formation (which she called content) as well as strategy implementation (which she called process)
* Strategic management is done at several levels: the overall corporate strategy as well as the individual strategies for each business unit, division, department or function
* Strategic management is partially planned and partially unplanned.
* Strategic management involves both conceptual and analytical thought processes.

**SWOT Analysis**

SWOT is an acronym for a company's strengths, weaknesses, opportunities, and threats. A SWOT analysis consists of evaluating a firm's internal strengths and weaknesses and its external opportunities and threats. It is an easy-to-use tool for getting a quick overview of a firm's strategic situation. SWOT analysis underscores the basic point that strategy must produce a good fit between a company's internal capability (its strengths and weaknesses) and its external situation (reflected in part by its opportunities and threats).

**Identifying Strengths and Weaknesses**

Table 4-1 lists the considerations used to identify a company's internal strengths and weaknesses. A strength is something a company is good at doing or a characteristic that gives it an important capability. A strength can be a skill, a competence, a valuable organizational resource or competitive capability, or an achievement that gives the company a market advantage (like having a better product, stronger name recognition, superior technology, or better customer service). A weakness is something a company lacks or does poorly (in comparison to others) or a condition that puts it at a disadvantage. A weakness may or may not make a company competitively vulnerable, depending on how much it matters in the competitive battle.

Once a company's internal strengths and weaknesses are identified, the two lists have to be carefully evaluated. Some strengthare more important than others because they count for more in determining performance, in competing successfully, and in forming a powerful strategy. Likewise, some internal weaknesses can prove fatal, while others don't matter much or can be easily remedied. A SWOT analysis is like constructing a strategic balance sheet strengths are competitive assets and weaknesses are competitive liabilities. The issue is whether the strengths/assets adequately overcome the weaknesses/liabilities (a 50-50 balance is definitely not desirable), how to meld strengths into an effective strategy, and whether strategic actions are needed to tilt the strategic balance more toward the asset side and away from the liability side. From a strategy-making perspective, a company's strengths are significant because they can be used as the cornerstones of strategy and the basis on which to build competitive advantage. If a company doesn't have strong competences and competitive assets around which to craft an attractive strategy, management must move quickly to build capabilities on which a strategy can be grounded. At the same time, a good strategy needs to aim at correcting competitive weaknesses that make the company vulnerable, hurt its performance, or disqualify it from pursuing an attractive opportunity. The point here is simple: an organization's strategy should be well-suited to company strengths, weaknesses, and competitive capabilities. As a rule, management should build its strategy around what the company does best and should avoid strategies whose success depends heavily on areas where the company is weak or has unproven ability.

**Core Competences**: One of the "trade secrets" of first-rate strategic management is consolidating a company's technological, production, and marketing know-how into competences that enhance its competitiveness. A core competence is something a company does especially well in comparison to its competitors. In practice, there are many possible types of core competences: manufacturing excellence, exceptional quality control, the ability to provide better service, more know-how in low-cost manufacturing, superior design capability, unique ability to pick out good retail locations, innovativeness in developing new products, better skill in merchandising and product display, mastery of an important technology, a strong understanding of customer needs and tastes, an unusually effective sales force, outstanding skill in working with customers on new applications and uses of the product, and expertise in integrating multiple technologies to create families of new products.

The importance of a core competence to strategy-making rests with|:

1. the added capability it gives an organization in going after a particular market opportunity,
2. the competitive edge it can yield in the marketplace, and
3. its potential for being a cornerstone of strategy.

It is easier to build competitive advantage when a firm has a core competence in an area important to market success, when rivals do not have offsetting competences, and when it is costly and time-consuming for rivals to match the competence. Core competences are thus valuable competitive assets.

**Identifying Opportunities and Threats**

The factors that help identify a company's external opportunities and threats. Market opportunity is a big factor in shaping a company's strategy. However, there is an important distinction between industry opportunities and company opportunities. Not every company in an industry is well positioned to pursue each opportunity that exists in the industry some companies are always better situated than others and several may be hopelessly out of contention. A company's strengths and weaknesses make it better suited to pursuing some opportunities than others. The industry opportunities most relevant to a particular company are those that offer important avenues for growth and those where a company has the most potential for competitive advantage.

Often certain factors in a company's external environment pose threats to its well-being. Threats can stem from the emergence of cheaper technologies, rivals' introduction of new or better products, the entry of low-cost foreign competitors into a company's market stronghold, new regulations that are more burdensome to a company than to its competitors, vulnerability to a rise in interest rates, the potential for a hostile takeover, unfavorable demographic shifts, adverse changes in foreign exchange rates, political upheaval at a company's foreign facilities, and the like.

Opportunities and threats not only affect the attractiveness of a company's situation but point to the need for strategic action. To be adequately matched to a company's situation, strategy must:

1. be aimed at pursuing opportunities well suited to the company's capabilities and
2. provide a defense against external threats.

SWOT analysis is therefore more than an exercise in making four lists. The important part of SWOT analysis involves evaluating the strengths, weaknesses, opportunities, and threats and drawing conclusions about the attractiveness of the company's situation and the need for strategic action. Some of the pertinent strategy-making questions to consider, once the SWOT listings have been compiled, are:

* Do the company's weaknesses make it competitively vulnerable and/or do they disqualify the company from pursuing certain opportunities? Which weaknesses does strategy need to correct?
* Does the company have any internal strengths or core competences an attractive strategy can be built around?
* Which opportunities does the company have the skills and resources to pursue with a real chance of success? (Remember: Opportunity without the means to capture it is an illusion.)
* What threats should managers be worried about most, and what strategic moves should they consider in crafting a good defense?

The most important application of the activity-cost technique is to expose how a particular firm's cost position compares with those of its rivals. What is needed is competitor versus competitor cost estimates for a given product. The size of a company's cost advantage/disadvantage can vary from item to item in the product line, from customer group to customer group (if different distribution channels are used), and from geographic market to geographic market (if cost factors vary across geographic regions).

Looking again there are three main areas in the cost chain where important differences in competitors' relative costs can occur: in suppliers' part of the cost chain, in each company's activity segments, or in the forward channel portion. If a firm's lack of cost competitiveness lies either in the backward or forward sections of the chain, the task of re-establishing cost competitiveness may have to extend beyond its own operations. When a firm's cost disadvantage is principally associated with items purchased from suppliers (the backward end of the activity-cost chain), it can pursue any of several strategic actions to correct the problem:

* Does the company have any internal strengths or core competences an attractive strategy can be built around?
* Negotiate more favorable prices with suppliers.
* Work with suppliers to help them achieve lower costs.
* Integrate backward to gain control over the costs of purchased items.
* Try to use lower-priced substitute inputs.
* Try to save on inbound shipping costs.
* Try to make up the difference by cutting costs elsewhere in the chain.

A company's strategic options for eliminating cost disadvantages in the forward end of the chain include:

* Pushing distributors and other forward channel allies to reduce their costs and markups.
* Changing to a more economical distribution strategy, including forward integration.
* Trying to make up the difference by cutting costs earlier in the chain.

When the source of a firm's cost disadvantage is internal, it can use any of nine strategic approaches to restore cost parity:

* Initiate internal budget-tightening measures.
* Improve production methods and work procedures (to boost the productivity of workers and increase utilization of high-cost equipment).
* Try to eliminate some cost-producing activities altogether.
* Relocate high-cost activities to geographical areas where they can be performed cheaper.
* See if certain activities can be farmed out to contractors cheaper than they can be done internally.
* Invest in cost-saving technological improvements (automation, robotics, flexible manufacturing techniques, computerized controls).
* Innovate around the troublesome cost components as new investments are made in plant and equipment.
* Simplify the product design and make it easier to manufacture.
* Try to make up the internal cost disadvantage by cutting costs in the backward and forward portions of the chain.

Activity-cost chains reveal a great deal about a firm's cost competitiveness. Examining the makeup of a company's own activity-cost chain and comparing it to rivals' indicate who has how much of a cost advantage/disadvantage and which cost components are responsible. Such information is vital in crafting strategies to eliminate a cost disadvantage or create a cost advantage.

In general, companies that have succeeded in stagnant industries have relied heavily on one of the following strategic themes;

1. Stress differentiation based on quality improvement and product innovation. Either enhanced quality or innovation can rejuvenate demand by creating important new growth segments or inducing buyers to trade up. Successful product innovation opens up an avenue for competing besides meeting or beating rivals' prices. Differentiation based on innovation has the additional advantage of being difficult and expensive for rivals to imitate.
2. Pursue a focus strategy by identifying, creating, and exploiting the growth segments within the industry. Slow-growth or declining markets, like other markets, are composed of numerous segments and sub-segments. Frequently, one or more of these segments is growing rapidly, despite a lack of growth in the industry as a whole. An astute competitor who is first to concentrate on the most attractive segments can escape stagnating sales and profits and achieve competitive advantage in the target segments.
3. Work diligently and persistently to drive costs down. When increases in sales cannot be counted on to generate increased earnings, firms can improve profit margins and return on investment by continuously reducing operating costs and increasing efficiency. They can achieve a lower-cost position by:

* improving the manufacturing process via automation and increased specialization,
* consolidating underutilized production facilities,
* adding more distribution channels to ensure the unit volume needed for low-cost production,
* closing low-volume, high-cost distribution outlets, and
* revamping the activity-cost chain to eliminate some cost-producing tasks.

These three themes are not mutually exclusive. Attempts to introduce innovative versions of a product can create a fast-growing market segment. Similarly, increased operating efficiencies permit price reductions that create price-conscious growth segments. Note that all three themes are spin-offs of the three generic competitive strategies, adjusted to fit the circumstances of a tough industry environment.

The most attractive declining industries are those in which decline is reasonably slow, there is big built-in demand, and some profitable niches remain. Dangers in a stagnating market include:

1. getting trapped in a profitless war of attrition;
2. diverting too much cash out of a business too quickly (thus accelerating a company's demise); and
3. being overly optimistic about the industry's future and waiting complacently for things to get better.

In industries where big size is definitely a key success factor, firms with low market shares have some obstacles to overcome:

1. less access to economies of scale in manufacturing, distribution, or sales promotion;
2. an inability to afford mass media advertising on a grand scale and
3. difficulty in funding capital requirements;
4. difficulty in gaining customer recognition.

But it is erroneous to view runner-up firms as inherently less profitable or unable to hold their own against the biggest firms. Many firms with small market shares earn healthy profits and enjoy good reputations with customers. Often, the handicaps of smaller size can be surmounted and a profitable competitive position established by;

1. focusing on a few market segments where the company's strengths can yield a competitive edge;
2. developing technical expertise that will be highly valued by customers;
3. aggressively pursuing the development of new products for customers in the target market segments; and
4. using innovative, ‘dare-to-be different’, ‘beat-the-odds’ entrepreneurial approaches to out manage stodgy, slow-to-change market leaders.

Runner-up companies have a golden opportunity to gain market share if they make a leapfrog technological breakthrough, if the leaders stumble or become complacent, or if they have patience to nibble away at the leaders and build up their customer base over a long period of time.

**Crisis Turnarounds**

Turnaround strategies are used when a business worth rescuing goes into crisis; the objective is to arrest and reverse the sources of competitive and financial weakness as quickly as possible. The first task is to diagnose the problem: What is causing the poor performance? Is it bad competitive strategy or poor implementation and execution of an otherwise workable strategy? Are the causes of distress beyond management control? Can the business be saved? To formulate a turnaround strategy managers must find the problem and determine how serious it is.

Some of the most common causes of business trouble are: overly aggressive efforts to "buy" market share with profit-depressing price-cuts, heavy fixed costs due to underutilized plant capacity, ineffective R&D efforts, reliance on technological long-shots, inability to penetrate new markets, frequent changes in strategy (because the previous strategy didn't work out), and being overpowered by the competitive advantages of more successful rivals. There are five ways to pursue business turnaround:

* Revise the existing strategy.
* Launch efforts to boost revenues.
* Pursue cost reduction.
* Sell off assets to raise cash to save the remaining part of the business.
* Use a combination of these efforts.

**Strategy Revision:** When weak performance is caused by "bad" strategy the task of strategy overhaul can proceed along any of several paths:

1. shifting to a new competitive approach to rebuild the firm's market position,
2. overhauling internal operations and functional area strategies to better support the same overall business strategy
3. merging with another firm in the industry and forging a new strategy keyed to the newly merged firm's strengths, and
4. retrenching into a reduced core of products and customers more closely matched to the firm's strengths. The most appealing path depends on prevailing industry conditions, the firm's particular strengths and weaknesses, and the severity of the crisis.

Situation analysis of the industry, major competitors, the firm's own competitive position, and its skills and resources are prerequisites to action. As a rule, successful strategy revision must be tied directly to the ailing firm's strengths and near-term competitive capabilities and must focus narrowly on its best market opportunities.

**Boosting Revenues:** Revenue-increasing turnaround efforts aim at generating increased sales volume. There are a number of re venue-building options: price-cuts, increased promotion, a bigger sales force, added customer services, and quickly achieved product improvements. Attempts to increase revenues and sales volumes are necessary;

1. when there is little or no room in the operating budget to cut expenses and still break even and
2. when the key to restoring profitability is increased utilization of existing capacity. In rare situations where buyer demand is not price sensitive, the quickest way to boost short-term revenues may be to raise prices rather than opt for volume-building price cuts,

**Cutting Costs**: Cost-reducing turnaround strategies work best when an ailing firm's cost structure is flexible enough to permit radical surgery, when operating inefficiencies are identifiable and readily correctable, and when the firm is relatively close to its break-even point. To complement a general belt-tightening, firms need to emphasize budgeting and cost control, eliminate jobs and stop hiring, modernize existing plant and equipment to gain greater productivity, and delay nonessential capital expenditures.

