THE MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
Ternopil Ivan Puluj National Technical University

The department of management
in manufacturing sphere

Strategic Management
Text and Cases

Ternopil– 2017

Kotovs'ka I. V. The course of lectures and practical cases on discipline "Strategic Management" for the 4th year students of the specialty 6.030601 "Management" (full-time study bachelors). – Ternopil: TNTU, 2017. – 166 p.

Made by: Ph.D. Kotovs'ka Iryna
Reviewer: Ph.D. Haluschak Olga

The course of lectures and practical cases on discipline "Strategic Management" have been discussed and approved at the meeting of the department of management in manufacturing sphere of the Ternopil Ivan Pul'uj National Technical University on ______, 2017, minutes № .

The course of lectures and practical cases on discipline "Strategic Management" have been discussed and approved at the meeting of the methodical committee of the faculty of Economics and Management of the Ternopil Ivan Pul'uj National Technical University on _______, 2017, minutes №   .

CONTENTS

COURSE DESCRIPTION AND OBJECTIVES:

The business world today is considerably different and more complex than it was in the previous years. Both the challenges and opportunities facing organizations of all sizes today are greater than ever. Organizations are required to continuously find better ways to compete in the rapidly changing global business environment. Survival and competition have become imperative for organizations in the current global scenario. In this context, the course develops the strategic thinking and decision making abilities of students, especially in relation to understanding the employability of various strategies in different situations.

Strategic management is about running the total business enterprise. It seeks to understand the challenges and the environment in which the business operates, the direction the management intends to head, the strategic plans to for getting the enterprise moving in the intended direction and the tasks of implementing the chosen strategy successfully. **This course aims** to equip you with the core concepts, frameworks, and techniques of strategic management, which will allow you to understand what managers must do to make an organization – be it a for-profit or a non-profit one – to achieve superior performance.

Main tasks:

- to acquaint the students with meaning, features, stages of strategic management, types of strategic management models and techniques;
- to help students to develop an EFE Matrix and a Competitive Profile Matrix;
- to provide students with a guideline to develop a SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and QSPM;
- to provide students with guidance on how to develop, implement, assess the company's strategy;
- to provide students with guidance on the correct formulation of the mission and vision of the enterprise;
- to provide students with guidance identifying the main stages of development

LECTURE 1

The Nature of Strategic Management

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Describe the strategic-management process.
2. Explain the need for integrating analysis and intuition in strategic management.
3. Define and give examples of key terms in strategic management.
4. Discuss the nature of strategy formulation, implementation, and evaluation activities.
5. Describe the benefits of good strategic management.
6. Discuss how a firm may achieve sustained competitive advantage

What Is Strategic Management?

Once there were two company presidents who competed in the same industry. These two presidents decided to go on a camping trip to discuss a possible merger. They hiked deep into the woods. Suddenly, they came upon a grizzly bear that rose up on its hind legs and snarled. Instantly, the first president took off his knapsack and got out a pair of jogging shoes. The second president said, “Hey, you can’t outrun that bear.” The first president responded, “Maybe I can’t outrun that bear, but I surely can outrun you!” This story captures the notion of strategic management, which is to achieve and maintain competitive advantage.

Defining Strategic Management

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success. The term strategic management in this text is used synonymously with the term strategic planning. The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; long-range planning, in contrast, tries to optimize for tomorrow the trends of today.

Stages of Strategic Management

The strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation. Strategy formulation includes developing a vision and mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover.

Interpersonal skills are especially critical for successful strategy implementation. Strategy-implementation activities affect all employees and managers in an organization. Every division and department must decide on answers to questions, such as “What must we do to implement our part of the organization’s strategy?” and “How best can we get the job done?” The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.

Peter Drucker says the prime task of strategic management is thinking through the overall mission of a business:

... that is, of asking the question, “What is our business?” This leads to the setting of objectives, the development of strategies, and the making of today’s decisions for tomorrow’s results. This clearly must be done by a part of the organization that can see the entire business; that can balance objectives and the needs of today against the needs of tomorrow; and that can allocate resources of men and money to key results.

Integrating Intuition and Analysis

Edward Deming once said, “In God we trust. All others bring data.” The strategic- management process can be described as an objective, logical, systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Yet strategic management is not a pure science that lends itself to a nice, neat, one-two-three approach.

Based on past experiences, judgment, and feelings, most people recognize that intuition is essential to making good strategic decisions. Intuition is particularly useful for making decisions in situations of great uncertainty or little precedent. It is also helpful when highly interrelated variables exist or when it is necessary to choose from several plausible alternatives. Some managers and owners of businesses profess to have extraordinary abilities for using intuition alone in devising brilliant strategies.

In a sense, the strategic-management process is an attempt both to duplicate what goes on in the mind of a brilliant, intuitive person who knows the business and to couple it with analysis.

Adapting to Change

The strategic-management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically as evidenced how the global economic recession has caught so many firms by surprise. Firms, like organisms, must be "adept at adapting" or they will not survive.

