FACULTY OF BUSINESS, HUMANITIES & HOSPITALITY

MASTER IN BUSINESS ADMINISTRATION

BANKING AND FINANCE

BM4407

STRATEGIC MANAGEMENT

SELF INSTRUCTIONAL MATERIALS

ACADEMIC YEAR 2021

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Welcome

This module is introduced to instill an in-depth understanding of how strategy integrates an organization's functional activities and to ensure that our MBA graduates will understand the theoretical concepts underlying the resource-based view of strategic management that is so important in the business world today.

Description of the Course

This module introduces to students on how organisations plan and implement their activities in order to achieve competitive advantages in their businesses. This module exposes students to the nature of environmental changes and how organisations are affected by them in terms of their strategies, structures, systems, resources, people and competitiveness.

Aim of the Course

The course is designed specifically not only to introduce students with key strategy concepts but also aims to help students to integrate and apply their prior learning to various business situations. The course aims to support MBA programme objectives with solid grounding in ethics, globalization and cross-functional issues.

Course Learning Outcome

Upon completion of this course, students will be able to:

- Apply the terminology of strategic management in an organizational context.
- Evaluate strategy as a continuing managerial process and appreciate the dangers of drift.
- Choose strategic decisions that is significant to culture and cultural change.

Support and Contact Details

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Assessment

Assessment Methods and Types

TASK	PERCENTAGE
Mini Case Study	20%
Article Review	20%
Project Report	20%
Online Forum	20%
Case Discussion	20%

Formative Assessment

1. The Vocabulary of Strategy; Prescriptive and Emergent Strategies
   Case Discussion (10%)

2. The Concepts of Strategic Management
   Knowledge check activity

3. Strategy, the Organization and the Environment
   Case Discussion (10%)

4. Implementing Strategy: Building Capacity and Allocating Resources
   Knowledge check activity
   Online Forum (10%)

5. Managing Strategic Change
   Knowledge check activity
   Online Forum (10%)

Summative Assessment

1. The Core Processes: Strategic Analysis; Strategy Formulation; Strategic Choice
   Short Case Study Submission (20%)

2. Monitoring and Reviewing the Implementation Process
   Article Review Submission (20%)

3. The Concepts of Strategic Management
   Project Report Submission (20%)

Text

Main Reference:

David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.

Additional References:

- Hitt, M. A., Ireland, R. D., Hoskisson, R. E. (2016). *Strategic Management: Concepts and Cases: Competitiveness and Globalisation*. USA, Cengage Learning.

- Ike, L. (2017). *Strategic Management: Concepts and Practices*. UK, Xlibris.

- Walker, G. (2015). *Modern Competitive Strategy*. Maidenhead: McGraw-Hill.

Topic 1: Overview of the course

Introduction to Strategic Management

Learning Outcomes

Upon completion of the chapter, students should be able to:

- Describe the strategic-management process.
- Discuss the three stages of activities for strategy formulation, implementation, and evaluation activities.
- Explain the need for integrating analysis and intuition in strategic management.
- Define and provide examples of key terms in strategic management.

Introduction

The first lesson introduces the basic terms in strategic management. It is presenting the comprehensive model for strategic planning that appears in each subsequent chapter and provides a unifying, logical flow for the entire lesson. In addition, the first lesson describes the benefits of doing strategic planning, the drawbacks of not doing strategic planning, and the pitfalls of doing strategic planning incorrectly.

1.1 What is Strategic Management

- Strategic Management can be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance.
- Strategic Management is all about identification and description of the strategies that managers can undertake so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.
- The word "strategy" is derived from the Greek word "stratçgos"; stratus (meaning army) and "ago" (meaning leading/moving).
- Strategy is an action that managers undertake to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process".
- Hence, a strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vacuum and

that any act taken by a firm is likely to be met by a reaction from those affected: competitors, customers, employees or suppliers.

Source: https://www.youtube.com/watch?v=ewnYznftKl0

SELF CHECK 1.1
• Referring to the attached video, review strategic management process implemented by Netflix.

1.2 Strategy Statement and its Components

- The 'Strategy Statement' of a firm sets the firm's long-term strategic direction and broad policy directions. It gives the firm a clear sense of direction and a blueprint for the firm's activities for the upcoming years. The main constituents of a strategic statement are as follows:
    - Strategic Intent
    - Mission

- Goals and Objectives:
    - The following are the features of well defined goals:
        - They are precise and measurable.
        - They look after critical and significant issues.
        - They are realistic and challenging.
        - They must be achieved within a specific time frame.
        - They include both financial as well as non-financial components.

- Real Life Example

    - **Vision:**

    - "To create exciting new digital entertainment experiences for consumers by bringing together cutting-edge products with latest generation content and services."

    - **Mission:**

    - "Sony is committed to developing a wide range of innovative products and multimedia services that challenge the way consumers' access and enjoy digital entertainment. By ensuring synergy between businesses within the organization, Sony is constantly striving to create exciting new worlds of entertainment that can be experienced on a variety of different products."

- Components of Strategic Management Process:
    - The image given below (Figure 1.2) shows the components of the Strategic Management Process.
    - Strategic management process is a continuous culture of appraisal that a business adopts to outdo the competitors. Simple as it may sound, this is a complex process that also covers formulating the organization's overall vision for present and future objectives.

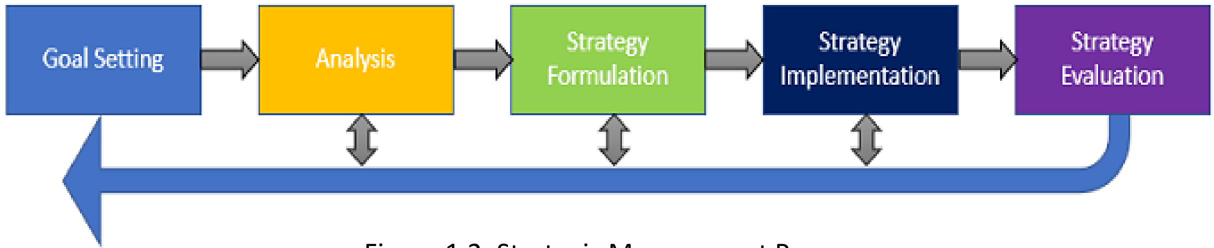


Figure 1.2: Strategic Management Process

SELF CHECK 1.2
• What is the purpose of objectives in organization? • Choose one established company and provide its vision and mission. Review its vision and mission and how you may want to enhance that vision and mission. • Discuss strategic management process.

1.3 Strategy Formulation Process

- Performance Analysis:
  - Performance analysis includes discovering and analyzing the gap between the planned or desired and actual performance. A critical evaluation of the organization's past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

- Did you Know?
  - People learn more from their failures than from their success. Hence, one of the best approaches to avoid copying best practices is to create a process involving frank discussion about worst practices. This will help create very effective strategies because people debate on the merits of different examples of good practice, scout the organizations for promising practices that may already be bubbling up and then develop a view of what next practice should be.

- Strategic Leadership
    - Strategic leadership refers to a manager's potential to express a strategic vision for the organization, or a part of the organization and to motivate and persuade others to acquire that vision. Strategic leadership can also be defined as utilizing strategy in the management of employees. It is the potential to influence organizational members and to execute organizational change. Strategic leaders create organizational structure, allocate resources and express strategic vision.

Source: https://www.youtube.com/watch?v=3Qf9ggcYs78

SELF CHECK 1.3
• Referring to the attached video, what do you understand about strategy formulation process?

1.4 Policy vs Strategy

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

Policy	Strategy
Policy is a blueprint of the organizational activities which are repetitive/routine in nature.	Strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.
Policy formulation is the responsibility of top level management.	Strategy formulation is basically done by middle level management.
Policy deals with routine/daily activities essential for effective and efficient running of an organization.	Strategy deals with strategic decisions.
Policy is concerned with both thought and actions.	Strategy is concerned mostly with action.
A policy is about 'what is' or 'what is not done'.	A strategy is the methodology used to achieve a target as prescribed by a policy.

SELF CHECK 1.4

True/False

- Strategy deals with strategic decisions.
- Policy formulation is the responsibility of middle level management.
- Policy is a blueprint of the organizational activities which are repetitive/routine in nature.
- Strategy is concerned mostly with formulation.
- A strategy is the methodology used to achieve a target as prescribed by a policy.
- Strategy is concerned with those organizational decisions which have been dealt/faced before in same form.

Points to ponder/Takeaways

- Strategic management involves the system of corporate values, the corporate culture, and all managerial process of change, such as leadership, planning, control, and human resources management.
- Strategic planning is the key link between strategic management and the organization's external environment.
- Resource requirement is the factor that links strategic management to the organization's resources, including finances, facilities and equipment, land, access to information, goodwill, and personnel.
- Strategic control relates to the implementation of a strategy.

References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.
- Porter, M. E. 1996. What is strategy? Harvard Business Review 74 (6):61-78

Topic 2: The Concepts of Strategic Management

The Concepts of Strategic Management

Learning Outcomes

Upon completion of the chapter, students should be able to:

- Discuss strategic-management process involving the stages of strategy formulation, implementation and evaluation.
- Explain benefits of strategic management.
- Discuss how strategic management process in the rapidly changing environment.

Introduction

In this topic, students will learn about strategic-management process, and the stages of strategy formulation, implementation and evaluation. In addition, students will be exposed on how to integrate intuition in strategic management. This topic also provides the key terms in strategic management. Besides that, students will be exposed on the benefits of engaging in strategic management and explain why some firms do not engage in strategic planning.

2.1 Definition of Strategic Management

- Definition
  - The art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.
  - Strategic management is used synonymously with the term strategic planning in this course.
  - Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation.
  - A strategic plan is a company's game plan.
  - A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations.
  - Strategic management is about the set of management decisions and actions that determines the long run performance of a corporation. This long term performance of a corporation is its sustain competitive advantage. It includes analyzing the external and internal environments, establishing strategic direction, formulating strategies to achieve established goals and implementing those strategies and controlling the outcomes.

Source: https://www.youtube.com/watch?v=eOFqekOF9ZI

SELF CHECK 2.1
Based on the attached video, what do you understand about strategic management?

2.2 Strategic Management Process Model

Figure 2.2 shows strategic management process model.

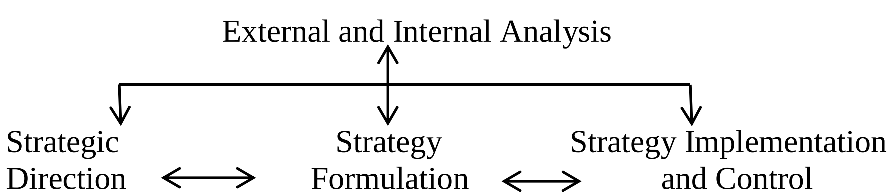


Figure 2.2: Strategic Management Process Model

- External and Internal Environmental Analysis
    - The external environmental analysis involves evaluation of the broad (general) and task (industry) environments to determine trends, threats and opportunities and to provide a foundation for strategic direction.
    - The board environment consists of domestic and global environmental forces such as socio-cultural, technological, political and economic trends.
    - The task (industry) environment consists of external stakeholders. Stakeholders are groups or individuals outside the organization that are significantly influenced by or have a major impact on the organization.
    - Examples of external stakeholders include customers, suppliers, competitors, government agencies and administrators and a variety of other external groups that have a stake in the organization.
    - Internal stakeholders are the managers, employees and the owners and their representatives (the Board of Directors). The internal analysis includes the evaluation of the organization's resources and capabilities to determine strengths, weaknesses and opportunities for competitive advantage and to identify organizational vulnerabilities that should be corrected.
    - It must be noted that the analysis of the external and internal environments provides an organization with a foundation for all of the other tasks of strategic management such as formulation of the strategy and the strategic direction.

- Strategic Direction
    - Strategic direction pertains to the long-term goals (vision and mission) and objectives of the organization.
    - Fundamentally strategic direction defines the purposes for which an organization exists and operates.
    - This direction is contained in the mission statement. It describes the areas or industries in which the organization operates.
    - A well-established strategic direction provides guidance to the managers and employees who are largely responsible for carrying it out as well as a greater understanding of the organization for the external stakeholders with whom the organization interacts. Strategic direction is an important part of the internal organization.

- Strategy Formulation
    - A strategy is an organizational plan of action that is intended to move an organization toward the achievement of the shorter-term goals (objectives) and ultimately, toward the achievement of its fundamental purposes.
    - Business strategy formulation pertains to domain direction and navigation or how businesses compete in the areas they have selected. On the other hand, corporate strategy formulation refers primarily to domain definition or the selection of business areas in which the organization will compete. For example, in diversified organizations are involved in several different businesses and serve a variety of customer groups. In the functional strategy formulation, it pertains to how the functional areas such as marketing, operations, finance and research should work together to achieve the business-level strategy. Functional strategy is most closely associated with strategy implementation.

- Strategy Implementation and Control
    - Strategy formulation results in a plan of action for the organization and its various levels On the other hand, strategy implementation represents a pattern of decisions and actions that are intended to carry out the plan. Strategy implementation involves creating the functional strategies, systems, structures and processes needed by the organization in achieving strategic ends.
    - Functional strategies outline the specific actions that each function must undertake to convert business- and corporate-level strategies into actions.
    - Organizational systems are developed to train and compensate employees, assist in planning efforts; reinforce organizational values, and gather, analyze and convey information.
    - Structures reflect the way people and work are organized, which includes reporting relationships and formation into work groups, teams, and department.
    - Processes, such as standard operating procedures, are developed to create uniformity across the organization and promote efficiency.
    - Strategy implementation may require changes to any of these4 factors as the organization pursues new strategies over time.
    - Good control is critical to organizational success. Strategic control, refers to the processes that lead to adjustments in strategic direction, strategies or the implementation plan when necessary. Managers may collet new information that leads them to re-evaluate their assessment of the environment. They may determine that the organizational mission is no longer appropriate or that the organizational strategies are not leading to the desired outcomes. On the other hand, the strategic control system may tell mangers that the environmental assumptions, mission and strategies are appropriate, but the strategies have not been well executed. In such an instance, adjustments should be made in the implementation process.

SELF CHECK 2.2
• Differentiate 'strategic management' from 'strategic planning'. • Explain the involvement of incremental management in strategic management. • Briefly explain the strategic management model. • Why organizations need to get involved in strategic management?

2.3 Benefits of Strategic Management

- There are many benefits of strategic management and they include identification, prioritization, and exploration of opportunities. For instance, newer products, newer markets, and newer forays into business lines are only possible if firms indulge in strategic planning. Next, strategic management allows firms to take an objective view of the activities being done by it and do a cost benefit analysis as to whether the firm is profitable.
- Just to differentiate, by this, we do not mean the financial benefits alone (which would be discussed below) but also the assessment of profitability that has to do with evaluating whether the business is strategically aligned to its goals and priorities.
- The key point to be noted here is that strategic management allows a firm to orient itself to its market and consumers and ensure that it is actualizing the right strategy.
- Financial Benefits
    - It has been shown in many studies that firms that engage in strategic management are more profitable and successful than those that do not have the benefit of strategic planning and strategic management.
    - When firms engage in forward looking planning and careful evaluation of their priorities, they have control over the future, which is necessary in the fast-changing business landscape of the 21st century.
    - It has been estimated that more than 100,000 businesses fail in the US every year and most of these failures are to do with a lack of strategic focus and strategic direction. Further, high performing firms tend to make more informed decisions because they have considered both the short term and long-term consequences and hence, have oriented their strategies accordingly. In contrast, firms that do not engage themselves in meaningful strategic planning are often bogged down by internal problems and lack of focus that leads to failure.
- Non-financial Benefits
    - The section above discussed some of the tangible benefits of strategic management. Apart from these benefits, firms that engage in strategic management are more aware of the external threats, an improved understanding of competitor strengths and weaknesses and increased employee productivity. They also have lesser resistance to change and a clear understanding of the link between performance and rewards.
    - The key aspect of strategic management is that the problem solving and problem preventing capabilities of the firms are enhanced through strategic management. Strategic management is essential as it helps firms to rationalize change and actualize change and communicate the need to change better to its employees. Finally, strategic management helps in bringing order and discipline to the activities of the firm in its both internal processes and external activities.

SELF CHECK 2.3

- Discuss benefits of strategic management in term of financial and non-financial benefits.

2.4 Strategic Management and Rapidly Changing Environment

- Strategic management has now evolved to the point that its primary value is to enable the organisation to operate successfully in a dynamic, complex environment.
- Managers at all levels are expected to continually analyse the changing industry they are in, in order to create or modify strategic plans throughout the year.
- Managers have to do more than set long-term strategies; they must go through “incremental management” in the sense that they have to make fine tuning and incremental adjustments (emergent change) to improve the efficiency of the firm’s operations to meet the challenges of the environmental forces of change.
- Sometime the forces of change can exert pressure on managers to make major changes in the firm’s strategic direction. If the firm does not make the necessary changes, it may not be able to sustain its competitive advantage.
- Therefore, for a company to maintain its sustainable competitive advantage it must develop strategic flexibility in order to be able to shift from one dominant strategy to another.
- Strategic flexibility demands a long-term commitment to the development and nurturing of critical resources.
- It also demands that the company becomes a *learning organisation* i.e. an organisation skilled at creating, acquiring and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights.

- **Learning Organisations**
    - Learning organisations are skilled at four main activities:
        - Solving problems systematically
        - Experimenting with new approaches
        - Learning from their own experiences and past history as well as from the experiences of others
        - Transferring knowledge quickly and efficiently throughout the organisation.