**Selling Off Assets**: Asset reduction/retrenchment strategies are essential when cash flow is a critical consideration and when the most practical way to generate cash is;

1. through sale of some of the firm's assets (plant and equipment, land, patents, inventories, or profitable subsidiaries) and
2. through retrenchment (pruning marginal products from the product line, closing or selling older plants, reducing the work force, withdrawing from outlying markets, cutting back customer service, and the like). Sometimes firms sell their assets not so much to unload losing operations and stem cash drains as to raise funds to save and strengthen their remaining activities.

**Combination Efforts**: Combination turnaround strategies are usually essential in grim situations that require fast action on a broad front. Likewise, combination actions frequently come into play when a firm brings in new managers and gives them a free hand to make changes. The tougher the problems, the more likely the solutions will involve multiple strategic initiatives.

Turnaround efforts tend to be high-risk undertakings and often fail. A landmark study of 64 companies found no successful turnarounds among the most troubled companies in eight basic industries. Many waited too long to begin a turnaround. Others found themselves short of both cash and entrepreneurial talent to compete in a slow-growth industry characterized by fierce battles for market share; better positioned rivals simply proved too strong to defeat

**Thirteen Commandments for Crafting Successful Business Strategies**

Business experiences over the years prove over and over that disastrous courses of action can be avoided by adhering to certain strategy-making principles. The wisdom of these past experiences can be distilled into 13 commandments which, if faithfully observed, help strategists craft better strategic action plans.

1. *Always put top priority on crafting and executing strategic moves that enhance the company's competitive position for the long term and that serve to establish it as an industry leader*. In competitive markets, a strongly entrenched leadership position pays off year after year, but the glory of meeting one year's financial targets quickly passes. Shareholders are never well-served by managers who let short-term financial considerations override strategic initiatives that will bolster the company's long-term competitive position and strength.
2. *Understand that a clear, consistent competitive strategy, when well-crafted and well-executed, builds reputation and recognizable industry position; a strategy aimed solely at capturing momentary market opportunities yields fleeting benefits*. The pursuit of short-run financial opportunism without long-term strategic guidance tends to produce the worst kind of profits: one-shot rewards that are unrepeatable. Over the long haul, a company that has a well-conceived competitive strategy aimed at securing a strong market position will outperform and defeat a rival whose strategic decisions are driven by short-term financial expectations. In an ongoing enterprise, the game of competition ought to be played for the long term, not the short term.
3. Try not to get "stuck back in the pack" with no coherent long-term strategy or distinctive competitive position, an "average" image, and little prospect of climbing into the ranks of the industry leaders.
4. *Invest in creating a sustainable competitive advantage*—it is the single most dependable contributor to above-average profitability.
5. Play aggressive offense to build competitive advantage and aggressive defense to protect it.
6. *Avoid strategies capable of succeeding only in the best of circumstances* — competitors will react with counter measures and market conditions are not always favorable.
7. *Be cautious in pursuing a rigidly prescribed or inflexible strategy—changing market conditions may render it quickly obsolete*. Any strategy, to perform satisfactorily, must be adaptable to fresh market circumstances. Strategic themes involving "top" quality or "lowest" cost should be interpreted as relative to competitors and/or customer needs rather than based on arbitrary management standards.
8. *Don't underestimate the reactions and the commitment of rivals*—especially when they are pushed into a corner and their well-being is threatened.
9. Be wary of attacking strong, resourceful rivals without solid competitive advantage and ample financial strength.
10. Consider that attacking competitive weakness is usually more profitable than attacking competitive strength.
11. Take care not to cut prices without an established cost advantage-only a low cost producer can win at price-cutting over the long term.
12. Be aware that aggressive moves to wrest market share away from rivals often provoke aggressive retaliation in the form of a marketing "arms race" and/or price wars—to the detriment of everyone's profits. Aggressive moves to capture a bigger market share invite cutthroat competition particularly when the market is plagued with high inventories and excess production capacity.
13. Employ bold strategic moves in pursuing differentiation strategies to open up meaningful gaps in quality, service, or performance features. Tiny differences between rivals' competitive strategies and product offerings may not be visible or important to buyers.

Successful strategies fit a firm's external situation (industry and competitive conditions) and internal situation (strengths, weaknesses, opportunities, and threats). This provides a summary checklist of the most important situational considerations and strategic options. To match strategy to the situation, analysts must start with an overview of the industry environment and the firm's competitive standing in the industry:

* 1. What type of industry environment does the company operate in (emerging, rapid growth, mature, fragmented, global, commodity product)? What strategic options and strategic postures are best suited for this environment?
  2. What position does the firm have in the industry (strong vs. weak vs. crisis-ridden; leader vs. runner-up vs. also-ran)? How does the firm's standing influence its strategic options given the stage of the industry's development in particular, which options have to be ruled out?

Next, strategists need to factor in the primary external and internal situational considerations and decide how all the factors add up. This should narrow the firm's basic market share and investment option and strategic options.

The final step is to custom-tailor the chosen generic strategic approaches to fit both the industry environment and the firm's standing vis-a-vis competitors. Here it is important to be sure that

* 1. the customized aspects of the proposed strategy are well-matched to the firm's skills and capabilities and
  2. the strategy addresses all strategic issues the firm confronts.

In screening out weak strategies and weighing the pros and cons of the most attractive ones, the answers to the following questions often indicate the way to go:

* What kind of competitive edge can the company realistically hope to have, and what strategic moves/approaches will it take to secure this edge?
* Does the company have the skills and resources to succeed in these moves and approachesif not, can they be acquired?
* Once built, how can the competitive advantage be protected? What defensive strategies need to be employed? Will rivals counterattack? What will it take to blunt their efforts?
* Are any rivals particularly vulnerable? Should the firm mount an offensive to capitalize on these vulnerabilities? What offensive moves need to be employed?
* What additional strategic moves are needed to deal with driving forces into the industry, specific threats and weaknesses, and any other issues/ problems unique to the firm?

As the choice of strategic initiatives is developed, there are several pitfalls to watch for:

* Designing an overly ambitious strategic planone that calls for a lot of different strategic moves and/or that overtaxes the company's resources and capabilities.
* Selecting a strategy that represents a radical departure from or abandonment of the cornerstones of the company's prior successa radical strategy change need not be rejected automatically, but it should be pursued only after careful risk assessment.
* Choosing a strategy that goes against the grain of the organization's culture or that conflict with the values and philosophies of senior executives.

**Historical Development of Business Strategy**

According to Ghemawat et al (1998), "Strategy" is a term that can be traced back to the ancient Greeks, who used it to mean a chief magistrate or a military commander-in-chief. The concept of strategy was refined over the next two millennia, but it continued to focus on military interpretations. This is supported by Clausewitz (1984)'s attempted synthesis in the first half of the nineteenth century where he wrote that whereas "tactics ... [involve] the use of armed forces in the engagement, strategy [is] the use of engagements for the object of the war." However, the adaptation of strategic terminology to a business context occurred during the Second Industrial Revolution, which began in the second half of the nineteenth century but really took off only in the twentieth century (McCraw, 1998).

This late development was due to the fact that the First Industrial Revolution (which took place between the mid- 1700s and the mid-1800s) had failed to induce much in the way of strategic thinking or behavior. This was because the First Industrial Revolution was largely driven by the development of international trade in a few commodities (especially cotton), as such most businesses tended to remain small and to employ as little fixed capital as possible hence there was no much need for strategy.

But the Second Industrial Revolution, which began in the last half of the nineteenth century in the United States, saw the emergence of strategy as a way to shape market forces and affect the competitive environment. This was because the construction of key railroads after 1850 in the United States made it possible to build mass markets for the first time. Together with improved access to capital and credit, mass markets encouraged large-scale investment to exploit economies of.scalejaproduction and economies of scope in distribution.

By the lute nineteenth century, a new type of firm began to emerge, first in the United States and then in Europe,the large vertically integrated company that invested heavily in manufacturing, and marketing, and in management hierarchies to coordinate those functions. Over time, the lurgeit companies of this sort began to alter the competitive environment within their industries and even cross industry boundaries.

It was the high-level managers in these large companies that first articulated the need for explicit strategic thinking. For example, Sloan (1963), the chief executive of General Motors from 1923 to 1946, devised a successful strategy based on the perceived strengths and weaknesses of his company's critical competitor, the Ford Motor Company, and wrote it up after he retired.' In the 1930s, Barnard (1968), a senior executive with New Jersey Bell, argued that managers should pay especially close attention to "strategic factors" which depend on "personal or organizational action." The Second World War supplied a vital stimulus to strategic thinking in business as well as military domains, because it sharpened the problem of allocating scarce resources across the entire economy. New operations research techniques (for example, linear programming) were devised, which paved the way for the use of quantitative analysis in formal strategic planning. In 1944, John von Neumann and Oskar Morgenstern published their classic work, *The Theory* of *Games and Economic Behavior,* which solved the .problem of zero-sum games (mostly military ones, from an aggregate perspective) and framed the issues surrounding nonzero-sum games (mostly business situations). Also, the concept of "learning curves" which was first discovered in the military aircraft industry in the 1920s and 1930s, where manufacturers noticed that direct labor costs tended to decrease by a constant percentage as the cumulative quantity of aircraft produced doubled, became an increasingly important tool forplanning. Such learning effects figured prominently in wartime production planning efforts.

Wartime experiences encouraged not only the development of new tools and techniques, but also, in the view of some observers, the use of formal strategic thinking to guide management decisions. This was why Drucker (1954), in writing about this period, argued that "management is not just passive, adaptive behavior; it means taking action to make the desired results come to pass." He noted that economic theory had long treated markets as impersonal forces, beyond the control of individual entrepreneurs and organizations. He added that in the age of large corporations, however, managing "implies responsibility for attempting to shape the economic environment, for planning, initiating and carrying through changes in that economic environment, for constantly pushing back the limitations of economic circumstances on the enterprise's freedom of action." It was this insight that became the key rationale for business strategy. But these insights into the nature of strategy seemed, however, to lie fallow through the 1950s. In the United States, rationing or outright bans on production during World War II combined with high levels of private savings to create excess demand for many products. The Korean War provided a further boost in demand. Europe and Japan experienced even more severe postwar dislocations, which induced greater governmental control of what Lenin had called the "commanding heights" of an economy: its key industries and enterprises. Similar increases in governmental control, as opposed to reliance on market forces, were observed in poorer countries, including many of the new ones that emerged as colonialism unwound itself (Yergin and Stanislaw, 1998).

But inter-service competition in the U.S. military after the Second World War provided a more direct bridge to the development of strategic concepts for business apiplications. During this period, American military leaders began debating which arrangements would best protect legitimate competition among military services while still maintaining the needed integration of strategic and tactical planning (Kazmi, 1999; Oghojafor, 1998).

Many argued that the Army, Navy, Marines, and Air Force would be more efficient if they were unified into a single organization. While this, debate ruged on, Selznick (1957) noted thut the Navy Department “emerged as the defender of subtle institutional values and tried many times to formulate the distinctive chwacterlutics of the various services”.In essence, "Navy spokesmen attempted to distinguish between the Army as a 'manpower' organization and the Navy as a finely adjusted system of technical, engineering skill-a 'machine-centered' organization. Faced with what it perceived us a mortal threat, the Navy became highly self-conscious about its distinctive competence.

From the academic point of view, eminent economists produced some of the earliest academic writings about strategy. For example, Commons (1934), wrote about business firms' focus on strategic or limiting factors in a way that was picked up a few years later by Barnard (1938) who stated that: "If we wish to increase the yield of grain in a certain field and on analysis it appears that the soil lacks potash, potash may be said to be the strategic (or limiting) factor". While Cease (1937), published a provocative article in 1937 that asked why firms exist. This article was so highly valued academically that it garnered him a Nobel Prize. Also, Schumpeter (1942) discussed the idea that business strategy encompassed much more than the price setting contemplated in orthodox microeconomics. And Penrose (1959) explicitly related the growth of business firms to the resources under their control and the administrative framework used to coordinate their use. The above notwithstanding, economists had much less direct impact on the early evolution of academic thinking about business sirategy than did academics located in business schools. For example, in the U.S, many elite business schools were founded during the Second Industrial Revolution. The Wharton School, which was founded in 1881 and The Harvard Business School, founded in 1908, were among the first to promote the klcu that managers should be trained to think strategically ratherthan just acting as functional administrators, although strategy itself wasn't explicitly invoked until the 1960s.

In 1912, Harvard introduced a required leoondryear course in "Business Policy," which was designed to integrate the knowledge gained in functional areas like accounting, operations, and finance; with the aim of giving students a broader perspective on the strategic problem facedby corporate executives.

In the early fifties, Smith, Jr. ttd GMittfim (1991) encouraged students to question whether a firm’s strategy matched its competitive environment through the reading of cases.While in the late fifties, Andrews (1971), expanded upon this thinking by arguing that "every business organliltlofl, every subunlt of organization, and even every Individual (ought to) have a clearly defined set of purposes or goals whieh keeps It moving In a deliberately chosen direction and prevents its drifting in undesired directions.