To survive, all organizations must astutely identify and adapt to change. The strategic- management process is aimed at allowing organizations to adapt effectively to change over the long run. As Waterman has noted:

In today's business environment, more than in any preceding era, the only constant is change. Successful organizations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, and cultures to survive the shocks and prosper from the forces that decimate the competition.8

Key Terms in Strategic Management

Before we further discuss strategic management, we should define nine key terms: competitive advantage, strategists, vision and mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

Competitive Advantage

Strategic management is all about gaining and maintaining competitive advantage. This term can be defined as "anything that a firm does especially well compared to rival firms." When a firm can do something that rival firms cannot do, or owns something that rival firms desire, that can represent a competitive advantage. For example, in a global economic recession, simply having ample cash on the firm's balance sheet can provide a major competitive advantage. Some cash-rich firms are buying distressed rivals. For example, BHP Billiton, the world's largest miner, is seeking to buy rival firms in Australia and South America. Freeport-McMoRan Copper & Gold Inc. also desires to expand its portfolio by acquiring distressed rival companies. French drug company SanofiAventis SA also is acquiring distressed rival firms to boost its drug development and diversification. Cash-rich Johnson & Johnson in the United States also is acquiring distressed rival firms. This can be an excellent strategy in a global economic recession.

The Internet has changed the way we organize our lives; inhabit our homes; and relate to and interact with family, friends, neighbors, and even ourselves. The Internet promotes endless comparison shopping, which thus enables consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals. Buyers used to face big obstacles when attempting to get the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendor offerings. Both the number of people shopping online and the average amount they spend is increasing dramatically. Digital communication has become the name of the game in marketing. Consumers today are flocking to blogs, short-post forums such as Twitter, video sites such as YouTube, and social networking sites such as Facebook, MySpace, and LinkedIn instead of television, radio, newspapers, and magazines. Facebook and MySpace recently unveiled features that further marry these social sites to the wider Internet. Users on these social sites now can log on to many business shopping sites with their IDs from their social site so their friends can see what items they have purchased on various shopping sites. Both of these social sites want their members to use their IDs to manage all their online identities. Most traditional retailers have learned that their online sales can boost in-store sales as they utilize their Web sites to promote in-store promotions.

Strategists

Strategists are the individuals who are most responsible for the success or failure of an organization. Strategists have various job titles, such as chief executive officer, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur.

Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist). In the last five years, the position of chief strategy officer (CSO) has emerged as a new addition to the top management ranks of many organizations, including Sun Microsystems, Network Associates, Clarus, Lante, Marimba, Sapient, Commerce One, BBDO, Cadbury Schweppes, General Motors, Ellie Mae, Cendant, Charles Schwab, Tyco, Campbell Soup, Morgan Stanley, and Reed-Elsevier. This new corporate officer title represents recognition of the growing importance of strategic planning in the business world.

Vision and Mission Statements

Many organizations today develop a vision statement that answers the question "What do we want to become?" Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. For example, the vision statement of Stokes Eye Clinic in Florence, South Carolina, is "Our vision is to take care of your vision."

Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms." It addresses the basic question that faces all strategists: "What is our business?" A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization. A mission statement is a constant reminder to its employees of why the organization exists and what the founders envisioned when they put their fame and fortune at risk to breathe life into their dreams.

External Opportunities and Threats

External opportunities and external threats refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future. Opportunities and threats are largely beyond the control of a single organization—thus the word external. In a global economic recession, a few opportunities and threats that face many firms are listed here:

- Availability of capital can no longer be taken for granted.
- Consumers expect green operations and products.
- Marketing has moving rapidly to the Internet.
- Consumers must see value in all that they consume.
- Global markets offer the highest growth in revenues.
- As the price of oil has collapsed, oil rich countries are focused on supporting their own economies, rather than seeking out investments in other countries.
- Too much debt can crush even the best firms.
- Layoffs are rampant among many firms as revenues and profits fall and credit sources dry up.
- The housing market is depressed.
- Dramatic slowdowns in consumer spending are apparent in virtually all sectors, except some discount retailers and restaurants.
- Unemployment rates continue to rise to 10 percent on average.

- Borrowers are faced with much bigger collateral requirements than in years past.
- Equity lines of credit often now are not being extended.
- Firms that have cash or access to credit have a competitive advantage over debt-laden firms.
- The double whammy of falling demand and intense price competition is plaguing most firms, especially those with high fixed costs.
- The business world has moved from a credit-based economy to a cash-based economy.
- There is reduced capital spending in response to reduced consumer spending.

The types of changes mentioned above are creating a different type of consumer and consequently a need for different types of products, services, and strategies. Many companies in many industries face the severe external threat of online sales capturing increasing market share in their industry.

Other opportunities and threats may include the passage of a law, the introduction of a new product by a competitor, a national catastrophe, or the declining value of the dollar. A competitor's strength could be a threat. Unrest in the Middle East, rising energy costs, or the war against terrorism could represent an opportunity or a threat.

A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and to avoid or reduce the impact of external threats. For this reason, identifying, monitoring, and evaluating external opportunities and threats are essential for success. This process of conducting research and gathering and assimilating external information is sometimes called environmental scanning or industry analysis. Lobbying is one activity that some organizations utilize to influence external opportunities and threats.

Internal Strengths and Weaknesses

Internal strengths and internal weaknesses are an organization's controllable activities that are performed especially well or poorly. They arise in the management, marketing, finance/accounting, production/operations, research and development, and management information systems activities of a business. Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic- management activity. Organizations strive to pursue strategies that capitalize on internal strengths and eliminate internal weaknesses.

Internal factors can be determined in a number of ways, including computing ratios, measuring performance, and comparing to past periods and industry averages. Various types of surveys also can be developed and administered to examine internal factors such as employee morale, production efficiency, advertising effectiveness, and customer loyalty.