    - Learning organisations avoid stability through continuous self-examination and experimentation. People at all levels not just top management , need to be involved in strategic management - helping to scan the environment for critical information, suggesting changes to strategies and programmes to take advantage of environmental shifts and working with others to continuously improve work methods, procedures and evaluation techniques.
    - Researchers have shown that organisations that are willing to experiment and able to learn from their experiences are more successful than those that do not.

- Initiation of Strategy: Triggering Events
    - A strategic drift can occur in organisations due to management inertia especially at the stage of strategy formulation. (A fact discovered by Henry Mintzberg.) This is because the management believed that the current strategy is still appropriate and needs only some “fine tuning”. However some triggering events may act to stimulate for a change in strategy such as:
    - New CEO
    - External intervention
    - Threat of a change in ownership
    - Performance gap

SELF CHECK 2.4

True/False

- Strategic management has now evolved to the point that its primary value is to enable the organization to operate successfully in a dynamic, complex environment.
- Top levels managers are expected to continually analyze the changing industry they are in, in order to create or modify strategic plans throughout the year.
- For a company to maintain its sustainable competitive advantage it must develop strategic flexibility in order to be able to shift from one dominant strategy to another.
- Learning organizations are skilled at three main activities.

Points to Ponder/Takeaways

- There are eight important steps in strategic management process which are; developing business vision and mission, analyzing external environment, identifying internal environment, implementing strategies, choosing various alternative strategies, implementing strategies in term of management and marketing aspect, implementing strategies in term of finance and accounting aspect, and evaluating strategies.
- Three stages in strategic management are; strategy formulation, implementation and evaluation.
- Strategic management offers benefits to the organization in term of enhancing communication process, improving understanding, and improving greater commitment among employees.

References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.
- Khanin, D., Turel, O., Bart, C., McDowell, W., Hock-Dopgen, M. (2020). The possible pitfalls of boards' engagement in the strategic management process. *Review of Managerial Science.* https://doi.org/10.1007/s11846-020-00386-0.

Topic 3: The vocabulary of strategy; prescriptive and emergent strategies

The vocabulary of strategy; prescriptive and emergent strategies

Learning Outcomes

Upon completion of the chapter, students should be able to:

- Explain the need for core values statements in strategic management.
- Describe the nature and role vision statements in strategic management.
- Identify the characteristics of a vision statement.
- Describe the nature and role of mission and objective statements in strategic management.
- Evaluate and write mission statements for different organizations.

Introduction

This chapter emphasizes the meaning of strategy, prescriptive strategy and emergent strategy. In simple terms, strategy means looking at the long-term future (vision) to determine what the company wants to become, and putting in place a plan and how to get there (mission). Without a strategy, an organization is meaningless and weak to changes in the business environment. Therefore, strategy provides a direction for the company and indicates what must be done. Meanwhile, prescriptive and emergent strategy should underlie the objectives of the organization associated with environment and resource analysis. Then follows the generation of strategic options to achieve the objectives.

3.1 Charting a Direction

- For a firm to be able to compete effectively and continue to serve its customers, it must have the guideposts to direct where it is going. These guideposts are provided for by the hierarchy of goals:
    - Strategic Vision
    - Strategic Mission
    - Strategic Objectives

- Figure 3.1 shows the hierarchy of goals that useful in charting a direction for organization.

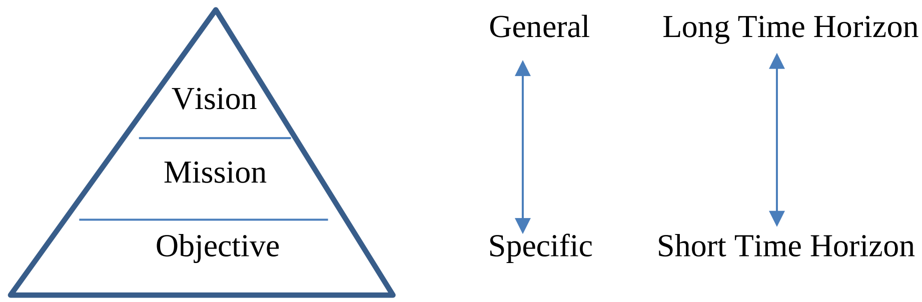


Figure 3.1: The Hierarchy of Goals

SELF CHECK 3.1

- What is hierarchy of goals?
- What is the purpose of hierarchy of goals?
- What are the elements in the hierarchy of goals?
- How organization develop their vision?
- How organization develop their mission?
- What is the purpose of vision?
- What is the purpose of mission?
- How organization develop its strategic objectives?

3.2 Strategic Vision

- A vision is a goal that is "massively inspiring, overarching and long term. It represents an ideal situation that is driven by passion.

- For example Disneyland's vision: "To be the happiest land on earth" or for McDonald's vision: "To be the world's best quick service restaurant".

- A vision may or may not succeed; it depends on whether everything else happens according to a firm's strategy.

- However an organisation's vision is initiated by the top management people and in some cases by the early founders.

- Visions cannot be accurately measured by a specific indicator but they provide a fundamental statement of an organisation's values, aspiration and goals. They go beyond the narrow financial objectives, and strive to capture both the minds and hearts of employees.

- The vision statement may also contain a slogan, a diagram or picture. The aim is to capture the essence of the more formal parts of the vision in a few words that are easily remembered, yet evoke the spirit of the entire vision statement.

- For example:
    - Canon's slogan "Beat Xerox"
    - Motorola's slogan "Total Customer Satisfaction"
    - Chevron's slogan "To Become Better than the Best"

- A strategic vision describes the *future* business scope (possibilities) of a firm indicating:
    - What business the firm will be in.
    - Where the firm will be going.
    - What the firm will be.

- McDonald's vision for its business:
    - "A limited menu, good tasting fast food products of consistent *quality*, fast and accurate
    - *service*, *value* pricing, exceptional customer *care*, convenient *location* and global market
    - *coverage*."

- McDonald's vision of where it is going and what it wants to be:
    - "… to be the leading provider of moderately priced quality food to anyone, anywhere."

- As for Coca-Cola:
    - ".. a coke is in arm's reach of any customer, no matter where that customer is around the world."

- As for Chili (restaurant service):

    - '…each meal should be a fun and exciting experience."

- Vision statements are not a cure-all. Sometimes they backfire and the leader's credibility may be eroded.

- Reasons for vision failure can be as follows:
    - The walk doesn't match the talk – management behaviour is not consistent with the vision.
    - Irrelevance – a vision is not related to the environmental threats or opportunity or an organisation's resources and capabilities i.e. not embedded in reality.
    - Not the holy grail – vision cannot cure all the ills of an organisation.
    - An ideal future irreconciled with the present – paints a rosy picture of the future but failed to take into account of the present situation.

- Visions of firms do not set out the actual strategies, steps or methods for the firm to pursue its purpose (objective). This deficiency is provided by the Strategic Mission.

Source: https://www.youtube.com/watch?v=OPXX3UgrqsA&t=35s

SELF CHECK 3.2
• Referring to the attached video, discuss how organization develop their strategic vision.

3.3 Strategic Mission

- Mission statement is a declaration of an organization's "reason for being."
- It answers the pivotal question "What is our business?"
- It is essential for effectively establishing objectives and formulating strategies.
- It reveals what an organization wants to be and whom it wants to serve.
- It is also called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, and a statement of business principles.

- A good mission statement allows for the generation and consideration of a range of feasible alternative objectives and strategies without unduly stifling management creativity.
- A mission statement needs to be broad to reconcile differences effectively among, and appeal to, an organization's diverse stakeholders.

- **Stakeholders:**
  - Include employees, managers, stockholders, boards of directors, customers, suppliers, distributors, creditors, governments (local, state, federal, and foreign), unions, competitors, environmental groups, and the general public.

- **Characteristics of a Mission Statement:**
  - Broad in scope; does not include monetary amounts, numbers, percentages, ratios, or objectives
  - Fewer than 150 words in length
  - Inspiring
  - Identifies the utility of a firm's products
  - Reveals that the firm is socially responsible
  - Reveals that the firm is environmentally responsible
  - Includes nine components: customers, products or services, markets, technology, concern for survival/growth/profits, philosophy, self-concept, concern for public image, concern for employees
  - Reconciliatory
  - Enduring

- **Insight on Scope of Mission Statement**
  - Mission statements are not designed to express concrete ends, but rather to provide motivation, general direction, an image, a tone, and a philosophy to guide the enterprise. An excess of detail could prove counterproductive since concrete specification could be the base for rallying opposition; all in the firm need to be onboard with the firm's mission.

- **Considerations in Mission Statement:**
  - Do not offer me things.
  - Do not offer me clothes. Offer me attractive looks.
  - Do not offer me shoes. Offer me comfort for my feet and the pleasure of walking.
  - Do not offer me a house. Offer me security, comfort, and a place that is clean and happy.
  - Do not offer me books. Offer me hours of pleasure and the benefit of knowledge.
  - Do not offer me C Ds. Offer me leisure and the sound of music.

- Do not offer me tools. Offer me the benefits and the pleasure that come from making beautiful things.
- Do not offer me furniture. Offer me comfort and the quietness of a cozy place.
- Do not offer me things. Offer me ideas, emotions, ambience, feelings, and benefits.
- Please, do not offer me things.

- **Mission Statement Components:**
  - **Customers**-Who are the firm's customers?
  - **Products or services**-What are the firm's major products or services?
  - **Markets**-Geographically, where does the firm compete?
  - **Technology**-Is the firm technologically current?
  - **Survival, growth, and profitability**-Is the firm committed to growth and financial soundness?
  - **Philosophy**-What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
  - **Distinctive competence/Self-Concept**-What is the firm's major competitive advantage?
  - **Public image**-Is the firm responsive to social, community, and environmental concerns?
  - **Employees**-Are employees a valuable asset of the firm?

- **Example Mission Statements:**
  - Hershey
    - We bring sweet moments (2) of Hershey happiness (6) to the world (3) every day.
    - Author comment: Statement lacks six components: Customers (1), Technology (4), Survival/Growth/Profits (5), Distinctive Competence (7), Public Image (8), and Employees (9).

- **A Proposed Mission Statement for Hershey:**
  - We aim to serve consumers of all ages and lifestyles (1) by providing high-quality chocolate, candy, and snack products (2) globally (3). We intend to grow and expand our product offerings (5) using robotics and business analytics (4). We are dedicated to supporting all communities where we operate (8), especially to the boys and girls in the Milton Hershey School (6). Through our friendly and well-trained employees (9), we provide consumers the best chocolate anywhere and wrapped in Hershey Happiness (7).

- **Exemplary Proposed Mission Statement:**
  - Rite Aid
    - We are on a mission to offer the best possible drugstore experience for people of all ages (1) around the United States (3). We have a state-of-the-art information system (4) that provides our pharmacists (9) with warnings of any possible drug interactions to help ensure better customer safety (8). We are determined to improve our customers' overall health through our wellness programs (5). We offer an extensive line of other beauty, food, drink, cosmetic, and vitamin products through our alliance with GNC (2). We believe in treating our customers like family (6) and strive to maintain our reputation as the most personable drugstore (7).

- **Exemplary Proposed Mission Statement:**
  - United Parcel Service (UPS)
    - We strive to be the most timely and dependable parcel and freight forwarding delivery service (2) in the world (3). By implementing the latest tracking technology (4), we are able to profitably grow (5) by offering individuals and businesses (1) dependable and accurate delivery times (7). We promote from within to improve morale among all employees (9). Our philosophy (6) is to responsibly balance the needs of our customers, employees, shareholders, and communities (8) in an exemplary manner.

- **Mission Statement:**
  - It describes the *present* business scope of a firm, indicating the business the firm is in (what it is) and the customers it serves (what it does).

  - It is more specific than visions.

  - It provides guidelines of how to achieve the vision of the firm over a *certain time frame* (e.g. 3 or 5 years).

- McDonald's mission statement:
  "High *quality* food, fast and courteous *service*, *clean* restaurant and *affordable* prices."

- McDonald's mission is to implement each of the 4 policies (quality, service, cleanliness and value). This simple statement translated McDonald's vision into reality.

- Mission statements can vary in length and specificity. For example:
  To produce superior financial returns for our shareholders as we serve our customers with the highest quality transportation, logistics and e-commerce (Federal Express). To be the very best in the business. Our game plan is status go…… we are constantly looking ahead, building on our strengths and reaching for new goals. In our quest for these goals, we look at the three stars of the Brinker logo and are reminded of the basic values that are the strength of this company …. People, quality and profitability. Everything we do at Brinker must….

- Few mission statements identify profit or any other financial indicator as the sole purpose of the firm. Most do not even mention profit or shareholder return.

- A good mission statement must communicate why an organisation is special and different. Studies have found that most successful firms mentioned values other than profits.

- Even though a mission statement is quite enduring and seldom changes, a firm's mission can and should change when competitive conditions dramatically change or the firm is faced with new threats or opportunities.

- Note: ***The mission statement does not provide tangible goals or objectives that must be***
- ***met to achieve the firm's purposes.***

- As a consequence of this, objectives are needed to provide a number of direct, measurable tasks that can help to achieve the strategic mission.

SELF CHECK 3.3

- What is mission statement?
- What is the purpose of mission statement?
- Elaborate the elements in developing good mission statement.
- Choose three different companies and review their mission statement. What is lacking in their mission statement? How you can improve their mission statement?

3.4 Strategic Objectives

- They help an organisation to move towards its mission and vision.

- Strategic objectives can be distinguished into two categories:
    - Strategic objectives in financial terms:
    - Increase sales growth 6%to 8% and accelerate core net earnings growth 13% to 15% share in each of the next five years. (Procter and Gamble)
    - Generate Internet related revenue of $1.5 billion (Automation)
    - Cut corporate overhead costs by #30 million per year. (Fortune Brands)

- Strategic Objectives in nonfinancial terms:
    - We want a majority of our customers, when surveyed to say they consider Wells Fargo the best financial institution in the community. (Wells Fargo)
    - We want to operate 6,000 stores by 2010 – up from 3000 in the year 2000. (Walgreen's)
    - Reduce greenhouse gas by 10% (from a 1990 base) by 2010. (BP Amoco)

- For objectives to be meaningful, they need to satisfy several factors:
    - Measurable – a standard to be met.
    - Specific – a clear message of what is to be measured.
    - Appropriate – must be consistent with the mission and vision.
    - Realistic – can be achieved based on the capabilities of the organisation and the opportunity in the environment.
    - Timely – a timeframe for achieving the objective.

- When objectives satisfy the above criteria, there are many benefits for the organisation:
    - Help channel employee efforts to common goals.
    - To motivate and inspire employees to higher commitment and effort.
    - Help to resolve conflict within the organisation.
    - Provide the means for fair and equitable rewards and incentives.

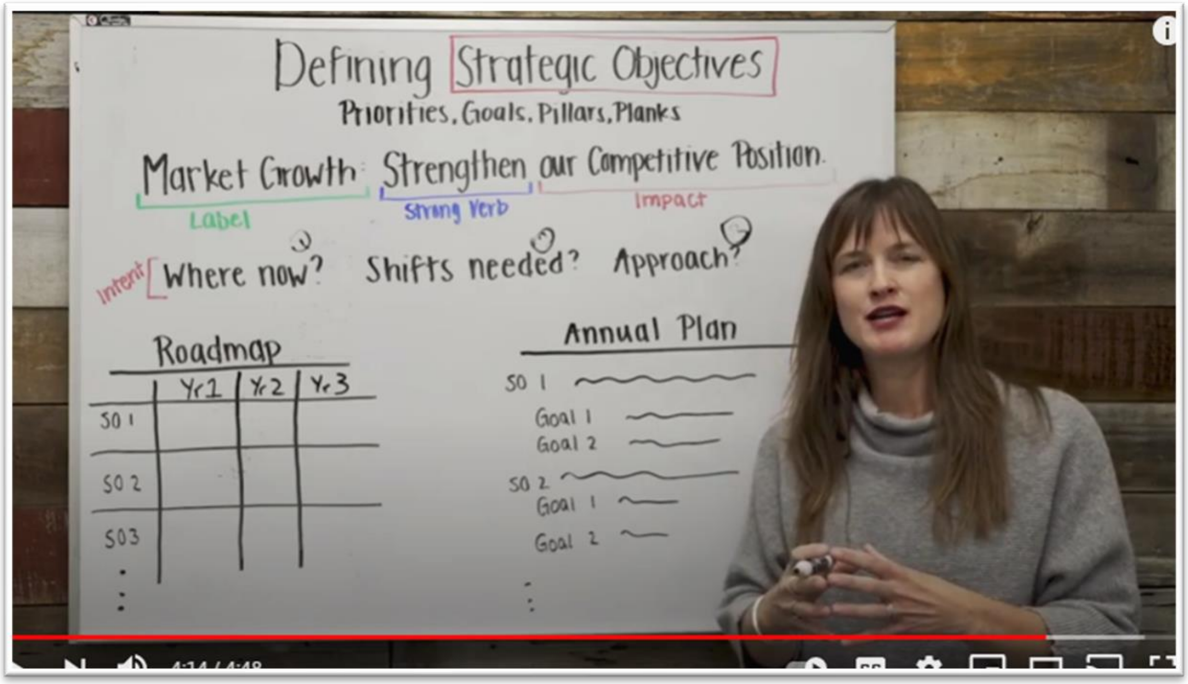
- There are also other objectives that can be more specific and these are usually the short-term objectives.