Like Sloan (1963), Andrews (1971) thought that "the primary function of the general manager, over time, Is supervision of the continuous process of determining the nature of the enterprise and setting, revising and attempting to achieve its goals." His conclusions were based on the industry note and company cases that he prepared on Swiss watchmakers, which uncovered significant differences in performance associated with different strategies for competing in that industry (Learned et al, 1961). This format of combining industry notes with company cases soon became the norm in Harvard's Business Policy course Ghemawat et al, 1999).

In the 1960s, SWOT was developed. It emerged when classroom discussions in business schools came to focus on matching a company's "strengths" and "weaknesses"-its distinctive compe-lence-with the "opportunities" and "threats".(or risks) that it faced in the market place. This framework came to be referred to by the acronym SWOT, and it represented a major step forward in bringing explicitly competitive thinking to bear on questions of strategy.

In 1963, a business policy conference was held at Harvard that helped diffuse the SWOT concept in both academia and management practice. 'Attendance at the conference was heavy, but the ensuing popularity of SWOT-which was still used by many firms in the 1990s, did not bring closure to the problem of actually defining a firm's distinctive competence.

Scholars debated a lot on the concept of defining a firm's distinctive competence. To solve this problem, strategists had to decide which aspects of the firm were "enduring and unchanging over relatively long periods of time" and which were "necessarily more responsive to changes in the marketplace and the pressures of other environmental forces." This distinction was crucial because "the strategic decision is concerned with the long-term development of the enterprise" (Andrews, 1971).

But, in the 1960s, diversification and technological changes increased the complexity of the strategic situations that many companies faced, and their need for more sophisticated measures that could be used to evaluate and compare many different types of businesses. Because academics at business schools remained strongly wedded to the idea that strategies could be analyzed only on a case-by-case basis that accounted for the unique characteristics of every business, corporations turned elsewhere to satisfy their craving for standardized approaches to strategy making (Andrews, 1971),

This led to the emergence of Strategy Consultants. The number of these strategy-consulting practices rose between the sixties and the early seventies. Henderson (1984) founded the Boston Consulting Group (BCG) in 1963 and it had a major impact on business strategy because it applied quantitative research to problems of business and corporate strategy. In order to help executives make effective strategic decisions, BCG drew on existing knowledge base in the academia.

**Definition of Strategy**

Strategy involves the deployment of resources for the attainment of objectives. It is the pattern of significant decision made to fulfill organizational purposes. It relates to long-range objectives. It encompasses courses of action necessary to attain the objectives. The principal effects of strategy can be categorized into two perspectives; external and internal.

External effects of strategy to organizations are: the reduction of uncertainty a and the ability of the organization to cope with externally induced changes through the influence that is generated internally, while the internal effects of strategy are largely internal to the organization which are: the effects that tend to result in rational decision-making, improved allocation of resources, positive synergy and upgraded organizational performance.

Strategy may have both positive and negative synergistic effects within the organization. Examples of positive synergy include increased deficiency in operations; improved utilization of resources; greater exploitation of external opportunities coupled with heightened influence on exogenous forces constituting the environment of the organization. Examples of negative synergy include: reduced efficiency of operations, under-utilization of resources, and dis-equilibrium with the external environment.

Kenneth Andrew (1965) defined strategy as “the pattern of objectives, purposes, goals and the major policies and plans for achieving these goals. This is stated in such a way as to define what business the company is in, or is to be, and the kind of company it is or is to be”.

Webster's Ninth New Collegiate Dictionary of 1990 defines Strategy as a careful plan or method or the art of devising or employing plans towards a goal Sharplin used the Webster's Third New International Dictionary and defined it as “a plan or course of action which is of vital pervasive or continuing importance to the organization as a whole.”

Another contributor, Igor Ansoff (1965) says that “the common thread among the organizations’ activities and products markets”. This explains the essential nature of business that the organization was or is planned to be in future.

**Characteristics of Strategy**

Robert H. Hayes and Steven C. Wheelwright (1984) have identified five major characteristics of strategy that distinguish it from the general types of planning discussed.

* 1. ***Time horizon****:*Generally, the word *strategy* is used to describe activities involve an extended time horizon, with regard to both the time it takes to earn out such activities and the time it takes to observe their impact.
  2. ***Impact:*** Although the consequences of pursuing a given strategymay not become apparent for a long time, their eventual impact will be significant.
  3. ***Concentration of effort****:* An effective strategy usually requires concentrating one's activity, effort, or attention on a fairly narrow range of pursuits. Focusing on these chosen activities implicitly reduces the resources available for other activities.
  4. ***Pattern of decisions****:* Although some companies need to make only a few major decisions in order to implement their chosen strategy, most strategies require that a series of certain types of decision be made over time. These decisions must be supportive of one another, in that they follow a consistent pattern,
  5. ***Pervasiveness****.* A strategy embraces a wide spectrum of activities ranging from resource allocation processes to day-to-day operations. In addition, the need for consistency over time in these activities requires that all levels of an organization act, almost instinctively, in ways that reinforce the strategy.

These five characteristics clearly indicate that an organization's strategy is the central hub around which other major organizational activities revolve. Strategy long-term and wide-ranging; it pervades and controls important organization,actions, and is an important determinant of an organization's success or failure over time.

**Concept of Strategy**

Below are some other definitions of strategy by other authors. Strategy is:

1. according to Andrews, (1965)“The pattern of objectives, purposes, goals, and the map 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”.
2. “The determination of basic long range goals and objectives and the adoption of courses of action with the allocation of the necessary resources” (Thomas, 1977).
3. “Strategies are schemes, methods, manoeuvres which management hopes to deploy in order to move the organization from its present position to arrive at its target goal by the end of a specified period, recognizing that during the intervening period a host of changes are going to take place in the environment” (Anao, 1979).
4. “A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved” (Glueck, 1972)
5. “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 (1963).
6. A plan or course of action which is of vital, pervasive, or continuing importance to the organisation as a whole" (Sharplin, 1985)

Kazmi (1999) in combining the above definitions concluded that a strategy is:

1. A plan or course of action or a set of decision rules making a pattern or creating a common thread;
2. The pattern or common thread related to the organization's activities which are derived from the policies, objectives and goals;
3. Concerned with pursuing those activities which move an organization from its current position to a desired future state; and
4. Concerned with the resources necessary for implementing a plan or following a course of action.

Whatever is the exact definition of strategy it should be known that:

* A strategy is the means used to achieve the ends (objectives).
* Strategies are means of operationalizing a policy.
* A strategy is not just any plan; it is a plan that is unified. It ties all the parts of the enterprise together.
* A strategy begins with concept of how to use the resources of the firm most effectively in a changing environment
* Strategies are causes of streams of decision
* They are integrated sets of ideas through which problem:.are spotted and interpreted and actions flows from this.

Mintzberg and Quinn (1991) further added that:

* Strategy determines the direction and action focus of an organization.
* Strategy deals with the generation and alignment of programs to meet predetermined goals.
* Strategies are plans ahead of time. They deal not just with the unpredictable but also with the unknowable.

Finally, note that since a strategy sets directions it must be formulated prior to long-range planning and the day-to-day decision-making that flows from such planning.

**Effective Strategy Criteria**

Mintzberg and Quinn (1991), stated that for a strategy to be effective it has to contain three essential elements, namely:

* The goals (or objectives) to be achieved;
* The policies guiding or limiting action; and
* The major action sequences (or programs) that are - to accomplish the defined goals within the limit set.

Aluko et al (1998) added that some initial criteria for evaluating Strategies include: its clarity, motivational impact, internal consistency, compatibility with the environment, and appropriateness in the light of resources, degree of risk, and workability.

Apart from these, they stated that effective strategies should, at a minimum, also encompass certain other critical factors and structural elements, which include:

**Concentration**: The strategy should be such that the organizational resources are maximally utilized. To this effect the manager should ask questions such as: Has the strategy defined precisely what will make the enterprise superior in power?

**Flexibility**: The strategy has to be flexible so that it will give room for maneuverability. It should have reserved capabilities, planned maneuverability, and repositioning so as to enable the manager use minimum resources to achieve organizational goals/objectives.

**Coordinated and committed leadership:** For strategies to be successful there must be committed leaders. The Leaders selected to implement the strategies should be well motivated so that their own interests and values match the needs of their roles.

**Surprise**: This element combined with correct timing contributes to the success of a strategy, particularly when you are trying to outsmart competitors.

**Security**: The strategy should be able to secure resource bases and all operating points for the organization.

**Clear, decisive objectives**: All the strategic goals to be attained by organizational units must be clear and understood by the people in the organization and decisive.

**Crafting a Strategy**

An organization's strategy consists of the moves and approaches devised by management to produce successful organization performance. Strategy, in effect, is management's game plan for the business. Managers develop strategies to guide how an organization conducts its business and how it will achieve its target objectives. Without a strategy, there is no established course to follow, no roadmap to manage by, no cohesive action plan to produce the intended results.

Crafting and implementing a strategy for the business are core management functions. Among all the things that managers do, few affect organizational performance more lastingly than how well the management team handles the tasks of charting the organization's long-term direction, developing effective strategic moves and approaches, and then executing the strategy in ways that produce the intended results. Indeed, good strategy and good implementation are the most trustworthy signs of good management.

There is strong reason to associate "good management" with how well managers develop and execute strategy. Managers cannot be awarded a top grade for designing shrewd strategies but failing to carry them out well weak implementation opens the door for organizational performance to fall short of full potential. Competent execution of a mediocre strategy scarcely qualifies managers for a gold-star award either. But powerful execution of a powerful strategy is a proven recipe for business success the instances where a company with a well-conceived/well-executed strategy is unable to build a leading market position are few and far between. The standards for judging whether an organization is well managed, therefore, are grounded in good strategy-making combined with good strategy execution. The better conceived an organization's strategy and the more flawless its execution, the greater the chance that the organization will be a peak performer in its industry.

However, superior strategy-making and strategy-implementing don't guarantee superior organizational performance continuously. Even well-managed organizations can hit the skids for short periods because of adverse conditions beyond management's ability to foresee or react to. But the bad luck of adverse events never excuses weak performance year after year. It is management's responsibility to adjust to negative conditions by undertaking strategic defenses and managerial approaches that can overcome adversity. Indeed, the essence of good strategy-making is to build a position strong and flexible enough to produce successful performance despite unforeseeable and unexpected external factors.

**The Five Tasks of Strategic Management**

The strategy-making, strategy-implementing function of managers consists of five interrelated components:

1. Developing a concept of the business and forming a vision of where the organization needs to be headed in effect, infusing the organization with a sense of purpose, providing long-term direction, and. establishing a mission.
2. Converting the mission into specific performance objectives.
3. Crafting a strategy to achieve the targeted performance.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating performance, reviewing the situation, and initiating corrective adjustments in mission, objectives, strategy, or implementation in light of actual experience, changing conditions, new ideas, and new opportunities.

Strategy-making brings into play the critical managerial issue of how to achieve the targeted results in light of the organization's situation and prospects. Objectives are the "ends," and strategy is the "means" of achieving them. In effect, strategy is a management tool for achieving strategic targets. The task of forming a strategy starts with hard analysis of the organization's internal and external situation. Armed with an understanding of the "big picture," managers can better devise a strategy to achieve targeted strategic and financial results.

Definitionally, strategy is the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission. The pattern of moves and approaches already taken indicates what the prevailing strategy is; the planned moves and approaches signal how the prevailing strategy is to be embellished or changed. Thus, while strategy represents the managerial game plan for running an organization, this plan does not consist of just good intentions and actions yet to be taken. An organization's strategy is nearly always a blend of prior moves, approaches already in place, and new actions being mapped out. Indeed, the biggest part of an organization's strategy usually consists of prior approaches and practices that are working well enough to continue. An organization's strategy that is mostly new most of the time signals erratic decision-making and weak "strategizing" on the part of managers. Quantum changes in strategy can be expected occasionally, especially in crisis situations, but they cannot be made too often without creating undue organizational confusion and disrupting performance.

**Models of Strategy Making**

Mintzberg has described three modes of strategy making: entrepreneurial, adaptive, and planning. In the *entrepreneurial mode,* one strong leader, usually the founder of the business makes bold, risk-taking decisions more or less intuitively; that is he or she relies on personal judgment formed by experience. With power centralized in the chief executive's hands, the entrepreneurial organization is motivated essentially by one overriding goal: constant growth. Strategy making is dominated by an active search for new opportunities with choices guided not by charted rule but by the chief's personal plan of attack.

The *adaptive mode* has been called "the science of muddling through.Whereas the entrepreneur confronts the environment as a force to be controlled, the adaptive manager reacts to each situation as it arises. Whereas strategy in the'entrepreneurial organization consists typically of dramatic leaps forward in the face of uncertainty, the adaptive organization moves ahead timidly in a series of small, disjointed steps. And whereas the entrepreneur constantly seeks to beat competition to the punch, the adaptive manager tends to react defensively to the actions of competitors (Limbolm, 1959).

The difference stems from the lack of a central source of power. Caught in a web of conflicting demands by stakeholders, management cannot always negotiate a clear statement of objectives. The result, oddly enough, may be a reactive, fragmented strategy making, which adds a flexibility that accounts largely for the organization's ability to muddle through (Freeman, 1984).

The third mode of strategy making Mintzberg terms the *planning mode.* It provides the guiding framework and strong sense of direction the other modes lack. In this mode, top-level planners follow a systematic procedure that requires them to analyze the environment and the organization so they can develop a plan to move into the future. While planners must also make risk-taking decisions, their choicesare systematic and structured; that is, they are based on a rational estimate of opportunities and threats in the environment and are tailored to fit the overall mission and capabilities of the organization.