Long-Term Objectives

Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. Long-term means more than one year. Objectives are essential for organizational success because they state direction; aid in evaluation; create synergy; reveal priorities; focus coordination; and provide a basis for effective planning, organizing, motivating, and controlling activities. Objectives should be challenging, measurable, consistent, reasonable, and clear. In a multidimensional firm, objectives should be established for the overall company and for each division.

Internal factors can be determined in a number of ways, including computing ratios, measuring performance, and comparing to past periods and industry averages. Various types of surveys also can be developed and administered to examine internal factors such as employee morale, production efficiency, advertising effectiveness, and customer loyalty.

Strategies

Strategies are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures. Strategies currently being pursued by some companies are described in Table 1.1.

Table 1.1

Sample Strategies in Action in 2009

Best Buy
As soon as Best Buy Company became victorious over longtime archrival Circuit City Stores, Best Buy ran head on into a much larger, formidable competitor: Wal-Mart Stores. Based in Richfield, Minnesota, and having 3,900 stores worldwide, Best Buy reported a 20 percent decline in March 2009 earnings as its new rival Wal-Mart gained thousands of the old Circuit City customers. But Best Buy now meets Wal-Mart's prices on electronics items and provides great one-on-one customer service with its blue-shirted employees. Best Buy remains well ahead of Wal-Mart in U.S. electronics sales, but Wal-Mart is gaining strength.
Levi Strauss
San Francisco-based Levi Strauss added 30 new stores and acquired 72 others during the second quarter of 2009. Known worldwide for its jeans, Levi Strauss is expanding and entrenching worldwide while other retailers are faltering in the ailing economy. For that quarter, Levi's revenues in the Americas were up 8 percent to $518 million, although its Europe and Asia/Pacific revenues declined 17 percent and 13 percent respectively. Levi's CEO John Anderson says slim fit and skinny jeans are selling best; and the two most popular colors today are very dark and the distressed look.
New York Times Company
New York Times Company's CEO, Janet Robinson, says her company is selling off assets and investing heavily in Internet technology in order to convince advertisers that the newspaper is getting ahead of technological changes rapidly eroding the newspaper business. Ms. Robinson is considering plans to begin charging customers for access to the newspaper's online content, because online advertising revenues are not sufficient to support the business. The 160-year-old New York Times Company's advertising revenues fell 30 percent in the second quarter of 2009.

Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both the external and internal factors facing the firm.

Annual Objectives

Annual objectives are short-term milestones that organizations must achieve to reach longterm objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. They should be established at the corporate, divisional, and functional levels in a large organization. Annual objectives should be stated in terms of management, marketing, finance/accounting, production/operations, research and development, and management information systems (MIS) accomplishments. A set of annual objectives is needed for each long-term objective. Annual objectives are especially important in strategy implementation, whereas long-term objectives are particularly important in strategy formulation. Annual objectives represent the basis for allocating resources.

Policies

Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations.

Policies are most often stated in terms of management, marketing, finance/accounting, production/operations, research and development, and computer information systems activities. Policies can be established at the corporate level and apply to an entire organization at the divisional level and apply to a single division, or at the functional level and apply to particular operational activities or departments. Policies, like annual objectives, are especially important in strategy implementation because they outline an organization's expectations of its employees and managers. Policies allow consistency and coordination within and between organizational departments.

The Strategic-Management Model

The strategic-management process can best be studied and applied using a model. Every model represents some kind of process. The framework illustrated in Figure 1.1 is a widely accepted, comprehensive model of the strategic-management process. This model does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic-management process are shown in the model, which appears in all subsequent chapters with appropriate areas shaped to show the particular focus of each chapter. These are three important questions to answer in developing a strategic plan:

Where are we now?

Where do we want to go?

How are we going to get there?

Identifying an organization's existing vision, mission, objectives, and strategies is the logical starting point for strategic management because a firm's present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organization has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been!