- The targets or levels of performance set by the objectives must be able to get the firm to reach its full potential. It must be challenging to the firm.

- **Strategic Intent**
  - It refers to the position the firm wants to pursue or achieve in the long run. It has long term duration such as 10 to 20 years. It is the desired state of the organisation.
  - For example:
    - Honda wants to become a second Ford.
    - Canon wants to beat Xerox.
    - Komatsu wanted to encircle Caterpillar. It had this strategic intent since 1960s, when it was less than 1/3 the size of Caterpillar and its market was mainly in Japan.
    - By late1980, Komatsu succeeded and achieved sales in North America, Europe
    - and Asia.
    - Note that it took more than 10 years for Komatsu to achieve its strategic intent.

- **Overview**
  - The competitive position of an organisation involves three elements:
  - An understanding of the organisation's mission and objectives
  - An analysis of the environment
  - An analysis of the organisation's skills and competences.
  - The mission and objectives provide the values (V) envisaged by the organisation of what it wants to be, and that these values must be realistic with the situations in the environment (E) and the resources (R) and capabilities available in the organisation.
  - In other words, E-V-R congruence is crucial to achieve the strategic competitive position of an organisation.

- **Crafting a Strategy**
  - A strategy is a plan of action that provides the direction and scope for a firm to achieve the objectives (i.e. short-term goals) and ultimately, toward the achievement of its fundamental purposes.
  - A plan of action can be in the forms of ideas, plans, moves and supports that the firm uses to compete successfully against its competitors, thereby enabling the firm to attain sustainable competitive advantage.
  - A strategy is not a fixed thing, it must be able to evolve over time i.e. it must be able to change as and when the environmental changes require the strategy to change.



Source: https://www.youtube.com/watch?v=dSy3XOYjp_I

SELF CHECK 3.4
• Based on the video, summarize what do you understand about strategic objectives. You may choose one or two companies in comparing their strategic objectives.

3.5 Hierarchy of Strategies

- Levels of Strategy in a company/firm (also known as the Strategy Making Pyramid):
    - Corporate level strategy – is prepared by the highest level of managers.
    - Business level strategy – is prepared by the top-level managers.
    - Functional level strategy – is prepared by functional managers.
    - Operating level strategy – is prepared by heads of operating units within the company.

- The different strategy levels can be arranged to form a hierarchy and it gives rise to a pyramid. Fewer people are involved in the strategy making at the top of the pyramid than at the bottom of the pyramid.

- In a diversified company the 4 levels of strategy can be identified but in a single business company only 3 levels of strategy are distinguished (because the same people do the corporate level and business level strategies).

- **Corporate Level Strategy**
    - Four initiatives are involved at this strategy level:
    - Take action to establish positions in different business to achieve diversification.
    - Take action to bring about the combined performance of the various businesses of the firm.
    - Take action to capture strategic fits among the various business lines and to gain competitive advantage.
    - Take action to establish investment priorities and steer the corporate resources into business areas of higher earning potentials.

- **Business Level Strategy**
    - This refers to the making of strategy for a single business. This is usually done by top level managers and the corporate and business level strategy are one and the same. The main concern is "How to build and strengthen the long-term competitive position in the market place."

- Ways to achieve this:
    - Forming responses to changes in the industry
    - Creating competitive moves and market approaches to gain sustainable competitive advantage.
    - Building competitively valuable competencies and capabilities from the key functional strategies and
    - Uniting and coordinating the strategic initiatives of functional departments to make proactive moves to out compete rivals.
    - Therefore, a business level strategy is good only if there is a well match between the conditions in the external and internal environments of a company. This is necessary to enable the company to achieve a sustainable competitive advantage in order to attain above-average profits.

- To attain sustainable competitive advantage, it will involve three important aspects:
    - Able to decide what product or service characteristics (attributes) that can outwit the competitors.
    - Able to develop expertise, resource strength and competitive capabilities tha the company becomes different from the rivals and
    - Able to insulate the company from the actions of the rivals and other threatening competitive development.

- **Functional Level Strategy**
    - This refers to the strategy made by the department, a unit or a process area, within a business.
    - E.g. a marketing strategy, research and development strategy, manufacturing strategy, customer service strategy, human resource strategy or a finance strategy.
    - All these functional level strategies must be united and coordinated to support the company's competitive approach and overall business strategy.

- **Operating Level Strategy**
    - This is about narrower strategic actions and approaches taken by managers involving in key front-line operating units such as plants, sales districts, distribution centers and for performing strategically significant operating tasks such as advertising campaign, material purchasing, inventory control, maintenance or shipping. The operating strategies provide more detail and completeness to functional strategies and to the overall business plan.

Source: https://www.youtube.com/watch?v=xcJf_UCjIg0

SELF CHECK 3.5
• Based on the video, explain hierarchy of strategies in the organization.

3.6 Uniting the Strategy-Making Effort

- The company's strategic plan is the result of the collaborative effort of all the managers in the organisation.

- The top management initiates the organisation's objectives and develops the organisation's strategies. These then transmitted to the next level of the managers in the organisation's hierarchy. This is usually the divisional or departmental level managers.

- They then develop their own objectives and strategies in order to achieve the organisation's objectives and strategies. Next the objectives and strategies of each department are presented to the next lower level of managers in the hierarchy i.e. the functional unit managers to enable them t6o develop their own objectives and strategies in order to achieve the objectives and strategies of the department. This process goes on until the lowest level of managers i.e. the operating level managers in the hierarchy is reaches.

- From the above development, it is clear that the objectives and strategies become unified from all levels of management in the organisation. This definitely requires team efforts, where there is profound intensity of coordination and collaboration among the people involved. As a consequence, there is understanding among the managers of the organisation's long-term objectives and strategies.

- Following factors can influence the strategy of an organisation:
  - Elements in the external environment - PEST
  - Technology
  - Size
  - Culture
  - Competitors
  - Opportunities and Threats
  - Strengths and Weaknesses
  - Personal ambition, business philosophies and ethical beliefs of managers.

- **Ethical issues** - a company has ethical duties to owners, employees, customers, suppliers, the communities where it operates and the public at large.

- A winning strategy has the following features:
  - Strategy fits the external and internal situation.
  - The company is able to sustain its competitive advantage
  - There is gain in profitability, in competitive strength and long-term market position.

- Additional criteria to judge the merit of a strategy:
  - Completeness and coverage of all the bases.
  - Internal consistency among all the pieces of strategy.
  - Clarity
  - The degree of risk involved and
  - Flexibility

SELF CHECK 3.6

True/False

- Technology, culture, and external environment may influence how organization develop their strategies.
- A winning strategy has the following features; strategy fits the external and internal situation,
- the company is able to sustain its unique advantage, there is gain in profitability, in competitive strength and long-term market position.
- External consistency and clarity are considered as additional criteria to judge the merit of strategy.
- The company's strategic plan is the result of the collaborative effort of all the managers in the organisation.
- The middle management initiates the organisation's objectives and develops the organisation's strategies.

Points to Ponder/Takeaways

- The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement.
- A mission statement is a declaration of an organization's "reason for being."
- There are nine components of mission statement; customers, products or services, markets, technology, survival, growth, and profitability, philosophy, distinctive competence, public image, and employees.

References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.

Topic 4: Strategy, the organization and the environment

Strategy, the organization and the environment

Learning outcomes

Upon completion of the chapter, students should be able to:

- Describe the nature and purpose of an external assessment in formulating strategies.
- Describe the nature and purpose of an internal assessment in formulating strategies.
- Describe key sources of information for identifying opportunities, threats, strength, and weaknesses.

Introduction

This chapter describes how to perform an external strategic-management audit, including what variables to access, where to find information, how to assimilate external information so that it may provide a foundation for formulating strategies. This chapter also explains how to conduct an internal strategic management audit to provide an excellent foundation for formulating strategies. Key aspects of the basic business functions (management, marketing, finance, and MIS) are reviewed along with value chain analysis, and benchmarking. This chapter reveals how to identify and prioritize internal strengths and weaknesses that provide a basis for strategies formulated. It is vital for companies and organizations to identify and prioritize the relative importance of key external opportunities, threats, internal strengths and weaknesses that characterize the firm, so the firm can deploy assets/resources to capitalize on the strengths and improve upon the threats.

4.1 External Environment

- **External Audit**
  - Focuses on identifying and evaluating trends and events beyond the control of a single firm.
  - Reveals key opportunities and threats confronting an organization so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats.

- **Purpose of external audit**
  - The external audit is aimed at identifying key variables that offer actionable responses.

- Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats.

- **Key external forces**
  - External forces can be divided into five broad categories:
    - Economic forces
    - Social, cultural, demographic, and environmental (SCDE) forces
    - Political, governmental, and legal forces
    - Technological forces
    - Competitive forces

- **The AQCD Test**
  - When identifying and prioritizing key external factors in strategic planning, the following four factors are important:
    - Actionable
    - Quantitative
    - Comparative
    - Divisional
  - The AQCD is a measure of the quality of an external factor.

- **Economic Forces**
  - Shift to service economy
  - Availability of credit
  - Level of disposable income
  - Propensity of people to spend
  - Interest rates
  - Inflation rates
  - G D P trends
  - Consumption patterns
  - Unemployment trends
  - Value of the dollar
  - Import/Export factors
  - Demand shifts for different goods and services
  - Income differences by region and consumer group
  - Price fluctuations
  - Foreign countries' economic conditions
  - Monetary and Fiscal policy
  - Stock market trends
  - Tax rate variation by country and state

- European Economic Community (E E C) policies
- Organization of Petroleum Exporting Countries (O P E C) policies

- **Social, Cultural, Demographic, and Environmental (SCDE) Forces**
    - SCDE forces impact strategic decisions on virtually all products, services, markets, and customers.
    - These forces are shaping the way people live, work, produce, and consume.
    - Key SCDE variables:
        - Population changes by race, age, and geographic area
        - Regional changes in tastes and preferences
        - Number of marriages
        - Number of divorces
        - Number of births
        - Number of deaths
        - Immigration and emigration rates
        - Social Security programs
        - Life expectancy rates
        - Per capita income
        - Social media pervasiveness
        - Attitudes toward retirement
        - Energy conservation
        - Attitudes toward product quality
        - Attitudes toward customer service
        - Pollution control
        - Attitudes toward foreign peoples
        - Energy conservation
        - Social programs
        - Number of churches
        - Number of church members
        - Social responsibility issues

- **Political, Governmental, and Legal Forces**
    - Local, state, and federal laws, as well as regulatory agencies and special-interest groups, can have a major impact on the strategies of small, large, for-profit, and nonprofit organizations.
    - Political, Governmental, and Legal Variables
        - Natural environmental regulations
        - Protectionist actions by countries
        - Changes in patent laws
        - Equal employment opportunity laws
        - Level of defense expenditures

    - Unionization trends
    - Antitrust legislation
    - U S A versus other country relationships
    - Political conditions in countries
    - Global price of oil changes
    - Local, state, and federal laws
    - Import-export regulations
    - Tariffs, particularly on steel and aluminum
    - Local, state, and national elections

- **Technological Forces**
  - Many firms now have a Chief Information Officer (C I O) and a Chief Technology Officer (C T O) who work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed.
  - New technologies such as:
  - 3D printing
  - The cloud
  - Mobile devices
  - Biotech
  - Analytics
  - Auto-tech
  - Robotics and
  - Artificial intelligence

- **Competitive Forces**
  - An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies.
  - Key questions about competitors:
    - What are the strengths and weaknesses of our major competitors?
    - What products and services do we offer that are unique in the industry?
    - What are the objectives and strategies of our major competitors?
    - How will our major competitors most likely respond to current economic, SCDE, political, governmental, legal, technological, and competitive trends affecting our industry?
    - How vulnerable are the major competitors to our new strategies, products, and services?
    - How vulnerable is our firm to successful counterattack by our major competitors?
    - How does our firm compare to rivals in mastering the social-media conversation in this industry?
    - To what extent are new firms entering and old firms leaving this industry?
    - What key factors have resulted in our present competitive position in this industry?
    - How are supplier and distributor relationships changing in this industry?

- **Competitive Intelligence Programs**
  - A systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business's own goals.

- **Obtaining competitive intelligence**
  - Legal and ethical ways to obtain competitive intelligence:
    - Reverse-engineer rival firms' products.
    - Use surveys and interviews of customers, suppliers, and distributors of rival firms.
    - Analyze rival firm's Form 10-K.
    - Conduct fly-over and drive-by visits to rival firm operations.
    - Search online databases.
    - Contact government agencies for public information about rival firms.
    - Monitor relevant trade publications, magazines, and newspapers.
    - Purchase social-media data about customers of all firms in the industry.
    - Hire top executives from rival firms.

- **The Five Forces Model**
  - Most powerful of the five forces.
  - Focus on competitive advantage of strategies over other firms.
  - Figure 4.1 shows the Five-Forces Model of Competition.
  - The purpose of Five-Forces Model of Competition is to identify key aspects or elements of each competitive force that impact the firm, evaluate how strong and important each element is for the firm and decide whether the collective strength of the elements is worth the firm entering or staying in the industry.

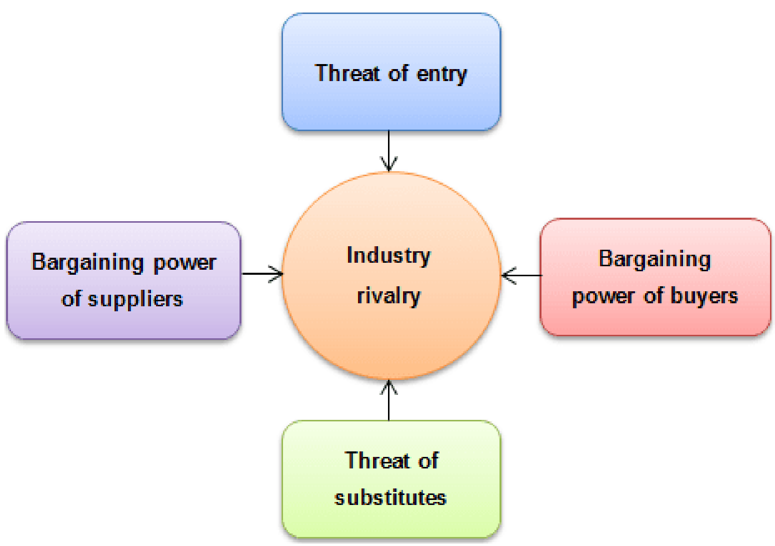


Figure 4.1: The Five-Forces Model Competition

- **Rivalry among competing firms**
    - Conditions that cause high rivalry among competing firms:
        - When the number of competing firms is high
        - When competing firms are of similar size
        - When competing firms have similar capabilities
        - When demand for the industry's products is changing rapidly
        - When price cuts are common in the industry
        - When consumers can switch brands easily
        - When barriers to leaving the market are high
        - When barriers to entering the market are low
        - When fixed costs are high among competing firms
        - When products are perishable or have short product life cycles

- **Potential entry of new competitors**
- Barriers to entry:
    - Need to gain economies of scale quickly
    - Need to gain technology and specialized know-how
    - Lack of experience
    - Strong customer loyalty
    - Strong brand preferences
    - Large capital requirements
    - Lack of adequate distribution channels
    - Government regulatory policies
    - Tariffs
    - Lack of access to raw materials
    - Possession of patents
    - Undesirable locations
    - Counterattack by entrenched firms
    - Potential saturation of the market

- **Potential development of substitute products**
    - Pressure increases when: Prices of substitutes decrease and consumers' switching costs decrease.

- **Bargaining Power of Suppliers**
- Bargaining power of suppliers is increased when (there are):
    - Few suppliers
    - Few substitutes
    - Costs of switching raw materials is high
    - Backward integration is gaining control or ownership of suppliers

- **Bargaining Power of Consumers**
  - Customers being concentrated or buying in volume affects intensity of competition.
  - Consumer power is higher where products are standard or undifferentiated.

- **Conditions where consumers gain bargaining power**
  - If buyers can inexpensively switch
  - If buyers are particularly important
  - If sellers are struggling in the face of falling consumer demand
  - If buyers are informed about sellers' products, prices, and costs
  - If buyers have discretion in whether and when they purchase the product

- **Sources of external information**

  - **Unpublished** sources include customer surveys, market research, speeches at professional and shareholders' meetings, television programs, interviews, and conversations with stakeholders.
  - **Published** sources of strategic information include periodicals, journals, reports, government documents, abstracts, books, directories, newspapers, and manuals.

SELF CHECK 4.1

- What is external audit?
- What is the purpose of external audit?
- Discuss key external forces.
- How AQCD Test useful for organization?
- What are competitive forces?
- What are the key questions in considering competitive forces?
- How competitive intelligence programs might be useful in the organization?
- Elaborate Five-Forces Model of competition.

4.2 Internal Environment

- **Internal Audit**
  - Requires gathering, assimilating, and prioritizing information about the firm's management, marketing, finance, accounting, production/operations, research and development (R and D), and management information systems operations.
  - Provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole firm.
- **Key Internal Forces**
  - Distinctive competencies:
    - A firm's strengths that cannot be easily matched or imitated by competitors.
    - Building competitive advantages involves taking advantage of distinctive competencies.
  - Management:
    - The functions of management consist of four basic activities:
      - Planning
      - Organizing
      - Motivating
      - Controlling
    - Basic Functions of Management:
    - **Planning**: forecasting, establishing objectives, devising strategies, and developing policies.
    - **Organizing**: organizational design, job specialization, job descriptions, span of control, coordination, job design, and job analysis.
    - **Motivating**: leadership, communication, work groups, behavior modification, delegation of authority, job enrichment, job satisfaction, needs fulfillment, organizational change, employee morale, and managerial morale.
    - **Controlling**: quality control, financial control, sales control, inventory control, expense control, analysis of variances, rewards, and sanctions.