**Considerations in Selecting the Best Strategy Approach**

No one approach to strategy making will work best for all organizations and in all situations. Indeed, the same organization may benefit from using different approaches at particular stages in its evolution or for particular issues.

A small, relatively young organization with a strong chief executive who likes the quick, bold stroke is made to order for the entrepreneurial mode. The organization can plunge ahead boldly with little to lose and much to gain from every risk-taking action. This entrepreneurial behavior may also suit an organization in trouble, when the bold stroke may be the only hope of salvation. Even in these special situations, however, some systematic attempt on the part of the entrepreneur to formulate strategy can provide a useful framework for intuitive decisions.

The adaptive mode may be the only choice open to organizations committed to irreversible investments and having a management structure of competing groups holding one another in check. Many universities, hospitals, and government agencies fit this description, as do some large corporations. These conditions restrict flexibility of action and effective planning.

In practice, most organizations combine the three modes according to the needs of a project or organizational unit or the personalities and styles of their managers. Thus, a research and development department might be in the entrepreneurial mode, while the marketing department might be in the planning modeand both could be reporting to a strictly adaptive-style top-level manager. In some cases, managers may prefer to follow the planning approach but be forced into the adaptive mode because of lack of power.

**Logical Incrementalism**

In some instances, organizations follow an approach called *logical* incremental that is a synthesis of the planning, adaptive, and, to a lesser extent, entrepreneurial modes of strategy making. In this approach, top management has a clear idea of the organization's objectives and begins informally to move the organization in the desired direction. Top management then supports those activities that reinforce and advance the organization's objectives and institutes more formal planning in that direction. When the organization moves in undesired or unexpected directions, management has the options of pushing harder in the desired direction, backing off temporarily, adapting to the new situation, or initiating new activities. In this way, management uses the mode of strategy makingplanning, adaptive, or entrepreneurialthat is best suited in a particular situation to move the organization incrementally (by steps) toward its goals. (Quinn James B. 1980)

**What Is Strategic Planning?**

The three tasks of defining the business, setting objectives, and crafting a strategy all involve direction-setting. Together, they specify where the organization is headed and how management intends to achieve the targeted results. Together, they constitute a strategic plan. In some companies, especially large corporations committed to regular strategy reviews and formal strategic planning, the strategic plan is explicit and written (although parts of the plan may be omitted if they are too sensitive to reveal before they are actually undertaken). In other companies, the strategic plan is not put on paper but rather exists in the form of understandings among managers about what is to be carried over from the past and what new actions are to be taken. Organizational objectives are the part of the strategic plan that are most often written and circulated among managers and employees.

Strategic planning is the process of selecting an organization's goals, determining the policies and programs necessary to achieve specific objectives en route to the goals, and establishing the methods necessary to assure that the policies and strategic programs are implemented. This comprehensive definition might be distilled intoa shorter one: *Strategic planning is the formalized, long-range planning process used to define and achieve organizational goals.*

**Characteristics of Strategic Planning**

There is no universally accepted definition of strategic planning, and many authors and managers would not fully agree with the one just offered. Different writers also use different terms for the same concepts, as students of management rapidly discover. Comprehensive planning and long-range planning are often used in place of "strategic planning."However, there would probably be more agreement on five important attributes of strategic planning, attributes that reflect in part the five characteristics of strategy discussed earlier.

* It is a top-level activity in the sense that top management must be actively involved. This is because only top management, from its high vantage point, has the vision necessary to consider all aspects of the organization, and because commitment from top management is necessary to generate and support commitment at lower levels.
* It deals with basic questions. Strategic planning provides answers to such questions as, "What business are we in and what business ought we to be in? "Who are our customers and who should they be?"
* It involves a longer time frame than other types of planning.
* It helps focus an organization's energies and resources on high-priority activities.
* It provides a framework for more detailed planning and for day-to-day decisions. Faced with such decisions, a manager can ask, "Which of the available courses of action will be most consistent with our strategy?"

**The Importance of Strategic Planning**

The importance of strategic planning for managers and organizations has grown in recent years. Strategic planning provides a framework for organizational activity that can lead to improved organizational functioning and responsiveness. In this section we will discuss why strategic planning is important, its advantages and disadvantages, and the evidence that strategic planning does indeed pay off.

**Why Strategic Planning Is Important**

Most organizations now recognize the importance of strategic planning to their long-range growth and health. Managers have found that by specifically defining the mission of their organization they are better able to give it direction and focus its activities. Organizations function better as a result and become more responsive to a changing environment.

**Improved Functioning:** As an example of how the introduction of strategic planning can result in an organization's working better, consider the international car rental firm of Avis, which operated at a loss for many years. Then Robert Townsend stepped in as president, gave Avis a sorely needed sense of direction, and in three years made it number two in its field. In Townsend's words, defining the firm's purpose, "let us ... stop considering the acquisition of related businesses like motels, hotels, airlines, and travel agencies. It also showed us we had to get rid of some limousine and sightseeing companies we already had."

Townsend then went on to formulate long-range objectives. "It took us six months," he wrote, "to define one objective: 'We want to become the fastest-growing company with the highest profit margins m the business of renting and leasing vehicles without drivers,' ... I used to keep a sign where I couldn't miss it: 'Is what I'm doing or about to be doing getting us closer to our objective?' That one sign, he concluded, kept him from expending his energy in a lot of unproductive activity.

Strategic planning, then, helps us develop a clear-cut concept of our organization. This, in turn, makes it possible to formulate the plans and activities that will bring our organization closer to its goals.

**Responsiveness to a Changing Environment**: Another reason strategic planning has become important for manager is that it enables them to prepare for and deal with the rapidly changing environment in which their organizations operate. When the pace of change was slower, managers could operate on the assumption that the future would be similar to the past. They could establish goals and plans simply by extrapolating from past experiences. Today, events move too rapidly for experience always to be a reliable guide, and managers must develop new strategies suited to the unique problems and opportunities of the future.

Since World War II, the dramatic increase in the rate of technological change and the growing complexity of the external environment has vastly complicated the manager's job. To cope with the pace of change, managers must look farther ahead than ever before. This means a longer lead time between current decisions and their future results. But the consequences of taking a short-term perspective can be severe. The U.S. automobile industry lost a large share of the market (24 percent in 1984) to imported cars because of an earlier failure to focus on the long-term need to developfuel-efficient, well-built vehicles. Short-term planning on the part or American machine-tool producers led to insufficient capacity to supply the domestic market; again, foreign firms stepped in.

It should be clear by now that strategic planning will vary with the organization and the situation in degree of sophistication, in costs and completeness, in the use of quantitative methods, and in formality. Formal planning is not always possible, especially in small businesses and smaller not-for-profit organizations, where resources may be too limited to mount an extensive, formal strategic planning process and the benefits of such a program may not outweigh the costs. In other organizations, managerial commitment to formal strategic planning may be lacking. In such cases, significant benefits may still be obtained by top managers who utilize strategic concepts informally on an ongoing basis but do not try to implement a formal system. (Lenz, T. 1980)

**The Advantages of Strategic Planning**

Strategic planning provides consistent guidelines for the organization's activities. By using strategic planning, managers give their organizations clearly defined objectives and methods for achieving them. In addition, the planning process helps managers anticipate problems before they arise and deal with problems before they become severe.

Another important advantage of strategic planning is that it helps managers recognize risky and safe opportunities and choose between them. The careful analysis provided by strategic planning gives managers more of the information they need to make good decisions.

Strategic planning also minimizes the chance of mistakes and unpleasant surprises, because goals, objectives, and strategies are subjected to careful scrutiny. They are therefore less likely to be foully or unworkable. The advantages provided by strategic planning are particularly important in organizations where a long time passes between a manager's decision and its results. For example, in a manufacturing company, years of research and development may separate the initial decision to manufacture a product and the moment the first unit rolls off the assembly line. Many events can occur during this intervening period to nullify the effectiveness of the manager's original decision. Through strategic planning, managers can increase their chances of making decisions that will stand the test of time.

**The Disadvantages**

The major disadvantage of formal strategic planning is the danger of creating a large bureaucracy of planners that may lose contact with the business's products and customers. According to *Business Week* (1984), in their efforts to develop effective strategic planning systems some companies have invested heavily in consultants, planning staffs, and sophisticated models and planning programs. These planning staffs can usurp the initiative and power of operating managers. From their ivory towers, staff planners may make decisions based on abstract concepts rather than on close familiarity with the real needs of the business.

The considerable investment in time, money, and people that a formal planning system requires may take years to pay off. Until the strategic planning process begins to function smoothly, the organization may move slowly and uncertainly on important decisions. This can result in lost opportunities. A further disadvantage is thatstrategic planning sometimes tends to restrict the organization to the most rational and risk-free option. Managers learn to develop only those strategies and objectives that can survive the detailed analysis of the planning process, and may avoid attractive opportunities that involve high degrees of uncertainty or are difficult to analyze and communicate (Robison M. et al., 1983).

**Evidence for the Effectiveness of Strategic Planning:** A number of research studies have compared organizations that use formal strategic planning with those that do not. J. Scott Armstrong reviewed these studiessome of which are summarized below and concluded that formalized strategic planning pays off. Although most studies have been limited to large companies, it is likely that this conclusion is valid for small organizations as well.

Most organizations do not face a choice between no planning and a complete, full-blown, finely tuned strategic planning system. Instead, the choice is often between no explicitly stated strategy and a conscientious attempt to develop one. In an organization already accustomed to sophisticated operational planning, the choice may be between a very rough, informal process of developing a strategy and a somewhat more formalized process. In other words, the practical option open to most organizations is to move toward more formality in strategy making.

According to the story carried out by Stanley S. Thune and Robert: House found that firms with formal, long-range planning procedures consistently outperformed those that confined themselves to informal planning.The advantage of formal strategic planning was most evident in industries in a rapidly changing environment (such as the drug or computer industries). Managers in such industries had to chart their course carefully to help their organizations survive and grow. A follow-up study supported this conclusion. (Herold, 1972)

**The Formal Strategic Planning Process**

Most organizations, we have observed, can profit from some form of strategic planning. In this section we will describe the formal approach to developing strategic plans and explain how managers carry it out.

To a great extent, the nature and size of an organization determine the kind of formal strategic planning process it employs. For example, the planning process used in a diversified corporation will usually be different from the strategic planning adopted in a single-business company. Since it markets many different products in diverse locations, the diversified corporation has to consider many more variables in its external environment, as well as the competing demands of units within the organization, Also, by contrast, the single-business company faces a less complex situation and can afford to employ less-formal strategic planning procedures. (Stonner and Freeman, 1989)

**The Three levels of Strategy**

Arthur A. Thompson and A. J. Strickland describe three levels of strategy: corporate, line of business or business unit, and functional area.

* 1. **Corporate-level strategy***:* Corporate strategy is formulated by top management to oversee the interests and operations of organizations that contain more than one line of business. The two major questions at this level are:

a) What land of businesses should the company be engaged in?

b) And how should resources be allocated among those businesses?

c) To answer these basic questions, corporate strategic planners, usually top management, must address a further series of questions, such as: What businesses should we get into, and which should we get out of?

d) Which customers should the Digitization serve?

e) What new technologies should it use?

f) How do we manage the range of our activities, and how do we acquire and allocate resources for the activities we choose to pursue?

g) Corporate-level strategy addresses the actions the total organization is taking and should take, and attempts to determine the roles each business activity is playing and should play in the organization.

*1.* **Corporate strategy:**is the overall management plan for a diversifiedcompany. Business strategy pertains to the managerial plan for just a single business or businessunit. Corporate strategy focuses on four areas.

1. ***Making moves to accomplish diversification.*** The concern here is what industries are to be invested in, and how much is to be invested in each industry.
2. ***Managing the diversified portfolio and initiating moves to boost the combined performance of existing businesses.*** This includes pursuing rapid growth strategies, initiating turn around efforts in weak-performing businesses with potential and divesting businesses that are no longer attractive.
3. ***Finding ways to capture the synergy among related business units and turning them into competitive advantage.*** Diversification is attractive because it helps to achieve '"strategic fit" among some business units. And their combined performance is greater than each unit could achieve independently.
4. ***Establishing investment priorities and steering corporate resources into the most attractive business units.*** Depending on the rating of the organization's business units, resources are channeled into areas where earning potentials are liigher and moved away from areas where they are lower.
5. **Business unit strategy***:* Business unit strategy is concerned with managing the interests and operations of a particular business. It deals with such questions as: How will the business compete within its market? What products/services should it offer? Which customers does it seek to serve? How will the various functions manufacturing, marketing, finance, and so on be managed in order to meet market goals? How will resources be distributed within the business? Business unit strategy attempts to determine what approach the business should take to its market and how the business should conduct itself, given its resources and the conditions of the market.

Many corporations have extensive interests in different businesses. Top managers of these companies have difficulty organizing their corporations' complex and varied activities. One approach to dealing with this problem is the creation of strategic business units. A *strategic business unit (SBU)* groups together all business activities within a multi-business corporation that produce a particular type of product or service and treats them as a single business unit. The corporate level provides a set of guidelines for the SBUs, which then develop their own strategies on the business unit level. The corporate level then reviews the SBU plans and negotiates changes if necessary. Single-business corporations use business-unit-level strategy making unless they are contemplating expanding into other types of business. At that point, strategic planning on the corporate level becomes necessary.

1. **Functional-level strategy**: Functional-level strategy creates the framework for the management of functions such as finance, research and development, and marketing so that they conform to the business-unit-level strategy. For example, if the business unit strategy calls for the development of a new product, the R&D department will create plans on how it will develop that product.