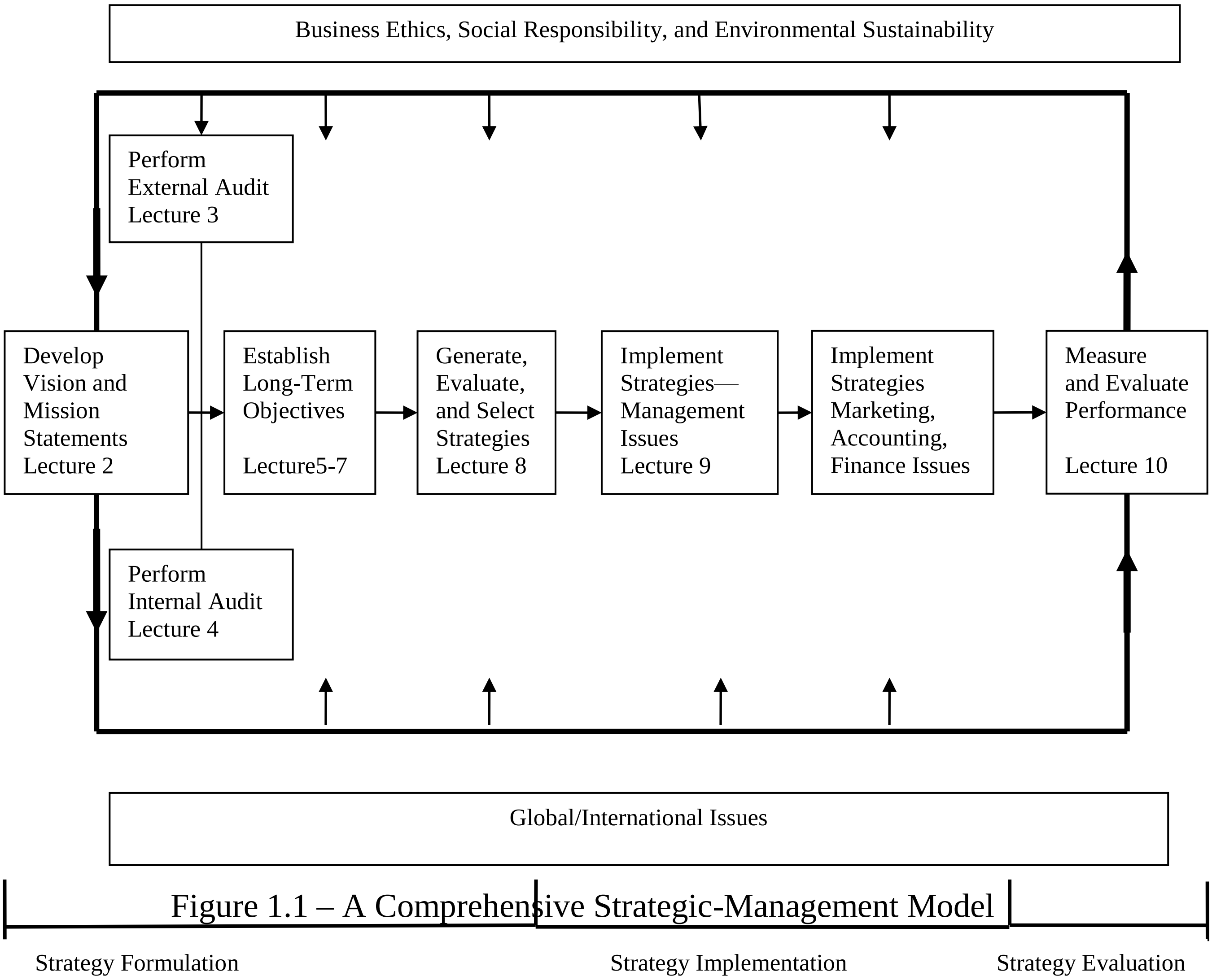


Figure 1.1 – A Comprehensive Strategic-Management Model

The strategic-management process is not as cleanly divided and neatly performed in practice as the strategic-management model suggests. Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organization. Many organizations semiannually conduct formal meetings to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. These meetings are commonly held off-premises and are called retreats. The rationale for periodically conducting strategic-management meetings away from the work site is to encourage more creativity and candor from participants. Good communication and feedback are needed throughout the strategic-management process.

Benefits of Strategic Management

Strategic management allows an organization to be more proactive than reactive in shaping its own future; it allows an organization to initiate and influence (rather than just respond to) activities—and thus to exert control over its own destiny. Small business owners, chief executive officers, presidents, and managers of many for-profit and nonprofit organizations have recognized and realized the benefits of strategic management.

Historically, the principal benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach to strategic choice. This certainly continues to be a major benefit of strategic management, but research studies now indicate that the process, rather than the decision or document, is the more important contribution of strategic management. Communication is a key to successful strategic management. Through involvement in the process, in other words, through dialogue and participation, managers and employees become committed to supporting the organization. Figure 1.2 illustrates this intrinsic benefit of a firm engaging in strategic planning. Note that all firms need all employees on a mission to help the firm succeed.

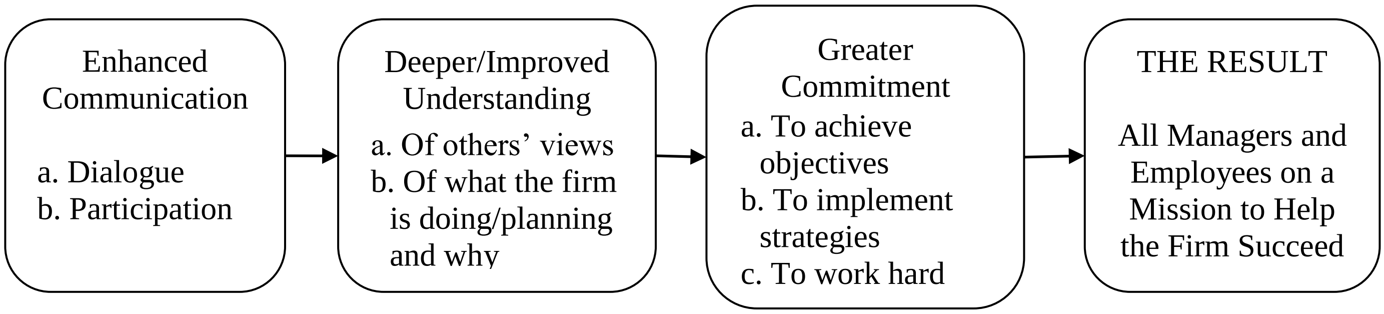


Figure 1.2 – Benefits to a Firm That Does Strategic Planning

The manner in which strategic management is carried out is thus exceptionally important. A major aim of the process is to achieve the understanding of and commitment from all managers and employees. Understanding may be the most important benefit of strategic management, followed by commitment. When managers and employees understand what the organization is doing and why, they often feel they are a part of the firm and become committed to assisting it. This is especially true when employees also understand linkages between their own compensation and organizational performance. Managers and employees become surprisingly creative and innovative when they understand and support the firm's mission, objectives, and strategies. A great benefit of strategic management, then, is the opportunity that the process provides to empower individuals. Empowerment is the act of strengthening employees' sense of effectiveness by encouraging them to participate in decision making and to exercise initiative and imagination, and rewarding them for doing so.