- **Management Audit Checklist Questions:**
  - Does the firm use strategic-management concepts?
  - Are company objectives and goals measurable and well communicated?
  - Do managers at all hierarchical levels plan effectively?
  - Do managers delegate authority well?
  - Is the organization's structure appropriate?
  - Are job descriptions and job specifications clear?
  - Is employee morale high?
  - Are employee turnover and absenteeism low?
  - Are organizational reward and control mechanisms effective?

- **Productions/Operations:**
  - Consists of all those activities that transform inputs into goods and services.
  - Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets.

- **Organizational Culture:**
  - **Organizational culture** is "a pattern of behavior that has been developed by an organization as it learns to cope with its problem of external adaptation and internal integration and that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think, and feel."

- Marketing:
  - The process of defining, anticipating, creating, and fulfilling customers' needs and wants.
  - Five Basic Activities in Marketing:
    - Marketing research and target market analysis
    - Product planning
    - Pricing products
    - Promoting products
    - Placing or distributing products

- **Marketing Audit Checklist Questions:**
  - Are markets segmented effectively?
  - Is the organization positioned well among competitors?
  - Are present channels of distribution reliable and cost effective?
  - Is the firm conducting and using market research effectively?
  - Are product quality and customer service good?

- Are the firm's products and services priced appropriately?
- Does the firm have an effective promotional strategy?
- Is the firm's Internet presence excellent as compared to rivals?

- **Finance/Accounting Audit Checklist:**

  - Where is the firm financially strong and weak as indicated by financial ratio analyses?
  - Can the firm raise needed short-term capital?
  - Can the firm raise needed long-term capital through debt or equity?
  - Does the firm have sufficient working capital?
  - Are capital budgeting procedures effective?
  - Are dividend payout policies reasonable?
  - Does the firm have excellent relations with its investors and stockholders?
  - Are the firm's financial managers experienced and well trained?
  - Is the firm's debt situation excellent?

- **Management Information Systems:**

  - Receives raw material from both external and internal evaluation of an organization.
  - Improves the performance of an enterprise by improving the quality of managerial decisions.
  - Collects, codes, stores, synthesizes, and presents information in such a manner that it answers important operating and strategic questions.

SELF CHECK 4.2

- What is internal audit?
- What is the purpose of internal audit?
- Discuss key internal forces.
- Describe how management information systems will be useful for organization in identifying key internal forces.
- Provide three marketing audit checklist questions.

4.3 The Value-Chain Analysis

- The Value Chain Analysis is developed by Michael Porter in 1985. The value chain looks at all the activities involved in the production of a product or service and how those activities interact. By examining how the firm combines its activities one can identify how the firm creates value to the customer. Figure 4.3 shows value chain analysis.

- The argument is that if a firm wants to compete on low cost then it must examine its value chain to see how it can drive down costs focusing cuts on those parts of processes that add the greatest cost.

- On the other hand, if the firm wants to differentiate its product to the customer, then it must identify those parts of its value chain where value can be added to the customer, e.g. in after sales service or delivery or improve on the quality/usage of the product.

- **Value-Chain Analysis (VCA)**
    - Michael Porter, 1985 viewed an organisation as a sequential process/chain of value adding activities.
    - He classified these activities into 2 categories:
        - 5 primary activities: inbound logistics, operations, outbound logistics, marketing and sales, and service.
        - 4 support activities: Procurement, technology development, human resource management and firm infrastructure.

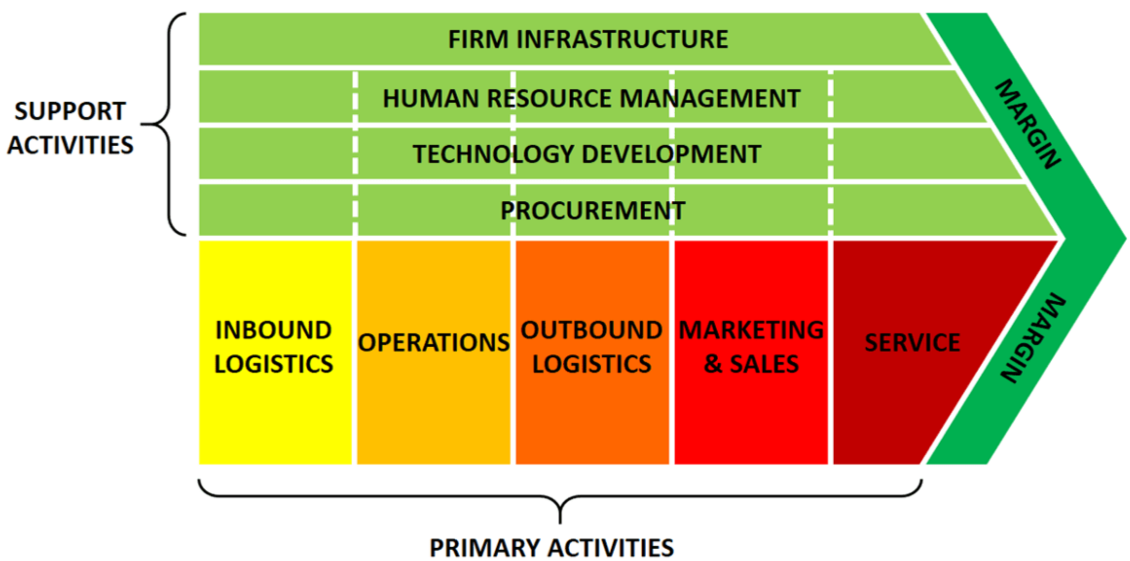


Figure 4.3: Value Chain Analysis

- **Primary Activities**
  - They are directly concerned with the creation or delivery of a product or service. Each of these groups of primary activities is linked to the support activities which help to improve the effectiveness or efficiency of primary activities.
  - Primary Activities – for competing in an industry.
  - Some factors to consider in assessing a Firm's Primary Activities:

Inbound logistics	Operation	Outbound logistics	Marketing & Sales	Service
Receiving, storing & distributing inputs to the product	Activities transforming inputs into final product form such as machining, packaging, assembly, equipment, testing, printing & facility operations.	Collecting, storing & distributing the product or service to buyers. They include finished goods, warehousing, material handling, delivery vehicle operation, order processing & scheduling.	Activities associated with purchases of products by end users and the inducements used to get them to make purchases – advertising, promotion, sales force, quoting, channel selection, channel relations and pricing.	After sales services to enhance or maintain the value of the product – installation, repair, training, parts supply, and product adjustment.
*Location of distribution facilities to minimize shipping time	*Efficient plant operations to minimize costs	*Effective shipping processes t provide quick delivery and minimise damages	*Highly motivated & competent sales force	*Effective use of procedures to solicit customer feedback & to act on information
*Excellent material & inventory control systems	*Appropriate level of automation in manufacturing	*Efficient finished goods warehousing processes	*Innovative approaches to promotion & advertisement	*Quick response to customer needs & emergencies
*Systems to reduce time to send returns to suppliers	*Quality production control systems to reduce costs & enhance quality	*Shipping of goods in large lot sizes to minimize transportation costs	*Selection of most appropriate distribution channels	*Ability to furnish replacement parts as required
*Warehouse layout & designs to increase efficiency of operation for incoming materials	*Efficient plant layout and workflow design	*Quality material handling equipment ot increase order picking	*Proper identification of customer & needs	*Effective management of parts and equipment inventory

				*Quality of service personnel & ongoing training
				*Appropriate warranty and guarantee policies

- **Support Activities**
  - Each category of support activity is divisible into a number of distinct value activities that are specific to a particular industry.
  - Procurement – acquiring resource inputs to the primary activities.
  - Technology development – R & D, process, product design.
  - Human resource management – recruiting, managing, training, developing and rewarding people within the firm.
  - Infrastructure – formal systems of planning, finance, quality control, information management and the structures and routines as part of organisation's culture.

- The value-chain of a firm is linked to the value-chains of the suppliers, distributors and customers thereby creating interrelationships among value-chain activities within and across organisations. (Known as ***value network***)

- Linkages with suppliers are known as "upstream linkages".

- Linkages with distributors and customers are known as "downstream linkages".

- Different organisations have different value chains.

- Those activities that are of greatest importance to the firm are known as "core activities" and are often closely related to core competencies.

- The aim of VCA is to identify ways in which the performance of the individual activities and the linkages between them can be improved. This could mean improving the configuration for activities and improving coordination of them in order to support the current strategy of the firm.

- The trend today is for firms to concentrate on their core activities and core competencies and to outsource non-core activities to other firms. These non-core activities could be the core activities of these outside firms.

- The combination of the core competencies of other collaborative organisations, helps the firm to achieve competitive advantage.

- Therefore the VCA helps the firm to identify where outsourcing can potentially add greater value than performing the activity in-house.

- Some factors to consider in assessing a Firm's Support Activities:

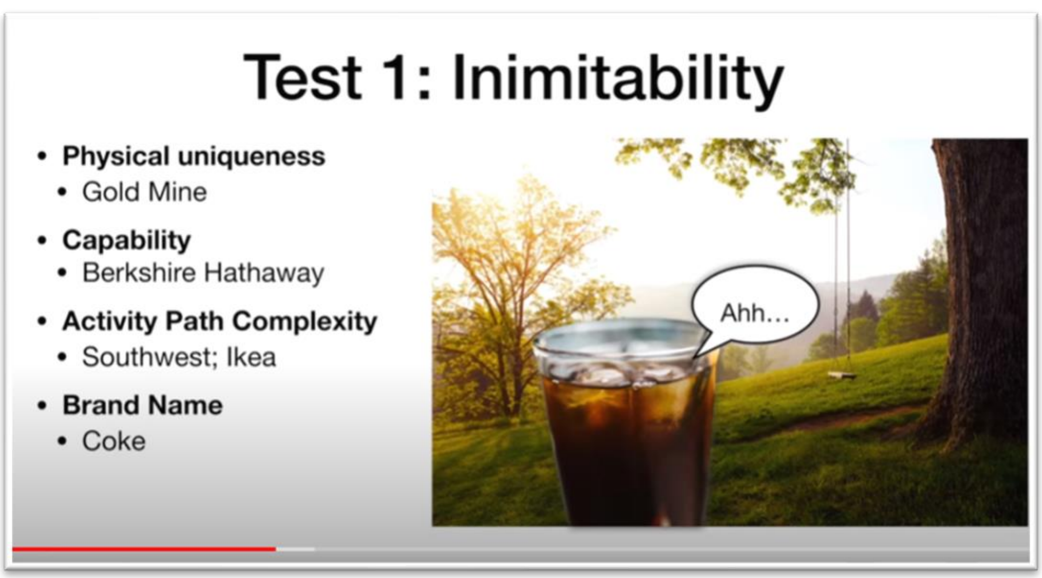
General Administration • Effective planning systems to attain overall goals and objectives. • Ability of top management to anticipate and act on key environmental trends & events. • Ability to obtain low-cost funds for capital expenditures and working capital. • Excellent relationships with diverse stakeholder groups. • Ability to coordinate and integrate activities across the "value system." • Highly visible to inculcate organisational culture, reputation and values.
Human Resource Management • Effective recruiting, development, and retention mechanisms for employees. • Quality relations with trade unions. • Quality work environment to maximise overall employee performance and minimized absenteeism. • Reward and incentive programmes to motivate all employees.
Technology Development • Effective research & development activities for process and product initiatives. • Positive collaborative relationships between R & D and other departments. • State-of-the art facilities and equipment. • Culture to enhance creativity and innovation. • Excellent professional qualification of personnel. • Ability to meet critical deadlines.
Procurement • Procurement of raw material inputs to optimize quality & speed, & to minimise the associated costs. • Development of collaborative "win-win" relationships with suppliers. • Effective procedures to purchase advertising and media services. • Analysis and selection of alternate sources of inputs to minimise dependence on one supplier. • Ability to make proper lease versus buy decisions.

SELF CHECK 4.3

- What is Value Chain Analysis?
- Explain the two categories in Value Chain Analysis.
- Illustrate Value Chain Analysis diagram.
- Discuss primary activities in Value Chain Analysis.
- Discuss support activities in Value Chain Analysis.
- What is the relationship between primary and support activities in Value Chain Analysis?

4.4 The Resource-Based View

- Resource-Based View contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage.
- A firm must have the capability (the ability) to use the resources and integrate them to achieve core competencies.
- Capability comes from the employees who have the skills and knowledge to develop and explore the firm's resources to create core competencies and thereafter the competitive advantages.
- Capabilities must be rare, valuable, costly to imitate and nonsubstitutable to attain sustainable competitive advantage.
- The resource-based view holds that a firm must be able to use its resources to achieve strategic competitiveness or competitive advantages.
- Proponents of the R B V contend that organizational performance will primarily be determined by internal resources. These resources can be grouped into tangible and intangible.
- For a resource to be valuable, it must be either (1) rare, (2) hard to imitate, or (3) not easily substitutable.
- These three characteristics of resources are called Empirical Indicators.
- These enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage.



Source: https://www.youtube.com/watch?v=3JKCiYZt8Qc

SELF CHECK 4.4
• Based on the video attached, discuss Resource-Based View characteristics. How Resource-Based View can be used in the organization?

Points to Ponder/Takeaways

- External forces can be divided into five broad categories; economic forces, social, cultural, demographic, and environmental forces, political, governmental, and legal forces, technological forces, and competitive forces.
- External audit focuses on identifying and evaluating trends and events beyond the control of a single firm.
- Sources of external information: unpublished and published.
- Internal audit requires gathering, assimilating, and prioritizing information about the firm's management, marketing, finance, accounting, production/operations, research and development (R and D), and management information systems operations.
- Resource Based View contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage.

References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.

Topic 5: The core processes: Strategic analysis; strategy formulation; strategic choice

The core processes: Strategic analysis; strategy formulation; strategic choice

Learning Outcomes

Upon completion of the chapter, students should be able to:

- Discuss various types of strategies according to their situation.
- Explain Porter's five generic strategies.
- Describe strategy analysis and choice process.
- Construct the SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, Grand Strategy Matrix, and QSP Matrix.

Introduction

This chapter provides basic guidelines for when various strategies have historically been most effective to use. This chapter also describes Porter's generic strategies, first-mover advantages, joint ventures, partnering, and new-to-this-edition the concept of Build, Borrow, or Buy in the context of strategic planning. In addition, this chapter explains how to formulate effective strategies once the internal and external audits are completed. It presents and exemplifies six widely used strategic planning matrices: SWOT (Strengths-Weaknesses-Opportunities-Threats) Matrix, BCG (Boston Consulting Group) Matrix, SPACE (Strategic Position and Action Evaluation) Matrix, IE (Internal-External) Matrix, Grand Strategy Matrix, and the QSPM (Quantitative Strategic Planning Matrix).

5.1 Types of Strategies

- Most organizations simultaneously pursue a combination of two or more strategies, but a combination strategy can be exceptionally risky if carried too far.
- No organization can afford to pursue all the strategies that might benefit the firm.
- Difficult decisions must be made and priorities must be established.
- Table 5.1 below show alternative strategies defined and exemplified.

Strategy	**Definition**	**Example**
Forward Integration	Gaining ownership or increased control over distributors or retailers	Amazon began rapid delivery services in some U.S. cities.
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Starbucks purchased a coffee farm.
Horizontal Integration	Seeking ownership or increased control over competitors	&T acquired Susquehanna Bancshares.
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Under Armour signed tennis champion Andy Murray to a 4-year, $23 million marketing deal.
Market Development	Introducing present products or services into new geographic area	Gap opened its first five stores in China.
Product Development	Seeking increased sales by improving present products or services or developing new ones	Amazon just began offering its own line of baby diapers and wipes.
Related Diversification	Adding new but related products or services	Facebook acquired the text-messaging firm WhatsApp for $19 billion.
Unrelated Diversification	Adding new, unrelated products or services	Kroger and Whole Foods Market are cooking meals, becoming restaurants.
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	Staples closed 250 stores and reduced by 50% the size of other stores.
Divestiture	Selling a division or part of an organization	Sears Holdings divested its Lands' End division to Sears' shareholders.
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	The Trump Taj Mahal in Atlantic City, New Jersey, faces liquidation.

Figure 5.1: Alternative Strategies Defined and Exemplified

Integration Strategies

- **Forward Integration**
  - Involves gaining ownership or increased control over distributors or retailers.
- **Backward Integration**
  - Strategy of seeking ownership or increased control of a firm's suppliers.
- **Horizontal Integration**
  - A strategy of seeking ownership of or increased control over a firm's competitors.

Forward Integration Guidelines

- When an organization's present distributors are especially expensive.
- When the availability of quality distributors is so limited as to offer a competitive advantage.
- When an organization competes in an industry that is growing.
- When an organization has both capital and human resources to manage distributing their own products.
- When the advantages of stable production are particularly high.
- When present distributors or retailers have high profit margins.