As we move from corporate to business to functional-level strategies, the plans become more detailed and specific. In the rest of this chapter we will discuss in detail how to develop corporate and business-unit-level strategies.

**Corporate-Level Strategy**

Steven C. Wheelwright (1984) has identified two major approaches managers can take to developing corporate strategy:

* **The corporate portfolio approach:** In this approach, top management evaluates each of the corporation's various business units with respect to the marketplace and the corporation's internal makeup. When all business units have been evaluated, an appropriate strategic role is developed for each unit to improve the overall performance of the organization. The corporate portfolio approach is rational and analytical, and also guided primarily by market opportunities. It tends to be initiated and controlled by top management only. Texas Instruments is one company that has used the corporate portfolio approach extensively.
* **The values-based approach:** In this approach, the beliefs and convictions (values) of managers and workers about how the firm should conduct its business are the key to setting the organization's long-term direction. Values-based strategies develop gradually and incrementally and provide general guidance rather than a narrowly focused plan. Consensus by organizational members is important; often there is a "company way" of doing things that determines what strategies will be pursued. Major strategic decisions evolve over time and are confirmed by the entire organization. Firms such as S. C. Johnson and Hewlett Packard, as well as many Japanese companies, take this approach.
* **The BCG Matrix**: One widely used portfolio management method, the BCG matrix, was devised by the Boston Consulting Group in the 1970s. The BCG approach focuses on three aspects of a particular business unit: its sales, the growth of its market, and whether it absorbs or produces cash in its operations. The approach seeks to develop a balance among business units that use up cash and those that supply cash. BCG matrix in which business units can be plotted according to the rate of growth of their market segment and their relative market share. Each cell in the matrix has its own significance. A business unit in the "question mark" category (a business with a small relative market share in a rapidly growing market), for instance, can be an uncertain and expensive venture. The rapid growth of the market may force it to invest heavily simply to maintain its low share of the market, even though that low market share may yield low or even negative profits and cash flow. Increasing the question mark's market share relative to the market leader would require still larger investments. Yet the rapid growth of the market segment offers exciting opportunities if the proper business strategy and the funds to implement it can be found.

Forecasting and management science methods for analyzing the environment are discussed. As James M. Utterback has noted, one key to successful environmental analysis for strategy formulation is the early detection of changes, late identification of changes in the environment often increases an organization's vulnerability to competitors. Although forecasts rarely predict with complete accuracy, environmental analysis helps the organization adjust to changes in the indirect-action environment and anticipate and influence activity in the direct-action environment.

Strategic anticipation of the reactions of stakeholders to the implementation of a strategy is becoming increasingly important. Strategic anticipation can be rather subtle. For example, Ian C. MacMiUan has reported that one firm delayed launching a new product until the marketing manager of its main competitor had departed for an extended business trip and vacation. The company established a dominant position in the market while its competitor was paralyzed as the absent manager's stand-in slowly grappled with this new threat and eventually acted too late. This illustrates the value of systematically gathering information on competitors, a technique that, according to a recent study, is too little used in American business.

**Step 4: Resource Analysis**: The organization's goals and existing strategy also provide a framework for analyzing its resources. This analysis is necessary to identify the organisation's competitive advantages and disadvantages. Competitive advantages and disadvantages are the strengths and weaknesses of the organization relative to its present and likely future competitors.

Hofer and Schendel offer four steps for analyzing resources,

1. Develop a profile of the organization's principal resources and skills in three broad areas: financial; physical, organizational, and human; and technological.

2. Determine the key success requirement of the product/market segments in which the organization competes or might compete.

3. Compare the resource profile to the key success requirements to determine the major strengths on which an effective strategy can be based and the major weaknesses to be overcome.

4. Compare the organization's strengths and weaknesses with those of its major competitors to identify which of its resources and skills are sufficient to yield competitive advantages in the marketplace.(Macmillian and Patrice, 1984)

**Step 5: Identification of Strategic Opportunities and Threats**: Identifying strategy, analyzing the environment, and analyzing the organization's resources (steps 2, 3, and 4) come together in the fifth step: determining the opportunities available to the organization and the threats it faces. Opportunities and threats may arise from many factors: Land purchased for farming activities by a large agribusiness corporation may become so valuable that the company considers forming or acquiring a housing development division. In this instance, changed market conditions present a new opportunity.

In the 1960s, organizations owing their success to expertise in designing and manufacturing complex electromechanical products, such as cash registers, found that advances in electronic technology rapidly made both their skills and their plants and equipment obsolete. Here, technological changes were a clear threat. But firms that could move ahead rapidly with the new technology had the opportunity to do so. Thus, the same environment that posed a threat to some organizations offered opportunities to others.

**Step 6: Determination of Extent of Strategic Change Required**: After resources and the environment have been analyzed, the results of the existing strategy can be forecast. The longer that strategy has been in place and the more stable the environment, the easier it will be to make this prediction. Then managers can decide whether or not to modify that strategy or its implementation. This decision should be based onwhether *performance gaps* can be identified. A performance gap is the difference between the objectives established in the goal formulation process and the results likely to be achieved if the existing strategy is continued. Performance gaps can result from choosingmore difficult objectives or from the failure of past performance to meet expectations because of effective responses by competitors, changes in the environment, loss of resources—or because the strategy itself had not been well thought out. The greater the gap, the greater the change in strategy is likely to be. (Stoner, 1989)

**Step 7: Strategic Decision Making**: If a change in strategy appears necessary to close the performance gap, the next step involves identifying, evaluating, and selecting alternative strategic approaches.

*Identification of Strategic Alternative****:*** Basically, strategic alternatives are the possible strategies that are available to every organization which can be considered for adoption depending on how an organization perceives its strengths and weaknesses vis-a-vis the opportunities and threats the internal and external environments present.

In a given instance, a variety of alternatives for closing the performance gap probably exist. New markets may be entered; key products may be redesigned to enhance quality or reduce cost; new investments may be undertaken or old ones terminated.

If only a minor change in the existing strategy is needed, the logical alternatives may be few. If, for example, a lag in new-product introduction has been identified as a major cause of dwindling sales, a program to improve the performance of the research and development department may be the obvious choice. But if a significant change in the strategic approach is required, more alternatives must be identified and greater care will be needed later to avoid attempting to blend incompatible options into a new strategic approach.

*Evaluation of Strategic Alternatives:* Richard P. Rumelt has described four criteria for evaluating strategic alternatives:

* 1. The strategy and its component parts should have consistent goals, objectives, and policies.
  2. It should focus resources and efforts on the critical issues identified in the strategy formulation process and separate them from unimportant issues.
  3. It should deal with subproblems capable of solution, given the organization's resources and skills. [For example, he has noted that "A strategy for competing in the electric typewriter market... by creating a radically cheap yet durable machine defines a subproblem (inventing the machine) that is probably no more amenable to attack than the original strategic problem."]
  4. Finally, the strategy should be capable of producing the intended results—that is, it should show promise of actually working.

In evaluating alternatives it is also important to focus on a particular product or service and on those competitors who are direct rivals in offering them. A strategy that does not create or exploit a particular advantage of the organization over its rivals should be rejected.

*Selection of Strategic Alternatives****:*** In choosing among the available possibilities, managers should select the alternatives that are best suited to the organization's capabilities. Successful strategic plans utilize the existing strengths of the organization. New capabilities can be acquired only through investment in human resources and/or equipment and cannot be built up quickly. Therefore, it is seldom advisable to embark on a strategic plan requiring resources or skills that are weak or nonexistent. Instead, recognized strengths should be fully exploited.

**Step 8: Strategy Implementation**: Once the strategy has been determined, it must be incorporated into the daily operations of the organization. Even the most sophisticated and creative strategy will not benefit the organization unless it is carried out. Whether the strategy is recorded in a formal and detailed strategic plan or not, it must be translated into the appropriate tactical plans, programs, and budgets.

Thompson and Strickland identified four broad areas, which represent the core tasks of strategy implementation.

* 1. Figuring out an agenda and a set of action priorities that matches upwell with the organization's overall situation and context of the setting in which implementation must take place.
  2. Creating “fits” between strategy and the various internal “ways of doing things” in order to align the whole organization behind strategy accomplishment
  3. What managerial approach and leadership style to adopt in inducing the needed organizational changes
  4. Performing the securing administrative task associated with strategy implementation

The basic question which the process of strategy implementation seeks to provide an answer to is: “What is required for us to implement our part of the overall strategic plan and how can we best get it done?”

Strategy-supportive matches are needed with organizational skills and capabilities, functional area activities, organizational structures, reward systems and incentives, policies and procedures, information systems and control mechanisms, budgets and programmes, and shared values and cultural norms.

Making these fits strong prevents internal activities from being at cross-purposes with strategy and brings the organization's actual work into closer harmony with strategy plan.

**The Manager's Role**

An organization's top management plays a critical role in the implementation process by leading and recognizing the tone, pace and style of strategy implementation.

How a manager goes about the implementation of a task is dependent upon a number of factors viz:

* 1. The nature and extent of the strategic change involved.
  2. The manager's network of personal relationships with others in the organization.
  3. Whether the manager is a new person on the job or a secure incumbent.
  4. The manager's own diagnostic, administrative interpersonal and problem-solving skills.
  5. The manager's own leadership preferences for how to proceed.
  6. Experience and knowledge about the business.
  7. The context of the organization's situation.
  8. The seriousness of the firm's strategic difficulties.
  9. The pressures for short-term performance and other factors.
  10. The authority which the manager has been given.
  11. Resources available.

In addition to the above listed, successful strategy execution depends largely on good internal organization and competent personnel. Three organizational issues that are of necessity in building a strong organization which top management should always prioritize are:

***Strategy Implementation***

* 1. Developing the skills and distinctive competence in which the strategy is grounded and seeing that the organization has the managerial talents, technical know-how and competitive capabilities it needs.
  2. Developing an internal organization that is responsive to the needs of strategy
  3. Selecting people for key position.

**Step 9: Measurement and Control of Progress**: As implementation proceeds, managers must check progress against the strategic plan at periodic or critical stages to assess whether the organization is moving toward its strategic objectives. Company controllers often play an important role in designing systems of *strategic control* (as this process is generally known). The two main questions in strategic control are:

(1) Is the strategy being implemented as planned? and

(2) Is the strategy achieving the intended results?

**Approaches to Formal Strategic Planning**

Arthur A. Thompson and A. J. Strickland have described four basic approaches to formal strategic planning:

1. *Bottom-up approach:* Initiatives in formulating strategy are taken by the various units or divisions of an organization and then passed upward for aggregation at the corporate level. Corporate strategy will then be a composite of these plans. The weakness of this approach is that corporate strategy may end up as an incoherent muddle that merely-reflects the objectives of the divisions before the planning attempt was made.
2. *Top-down approach:* Initiative is taken by the upper-level executives of the organization, who formulate a unified, coordinated strategy, usually with the advice of lower-level managers. This overall strategy is then used to establish objectives and evaluate the performance of each business unit.
3. *Interactive approach:* In this approach, a compromise between the bottom-up and top-down methods, corporate executives and lower-level managers develop strategy in consultation with each other, making a link between wider corporate objectives and the managers' detailed knowledge of specific situations.
4. *Dual-level approach:* Strategy is independently formulated at both the corporate and business levels. All units form plans to suit their particular situations, and these plans are regularly reviewed by corporate management. At the corporate level, strategic planning is continuous and focuses on the larger goals of the organization: when to acquire and when to divest businesses; how to react to competition and the external environment; what priorities to attach to the organization's various units.

**The Role of Planning Staffs in Large Organizations**

In formulating strategic policies, organizations have to consider the following:

* 1. Societal, political, regulatory and citizenship considerations. This involves making strategies within what is legal, complying with government policies and regulatory requirements, what is socially acceptable, etc.
  2. Industry attractiveness and competitive condition: Unless a firm believes the industry environment presents an attractive situation, it is better off investing resources elsewhere. This will include considering competitive forces, the industry's price-cost-profit economics, etc.
  3. Organizational opportunities and threats: Strategy needs to capture some or all of a company s best opportunities and it also provides a good defense against external threats to the company's well-being and future performance.
  4. Organizational strengths, weaknesses and competitive capabilities: Strategy must be well matched with company strengths, weaknesses and compel Jl Ivc capabilities. Pursuing opportunities must be backed with organi/Htlnntil strengths such as competence and resources. Organizational weaknesses make certain strategies risky.
  5. Personal ambitions, business philosophies and ethical beliefs of Manager: it has been acknowledged that the ambitions, values, business philosophies, attitudes to risk and ethical beliefs of managers usually have important influences on strategy.
  6. Influence of Nhuivd values and company culture on strategy: Every organization's policies, values, traditions, behaviours and ways of doing things become so ingrained that the organization takes on a distinctive Culture.

**Strategy Implementation and Execution**

The strategy-implementing function consists of seeing what it will take to make the strategy work and to reach the targeted performance on schedule — the skill comes in knowing how to achieve results. The job of implementing strategy is primarily an action-driven administrative task that cuts across many internal matters. The principal administrative aspects associated with putting the strategy into place include:

* Building an organization capable of carrying out the strategy successfully.
* Developing budgets that steer resources into those internal activities critical to strategic success.
* Motivating people in ways that induce them to pursue the target objectives energetically and, if need be, modifying their duties and job behavior to better fit the requirements of successful strategy execution.
* Tying the reward structure tightly to the achievement of the targeted results.
* Creating a work environment conducive to successful strategy implementation.
* Installing strategy-supportive policies and procedures.
* Developing an information and reporting system to track progress and monitor performance.
* Exerting the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.