Although making good strategic decisions is the major responsibility of an organization's owner or chief executive officer, both managers and employees must also be involved in strategy formulation, implementation, and evaluation activities. Participation is a key to gaining commitment for needed changes.

An increasing number of corporations and institutions are using strategic management to make effective decisions. But strategic management is not a guarantee for success; it can be dysfunctional if conducted haphazardly.

Financial Benefits

Research indicates that organizations using strategic-management concepts are more profitable and successful than those that do not. Businesses using strategic-management concepts show significant improvement in sales, profitability, and productivity compared to firms without systematic planning activities. High-performing firms tend to do systematic planning to prepare for future fluctuations in their external and internal environments. Firms with planning systems more closely resembling strategic-management theory generally exhibit superior long-term financial performance relative to their industry.

Nonfinancial Benefits

Besides helping firms avoid financial demise, strategic management offers other tangible benefits, such as an enhanced awareness of external threats, an improved understanding of competitors' strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships. Strategic management enhances the problem-prevention capabilities of organizations because it promotes interaction among managers at all divisional and functional levels. Firms that have nurtured their managers and employees, shared organizational objectives with them, empowered them to help improve the product or service, and recognized their contributions can turn to them for help in a pinch because of this interaction.

Greenley stated that strategic management offers the following benefits:

1. It allows for identification, prioritization, and exploitation of opportunities.
2. It provides an objective view of management problems.
3. It represents a framework for improved coordination and control of activities.
4. It minimizes the effects of adverse conditions and changes.
5. It allows major decisions to better support established objectives.

6. It allows more effective allocation of time and resources to identified opportunities.

7. It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.

13. It encourages a favorable attitude toward change.

14. It gives a degree of discipline and formality to the management of a business.

Why Some Firms Do No Strategic Planning

Some firms do not engage in strategic planning, and some firms do strategic planning but receive no support from managers and employees. Some reasons for poor or no strategic planning are as follows:

- Lack of knowledge or experience in strategic planning—No training in strategic planning.
- Poor reward structures—When an organization assumes success, it often fails to reward success. When failure occurs, then the firm may punish.
- Firefighting—An organization can be so deeply embroiled in resolving crises and firefighting that it reserves no time for planning.
- Waste of time—Some firms see planning as a waste of time because no marketable product is produced. Time spent on planning is an investment.
- Too expensive—Some organizations see planning as too expensive in time and money.
- Laziness—People may not want to put forth the effort needed to formulate a plan.
- Content with success—Particularly if a firm is successful, individuals may feel there is no need to plan because things are fine as they stand. But success today does not guarantee success tomorrow.
- Prior bad experience—People may have had a previous bad experience with planning, that is, cases in which plans have been long, cumbersome, impractical, or inflexible. Planning, like anything else, can be done badly.

- Self-interest—When someone has achieved status, privilege, or self-esteem through effectively using an old system, he or she often sees a new plan as a threat.
- Fear of the unknown—People may be uncertain of their abilities to learn new skills, of their aptitude with new systems, or of their ability to take on new roles.
- Honest difference of opinion—People may sincerely believe the plan is wrong.

They may view the situation from a different viewpoint, or they may have aspirations for themselves or the organization that are different from the plan. Different people in different jobs have different perceptions of a situation.

- Suspicion—Employees may not trust management.

Pitfalls in Strategic Planning

Strategic planning is an involved, intricate, and complex process that takes an organization into uncharted territory. It does not provide a ready-to-use prescription for success; instead, it takes the organization through a journey and offers a framework for addressing questions and solving problems. Being aware of potential pitfalls and being prepared to address them is essential to success.

Some pitfalls to watch for and avoid in strategic planning are these:

- Using strategic planning to gain control over decisions and resources
- Doing strategic planning only to satisfy accreditation or regulatory requirements
- Too hastily moving from mission development to strategy formulation
- Failing to communicate the plan to employees, who continue working in the dark
- Top managers making many intuitive decisions that conflict with the formal plan
- Top managers not actively supporting the strategic-planning process
- Failing to use plans as a standard for measuring performance
- Delegating planning to a “planner” rather than involving all managers

- Being so formal in planning that flexibility and creativity are stifled20

Guidelines for Effective Strategic Management

Failing to follow certain guidelines in conducting strategic management can foster criticisms of the process and create problems for the organization. Issues such as “Is strategic management in our firm a people process or a paper process?” should be addressed.

R. T. Lenz offered some important guidelines for effective strategic management:

Keep the strategic-management process as simple and nonroutine as possible. Eliminate jargon and arcane planning language. Remember, strategic management is a process for fostering learning and action, not merely a formal system for control.

To avoid routinized behavior, vary assignments, team membership, meeting formats, and the planning calendar. The process should not be totally predictable, and settings must be changed to stimulate creativity. Emphasize word-oriented plans with numbers as back-up material. If managers cannot express their strategy in a paragraph or so, they either do not have one or do not understand it. Stimulate thinking and action that challenge the assumptions underlying current corporate strategy. Welcome bad news. If strategy is not working, managers desperately need to know it. Further, no pertinent information should be classified as inadmissible merely because it cannot be quantified. Build a corporate culture in which the role of strategic management and its essential purposes are understood. Do not permit “technicians” to co-opt the process. It is ultimately a process for learning and action. Speak of it in these terms. Attend to psychological, social, and political dimensions, as well as the information infrastructure and administrative procedures supporting it.