Backward Integration Guidelines

- When an organization's present suppliers are especially expensive or unreliable.
- When the number of suppliers is small and the number of competitors is large.
- When the organization competes in a growing industry.
- When an organization has both capital and human resources.
- When the advantages of stable prices are particularly important.
- When present suppliers have high profit margins.
- When an organization needs to quickly acquire a needed resource.

Horizontal Integration Guidelines

- When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government.
- When an organization competes in a growing industry.
- When increased economies of scale provide major competitive advantages.
- When an organization has both the capital and human talent needed.
- When competitors are faltering due to a lack of managerial expertise.

Intensive Strategies

- **Market Penetration Strategy**
  - Seeks to increase market share for present products or services in present markets through greater marketing efforts.
- **Market Development**

  - Involves introducing present products or services into new geographic areas.
- **Product Development Strategy**
  - Seeks increased sales by improving or modifying present products or services.

Market Penetration Guidelines

- When current markets are not saturated with a particular product or service.
- When the usage rate of present customers could be increased significantly.
- When the market shares of major competitors have been declining while total industry sales have been increasing.
- When the correlation between dollar sales and dollar marketing expenditures historically has been high.
- When increased economies of scale provide major competitive advantages.

Market Development Guidelines

- When new channels of distribution are available that are reliable, inexpensive, and of good quality.
- When an organization is very successful at what it does.
- When new untapped or unsaturated markets exist.
- When an organization has the needed capital and human resources to manage expanded operations.
- When an organization has excess production capacity.
- When an organization's basic industry is rapidly becoming global in scope.

Product Development Guidelines

- When an organization has successful products that are in the maturity stage of the product life cycle.
- When an organization competes in an industry characterized by rapid technological developments.
- When major competitors offer better-quality products at comparable prices.
- When an organization competes in a high-growth industry.
- When an organization has strong research and development capabilities.

Diversification Strategies

- **Related Diversification**
  - Value chains possess competitively valuable cross-business strategic fits.
- **Unrelated Diversification**
  - Value chains are so dissimilar that no competitively valuable cross-business relationships exist.

Synergies of Related Diversification

- Transferring competitively valuable expertise, technological know-how, or other capabilities from one business to another.
- Combining the related activities of separate businesses into a single operation to achieve lower costs.
- Exploiting common use of a known brand name.
- Using cross-business collaboration to create strengths.

Related Diversification Guidelines

- When an organization competes in a no-growth or a slow-growth industry.
- When adding new, but related, products would significantly enhance the sales of current products.
- When new, but related, products could be offered at highly competitive prices.
- When new, but related, products have seasonal sales levels that counterbalance an organization's existing peaks and valleys.
- When an organization's products are currently in the declining stage of the product's life cycle.
- When an organization has a strong management team.

Unrelated Diversification Guidelines

- When revenues derived from an organization's current products would increase significantly by adding the new, unrelated products.
- When an organization competes in a highly competitive or a no-growth industry, as indicated by low industry profit margins and returns.
- When an organization's present channels of distribution can be used to market the new products to current customers.
- When the new products have countercyclical sales patterns compared to present products.
- When an organization's basic industry is experiencing declining annual sales and profits.
- When an organization has the capital and managerial talent needed to compete successfully in a new industry.
- When an organization has the opportunity to purchase an unrelated business that is an attractive investment opportunity.
- When there exists financial synergy.
- When existing markets for an organization's present products are saturated.
- When antitrust action could be charged against an organization that historically has concentrated on a single industry.

Defensive Strategies

- Retrenchment
  - Regroups through cost and asset reduction to reverse declining sales and profits.
- Divestiture
  - Selling a division or part of an organization.

- Often used to raise capital for further strategic acquisitions or investments.
- Liquidation
- Selling all of a company's assets, in parts, for their tangible worth.

Retrenchment Guidelines

- When an organization has a distinctive competence but has failed consistently to meet its goals.
- When an organization is one of the weaker competitors in a given industry.
- When an organization is plagued by inefficiency, low profitability, and poor employee morale.
- When an organization fails to capitalize on external opportunities and minimize external threats.
- When an organization has grown so large so quickly that major internal reorganization is needed.

- When an organization has a distinctive competence but has failed consistently to meet its goals.
- When an organization is one of the weaker competitors in a given industry.
- When an organization is plagued by inefficiency, low profitability, and poor employee morale.
- When an organization fails to capitalize on external opportunities and minimize external threats.
- When an organization has grown so large so quickly that major internal reorganization is needed.

Divestiture Guidelines

- When an organization has pursued a retrenchment strategy and failed to accomplish improvements.
- When a division needs more resources to be competitive than the company can provide.
- When a division is responsible for an organization's overall poor performance.
- When a division is a misfit with the rest of an organization.
- When a large amount of cash is needed quickly.
- When government antitrust action threatens a firm.

Liquidation Guidelines

- When an organization has pursued both a retrenchment strategy and a divestiture strategy, and neither has been successful.
- When an organization's only alternative is bankruptcy.
- When the stockholders of a firm can minimize their losses by selling the organization's assets.

SELF CHECK 5.1
• Discuss forward integration strategies. • Discuss backward integration strategies. • Elaborate horizontal integration strategies. • Provide examples on how organization implement integration strategies. • What are diversification strategies. • Elaborate related diversification guidelines. • What is divestiture? • Elaborate divestiture guidelines.

5.2 Value Chain Analysis and Benchmarking

- **Value chain analysis**
  - The process whereby a firm determines the value (price minus cost) of each and all activities that went into producing and marketing a product, from purchasing raw materials to manufacturing, distributing, and marketing those products.
  - Value chain analysis is a way to visually analyze a company's business activities to see how the company can create a competitive advantage for itself.
  - Value chain analysis helps a company understands how it adds value to something and subsequently how it can sell its product or service for more than the cost of adding the value, thereby generating a profit margin. In other words, if they are run efficiently the value obtained should exceed the costs of running them i.e. customers should return to the organisation and transact freely and willingly.

- **Benchmarking**
  - Entails examination of value chain activities across an industry to determine "best practices" among competing firms; firms engage in benchmarking for the purpose of duplicating or improving on those best practices.
  - Bench marking involves the activities that are carried out in an organization that involves procedures used to compare the results that the organization is producing with the means and processes used.
  - A bench mark is like the targets that an organization would want to achieve in its operations to enable it make progress as far as its growth and development is concerned which either could be within or outside the organization.
  - A benchmark for an organization should be something that adds value to the organization's performance and as an end result benefit all the employees' of the organization and its customers. Meaning that if the identified changes are carried out it will help the organization achieve some if not all of its activities.
- Figure 5.2 shows the transformation of value chain activities into sustained competitive advantage.

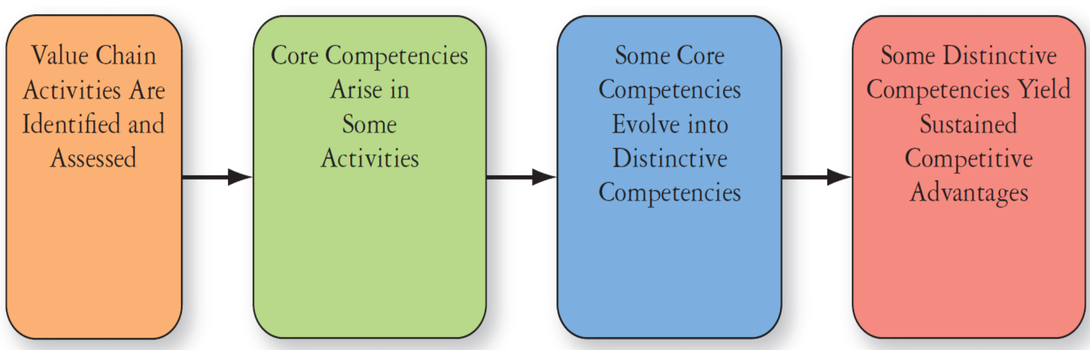


Figure 5.2: Transformation of Value Chain Activities into Sustained Competitive Advantage

Source: https://www.youtube.com/watch?v=g8p2H7EvoGM

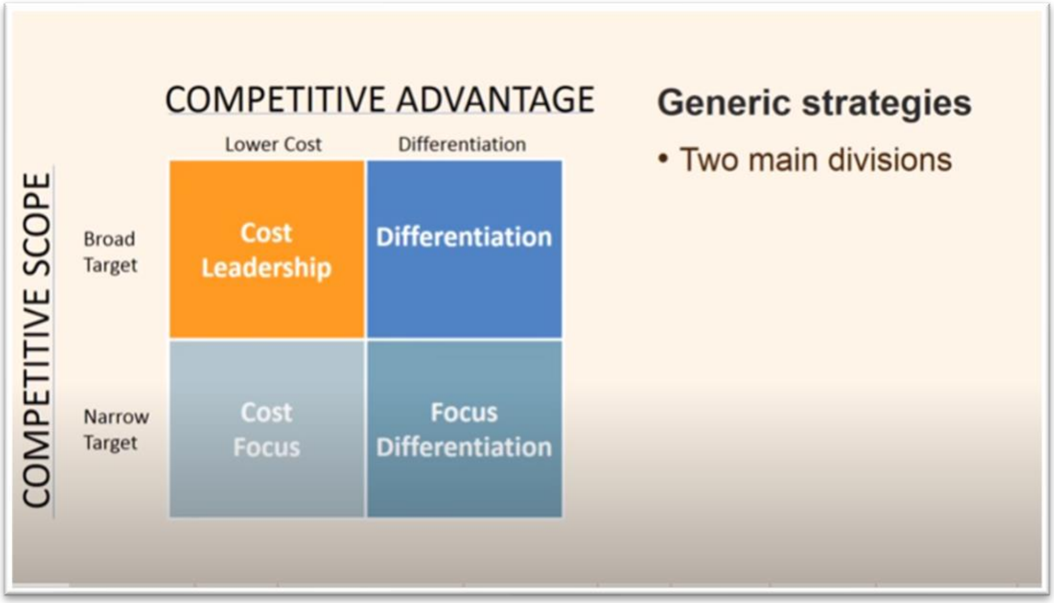
SELF CHECK 5.2
• Referring to the video attached, discuss what do you understand about value chain analysis and how organization may use value chain analysis to increase their organizational performance.

5.3 Michael Porter's Two Generic Strategies

- **Cost leadership**
    - Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive.
    - Cost leadership is a term used when a company projects itself as the cheapest manufacturer or provider of a particular product or commodity in a competition. It is difficult to deploy the strategy because the management must constantly work on reducing cost at every level to remain competitive.
    - Charging a lower price but selling a larger volume of a good allows a company to maintain its profits and expand its market share.
    - Some consumers shop only at stores that offer the lowest price, which means industries like groceries and gasoline often have price wars.
    - The winner in a price war enjoys protection from rivals because competitors whittle away their profits attempting to offer the new lowest price.
    - The cost leadership strategy also makes it difficult for new companies to enter the market because of thin profit margins.
- **Type 1**
    - Low-cost strategy that offers products or services to a wide range of customers at the lowest price available on the market.
- **Type 2**
    - Narrow or focused low-cost strategy that offers products or services to a small range of customers at one of the lowest prices in the market.

- **Differentiation**
    - Differentiation is a strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive.

- **Two types of differentiation**
    - **Type 3**
        - Wide target market
    - **Type 4**
        - Narrow target market



Source: https://www.youtube.com/watch?v=HiBRviA3lnI

SELF CHECK 5.3
• Referring to the video attached, explain Michael Porter's Two Generic Strategies. Please provide example in your explanation.

5.4 Process of Generating and Selecting Straetgies

- A manageable set of the most attractive alternative strategies must be developed.
- The advantages, disadvantages, trade-offs, costs, and benefits of these strategies should be determined.
- Identifying and evaluating alternative strategies should involve many of the managers and employees who earlier assembled the organizational vision and mission statements, performed the external audit, and conducted the internal audit.
- Alternative strategies proposed by participants should be considered and discussed in a series of meetings.
- Proposed strategies should be listed in writing.
- When all feasible strategies identified by participants are given and understood, the strategies should be ranked in order of attractiveness.

SELF CHECK 5.4

- Why alternative strategies must be developed in the organization?
- Explain the process involved in developing various alternative strategies in the organization.
- Who should involve in the process of developing alternative strategies in the organization?

5.5 Comprehensive Straetgy-Formulation Framework

- Figure 5.5 shows the comprehensive strategy-formulation framework.

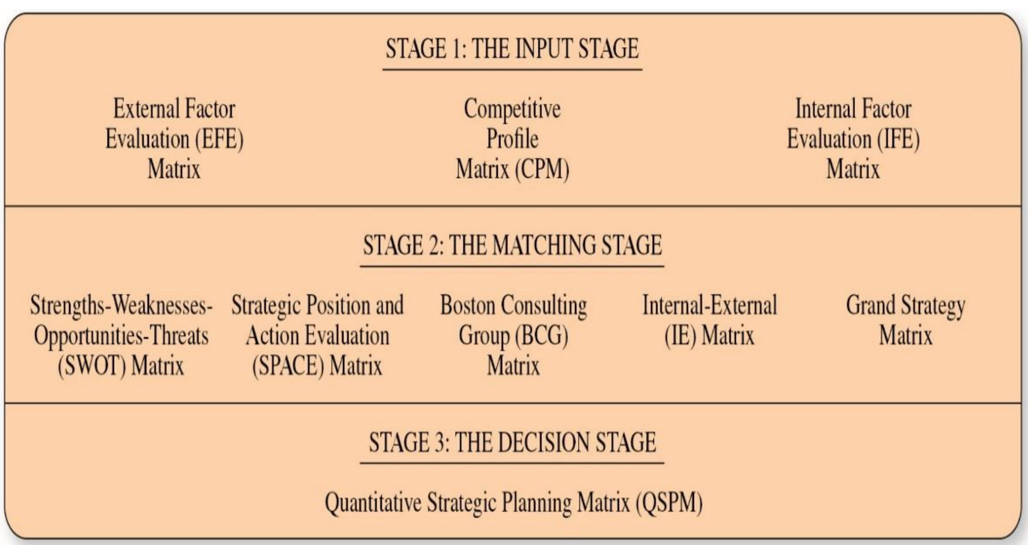


Figure 5.5: Strategy-Formulation Framework

- **Stage 1 - Input Stage**
    - Summarizes the basic input information needed to formulate strategies.
    - Consists of the E F E Matrix, the I F E Matrix, and the Competitive Profile Matrix (C P M).
- **Stage 2 - Matching Stage**
    - Focuses on generating feasible alternative strategies by aligning key external and internal factors.
    - Techniques include the Strengths-Weaknesses-Opportunities-Threats (S W O T) Matrix, the Strategic Position and Action Evaluation (S P A C E) Matrix, the Boston Consulting Group (B C G) Matrix, the Internal-External (I E) Matrix, and the Grand Strategy Matrix.
- **Stage 3 - Decision Stage**
    - Involves the Quantitative Strategic Planning Matrix (Q S P M).
    - Reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies.

SELF CHECK 5.5
• Illustrate the comprehensive strategy-formulation framework. • Explain Input stage and what are the methods used in input stage? • Explain matching stage and what are the possible methods used in the matching stage? • Explain decision stage and what is the method used to access decision stage?

5.6 The Input Stage

- **EFE Matrix**
  - EFE matrix is an analytical technique related to the SWOT analysis. EFE is an acronym of the External Factor Evaluation. EFE Matrix evaluates the external position of the organization or its strategic intents.

- In developing EFE Matrix, organization need to summarize and evaluate these factors:
  - Social
  - Cultural
  - Demographic
  - Economic
  - Environmental
  - Political
  - Governmental
  - Legal
  - Technological
  - Competitive

- **EFE Matrix Steps:**
  - List 10 to 20 key external factors
  - Weight from 0.0 to 1.0
  - Rate the effectiveness of current strategies from 1-4
  - Multiply weight * rating
  - Sum weighted scores

- Table 5.6 shows the EFE Matrix for a Local 10-Theater Cinema Complex.

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Two new neighborhoods developing within 3 miles (Opp)	0.09	1	0.09
2. TDB University is expanding 6% annually (Opp)	0.08	4	0.32
3. Major competitor across town recently closed (Opp)	0.08	3	0.24
4. Demand for going to cinemas growing 10% (Opp)	0.07	2	0.14
5. Disposable income among citizens up 5% in prior year	0.06	3	0.15
6. Rowan County is growing 8% annually in population	0.05	3	0.15
7. Unemployment rate in county declined to 3.1%	0.03	2	0.06

Key External Factors	Weight	Rating	Weighted Score
Threats			
8. Trend toward healthy eating eroding concession sales	0.12	4	0.48
9. Demand for online movies and DVDs growing 10% (Threat)	0.06	2	0.12
10. Commercial property adjacent to cinemas for sale	0.06	3	0.18
11. TDB University installing an on-campus movie theater (Threat)	0.04	3	0.12
12. County and city property taxes increasing 25%	0.08	2	0.6
13. Local religious groups object to R-rated movies	0.04	3	0.12
14. Movies rented at local Red Box's up 12%	0.08	2	0.16
15. Movies rented last quarter from Time Warner up 15%	0.06	1	0.06
Total	**1.00**		**2.58**

Table 5.6: EFE Matrix for a Local 10-Theater Cinema Complex

- **Competitive Profile Matrix (CPM)**
    - Identifies firm's major competitors and their strengths & weaknesses in relation to a sample firm's strategic positions.
    - Critical success factors include internal and external issues.
    - Table 5.6.1 shows the example of CPM.