The administrative aim is to create "fits" between the way things are done and what it takes for effective strategy execution. The stronger the fits, the better the execution of strategy. The most important fits are between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal policies and procedures, and between strategy and the organization's culture (the latter emerges from the values and beliefs shared by organizational members and from management's human relations practices). Fitting the ways the organization does things internally to what it takes for effective strategy execution is what unites the organization firmly behind the accomplishment of strategy.

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

As organizations grow, they often find that a formally staffed planning department becomes a necessity. Strategic planning in large organizations is often too complex for their managers to handle without the help of a planning staff. In addition, large organizations tend to be involved in long-term projects that require a considerable investment of time and resources. Finally, they have the stability and resources needed to set up a planning staff.

Historically, the planning staff helps top managers formulate their strategies and objectives by acquiring data through surveys and research. The planning staff monitors and forecasts the changing needs of the organization's customers, the shifts in the organization's economic environment, advances in technology that can affect the organization, and the development of new market opportunities for the organization. In light of the information it gathers, the planning staff recommends appropriate strategies and objectives to top managers. It may also evaluate the strategies and objectives that top managers propose.

In recent years, the role of professional planning staffs has changed. Where planning staffs once played a centralized, dominant role in directing the creation of strategic plans in some large organizations, their function now is more to support and assist line managers in strategic planning acting as catalysts for change rather than imposing plans from corporate headquarters. The role of chief executive officers has also changed. Many of them, foreseeing an end to the rapid growth of the economy and anticipating a more competitive market place, are now taking a more active part in planning instead of leaving much of this function to a staff of specialists.

**Strategic Planning in Small Business Organizations**

The size of an organization can make a big difference to its planning (and other) procedures. Th. P. van Hoorn has observed that small organizations differ from large ones in the following respects:

* They create relatively few products or services.
* Their resources and capabilities are comparatively limited.
* They generally do not have formal procedures to monitor the environment, make forecasts, or evaluate and control strategies in progress. As a result, information necessary for implementation or revision of strategic plans is unavailable or unreliable.
* Most management and staff personnel have been trained on the job. They tend to rely on experience as a guide, rather than on systematic, specified procedures.
* Management positions and large blocks of shares are often held by relatives of the founder(s).

Because of these differences, strategic planning in small companies generally differs from the formal procedures used in large organizations. The planning process itself will be less systematized and explicitless formal. The nine-step strategic planning model presented above is a useful guideline, but in small companies analyses tend to be less detailed and complex.

For all these reasons, then, it is important for managers in small organizations to realize two things: Rrst, strategic planning does not have to be expensive, complex, quantitative, or even very formal. It can be managed on a modest scale, with its focus only on those steps relevant to the particular organization and its needs, Frank F. Gilmore has argued that, in smaller companies, "Strategy should be formulated by the top management team at the conference table. Judgment, experience, intuition, and well-guided discussions are the key to success, not staff work and mathematical models.”

Secondly, strategic planning is a learning process. Over time, the organization's members will learn progressively more about the organization's capabilities and limitations, about the threats and opportunities in its environment, and about the process of strategic planning itself. As skills in strategic planning are developed, the process and the resulting plans can become more formal and more sophisticated.

Steiner has noted that one of the biggest obstacles to strategic planning in smaller organizations is often the top manager's doubts that it is useful at all. These doubts may well arise in part from lack of understanding of the two points discussed above. They also overlook the fact that strategic planning is frequently easier to accomplish in small companies. And once developed, strategies can be communicated clearly and rapidly to all personnel, making it easier to ensure that all employees understand and implement those strategies.

**Strategic Planning in Not-Profit Organizations**

Just as small businesses differ from large businesses, not-for-profit organizations differ from profit-making ones and they differ from each other as well.These differences, as we will see, account for the fact that the top managers of not-for-profit organizations are less likely than other managers to engage in formal or even informal strategic planning.

The range of not-for-profit organizations is suggested by their names; for example, the Stanford Research Institute (a not-for-profit consulting organization), the Boston Food Coop, Brigham Young University, the Teamsters Union, the Republican Party, and the local United Fund. Because of the differences among them, strategic planning techniques will be more useful for some not-for-profit organizations than for others.

In spite of their great diversity, many not-for-profit organizations share characteristics that distinguish them from profit-oriented firms. William H. Newman and Harvey W. Wallender III have listed six characteristics that are fairly common in not-for-profit organizations:

* 1. The service they provide is Intangible and hard to measure.
  2. Customer influence may be weak.
  3. Strong employee commitment to professions or to a cause may weaken their allegiance to the organization.
  4. Resource contributors may intrude into internal management.
  5. Restraints on the use of rewards and punishments result from 1,3, and 4 above.
  6. Charismatic leaders and/or the "mystique" of the enterprise may be important means of resolving conflict in objectives and overcoming restraints.

Newman and Wallender have noted that, although some business firms may possess these characteristics to a greater or lesser extent, they are more frequently found in not-for-profit organizations.

Because strategic planning techniques have developed out of the experiences and situations of large business organizations, they have not been easy to apply in not-for-profit situations. At the same time, the diversity among not-for-profits makes it difficult to determine which formal planning experiences and problems of one type of not-for-profit might prove relevant to others.

Given these and other problems, it is not surprising that Max S. Wortman found that not-for-profit organizations tended to be "managed much more in a short-term operations sense than in a strategic sense." As Hofer and Schendel have noted: "There is some evidence that some of these organizations have no strategies at all. Rather, they seem motivated more by short-term budget cycles and personal goals than by any interest in reexamining their purpose or mission in light of altered environmental circumstances."

In spite of the barriers, strategic planning efforts appear to be increasing in not-for-profit organizations. Pressures created by cutbacks in federal funding and the presence of business persons on the boards of trustees of not-for-profits have encouraged many of these organizations to develop more formal strategies. The rapid changes in environmental factors that have led business organizations to undertake strategic planning have also had direct impact on not-for-profit organizations. Reports of strategic planning efforts in colleges, hospitals, libraries, local governments, and churches now appear regularly, but because the use of strategic planning by not-for-profits is still in its infancy, it is too soon to predict with confidence how these procedures will eventually differ from those used in business.

Many observers believe that strategic planning is more difficult in not-for-profit organizations than in profit-making businesses. However, not-for-profits may even have some underused planning advantages; for example, the level of employee commitment to the mission of a not-for-profit organization can be utilized in formulating and implementing strategy. Although strategic planning methods derived from business situations may need modification for not-for-profit use, they offer promise for these organizations and a framework for satisfying the requirements of stakeholders.

**Overcoming Barriers to Formal Strategic Planning**

In the previous section we saw how formal strategic planning can be applied in various types of organizations. Even if the most appropriate method of formal planning is chosen, however, there are still two types of problems that may stand in the way of its use or effective implementation. First, specific characteristics of the formal strategic planning process may discourage development of formal strategies. And second, managers may not fully understand the process and may implement the plans ineffectively. These problems may prevent formal planning from occurring; they may side track and sabotage planning efforts; and they may interfere with translating the plan into action.

**Factors that Discourage Developing Formal Plans**: The five factors that may discourage some organizations from developing formal strategic plans are:

* 1. Conflict between the formal planning process and management style.
  2. Inappropriateness of formal planning for small organizations.
  3. Expense of the process.
  4. Overemphasis on quantitative aspects.
  5. Vulnerability of formal planning to unexpected events.

These objections can usually be overcome by selecting a level of formality appropriate to the organization, by eliminating unnecessary and expensive frills such as outside consultants and elaborate reports, and by emphasizing strategic flexibility. It should be kept in mind that *any* degree of formality in making and communicating strategy will result in many of the advantages of a formal planning system.

**Obstacles to Effective Implementation of Formal Plans**

Kjell Ringbakk has identified ten major reasons why organizations can fail in their strategic planning efforts:

1. Formal planning is not accepted by all managers.
2. Some aspects of formal planning are not understood by planners.
3. Managers at some levels are not included in planning activities.
4. Primary responsibility for planning is surrendered to staff
5. Long-range plans are considered unchangeable.
6. An elaborate and expensive planning system is chosen.
7. Good plans are simply ignored.
8. Forecasting and budgeting are confused with planning.
9. Available information is inadequate.
10. Managers get bogged down in details.

These obstacles involve errors in perception, education, and implementation. In many cases they can be effectively addressed by teaching all managers about the planning process and involving them in it and by always-keeping the overall goals of strategic planning in mind.

Organizations that start off on the wrong foot when developing a formal strategic planning process frequently evolve more effective methods as they gain experience. For example, the *Business Week* study cited above found that many companies developed elaborate planning departments staffed with experts who were not always familiar with the businesses they were planning for. These experts took an "ivory tower" approach to planning that was frequently unsuccessful. The efforts of the planning staff and, in some cases, planning departments were then scrapped as line management properly reassumed the task of strategic planning. In other cases, planning staff was retained to instruct and aid line management in complex aspects of planning.

**Factors Favoring the Spread of Formal Planning**

Despite the obstacles described above, the use of formal strategic planning is expanding. The process itself is becoming better understood, arid managers are more skilled than ever before in determining which approaches and systems are appropriate for different situations. They are also more skilled at developing and implementing such systems.

**Strategy, Strategists and Value System**

An organization's strategist's function is the determination of objectives and formulation of strategy after considering mission, goals, strategic policies and the information about strengths, weaknesses, opportunities and threats, which are derived from internal and external analyses. Managers use different criteria to determine the organization's strengths and weaknesses including opportunities and threats. Strategists base strategic decisions on forecast of future strengths, weaknesses, opportunities and threats. The use of information may itself be a strategy. The strategic decision-makers in large organizations are the board members and the entrepreneurial chief executive officer. Strategy has been defined by many authors in various ways. An organization's strategy is delineated in the pattern of moves and approaches devised by management to produce successful organizational performance. Strategies establish courses of action for organizations as well as coherent plans for them to achieve intended results or set objectives and goals. Strategy formulation and implementation are core management functions.

In developing a strategy, the first task is to define the business of the organization and develop the mission after which you set performance objectives and formulate the strategy(ies) to produce the desired results. Mission means management's vision of what the organization is trying to do and to become over the long-term.

Mission statements are thus personalized in the sense that they set an organization apart from others in its industry and gives its own special identity, character and path for development. There are three aspects to formulating a mission.

1. Understanding what business an organization is really in
2. Deciding when to change the mission and alter the organization's strategic course
3. Communicating the mission in ways that are clear, exciting and inspiring

When defining a business, it is done in terms of what it is to satisfy, who to satisfy and how the organization will go about producing the satisfaction. Mission statements should not be static but adaptive. That is they should be changing as times and conditions change. Managers should always be checking for the time to steer a new course and adjust the mission. Redirecting the enterprise in the light of new developments and changes on the horizon reduces the chances of getting caught in a poor market position or being in the wrong business at the wrong time or in wrong business at the right time.

Communicating a mission to subordinate managers is as important as developing a mission itself. When missions are not well communicated, the mission statement will do little to change employees' attitudes, thinking and behaviour. This makes movement more difficult for the organization.

The factors, which affect the strategist's choice in an organization, are values, skills and needs. There are six primary types of value orientation according to William D. Girth and Renato Taguiri are Theoretical, Economic, Aesthetic, Social, Political and Religious.

1. Religious value orientation has a mental structure permanently directed to the creation of the highest and absolutely satisfying value experience.
2. Aesthetic value orientation values the artistic aspects of life and enjoys each event for its own sake and beauty.
3. Economic value orientation is interested in what is practical and in the accumulation of wealth.
4. Political value orientation is oriented towards power and sees competition as vital.
5. Social value orientation: love people, sympathetic, unselfish, and kind.
6. Theoretical value orientation: interested in the discovery of truth, in rationality, in reason.

According to them business managers were the strongest in economic theoretical and political value orientations, while values held by business managers were the weakest in aesthetic and social value orientations. A value orientation reflect an individual’s, a group’s, an organization’s or a society’s history of experiences.

Weaknesses in an organization are functions of synergy and balance. The manager's interpretation of threat and weaknesses is affected by variation in tasks; cognitive value and the salient information available.

A strategic information system, which can be either formal or informal, is used to set objectives and formulate strategies in relation to external environmental opportunities and threats.

There are four modes of scanning the external environment for information about threats and opportunities according to F.J. Aguilar. These are undirected, conditioned, informal and formal viewings. Undirected viewing is the general exposure to information with no purpose other than exploration. Informal viewing refers to specific information carried out in a limited and relatively unstructured manner. The conditioned viewing is the directed exposure to the searching for specific kinds of data (not actively), which will be assessed as they encountered. The steps to be followed by strategists in devising an information strategy are the assessment of information intensity; determination of the role of information technology in industry structure and the investigation of how information technology might spawn new business.

Strategies are derived from the organization's mission and from the policies that guide its formulation. In business organizations, strategic policies focus on return on investment, scope of strategy, the qualifications of products to be offered, the organization's culture and management philosophy including the geographical location of the basic actions.

**Establishing Long- Range and Short - Range Objectives**

When objectives are established, the mission is broken down into specific performance targets to be achieved. It also begins the process of training the energies of each part of the organization on what needs to be accomplished. Key result areas where objectives are set include size and rank of the industry, growth in revenue and earnings, return on investments, annual dividend increases, etc. Both long-range and short-range objectives are needed. Long-range objectives make managers to weigh the impact of today's decisions on long-range performance, while short-range objectives spell out the immediate and near-term results to be achieved. These make managers to be committed to producing specified results within a specific time frame.