Strategic decisions require trade-offs such as long-range versus short-range considerations or maximizing profits versus increasing shareholders’ wealth. There are ethics issues too. Strategy trade-offs require subjective judgments and preferences. In many cases, a lack of objectivity in formulating strategy results in a loss of competitive posture and profitability. Most organizations today recognize that strategic-management concepts and techniques can enhance the effectiveness of decisions. Subjective factors such as attitudes toward risk, concern for social responsibility, and organizational culture will always affect strategy-formulation decisions, but organizations need to be as objective as possible in considering qualitative factors. Table 1.3 summarizes important guidelines for the strategic-planning process to be effective.

Table 1.3

Seventeen Guidelines for the Strategic-Planning Process to Be Effective

1. It should be a people process more than a paper process.
2.It should be a learning process for all managers and employees.
3.It should be words supported by numbers rather than numbers supported by words.
4.It should be simple and nonroutine.
5.It should vary assignments, team memberships, meeting formats, and even the planning calendar.
6.It should challenge the assumptions underlying the current corporate strategy.
7.It should welcome bad news.
8.It should welcome open-mindness and a spirit of inquiry and learning.
9.It should not be a bureaucratic mechanism.
10.It should not become ritualistic, stilted, or orchestrated.
11.It should not be too formal, predictable, or rigid.
12.It should not contain jargon or arcane planning language.
13.It should not be a formal system for control.
14.It should not disregard qualitative information.
15.It should not be controlled by “technicians.”
16.Do not pursue too many strategies at once.
17.Continually strengthen the “good ethics is good business” policy.

LECTURE 2
The Business Vision and Mission

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Describe the nature and role of vision and mission statements in strategic management.
2. Discuss why the process of developing a mission statement is as important as the resulting document.
3. Identify the components of mission statements.
4. Discuss how clear vision and mission statements can benefit other strategic-management activities.
5. Evaluate mission statements of different organizations.
6. Write good vision and mission statements.

What Do We Want to Become?

It is especially important for managers and executives in any organization to agree on the basic vision that the firm strives to achieve in the long term. A vision statement should answer the basic question, "What do we want to become?" A clear vision provides the foundation for developing a comprehensive mission statement. Many organizations have both a vision and mission statement, but the vision statement should be established first and foremost. The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement. Several example vision statements are provided in Table 2-1.

Table 2.1

Vision Statement Examples

Tyson Foods' vision is to be the world's first choice for protein solutions while maximizing shareholder value. (Author comment: Good statement, unless Tyson provides nonprotein products)
General Motors' vision is to be the world leader in transportation products and related services. (Author comment: Good statement) PepsiCo's responsibility is to continually improve all aspects of the world in which we operate—environment, social, economic— creating a better tomorrow than today. (Author comment: Statement is too vague; it should reveal beverage and food business) Dell's vision is to create a company culture where environmental excellence is second nature. (Author comment: Statement is too vague; it should reveal computer business in some manner; the word environmental is generally used to refer to natural environment so is unclear in its use here)
The vision of First Reliance Bank is to be recognized as the largest and most profitable bank in South Carolina. (Author comment: This is a very small new bank headquartered in Florence, South Carolina, so this goal is not achievable in five years; the statement is too futuristic)
Samsonite's vision is to provide innovative solutions for the traveling world. (Author comment: Statement needs to be more specific, perhaps mention luggage; statement

as is could refer to air carriers or cruise lines, which is not good)
Royal Caribbean's vision is to empower and enable our employees to deliver the best vacation experience for our guests, thereby generating superior returns for our shareholders and enhancing the well-being of our communities. (Author comment: Statement is good but could end after the word "guests")
Procter & Gamble's vision is to be, and be recognized as, the best consumer products company in the world. (Author comment: Statement is too vague and readability is not that good)

What Is Our Business?

Current thought on mission statements is based largely on guidelines set forth in the mid-1970s by Peter Drucker, who is often called "the father of modern management" for his pioneering studies at General Motors Corporation and for his 22 books and hundreds of articles. Harvard Business Review has called Drucker "the preeminent management thinker of our time."Drucker says that asking the question "What is our business?" is synonymous with asking the question "What is our mission?" An enduring statement of purpose that distinguishes one organization from other similar enterprises, the mission statement is a declaration of an organization's "reason for being." It answers the pivotal question "What is our business?" A clear mission statement is essential for effectively establishing objectives and formulating strategies.

Sometimes called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, a statement of business principles, or a statement "defining our business," a mission statement reveals what an organization wants to be and whom it wants to serve. All organizations have a reason for being, even if strategists have not consciously transformed this reason into writing. As illustrated in Figure 2.1, carefully prepared statements of vision and mission are widely recognized by both practitioners and academicians as the first step in strategic management.