		Company 1		Company 2		Company 3	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
Advertising	0.20	1	0.20	4	0.80	3	0.60
Global Expansion	0.20	4	0.80	1	0.20	2	0.40
Financial Position	0.15	4	0.60	2	0.30	3	0.45
Management	0.10	4	0.40	3	0.20	1	0.10
Product Quality	0.10	4	0.40	3	0.30	2	0.20
Customer Loyalty	0.10	4	0.40	3	0.30	2	0.20
Price Competitiveness	0.10	3	0.30	2	0.20	1	0.10
Market Share	0.05	1	0.05	4	0.20	3	0.15
Total	**1.00**		**3.15**		**2.50**		**2.20**

Table 5.6.1: Example of CPM

- **Internal Factor Evaluation Matrix (IFE)**
    - IFE is a strategy tool used to evaluate firm's internal environment and to reveal its strengths as well as weaknesses.
    - Table 5.6.2 shows the example of IFE Matrix.

- **Steps in IFE Matrix**

    - List key internal factors as identified in the internal-audit process.
    - Assign a weight that ranges from 0.0 (not important) to 1.0 (all-important) to each factor.
    - Assign a 1-to-4 rating to each factor to indicate whether that factor represents a strength or weakness.
    - Multiply each factor's weight by its rating to determine a weighted score for each variable.
    - Sum the weighted scores for each variable to determine the total weighted score for the organization.

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
Average customer purchase increased from $79 to $ 128	0.40	4	1.60
In-store promotions resulted in 20 percent increase in sales	0.30	4	1.20
Newspaper advertising expenditures increased 10 percent	0.05	3	0.15
In-store technical support personnel have MIS college degrees	0.07	3	0.21
Weaknesses			
Revenues from software segment of store down 12 percent	0.09	2	0.18
Revenues from businesses down 8 percent	0.05	2	0.10
Often customers have to wait for check out	0.04	2	0.08
Total	1		**3.52**

Table 5.6.2: Example of IFE Matrix

- Conclusion from the example of IFE Matrix:
    - Overall, this store receives a 3.52 total weighted score, indicating that the store current strategies is well respond towards strengths and weaknesses in the company. In addition, there is a room for improvement in store operations, strategies, policies, and procedures.

SELF CHECK 5.6

- Choose one organization and develop EFE Matrix and IFE Matrix for that organization.
- Choose one organization and develop Competitive Profile Matrix for that organization.

5.7 The Matching Stage

- **SWOT Matrix**
- In the matching stage, organization can carry out SWOT analysis to analyze the strengths, weaknesses, opportunities and threats of the organization.
- Figure 5.7 shows the SWOT matrix for a retail computer store.
- The Strengths-Weaknesses-Opportunities-Threats (S W O T) Matrix helps managers develop four types of strategies:
    - S O (strengths-opportunities) Strategies
    - W O (weaknesses-opportunities) Strategies
    - S T (strengths-threats) Strategies
    - W T (weaknesses-threats) Strategies

- **S O Strategies**
    - Use a firm's internal strengths to take advantage of external opportunities.
- **W O Strategies**
    - Aim at improving internal weaknesses by taking advantage of external opportunities.
- **S T Strategies**
    - Use a firm's strengths to avoid or reduce the impact of external threats.
- **W T Strategies**
    - Defensive tactics directed at reducing internal weakness and avoiding external threats.

- **Steps to conduct SWOT analysis:**
    - List the firm's key external opportunities.
    - List the firm's key external threats.
    - List the firm's key internal strengths.
    - List the firm's key internal weaknesses.
    - Match internal strengths with external opportunities, and record the resultant S O strategies.
    - Match internal weaknesses with external opportunities, and record the resultant W O strategies.

- Match internal strengths with external threats, and record the resultant S T strategies.
- Match internal weaknesses with external threats, and record the resultant W T strategies.

	Strengths	Weaknesses
	1. Inventory turnover up 5.8 to 6.7 2. Average customer purchase up $97 to $128 3. Employee morale is excellent 4. In-store promotions = 20 percent increase in sales 5. Newspaper advertising expenditures down 10 percent 6. Revenues from repair and service in store up 16 percent 7. In-store technical support persons have MIS degrees 8. Store's debt-to-total-assets ratio down 34 percent	1. Software revenues in store down 12 percent 2. Location of store hurt by new Hwy 34 3. Carpet and paint in store in disrepair 4. Bathroom in store needs refurbishing 5. Total store revenues down 8 percent 6. Store has no website 7. Supplier on-time-delivery up to 2.4 days 8. Customer checkout process too slow 9. Revenues per employee up 19 percent
Opportunities	**SO Strategies**	**WO Strategies**
1. Population of city growing 10 percent 2. Rival computer store opening 1 mile away 3. Vehicle traffic passing store up 12 percent 4. Vendors average 6 new products a year 5. Senior citizen use of computers up 8 percent 6. Small business growth in area up 10 percent 7. Desire for websites up 18 percent by realtors 8. Desire for websites up 12 percent by small firms	1. Add 4 new in-store promotions monthly (S4, O3) 2. Add 2 new repair and service persons (S6, O5) 3. Send flyer to all seniors over age 55 (S5, O5)	1. Purchase land to build new store (W2, O2) 2. Install new carpet, paint, and bath (W3, W4, O1) 3. Up website services by 50 percent (W6, O7, O8) 4. Launch mailout to all realtors in city (W5, O7)
Threats	**ST Strategies**	**WT Strategies**
1. Best Buy opening new store in 1 year nearby 2. Local university offers computer repair 3. New bypass Hwy 34 in 1 year will divert traffic 4. New mall being built nearby 5. Gas prices up 14 percent 6. Vendors raising prices 8 percent	1. Hire 2 more repair persons and market these new services (S6, S7, T1) 2. Purchase land to build new store (S8, T3) 3. Raise out-of-store service calls from $60 to $80 (S6, T5)	1. Hire 2 new cashiers (W8, T1, T4) 2. Install new carpet, paint, and bath (W3, W4, T1)

Figure 5.7: SWOT Matrix

- **Strategic Position and Action Evaluation (S P A C E) Matrix**
  - In the SPACE Matrix, there are four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are most appropriate for a given organization.
  - Two internal dimensions (financial position [F P] and competitive position [C P]).
  - Two external dimensions (stability position [S P] and industry position [I P]).
  - Most important determinants of an organization's overall strategic position.
  - Some examples that make up Financial Position (FP) in SPACE Matrix:
    - Return on investment
    - Leverage
    - Liquidity
    - Working capital
    - Cash flow
    - Inventory turnover

  - Earnings per share
- Some examples that make up Stability Position (SP) in SPACE Matrix:
  - Technological changes
  - Rate of influence
  - Demand variability
  - Price range of competing products
  - Barriers to entry into market
  - Competitive pressure
  - Ease of exit from market
  - Risk involved in business
- Some examples that make up Competitive Position (CP) in SPACE Matrix:
  - Market share
  - Product quality
  - Product life cycle
  - Customer loyalty
  - Capacity utilization
  - Technological know-how
  - Control over suppliers and distributors
- Some examples that make up Industry Position (IP) in SPACE Matrix:
  - Growth potential
  - Profit potential
  - Financial stability
  - Extent leveraged
  - Resource utilization
  - Ease of entry into market
- Figure 5.7.1 shows the SPACE Matrix.

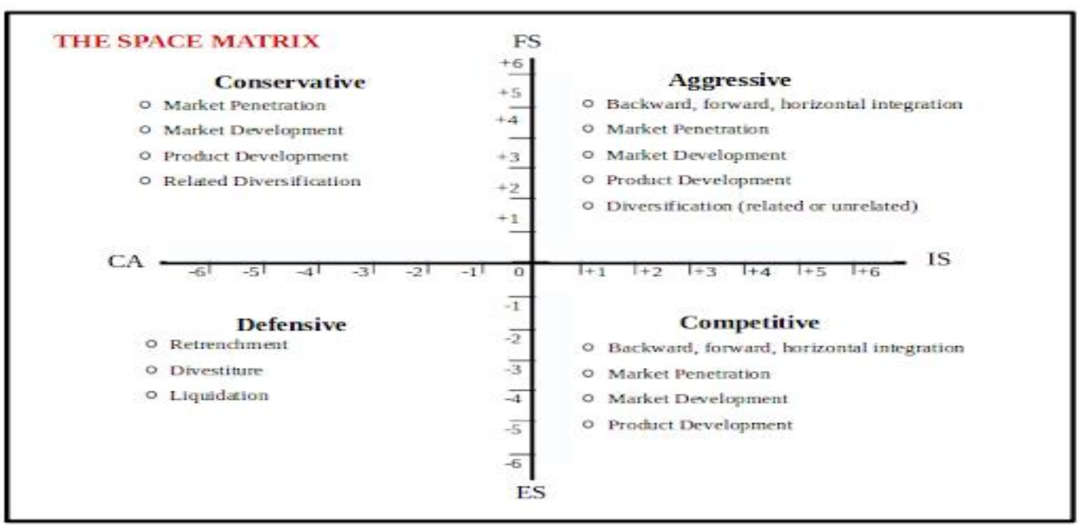
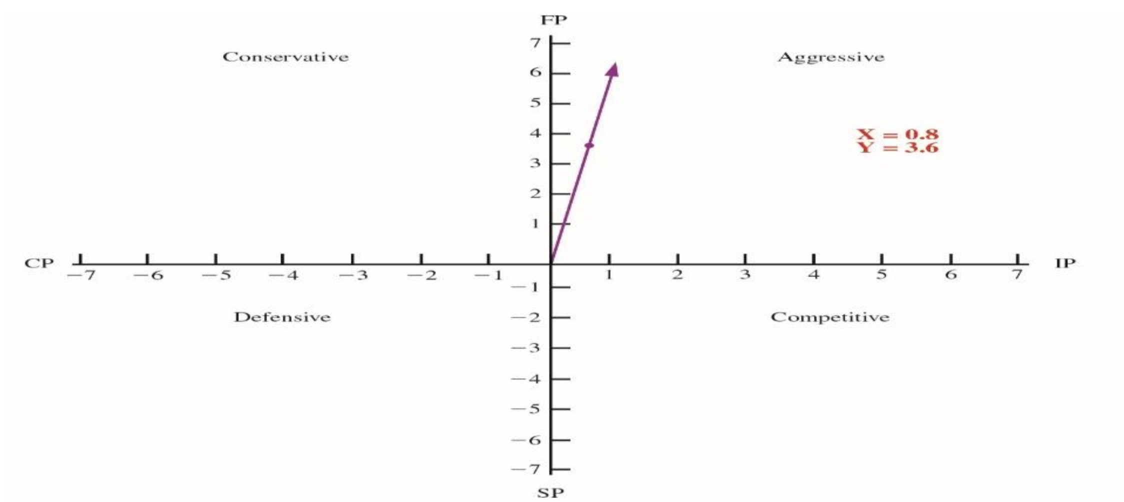


Figure 5.7.1: SPACE Matrix

- **Steps in performing SPACE Matrix:**
  - Select a set of variables to define financial position (F P), competitive position (C P), stability position (S P), and industry position (I P).
  - Assign a numerical value ranging from +1 (worst) to +7 (best) to each of the variables that make up the F P and I P dimensions.
  - Assign a numerical value ranging from −1 (best) to −7 (worst) to each of the variables that make up the S P and C P dimensions.
  - Compute an average score for F P, C P, I P, and S P.
  - Plot the average scores for F P, I P, S P, and C P on the appropriate axis.
  - Add the two scores on the *x*-axis and plot the resultant point on X. Add the two scores on the y-axis and plot the resultant point on Y. Plot the intersection of the new xy point.
  - Draw a directional vector from the origin of the S P A C E Matrix through the new intersection point.
  - This vector reveals the type of strategies recommended for the organization: aggressive, competitive, defensive, or conservative.

- Figure 5.7.2 shows example of SPACE Matrix for Facebook.



Internal Analysis: **Financial Position (FP)**		*External Analysis:* **Stability Position (SP)**	
Debt Ratio	7	Competitive Pressure	−4
Liquidity	7	Price Comparison	−2
Current Ratio	7	Product Demand	−2
EPS	7	Diversity of Social Media Interest Served	−3
ROA	4	Number of Inactive Accounts	−3
Financial Position (FP) Average	**6.4**	**Stability Position (SP) Average**	**−2.8**

Internal Analysis: **Competitive Position (CP)**		*External Analysis:* **Industry Position (IP)**	
Cash Flow	−2	Growth Potential	6
Social Networking Market Share	−1	Cyber Security Concerns	2
Professional Networking Market Share	−6	Ease of Entry into Market	2
Product Variety	−5	Profit Potential	5
Use of Technology	−2	Alternative Products	5
Competitive Position (CP) Average	**−3.2**	**Industry Position (IP) Average**	**4.0**

Figure 5.7.2: SPACE Matrix for Facebook

- **B C G Matrix**
  - Graphically portrays differences among divisions in terms of relative market share position and industry growth rate.
  - Allows a multidivisional organization to manage its portfolio of businesses by examining the relative market share position and the industry growth rate of each division relative to all other divisions in the organization.
  - Figure 5.7.3 shows the BCG Matrix.

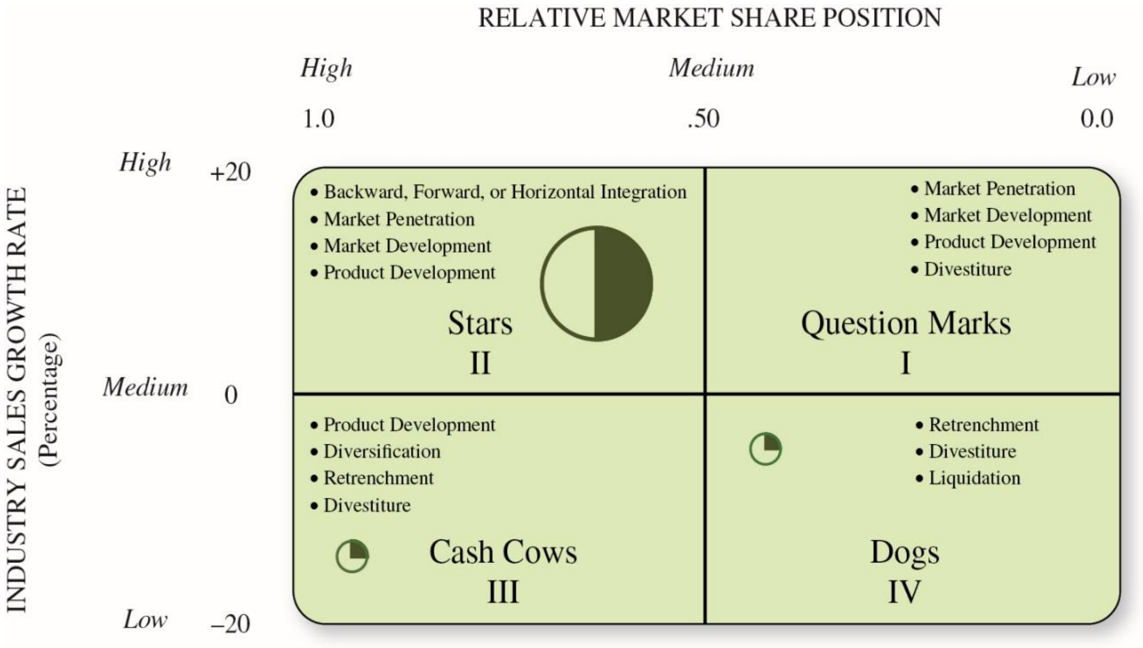


Figure 5.7.3: BCG Matrix

- **Question Marks - Quadrant I**
  - Organization must decide whether to strengthen them by pursuing an intensive strategy (market penetration, market development, or product development) or to sell them.
- **Stars - Quadrant II**
  - Represent the organization's best long-run opportunities for growth and profitability.
- **Cash Cows - Quadrant III**
  - Generate cash in excess of their needs.
  - Should be managed to maintain their strong position for as long as possible.

- **Dogs - Quadrant IV**
  - Compete in a slow- or no-market-growth industry.
  - Businesses are often liquidated, divested, or trimmed down through retrenchment.