For an organization's mission to be successful, it must be translated into measurable performance targets and must contain a deadline for achievement Objectives must be achievable and are set after judging what performance is possible in the light of external conditions against what performance the organization really capable of achieving. Objective-setting is for each of the organizations, a separate business and product line down to departmental level. It is not only for the organization as a whole, but also for various sections of the organization from top to bottom. This provides a valuable degree of unity and cohesion to the decisions and actions taken in different parts of the organization.

**Operating Strategy:** Operating strategy refers to more detailed moves devised by lower-level functional and geographic-unit managers to achieve the strategy supporting performance objectives established in their areas of responsibilities. Managers of these units need to devise approaches and make moves to achieve these objectives. This process puts them in a strategy-making role.

**Why Strategy Is Constantly Evolving**

From the perspective of the whole organization, the task of "strategizing" is always an ongoing exercise. “The whats” of an organization's mission and long-term objectives, once chosen, may remain unaltered for several years. But "the hows" of strategy evolve constantly, partly in response to an everchanging external environment, partly from managers' efforts to create new opportunities, and partly from fresh ideas about how to make the strategy work better. On occasion, quantum changes in strategy emerge when a big strategic move is put to test in the real world or when crisis strikes and managers see that the organization's strategy needs radical reorientation. Refinements and additions, interspersed with periodic quantum leaps, are a normal part of managerial "strategizing."

Because strategic moves and new action approaches are made in an ongoing stream, an organization's strategy forms over a period of time and then reforms, always consisting of a mix of holdover approaches, fresh actions in process, and unrevealed moves being planned. Aside from crisis situations (where many strategic moves are often made quickly to produce a substantially new strategy almost overnight) and new company start-ups (where strategy exists mostly in the form of plans and intended actions), a company's strategy is crafted in bits and pieces as events unfold and as managerial experience accumulates. Everything cannot be planned out in advance, and even the best-laid plans must be responsive to changing conditions and unforeseen events. Strategy-making thus proceeds on two fronts—one proactively thought through in advance, the other conceived in response to new developments, special opportunities, and experiences with the successes and failures of prior strategic moves, approaches, and actions.

**Strategy and Strategic Plans**

The three tasks of defining the business, setting objectives, and crafting a strategy all involve direction-setting. Together, they specify where the organization is headed and how management intends to achieve the targeted results. Together, they constitute a strategic plan. In some companies, especially large corporations committed to regular strategy reviews and formal strategic planning, the strategic plan is explicit and written (although parts of the plan may be omitted if they are too sensitive to reveal before they are actually undertaken). In other companies, the strategic plan is not put on paper but rather exists in the form of understandings among managers about what is to be carried over from the past and what new actions are to be taken. Organizational objectives are the part of the strategic plan that are most often written and circulated among managers and employees.

**Characteristics of the Process**

Although the tasks of developing a mission, setting objectives, forming a strategy, implementing and executing the strategic plan, and evaluating performance constitute the elements of the strategic management function, actually performing these five tasks is not so cleanly divided and neatly sequenced. There is much interplay among the five tasks. For example, considering what strategic actions to take raises issues about whether and how the strategy can be satisfactorily implemented. Deciding on a company mission shades into setting objectives for the organization to achieve (both involve directional priorities). To establish challenging but achievable objectives, managers must consider both current performance and the strategy options available to improve performance. Deciding on a strategy is entangled with decisions about long-term direction and whether objectives have been set too high or too low.

Second, the five strategic management tasks are not done in isolation. They are carried out in the midst of all other managerial responsibilities supervising day-to-day operations, dealing with crisis, going to meetings, preparing reports, handling people problems, and taking on special assignments and civic duties. Thus, while the job of managing strategy is the most important function management performs insofar as organizational success or failure is concerned, it isn't all managers must do or be concerned about.

Third, strategic management makes erratic demands on a manager's time. An organization's situation does not change in an orderly or predictable way. The events that prompt reconsideration of strategy can build quickly or gradually; they can emerge singly or in rapid-fire succession; and the implications they have for strategic change can be easy or hard to diagnose. Hence strategic.

**Who are the strategy managers?**

An organization's chief executive officer is the most visible and important strategy manager. The CEO, as captain of the ship, bears full responsibility for leading the tasks of formulating and implementing the strategic plans of the whole organization, even though many other managers have a hand in the process. The CEO functions as chief direction-setter, chief objective-setter, chief strategy-maker, and chief strategy-implementer for the total enterprise. What the CEO views as important usually moves to the top of every manager's priority list, and the CEO has the final word on big decisions.

Vice presidents for production, marketing, finance, human resources, and other functional departments have important strategy-making and strategy-implementing responsibilities as well. Normally, the production VP oversees production strategy; the marketing VP heads up the marketing strategy effort; the financial VP is in charge of financial strategy; and so on. Usually, functional vice presidents are also involved in proposing and developing key elements of the overall strategy, working closely with the CEO to hammer out a consensus and make certain parts of the strategy more effective. Only rarely does a CEO personally craft all the key pieces of organization strategy.

But managerial positions with strategy-making and strategy-implementing responsibility are by no means restricted to these few senior executives. Every manager is a strategy-maker and strategy-implementer for the area he/she has authority over and supervises. Every part of a company business unit, division, operating department, plant, or district office has a strategic role to carry out. And the manager in charge of that unit, with guidance from superiors, usually ends up doing some or most of the strategy-making for the unit and implementing whatever strategic choices are made. However, managers farther down in the managerial hierarchy have a narrower, more specific strategy-making/strategy-implementing role than managers closer to the top.

Another reason lower-echelon managers are strategy-makers and strategy-implementers is that the more geographically scattered and diversified an organization's operations are, the more impossible it becomes for a few senior executives to handle all the strategic planning that needs to be done. Managers in the corporate office don't know all the situational details in all geographical areas and operating units to be able to prescribe appropriate strategies. Usually, they delegate some of the strategy-making responsibility to the lower-level managers who head the organizational subunits where specific strategic results must be achieved. Delegating a lead strategy-making role to those managers who will be deeply involved hi carrying it out in their areas fixes accountability for strategic success or failure. When the managers who implement the strategy are also its architects, it is hard for them to shift the blame or make excuses if they don't achieve the target results.

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

* The chief executive officer and other senior corporation-level executives who have primary responsibility and personal authority for big strategic decisions affecting the total enterprise and the collection of individual businesses the enterprise has diversified into.
* Managers who have profit and loss responsibility for one specific business unit and who are delegated a major leadership role in formulating and implementing strategy for that unit.
* Functional area managers within a given business unit who have direct authority over a major piece of the business (manufacturing, marketing and sales, finance, R&D, personnel) and whose role it is to support the business unit's overall strategy with strategic actions in their own areas.
* Managers of major operating departments and geographic field units who have front-line responsibility for developing the details of strategic efforts in their areas and for implementing and executing the overall strategic plan at the grassroots level.

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

Managerial jobs involving strategy formulation and implementation abound in not-for-profit organizations as well. For example, a multi-campus state university has four strategy-managing levels:

1. the president of the university system is a strategy manager with broad direction-setting responsibility and strategic decision-making authority over all the campuses;
2. the chancellor for each campus customarily has strategy-making/strategy-implementing authority over all academic, student, athletic, and alumni matters, plus budgetary, programmatic, and coordinative responsibilities for that campus;
3. the academic deans have lead responsibility for charting future direction at the college level, steering resources into high-demand programs and out of low-demand programs, and otherwise devising a college wide plan to fulfill the college's teaching-research-service mission; and
4. the heads of various academic departments are strategy managers with first-line strategy-making/strategy-implementing responsibility for the department's undergraduate and graduate program offerings, faculty research efforts, and all other activities relating to the department's mission, objectives, and future direction. In federal and state government, heads of local, district, and regional offices function as strategy managers in their efforts to respond to the needs and situations of the areas they serve (a district manager in Portland may need a slightly different strategy than a district manager in Orlando). In municipal government, the heads of various departments (fire, police, water and sewer, parks and recreation, health, and so on) are strategy managers because they have line authority for the operations of their departments and thus can influence departmental objectives, the formation of a strategy to achieve these objectives, and how the strategy is implemented.

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

**The Role and Tasks of Strategic Planners**

If senior and middle managers have the lead roles in strategy-making and strategy implementing in their areas of responsibility, what should strategic planners do? Is there a legitimate place in big companies for a strategic planning department staffed with specialists in planning and strategic analysis? The answer is yes. But the planning department's role and tasks should consist chiefly of helping to gather and organize information that strategy managers need, establishing and administering an annual strategy review cycle whereby all strategy managers reconsider and refine their strategic plans, and coordinating the process of reviewing and approving the strategic plans developed for all the various parts of the company. Strategic planners are valuable because they help managers at all levels crystallize the strategic issues that ought to be addressed; in addition, they can provide data, help analyze industry and competitive conditions, and distribute information on the company's strategic performance. But strategic planners should not make strategic decisions, prepare strategic plans (for someone else to implement), or make strategic action recommendations that usurp the strategy-making responsibilities of managers in charge of major operating units.

When strategic planners are asked to go beyond providing staff assistance and actually prepare a strategic plan for management's consideration, either of two adverse consequences may occur. First, some managers will gladly toss tough strategic problems in their areas onto the desks of strategic planners to let the planners do their strategic thinking for them. The planners, not knowing as much about the situation as managers do, are in a weaker position to design a workable action plan. And they can't be held responsible for implementing what they recommend. Giving planners responsibility for strategy-making and line managers responsibility for implementation makes it hard to fix accountability for poor results. It also deludes line managers into thinking they don't have to be personally involved in crafting a strategy for their own organizational unit or in finding strategic solutions to strategic problems in their area of responsibility. The hard truth is that strategy-making is not a staff function, nor is it something that can be handed off to an advisory committee of lower-ranking managers. Second, when line managers have no ownership stake in or personal commitment to the strategic agenda proposed by the planners, they give it lip service, make a few token implementation efforts, and quickly get back to "business as usual," knowing that the formal written plan concocted by the planners does not match their own "real" managerial agenda. The written strategic plan, because it lacks credibility and true top-management commitment, soon collects dust on managers' shelves. The result is that few managers take the work product of the strategic planning staff seriously enough to pursue implementation strategic planning comes to be seen as just another bureaucratic exercise.

Either consequence renders formal strategic planning efforts ineffective and opens the door for a strategy-making vacuum conducive to organizational drift or to fragmented, uncoordinated strategic decisions. The odds are then heightened that the organization will have no strong strategic rudder and insufficient top-down direction. The flaws in having staffers or advisory committees formulate strategies for areas they do not manage are:

1. they can't be held accountable if their recommendations don't produce the desired results since they don't have authority for directing implementation, and
2. what they recommend won't be well accepted or enthusiastically implemented by those who "have to sing the song the planners have written." But when line managers are expected to be the chief strategy-makers and strategy-implementers for the areas they head, it is their own strategy and their own implementation approach that are being put to the test of workability. They are likely to be more committed to making the plan work (their future careers with the organization are at more risk), and they can be held strictly accountable for achieving the target results in their area.

**The Strategic Role of the Board of Directors**

Since lead responsibility for crafting and implementing strategy falls to key managers, the chief strategic role of an organization's board of directors is to see that the overall task of managing strategy is adequately done. Boards of directors normally review important strategic moves and officially approve the strategic plans submitted by senior management a procedure that makes the board ultimately responsible for the strategic actions taken. But directors rarely can or should play a direct role in formulating strategy. The immediate task of directors in ratifying strategy and new direction-setting moves is to ensure that all proposals have been adequately analyzed and considered and that the proposed strategic actions are superior to available alternatives; flawed proposals are customarily withdrawn for revision by management. The longer-range task of directors is to evaluate the caliber of senior executives' strategy-making and strategy-implementing skills. The board must determine whether the current CEO is doing a good job of strategic management (as a basis for awarding salary increases and bonuses and deciding on retention or removal) and evaluate the strategic skills of other senior executives in line to succeed the current CEO.

**The Benefits of a"Strategic Approach" To Managing**

The advantages of first-rate strategic thinking and conscious strategy management (as opposed to freewheeling improvisation, gut feel, and drifting along) include

1. providing better guidance to the entire organization on the crucial point of "what it is we are trying to do and to achieve,"
2. making managers more alert to the winds of change, new opportunities, and threatening developments,
3. providing managers with a rationale to evaluate competing budget requests for investment capital and new staff—a rationale that argues strongly for steering resources into strategy-supportive, results-producing areas,
4. helping to unify the numerous strategy-related decisions by managers across the organization, and
5. creating a more proactive management posture and counteracting tendencies for decisions to be reactive and defensive.

The fifth advantage of being proactive rather than merely reactive is that trail-blazing strategies can be the key to better long-term performance. Business history shows that high-performing enterprises often initiate and lead, not just react and defend. They launch strategic offensives to secure sustainable competitive advantage and then use their market edge to achieve superior financial performance. Aggressive pursuit of a creative, opportunistic strategy can propel a firm into a leadership position, paving the way for its products/services to become the industry standard.

**Elements of Strategic Decision**

The definition of strategy presented by Lynch4 identifies the core areas ofstrategy, as being analysis, development and implementation and this is clearly similar to the position, choice and action presented by Johnson, Scholes and Whittington. However Lynch goes on to develop the idea of strategy by defining five key elements of strategic decisions. Many of the strategic decisions made by Google have these characteristics, which are what make it difficult for Microsoft to compete effectively with Google.