Some example mission statements are provided in Table 2.2. Drucker has the following to say about mission statements:

A business mission is the foundation for priorities, strategies, plans, and work assignments. It is the starting point for the design of managerial jobs and, above all, for the design of managerial structures. Nothing may seem simpler or more obvious than to know what a company's business is. A steel mill makes steel, a railroad runs trains to carry freight and passengers, an insurance company underwrites fire risks, and a bank lends

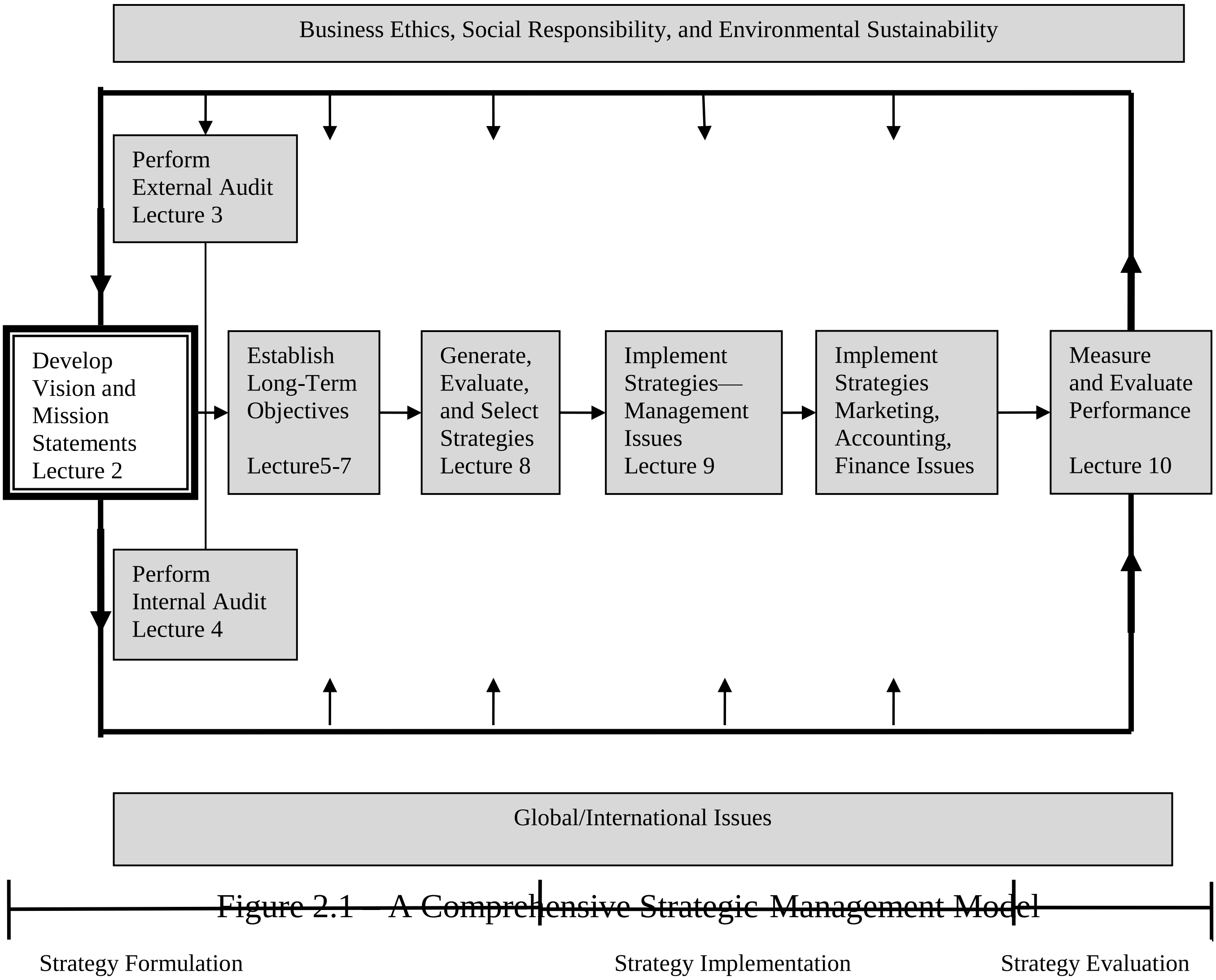


Figure 2.1 — A Comprehensive Strategic Management Model

money. Actually, "What is our business?" is almost always a difficult question and the right answer is usually anything but obvious. The answer to this question is the first responsibility of strategists. Only strategists can make sure that this question receives the

Some strategists spend almost every moment of every day on administrative and tactical concerns, and strategists who rush quickly to establish objectives and implement strategies often overlook the development of a vision and mission statement. This problem is widespread even among large organizations.

Some companies develop mission statements simply because they feel it is fashionable, rather than out of any real commitment. However, firms that develop and systematically revisit their vision and mission statements, treat them as living documents, and consider them to be an integral part of the firm's culture realize great benefits. Johnson & Johnson (J&J) is an example firm. J&J managers meet regularly with employees to review, reword, and reaffirm the firm's vision and mission. The entire J&J workforce recognizes the value that top management places on this exercise, and these employees respond accordingly.

Vision versus Mission

Many organizations develop both a mission statement and a vision statement. Whereas the mission statement answers the question "What is our business?" the vision statement answers the question "What do we want to become?" Many organizations have both a mission and vision statement.

It can be argued that profit, not mission or vision, is the primary corporate motivator. But profit alone is not enough to motivate people.4 Profit is perceived negatively by some employees in companies. Employees may see profit as something that they earn and management then uses and even gives away to shareholders. Although this perception is undesired and disturbing to management, it clearly indicates that both profit and vision are needed to motivate a workforce effectively.

When employees and managers together shape or fashion the vision and mission statements for a firm, the resultant documents can reflect the personal visions that managers and employees have in their hearts and minds about their own futures. Shared vision creates a commonality of interests that can lift workers out of the monotony of daily work and put them into a new world of opportunity and challenge.

The Process of Developing Vision and Mission Statements

As indicated in the strategic-management model, clear vision and mission statements are needed before alternative strategies can be formulated and implemented. As many managers as possible should be involved in the process of developing these statements because through involvement, people become committed to an organization.