- **Internal-External Matrix**
  - The I E Matrix is based on two key dimensions: the I F E total weighted scores on the x-axis and the E F E total weighted scores on the y-axis.
  - Figure 5.7.4 shows the IE Matrix.
  - Three Major Regions in IE Matrix:
    - Grow and build
    - Hold and maintain
    - Harvest or divest

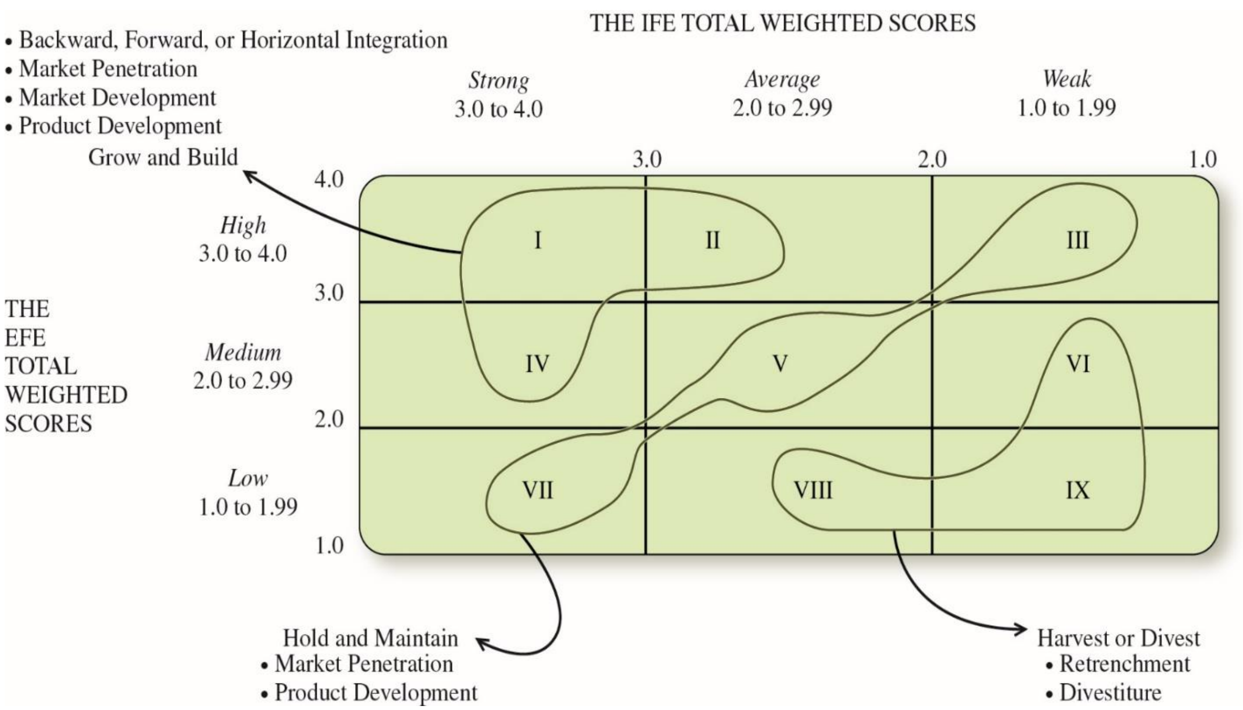


Figure 5.7.4: Internal-External Matrix

- **Grand Strategy Matrix**
  - It is based on two evaluative dimensions: competitive position and market (industry) growth.
  - Figure 5.7.5 shows the grand Strategy Matrix.
  - **Quadrant I**
    - Continued concentration on current markets (market penetration and market development) and products (product development) is an appropriate strategy.
  - **Quadrant II**
    - Unable to compete effectively.
    - Need to determine why the firm's current approach is ineffective and how the company can best change to improve its competitiveness.
  - **Quadrant III**
    - Must make some drastic changes quickly to avoid further decline and possible liquidation.
    - Extensive cost and asset reduction (retrenchment) should be pursued first.
  - **Quadrant IV**
    - Have characteristically high cash-flow levels and limited internal growth needs and often can pursue related or unrelated diversification successfully.

Figure 5.7.5: Grand Strategy Matrix

SELF CHECK 5.7
• Choose one organization and conduct SWOT analysis for that organization. • What are the benefits of SPCE matrix? • How to conduct SPACE matrix? • What is BCG Matrix? • How to perform BCG matrix? • What are the benefits of Internal-External matrix? • What is Grand Strategy Matrix?

5.8 The Decision Stage

- **Quantitative Strategic Planning Matrix (Q S P M)**
  - Objectively indicates which alternative strategies are best.
  - Uses input from Stage 1 analyses and matching results from Stage 2 analyses to decide objectively among alternative strategies.
- **Steps in QSPM:**
  - Make a list of the firm's key external opportunities and threats and internal strengths and weaknesses in the left column.
  - Assign weights to each key external and internal factor.
  - Examine the Stage 2 (matching) matrices, and identify alternative strategies that the organization should consider implementing.
  - Determine the Attractiveness Scores (A S).
  - Compute the Total Attractiveness Scores.
  - Compute the Sum Total Attractiveness Score.
- **Positive Features of QSPM:**
  - Sets of strategies can be examined sequentially or simultaneously.
  - Requires strategists to integrate pertinent external and internal factors into the decision process.

   - Can be adapted for use by small and large for-profit and nonprofit organizations.

- **Limitations of the QSPM:**

   - Always requires informed judgments.

   - It is only as good as the prerequisite information and matching analyses on which it is based.

SELF CHECK 5.8
• What is QSPM? • Explain on how to develop QSPM. • What are the benefits of using QSPM? • What are the limitations of using QSPM?

Points to Ponder/Takeaways

- Some of the alternative strategies to consider; integration, market penetration, market development, product development, diversification, retrenchment, divestiture, and liquidation.
- Two generic strategies from Michael Porter; differentiation and cost leadership.
- Three means of achieving strategies are; build, borrow or buy.
- Three stages in the strategy-formulation analytical framework; the input stage (EFE Matrix, CPM Matrix, and IFE Matrix), the matching stage (SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, Grand Strategy Matrix), and the decision stage (QSP Matrix).

References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hal

Topic 6: Implementing strategy: Building capacity and allocating resources

Implementing strategy: Building capacity and allocating resources

Learning Outcomes

Upon completion of the chapter, students should be able to:

- Explain the roles of resource allocation and managing conflict in strategy implementation.
- Discuss four strategic production/operations issues vital for strategy implementation.
- Discuss seven strategic human resource issues vital for strategy implementation.

Introduction

This chapter explains how to implement strategies in terms of effectively managing organizational structure, resistance to change, organizational culture, corporate wellness, employee and executive compensation, human resource issues, and restructuring. This chapter additionally focuses upon important marketing issues required for successful strategy implementation, including market segmentation, target marketing, and perceptual mapping/product positioning.

6.1 Resource Allocation

- **Resource Allocation**
  - Resource allocation is the process of assigning and managing assets in a manner that supports an organization's strategic goals.
  - Resource allocation includes managing tangible assets such as hardware to make the best use of softer assets such as human capital.
  - The most important aspect of resource allocation is that you're going to have everything where you need it and when you need it. After all, if you need the company accountant to help you with specific financials for your project but she's working on another task elsewhere you're not properly allocating your resources.
  - If you need a meeting room to host a big discussion but they're all booked then you also haven't properly allocated your resources.
  - That's why it's so important to get these things done as early as possible.
  - The best way you're going to be able to allocate resources is to make a plan even before you start executing a project.
  - You should be able to sit down with one or two other people to create a plan based around the project. This plan needs to be detailed enough to specify just who needs to be working on it, how much money is available to work on it and how much time is available to work

on it. From there, you can start to reach out to those individuals or reach out to the company to make sure that all of the things or people you need are going to be available.

- Once you allocate resources to your project that means those resources can't be taken away from you (or at least, they shouldn't be). That's going to make it much easier for you to accomplish the task.
- Now, in most instances, a project manager or a program manager (or both) will be involved in the process of resource allocation. They're going to make sure that everything is assigned properly and that it's getting done properly as well. It is, however, important to interact with any of the people that would be needed for the project to make sure that they can work on the tasks needed.

- **Types of Resources**
    - Financial
    - Physical
    - Human
    - Technological

- **Aspects that negatively impact resource allocation**

    - **Timeline changes**
    - One of the first things that often changes when it comes to any project is the timeline. Employees might end up with a project manager or program manager who decides they need to project done sooner (like yesterday) or employees might have a client that is suddenly in a big rush to get things done. Perhaps, one of the pieces of the puzzle took longer than expected and now everyone else needs to work faster to get their part done.
    - **Scope changes**
    - The scope of the project is another aspect that can change the resources being allocated. If the scope of the project being requested changes it is entirely possible that the people required to work on it will also change. New tasks and new needs are going to make it essential for additional tools to be used as well. This can change what you originally requested as the resources for your project and might throw off the entire project if those resources are not immediately available.
    - **Resource availability changes**
    - If organization don't have the right resources to get the job done employees also going to have some problems getting everything allocated. Maybe the people that employees need for this project just aren't available at the time you need them. If that's the case employees either need to find new people or employees going to need to rearrange the timeline of the project itself. This can make it difficult for project managers or program managers to get the job done or to ensure that someone else can get the job done.
    - **Task dependencies**
    - If there is one part of the project that needs to get done before the next part of the project can get done that means there's a dependency. But what if part A of the project takes a

week longer than it was planned? Now employees need part B to be done later and that might not be possible with the original team that you put together. Because what if the team that's responsible for part B has another project that now needs to be done?

- **Overall urgency**
- Employees have to understand what the most urgent aspects are. Do employees need to get this task done immediately? It's often the case that a project that comes in first will get pushed off to the side in favor of an entirely different project that needs to be completed. If that's the case organization may need to reallocate some of employees so they can work on the newer project or your project might lose people because manager believes the other project is more important and allocates your team to that area instead.
- **Teamwork**
- The entire team needs to be able to work together. It's not just about making sure that team can work together in small groups. The entire team, everyone who is responsible for the project, needs to be able to work together and to get the project done together. This isn't always easy, especially when organization bringing together people who may not work together frequently. If that's the case organization want to make sure that employees doing some team building and that figuring out ways to make sure everyone can get along.

SELF CHECK 6.1

- Explain resource allocation.
- Why resource allocation is important in the organization.
- Discuss types of resource allocation in the organization.
- Elaborate aspects that negatively impact resource allocation.

6.2 Strategic Human Resource Issues

- **Seven human resource issues:**
  - Linking performance and pay to strategy
  - Balancing work life with home life (work-life balance)
  - Developing a diverse work force
  - Using caution in hiring a rival's employees
  - Creating a strategy-supportive culture
  - Using caution in monitoring employees' social media
  - Developing a corporate wellness program

- **Linking performance and pay to strategy**
  - Decisions on salary increases, promotions, merit pay, and bonuses need to support the long-term and annual objectives of the firm.
  - Gain sharing and bonus systems can be used.

- **Balancing work life with home life (work-life balance)**
  - Work and family strategies now represent a competitive advantage for those firms that offer such benefits as:
    - Elder Care Assistance
    - Flexible Scheduling
    - Job Sharing
    - Adoption Benefits
    - Onsite Summer Camp
    - Employee Help Line
    - Pet Care
    - Lawn Service Referrals

- **Developing a diverse work force**
  - Six benefits of having a diverse workforce are:
    - Women and minorities have different insights, opinions, and perspectives that should be considered.
    - A diverse workforce portrays a firm committed to nondiscrimination.
    - A workforce that mirrors a customer base can help attract customers, build customer loyalty, and design/offer products/services that meet customer needs/wants.
    - A diverse workforce helps protect the firm against discrimination lawsuits.
    - Women and minorities represent a huge additional pool of qualified applicants.
    - A diverse workforce strengthens a firm's social responsibility and ethical position.

- **Creating a strategy-supportive culture**
    - Ways and Means for Altering an Organization's Culture:
    - Recruitment
    - Training
    - Transfer
    - Promotion
    - Restructuring
    - Reengineering
    - Role modeling
    - Positive reinforcement
    - Mentoring
    - Revising vision or mission
    - Redesigning physical spaces or facades
    - Altering reward system
    - Altering organizational policies, procedures, and practices

- **Monitoring social media**
    - Proponents of companies monitoring employees' social-media activities emphasize that a company's reputation in the marketplace can easily be damaged by disgruntled employees venting on social media sites.
    - Social media records can be subpoenaed, like email, and used as evidence against the company.

- **Corporate Wellness Program**
    - The Affordable Care Act increased the maximum incentives and penalties employers may use to encourage employee well-being.
    - Most companies have both: "carrots," such as giving employee discounts on insurance premiums or even extra cash, "sticks," such as imposing surcharges on premiums for those who do not make progress toward getting healthy.

SELF CHECK 6.2
• How organization manage and allocate human resource in the organization? • Discuss strategic human resource issues. • Explain the importance of strategic human resource in the organization.

6.3 Strategic Marketing Issues

- Strategic Marketing is a process of planning, developing and implementing maneuvers to obtain a competitive edge in your chosen niche.
- This process is necessary to outline and simplify a direct map of the company's objectives and how to achieve them.
- A company wanting to secure a certain share of the market, should ensure they clearly identify their mission, survey the industry situation, define specific objectives and develop, implement and evaluate a plan to guarantee they can provide their customers with the products they need, when they need them.
- Of course, the central objective of any company will be customer satisfaction so they may dominate the market and become leaders in their industry and thus providing substantial business satisfaction.
- In order to do that, three phases of marketing strategy must be perfected to create delight in their customers and beat out the competition.

- **Strategic Marketing Issues:**
    - How to make advertisements more interactive to be more effective.
    - How to take advantage of social-media conversations about the company and industry.
    - To use exclusive dealerships or multiple channels of distribution.
    - To use heavy, light, or no TV advertising versus online advertising.
    - To limit (or not) the share of business done with a single supplier or business customer.
    - To be a price leader or a price follower.
    - To offer a complete or limited warranty.
    - To extend an existing product line or create a new line of products.

Source: https://www.youtube.com/watch?v=vjpUG8bG_10

SELF CHECK 6.3

- Referring to the video attached, discuss how organization implementing strategies when it comes to marketing aspects.
- Advertisements are getting more and more lengthy, annoying, and intrusive on both television and social media platforms. On television for example, sometimes eight ads will play on a commercial break. How lengthy of a commercial break will you tolerate before switching the channel to some other program –1 minute, 3 minutes, 5 minutes, or 10 minutes? Despite the rising cost of placing an ad, could the annoyance factor offset the potential benefits of an ad? How can firms best counter this growing problem in strategy implementation?

Points to Ponder/Takeaways

- Decisions on salary increases, promotions, merit pay, and bonuses need to support the long-term and annual objectives of the firm.
- Types of Resources: Financial, Physical, Human, Technological
- Seven human resource issues: Linking performance and pay to strategy, Balancing work life with home life (work-life balance), developing a diverse work force, using caution in hiring a rival's employees, creating a strategy-supportive culture, using caution in monitoring employees' social media and developing a corporate wellness program.
- How to make advertisements more interactive to be more effective.

References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.

Topic 7: Managing strategic change

Managing strategic change

Learning Outcomes

Upon completion of the chapter, students should be able to:

- Identify types of required strategic change.
- Analyze how organizational context might affect the design of strategic change programmes.
- Identify and assess the different styles of leading and managing strategic change.

Introduction

Managing strategic change in the organization allows companies to carefully and responsibly make needed changes. It requires process of managing change in a structured, thoughtful way in order to meet organizational goals, objectives, and missions. The four key elements in managing strategic change are diagnosis, levers for change, leading and managing change, and managing change programmes.

7.1 Key Elements in Managing Strategic Change

- Change happens continually within organisations and their markets. Strategic development inevitably results in some change, which needs careful management.
- Change is either planned or unplanned.
- Planned change (or proactive change) is deliberate and intended. The entity makes the change to move from an existing situation (or way of doing things) to a new situation.
- Unplanned change (or reactive change) happens in response to developments, events and new circumstances that have arisen. The change is not intended in advance.
- Strategic change is the implementing of changes to important characteristics of a business, for instance in response to new market threats or opportunities. Upper management and the Chief Executive Officer in particular bear responsibility for this change.
- The planning and implementing of strategic change is an important aspect of the role of manager.
- Strategic change is basically having a certain strategy and then making changes to it.
- A strategy is a long-term plan to achieve certain objectives. Strategies are aimed at the future, and should be aimed at lasting change. This is necessary to stay relevant in a highly evolving market.

- Strategic change management is the process whereby the strategy is managed in a structured manner to achieve organisational objectives and missions.

- Key elements in managing strategic change:
  - Diagnosis
  - Managing change programs
  - Leading and managing change
  - Levers for change

- Key Issues in Managing Change:
  - Four key premises:
    - *Strategy matters* – in identifying the need for change and the direction of change.
    - *Context matters* – the right approach to change depends on the circumstances.
    - *Inertia and resistance* – getting people to change from existing ways of doing things is essential.
    - *Leadership matters* – good leadership of change at all levels is needed.
- Diagnosing the change context:
  - Type of change
  - Context of change
  - Forcefield analysis
- Types of strategic change:
  - Figure 7.1 shows types of strategic change. There are four types of strategic change:
    - *Adaptation* – can be accommodated with the existing culture and can occur incrementally.
    - *Reconstruction* – rapid change but without fundamentally changing the culture.
    - *Revolution* – fundamental changes in both strategy and culture.
    - *Evolution* – cultural change is required but this can be accomplished over time.

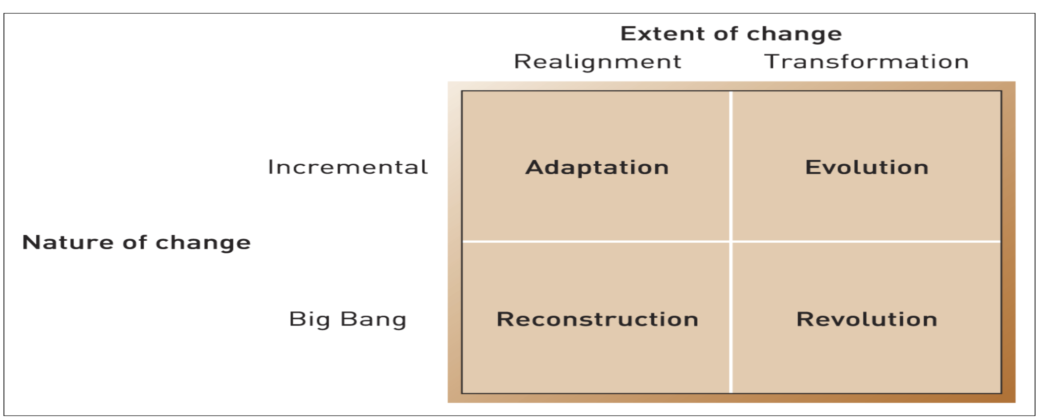


Figure 7.1: Types of Strategic Change

- The importance of context in strategic change programmes:
    - Time
    - Scope
    - Preservation
    - Diversity
    - Capability
    - Capacity
    - Readiness
    - Power

- Forcefield analysis:
    - *A forcefield analysis* provides an initial view of change problems that need to be tackled by identifying forces for and against change.
    - Various concepts and frameworks are useful here:
        - Mapping activity systems.
        - Stakeholder mapping.
        - The culture web.
        - The 7-S framework.