**Key elements of strategic decisions**

* Sustainability and maintaining change over time resulting in success and profitability.
* Distinctiveness is concerned with being different from competitors and achieving sustainable competitive advantage.
* Creating links that cannot be easily duplicated by competitors.
* Spread the risk, go for a range of different customers in different markets and industries.
* Create clear vision, clear values and strong culture.

**McKinsey 7-S framework**

The McKinsey 7-S framework was developed by Peters and Waterman as a tool for managing and covering all aspects of strategy in an organisation. All components of the framework, strategy, skills, staff, style, systems, structure and shared values are equally important and interconnected. Hence altering one component is likely to impact on the others, illustrating the point that effective strategy is not only one element of the framework. Effective strategy is determined, in part, by the relationship between strategy, structure, systems, staff, skills, style and shared values in the framework.

**Prescriptive and Emergent Strategy**

Prescriptive strategy is the sequential, logical view of strategy that can be demonstrated, for example, by the earlier definition of Johnson, Scholes and Whittington, which suggests that determining position is followed by strategic choice, which is followed by strategic action. This means an overview of the organisation is taken, objectives are defined in advance and everything is considered in developing strategy. The environment is analyzed and the future anticipated, and this clear understanding of the external environment means resource requirements can be predicted. Next, choices are made and strategy is developed, prior to implementation, after which it is all evaluated. However, in reality events do not occur in a neat and logical sequence and some of the difficulties of prescriptive strategy

**Characteristics of Strategic Decisions**

Strategy is determined by decision making processes within the organization. The term organisation here refers to:

* the resources the organization has access to;
* the structure and systems designed to allocate and control these resources:
* the capabilities and competencies that result from combining these resources and their values in the creation of products and or services.

Not all management decisions are strategic decisions. The elements we have come across in the definitions of strategy presented above can be analyzed to show the nature or characteristics of strategic decisions. The following is a list of these characteristics (Johnson and Scholes, 1997).

1. Basically, a strategic decision involves and is concerned with the organisation as a whole not some parts of it. It covers all areas and functions of the business. It borrows best practice from each part and combines these thus creating more than just the sum. The basic aim of strategic management is to achieve organisation wide goals and competitive advantage. For this reason, corporate strategy covers the range and depth of the organisation's activities. Thus, strategic decisions demand an integrated or unified approach to managing the organisation. Unlike functional problems, strategic decisions have organisation - wide implications, hence there is no one area of expertise or one perspective that can define or resolve strategic problems. Managers therefore have to cross functional and operational boundaries to deal with strategic problems and come to agreements with other managers and others outside the organisation such as suppliers, distributors and customers who, as stakeholders, would normally have different interests and perhaps different priorities.

Strategic decisions have a long-term perspective because they are concerned with or affect the long-term direction of an organisation in the sense that they must be maintained over time. For example, the decision to become, a diversified or an international company. Strategic directions are long term paths which are difficult to reverse because of the resource and managerial commitments involved. Thus, strategic decisions are likely to have a significant impact on the long term prosperity of the firm and must be concerned with delivering long-term added value to the organisation.

1. Strategic decisions aim to achieve and deliver some sustainable competitive advantages for the organisation over its actual or potential competitors by being different and by offering particular benefits which distinguish a company from others in its industry. Corporate strategy usually takes place in a competitive environment. Even monopolistic government organisations like NEPA need to compete for funds with rival government bodies. In fact, the whole essence and purpose of strategy is to achieve competitive advantage. As noted by Ohmae (1982), “without competitors, there would be no need for strategy, for the sole purpose of strategic planning is to enable the company to gain, as efficiently as possible, a sustainable edge over its competitors., corporate strategy implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way”. A strategic decision is about being different. It means deliberately choosing a different set of activities and approaches to deliver a unique value. The concept of strategy thus implies that a company can outperform its rivals only if it can establish a difference (advantage) that it can preserve (Porter, 1996). Strategic decisions are sometimes conceived of as the search for effective positioning to give such advantage or difference in a market or in relation to suppliers.
2. Strategic decisions are fundamental and future-oriented, are visionary and innovative and are intended to create a major change in the organisation. They are concerned with pursuing those activities which are intended to move an organisation from its current position to a desired future state. Having a vision of the future means that a strategic decision must focus on moving the organisation forward in a significant way beyond the current environment. Because strategic decisions are future-oriented and are based on what managers anticipate or forecast will happen rather than what they know, emphasis is on developing projections that will enable the firm to select the most promising strategic options. The futurity of strategic decisions ensure that firms take, control, and an entrepreneurial or proactive, anticipatory response or step toward change rather than a reactive or lag response.
3. Strategic decisions are concerned with the scope of an organisation's activities. It concerns the types of activities the organisation is or should be in, whether it should concentrate on one area of activity or it should have many areas (a portfolio of activities). The scope of an organisation's activities defines the boundaries of the organisation's business in terms of the type of product it will make and sell and its mode of service and operation in the market.
4. Strategic decisions are concerned with the matching of the activities of an organisation to the environment in which it operates as a means of maintaining a healthy balance between the two based on the strengths and weaknesses of the firm and the threats and opportunities existing in its environment. This is described by Porter (1980) as the search for strategic fit (36) and it involves exploiting the linkages between the organisation and the elements in its environment such as its suppliers, customers, the government, and competitors to achieve superior performance.
5. Strategic decisions attempt to build or “stretch” an organisation’s resources and competencies to create opportunities or capitalize on them. This means that strategic decisions involve more than just ensuring that resources are available or can be made available to take advantage of some new opportunity in the market place (the fit or survival or resource-based view of strategy). Rather, it means that strategic decisions involve identifying existing resources and competencies as a basis for creating new opportunities in the market place (the stretch or value added view of strategy). In fact, corporate strategy is concerned with the survival of the business as a minimum objective and the creation of value added as a maximum objective.
6. Strategic decisions may involve the allocation of large amounts of company resources or require major resource changes and reconfiguration. This is because strategic decisions commit a firm to a stream of actions over an extended period of time, thus involving substantial resources. For example, the decision to diversify a company's product portfolio has important implications in terms of plant and machinery acquisition, raw material sourcing, sales force development, and the funds by which these are to be done.
7. Strategic decisions create changes in operational decisions particularly in the areas of management and control structures and line functional policies. For example, a strategic decision to diversify a company's business activities might make t imperative to change the company's organisation structure and reporting relationships in order to achieve a match between the two and make the strategy successful when it is being implemented.

Strategic decisions reflect and are the outcome of the interplay and dynamics of environmental forces and resource availability as well as the values and expectations of those who have power in and around the organisation and the attitudes and beliefs of all these who have the most influence on the organisation such as the founder of the organisation, the chief executive, shareholders, financial institutions, the management, the workforce, buyers, suppliers, other companies and competitors, the local community, the government, and other corporate stakeholders. The expectations, beliefs and values of these corporate claimants or stakeholders will have a significant influence on the development of the strategy of an organisation (Johnson and Scholes,1997).

Strategic decisions are complex and ambiguous in nature to deal with especially in organisations with a wide geographical spread of activities such as multinational firms, or a highly diversified range of products or services, or a large size with many departments or divisions or an organisation that is operating in a turbulent, rapidly changing highly velocity market or industry environment.

Strategic decisions involve a high degree of uncertainty because they deal with conditions that are considerably unpredictable. Since they deal with the future, strategic decisions are made without an absolute assurance or certainty of the premises or assumptions upon which they are based.

Strategic decisions consider a broad range of stakeholders. Organisations must meet the needs of various constituencies, such as customers, suppliers, employees, owners, and the general public at large. These groups are stakeholders because they each have a stake in the success or failure of the organisation. Functional decisions tend to focus on serving individual stakeholders rather than balancing the needs of all stakeholders. For example, human resources decisions focus on employees, purchasing decisions on suppliers, and sales and marketing decisions on customers. On the contrary, the strategic perspective entails simultaneous consideration of all stakeholder groups so that reasoned trade-offs are made possible. In other words, if a firm is to succeed in positioning itself in future competitive situations, its strategic managers must look beyond the limits of the firm's own operations. They must consider what relevant others' (e.g. competitors, customers, suppliers, creditors, government and labour) are likely to do.

1. Strategic decisions are top management decisions. Strategic decisions overarch several areas of a firm's operations. Therefore, top-management involvement in strategic decision - making is imperative. The perspective for understanding and anticipating broad implications and ramifications, and the power to authorize the resource allocations necessary for strategy implementation exist only at the top management level.
2. Strategic decisions entail multiple time horizons. Because managers must maintain the long-run viability of their organisations and remain alert to the short-term ramifications of what they do, strategic decisions require constant shifting back and forth between long-run and short-run thinking to achieve desired levels of performance both now and in the future.

**The 5 - Ps of Strategy**

Mintzberg and Quinn (1991) summarizes the nature of strategy with 5-Ps namely: plan, ploy, position, pattern, and perspective. A brief explanation of these Ps is as follows:

**Plan**: This is the consciously intended course of action and amounts to deciding what the firm wants to do and how it intends to achieve it. This definition takes a rational - logical view of strategic management as against an intuitive - opportunistic view.

**Ploy**: This is defined as a sub-set of a plan, and is a strategy in the sense of a stratagem (i.e. a ruse or trick or decoy designed to deceive a rival company and put it off the scent by disguising the real intention of the firm).

**Pattern**: This is the consistent behaviour and processes which emerge from strategic thinking, whether as a result of intended or unintended actions. Plans and ploys are deliberate strategies while patterns are emergent strategies.

**Position**: This refers to an acceptable location for the organisation in the environment, it built down to the product - market position of a company in it down market. It refers in particular to:

1. Its standing in relation to it
2. Its market share.

**Perspective**: This is defined as an approach that is both conceptual and cultural. It is the organisation’s ingrained way of perceiving the world. It is, for about the organization’s culture or way of doing things.

The analysis provided by Mintzberg suggests that the five P's are interrelated. Strategic management it is not likely to be effective if it is based only on logical and mechanistic approaches. Some allowance has to be made for the organization’s pattern and perspective (or culture) if the organization’s strategy is to be optimized. In other words, while some structure and mechanisms are needed, they have to be combined with intuitive and visionary approaches if strategy is to be effective.

**Benefits of Policy and Strategies Management**

Many organisations are using strategic management to make effective decisions. But strategic management may not always guarantee success; it can be dysfunctional if conducted haphazardly. If well carried out, however strategic management allows a business organisation to be more proactive than reactive in shaping its own future. It allows an organisation to initial and influence (rather than just respond to) its environment and thus to exercise control over its own activities.

The principal benefit of strategic management is to help organisation make better strategies through the use of a more systematic, logical am rational approach to business decisions. Strategic management helps to elicit understanding and commitment from all managers and employees. When managers and employees understand what the organisation is doing and why, they often feel a part of the firm and become committed to assisting!

Nigerian managers and employees can become creative and innovative when they understand and support the firm's mission, objectives and strategies. Strategic management then provides personal empowerment which can be defined as the act of strengthening an individual's sense of effectiveness.

Other likely benefits of strategic management to Nigerian firms include enhanced awareness of environmental threats and improved understanding of competitors' strategies, increased employee productivity, reduced resistance to change and a clearer understanding of the performance - reward relationship.

Strategic management in Nigerian firms can also provide a basis for identifying and rationalizing the need for change to all managers and employees; it helps them view change as an opportunity rather than a threat.

Greenley (1986) stresses that strategic management offers the following benefits:

1. It allows for identification, prioritization and exploitation of opportunities.
2. It provides an objective view of management problems.
3. It allows major decisions to support established objectives.
4. It allows fewer resources to be devoted to correcting erroneous or ad hoc decisions.
5. It helps to integrate the behaviour of individuals into a composite effort.
6. It provides a basis for clarification of individual responsibilities.
7. It minimizes the effects of adverse conditions and changes.

**Relationship between Policy and Strategy**

Ansoff (1968) posits that policy is a situational decision because the decision-maker has specified a particular response to a defined set of circumstances whose nature is well comprehended, although their occurrence cannot be specified in advance. Conversely, a strategy is a statement of the action to be adopted under a condition of partial ignorance, where all the options cannot be recognized and stated in advance of the need for a decision. Therefore, it follows that under this definition, the implementation of business policy may be delegated, whereas the implementation of business strategy cannot.

This is because the implementation of business strategy depends on the judgements of the decision-maker. That is, neither the situation nor the response can be pre-defined with sufficient clarity to permit delegation. According to Baker (1992), no particular useful aim is served by attributing precise meanings to the terms 'business policy' and 'business strategy' when practitioners appear to find no utility in such a distinction. By way of definition, business strategy/policy is the pattern of salient objectives, purposes or goals, and the essential policies or guidelines and plans for achieving those goals, stated in such a way as to define what business the organisation is in, or is to be in, and the kind of organisation it is, or is to be (Andrew, 1971). The table shows that there is a divergence of opinion among experts as to the nature of business and policy. Interested persons are advised to consult the works of these authorities for a better appreciation of the various perspectives.

**Strategic Management Tools**

When moving from functional to corporate strategy, managers make strategic decisions that increasingly focus on external opportunities and organisational goals. Similarly, managers employ tools that range from product life-cycle (functional level), through product portfolio (business level), to industry strategic issue analysis (corporate level). But irrespective of the level, a strategic manager can use any strategic tool.

The seven major tools of strategic management are:

1. Product life-cycle
2. Determinants of competition
3. Product portfolios
4. Product life-cycle-competition matrix
5. Directional policy matrix
6. Industry analysis
7. Strategic issue analysis