SELF CHECK 7.1

- What is managing strategic change?
- Discuss types of change.
- Explain key elements in strategic change.
- What are the key issues in managing change?
- What is the importance of context in strategic change programmes?
- Elaborate how forcefield analysis being conducted in the organization.

7.2 Strategic Leadership Roles

- Leadership is the process of influencing an organisation (or group within an organisation) in its efforts towards achieving an aim or goal.

- Strategic leadership is a practice in which executives, using different styles of management, develop a vision for their organization that enables it to adapt to or remain competitive in a changing economic and technological climate.

- Strategic leaders are able to use this vision to motivate employees and departments, fostering among them a sense of unity and direction in order to implement change within their organization.

- The main objectives of strategic leadership are to streamline processes, boost strategic productivity, promote innovation and cultivate an environment that encourages employees to be productive, independent and to push forward their own ideas.

- Strategic leaders sometimes make use of reward or incentive programs to encourage employees and help them reach their goals.

- Three key roles in leading strategic change:
  - Envisioning future strategy.
  - Aligning the organisation to deliver that strategy.
  - Embodying change.

- Newcomers and outsiders:
- Outsiders' can also play an important role in strategic change.
- These could include:
  - A new chief executive from outside the organisation can bring a new perspective.
  - New management from outside can also increase the diversity of ideas.
  - Consultants are used to help formulate strategy or to plan the change process.

- Styles of strategic leadership:
- Situational leadership – successful strategic leaders are able to adjust their style of leadership to the context they face.
- Two approaches in situational leadership:
  - Theory E: the pursuit of economic value; top-down; 'hard' levers of change; emphasis on changes of structures and systems, financial incentives, portfolio changes, downsizing.
  - Theory O: the development of organisational capability; emphasis on culture change, learning, participation in change programmes and experimentation.
- A combination of the two approaches may be required and can be beneficial.

Source: https://www.youtube.com/watch?v=FAoBi8WvP8Y

SELF CHECK 7.2
• Referring to the attached video, elaborate what do you understand about strategic leadership. When is the best time to use strategic leadership in the organization?

7.3 Styles of Managing Change

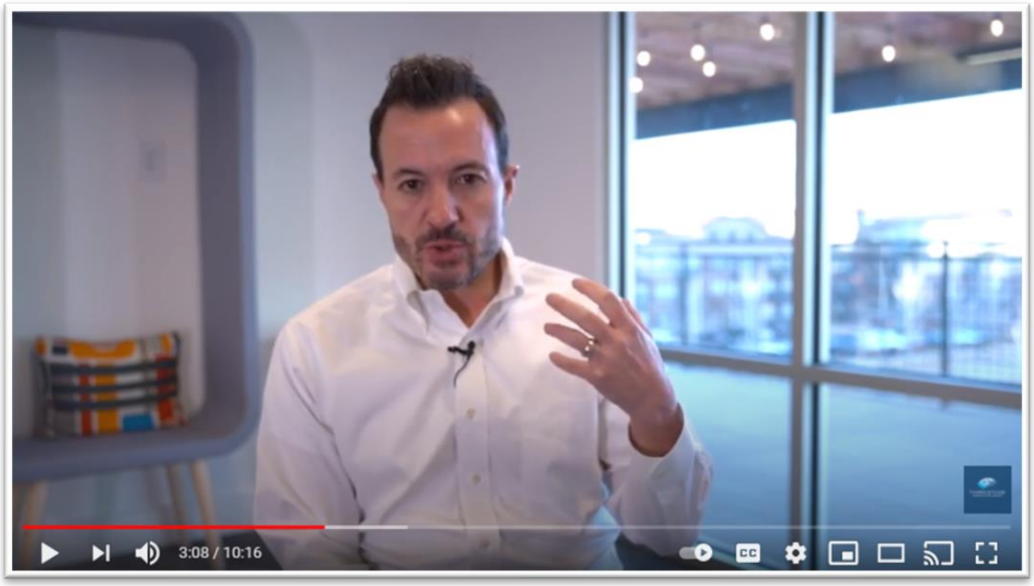
- There are five styles of managing change:
- Education and delegation
    - Small group briefings to discuss and explain things. The aim is to gain support for change by generating understanding and commitment.
    - Advantages:
        - Spreads support for change. Ensures a wide base of understanding.
    - Disadvantages:
        - Takes a long time. For radical change it may not be enough to convince people of the need for change. Easy to voice support, then do nothing.

- Collaboration
    - Widespread involvement of the employees on decisions about what and how to change.
    - Advantages:
        - Spreads not only support but ownership of change by increasing levels of involvement.
    - Disadvantages:
        - Time-consuming.
        - Little control over decisions made.
        - May lead to change within existing paradigm.

- Participation
    - Involvement of employees in how to deliver the desired changes. May include limited collaboration over aspects of 'how' to change as well as 'what' to change.
    - Advantages:
        - Spreads ownership and support of change, but within a more controlled framework. Easier to shape decisions.
    - Disadvantages:
        - Can be perceived as manipulation.

- Direction
- Change leaders make the majority of decisions about what to change and how. Use of authority to direct change.
    - Advantages:
        - Less time-consuming.
        - Provides a clear change of direction and focus.
    - Disadvantages:
        - Potentially less support and commitment, and therefore proposed changes may be resisted.

- Coercion
  - Use of power to impose change.
  - Advantages:
    - Allows for prompt action.
  - Disadvantages:
    - Unlikely to achieve buy-in without a crisis.



Source: https://www.youtube.com/watch?v=XSecHkiwj8s

SELF CHECK 7.3
• Referring to the attached video, explain how organization should deploy change management strategies effectively and efficiently.

Points to Ponder/Takeaways

- Four key elements in managing strategic change; diagnosis, levers for change, leading and manging change, and managing change programmes.
- Four types of strategic change; adaptation, reconstruction, revolution, and evolution.
- *A forcefield analysis* provides an initial view of change problems that need to be tackled by identifying forces for and against change.
- *A turnaround strategy* is where the emphasis is on speed of change and rapid cost reduction and/or revenue generation.

References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.
- Kirtley, J., O'Mahony, S. (2020). What is a pivot? Explaining when and how entrepreneurial firms decide to make strategic change and pivot. *Strategic Management Journal.* https://doi.org/10.1002/smj.3131.

Topic 8: Monitoring and reviewing the implementation process

Monitoring and reviewing the implementation process

Learning Outcomes

Upon completion of the chapter, students should be able to:

- Elaborate the strategy implementation.
- Discuss the framework of Irwin.
- Explain why strategic implementation fails.

Introduction

This chapter explain the process of strategy implementation by monitoring and reviewing the whole process. Students will analyze how the framework of Irwin can be used in the organization for strategy implementation process. In addition, this chapter will describe the reasons of why strategic implementation can be fails.

8.1 Strategy Implementation

- Strategy is but a plan of actions and unless it is implemented it is nothing. Implementation of a strategy is not that simple. It is linked to other parts of the strategy model.

- In reality, the implementation of a strategy in an organisation is done by its people who are the managers and employees.

- The senior managers may be involved in the planning and development of a strategy and provided the leadership and brought about cultural changes, while it takes the middle managers to actually implement the strategy. These middle managers can enhance or impede the implementation of the strategy.

- In large organisations it is apparent that the top people do the planning of the strategies while the implementation of the strategies is done by the middle managers. On the other hand, in small organisations, the planners of the strategies are the implementers as well and such organisations tend to be more successful in achieving their objectives.

- It is important that the top people are there to monitor the implementation of the strategies. The top people are responsible for the achievement of the organisational objectives and the provision of support and motivation to the implementers of the strategies. It is imperative that the planner and implementers of the strategy exist as a cohesive team.

- The justifications are:
  - The authority and responsibility of the top people in an organisation are above those of the middle managers.
  - The top people who are the planners have better knowledge about the strategies they have developed but this is not known to the other managers implementing them.
  - The implementers tend to implement the strategies according to what they know best like the street bureaucrats and this may divert from the requirements set by the planners.
  - Unless there is enforcement and control by the planners the implementers may not know where they have gone wrong.
  - Planners and implementers must come together because implementation is moving the strategies in the conceptual stage to an active stage.

SELF CHECK 8.1

- What is strategy implementation?
- Why strategy implementation is difficult to be deployed in the organization?
- Why top managers need to monitor the implementation of strategy?
- Who is the person responsible to plan the strategy in large and small organization?

8.2 The Framework of Irwin

- The framework of Irwin, 1995, based on two factors: the implementation of strategy and the nature of the strategy, indicates that there are four types of outcomes in strategy implementation. Figure 8.2 shows the four outcomes of strategy implementation by Irwin 91995).

		Nature of Strategy: Appropriate	Nature of Strategy: Inappropriate
Implementation of strategy	Good	Success Target met and company successful	Rebuild/Ruin Good implementation & management time to rebuild but may hasten failure
	Bad	Trouble Poor implementation hampers strategy	Failure Everything has gone wrong

Figure 8.2: Four Outcomes of Strategy Implementation

- An appropriate strategy that is implemented well enables the company to meet its goals.
- However, if an appropriate strategy prevails to achieve the company's goals but it is poorly implemented then the success of the company is in trouble.
- On the other hand, an inappropriate strategy will still result in failure even there is good implementation, if the strategy is not changed in time.
- When there is bad implementation and where the strategy is inappropriate, the goals of the company cannot be achieved at all.

- What are needed for a successful strategy implementation?
  - An organisation needs to have:
  - an appropriate organisational configuration,
  - an organisational integration of the resources, and competencies and
  - an adaptive culture for strategies to be successfully implemented.

- Organisational Configuration
  - An organisational configuration is about the structure, processes and relationships of an organisation. Its *structure, processes* and *relationships* must be well coordinated and integrated for the successful implementation of the strategy. Processes and relationships are built over time and eventually constitute the life of an organisation i.e. the culture of the organisation. This gives rise to the concept that strategy, structure and culture must fit. A shift in a strategy can lead to a change in structure and culture. This interlink of the three aspects (structure, processes and relationships) constitutes the organisational configuration.

- Organisational Structure
  - An organisational structure refers to the way an organisation is designed in terms of its people in different positions and locations with their different roles and responsibilities and their lines of reporting. The structural design must be appropriate to implement the strategy i.e. there is strategy-structure fit. The structure of an organisation can be simple or complex depending on its level of strategy i.e. business level or corporate level. At the cost leadership strategy or differentiation strategy then a simple structure for control with restricted flexibility is required. If an organisation is at the corporate level, then it may be looking for knowledge and flexibility, a complex structure such as that of a matrix structure or transnational structure may be more appropriate.

- However, a good structure alone is still not good enough to bring about the implementation of the strategy. It also needs to have the necessary organisational *processes* and *relationships* of the people to successfully implement the strategy.

- Organisational processes refer to the activities of the people in a SBU and those in other SBUs in the organisation to be well coordinated and integrated to implement the strategy and to achieve the organisational goals. These processes are related to the operations of the organisation and as such they need to be controlled to ensure that they bring about the implementation of the strategy to a successful conclusion. The controlling of the processes fundamentally deals with the input, the production process and output of the organisation. On the implicit aspect it brings about the development of the required culture and norms for the behaviour of the people in the organisation. An appropriate culture is necessary to enable the organisation to face complex and dynamic environments. In such situation, a collaborative culture is needed to foster sharing of expert knowledge to generate innovative solutions to problems encountered in the operation processes.

- Organisational relationships refer to the ways people in and outside the organisation interact with each other, between departments or other organisation units necessary for the successful implementation of the strategy. This is to ensure that there is integration of the knowledge and activities of different parts of the organisation and with other organisations within the value chain. It also concerns about the delegation of decision making from the top management to the units and managers lower down in the hierarchy i.e. the process of devolution. This enables knowledge to be dispersed throughout the organisation and responsiveness to the changing needs such as of different customer segments (markets) to become possible and to become responsive to environmental changes. Organisational relationships become important when it comes to corporate parenting such as adding values to the constituent business units. An organisation also has relationships with its supplies, customers, subcontractors and partners.

- Configuration Dilemmas:
  - Organising the structure, processes and relationships to fit with each other in an organisation to meet strategic challenges is actually setting up the configuration of an organisation (as is seen in the organisation chart). It is not easy to achieve perfect fits across the three dimensions of the configuration. Sometimes, it involves some degree of compromising where there are trade-offs between the dimensions.
  - The common dilemmas:
    - Hierarchies are necessary to ensure control and action but they can sit uneasily with networks that foster knowledge exchange and innovation.

    - Vertical accountability promotes maximum performance by subordinates but can lead managers to maximize their own self-interest at the expense of horizontal relationships.
    - Empowerment of employees lower down the organisation gives scope for initiative but over the long term can lead to incoherence.
    - Centralization might be needed for standardization, but this can at the cost of initiative and flexibility fostered by devolution.
    - Having the best practice on a particular element of the organisation for instance financial control, may actually be damaging if it does not fit with the needs of the organisation as a whole.

- Ways to manage dilemmas by managers:
    - By subdividing the organisation so that the one part of the organisation is organised optimally according to one side of these dilemmas, while the rest responds to the other.
    - By combining different organising principles at the same time, for instance networks and traditional hierarchies. Managing simultaneously according to contradictory principles is obviously very demanding E.g. ABB and Unilever have "networked multidivisional", combining network principles emphasizing horizontal integration with divisional structures ensuring vertical accountability.
    - By reorganising frequently so that no one side of the dilemmas can become too entrenched. The rate of major reorganisation for large UK companies increased from once every four years to once every three years in the last decade. In this way organisations are like pendulums, constantly swaying between centralization and devolution, e.g. without resting long on one side or another.

SELF CHECK 8.2

- Discuss the four outcomes of strategy implementation based on the framework of Irwin.
- What are needed for a successful strategy implementation?
- Describe organisational configuration.
- Discuss how organizational structure, processes and relationships are interrelated.
- Elaborate the configuration dilemmas that might happen based on the interrelatedness between organizational structure, processes and relationships.

8.3 Why Strategic Implementation Fails

- Alexander (1985) and Al-Ghamdi (1998) suggest ten reasons why strategic implementation may fail:
    - Implementation required more time than planned.
    - Major problems were not anticipated.
    - Activities were inadequately coordinated.
    - Crisis elsewhere in the company directed attention away from implementation.
    - Problem arose due to uncontrollable external factors.
    - Managers did not provide adequate leadership and direction.
    - Employees were not capable enough.
    - Employees received inadequate training.
    - Implementation tasks were not properly defined.
    - Information system was not adequate.

- Poor Organisational design can create problems:
    - Inadequate understanding of responsibility and accountability among managers and employees.
    - Reward systems that fail to motivate individuals toward common objectives.
    - Poor or inappropriate budgeting and control systems.
    - Inappropriate or insufficient mechanisms to integrate or coordinate activities across the firm.

- Configuration Dilemmas
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- Resources
    - Difficulty in Integrating Resources – organisations must be able to integrate resources and competencies across resource areas to support current strategies to develop new strategies. Capability in separate resource areas is not enough.
    - Lacking of adequate and hard-to-imitate resources to contribute to sustainable CA. This could be due to the inability to develop and change competencies to provide the essential bridge between the constraints of current resources and the revolutionary changes.
    - The organisation is able to integrate its resources and activities to gain CA e.g. not able to bring new products to the market faster than the competitors. (Activities refer to R &D, manufacturing and marketing not being integrated and coordinated to bring new products to the market quickly and efficiently.)

- Culture
    - Some overall lessons on the management of change programmes in terms of cultural changes:
        - Programme overload.
        - Hijacked processes – well-meaning change efforts can be hijacked by others for different purposes. E.g. introducing computerised telephone systems to improve customer service became a vehicle to reduce the number of personnel dealing with customer enquiries.
        - Reinvention – an attempted change might be interpreted according to the old culture.
        - Disconnectedness – people affected by change may not see the change programme connecting to their reality.
        - Behavioural compliance – people just comply with the change without understanding the real reason for the change.

Source: https://www.youtube.com/watch?v=MQFfCloeAA0

SELF CHECK 8.3

- Referring to the video attached, elaborate the critical success factors in the strategy development and implementation.

Points to Ponder/Takeaways

- Strategy is but a plan of actions and unless it is implemented it is nothing. Implementation of a strategy is not that simple. It is linked to other parts of the strategy model.
- The framework of Irwin, 1995, based on two factors: the implementation of strategy and the nature of the strategy, indicates that there are four types of outcomes in strategy implementation.
- Ten reasons why strategic implementation may fail:
  - Implementation required more time than planned.
  - Major problems were not anticipated.
  - Activities were inadequately coordinated.
  - Crisis elsewhere in the company directed attention away from implementation.
  - Problem arose due to uncontrollable external factors.
  - Managers did not provide adequate leadership and direction.
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References

- David, F. R. (2020). *Strategic Management: Concepts and Cases*. USA, Person Prentice Hall.