During the process of developing vision and mission statements, some organizations use discussion groups of managers to develop and modify existing statements. Some organizations hire an outside consultant or facilitator to manage the process and help draft the language. Sometimes an outside person with expertise in developing such statements, who has unbiased views, can manage the process more effectively than an internal group or committee of managers. Decisions on how best to communicate the vision and mission to all managers, employees, and external constituencies of an organization are needed when the documents are in final form. Some organizations even develop a videotape to explain the statements, and how they were developed.

Importance (Benefits) of Vision and Mission Statements

The importance (benefits) of vision and mission statements to effective strategic management is well documented in the literature, although research results are mixed. Rarick and Vitton found that firms with a formalized mission statement have twice the average return on shareholders' equity than those firms without a formalized mission statement have; Bart and Baetz found a positive relationship between mission statements and organizational performance; BusinessWeek reports that firms using mission statements have a 30 percent higher return on certain financial measures than those without such statements; however, some studies have found that having a mission statement does not directly contribute positively to financial performance. The extent of manager and employee involvement in developing vision and mission statements can make a difference in business success. In actual practice, wide variations exist in the nature, composition, and use of both vision and mission statements. King and Cleland recommend that organizations carefully develop a written mission statement in order to reap the following benefits:

To ensure unanimity of purpose within the organization

To provide a basis, or standard, for allocating organizational resources

To establish a general tone or organizational climate

To serve as a focal point for individuals to identify with the organization's purpose and direction, and to deter those who cannot from participating further in the organization's activities

To facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organization

To specify organizational purposes and then to translate these purposes into objectives in such a way that cost, time, and performance parameters can be assessed and controlled.

Reuben Mark, former CEO of Colgate, maintains that a clear mission increasingly must make sense internationally. Mark's thoughts on vision are as follows:

A Resolution of Divergent Views

Another benefit of developing a comprehensive mission statement is that divergent views among managers can be revealed and resolved through the process. The question "What is our business?" can create controversy. Raising the question often reveals differences among strategists in the organization. Individuals who have worked together for a long time and who think they know each other suddenly may realize that they are in fundamental disagreement. For example, in a college or university, divergent views regarding the relative importance of teaching, research, and service often are expressed during the mission statement development process. Negotiation, compromise, and eventual agreement on important issues are needed before people can focus on more specific strategy formulation activities.

Too often, strategists develop vision and business mission statements only when the organization is in trouble. Of course, it is needed then. Developing and communicating a clear mission during troubled times indeed may have spectacular results and even may reverse decline. However, to wait until an organization is in trouble to develop a vision and mission statement is a gamble that characterizes irresponsible management. According to Drucker, the most important time to ask seriously, "What do we want to become?" and "What is our business?" is when a company has been successful:

Success always obsoletes the very behavior that achieved it, always creates new realities, and always creates new and different problems. Only the fairy tale story ends, "They lived happily ever after." It is never popular to argue with success or to rock the boat. The ancient Greeks knew that the penalty of success can be severe. The management that does not ask "What is our mission?" when the company is successful is, in effect, smug, lazy, and arrogant. It will not be long before success will turn into failure. Sooner or later, even the most successful answer to the question "What is our business?" becomes obsolete.

In multidivisional organizations, strategists should ensure that divisional units perform strategic-management tasks, including the development of a statement of vision and mission. Each division should involve its own managers and employees in developing a vision and mission statement that is consistent with and supportive of the corporate mission.

They provide managers with a unity of direction that transcends individual, parochial, and transitory needs. They promote a sense of shared expectations among all levels and generations of employees. They consolidate values over time and across individuals and interest groups. They project a sense of worth and intent that can be identified and assimilated by company outsiders. Finally, they affirm the company's commitment to responsible action, which is symbiotic with its need to preserve and protect the essential claims of insiders for sustained survival, growth, and profitability of the firm.

Characteristics of a Mission Statement

A Declaration of Attitude

A mission statement is more than a statement of specific details; it is a declaration of attitude and outlook. It usually is broad in scope for at least two major reasons. First, a good mission statement allows for the generation and consideration of a range of feasible alternative objectives and strategies without unduly stifling management creativity. Excess specificity would limit the potential of creative growth for the organization. However, an overly general statement that does not exclude any strategy alternatives could be dysfunctional. Apple Computer's mission statement, for example, should not open the possibility for diversification into pesticides—or Ford Motor Company's into food processing.

The fine balance between specificity and generality is difficult to achieve, but it is well worth the effort. George Steiner offers the following insight on the need for a mission statement to be broad in scope:

Most business statements of mission are expressed at high levels of abstraction. Vagueness nevertheless has its virtues. 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. Precision might stifle creativity in the formulation of an acceptable mission or purpose. Once an aim is cast in concrete, it creates a rigidity in an organization and resists change. Vagueness leaves room for other managers to fill in the details, perhaps even to modify general patterns. Vagueness permits more flexibility in adapting to changing environments and internal operations. It facilitates flexibility in implementation.

As indicated in Table 2.3, in addition to being broad in scope, an effective mission statement should not be too lengthy; recommended length is less than 250 words. An effective mission statement should arouse positive feelings and emotions about an organization; it should be inspiring in the sense that it motivates readers to action. A mission statement should be enduring. All of these are desired characteristics of a statement. An effective mission statement generates the impression that a firm is successful, has direction, and is worthy of time, support, and investment—from all socioeconomic groups of people.

Table 2.3

Ten Benefits of Having a Clear Mission and Vision

1. Achieve clarity of purpose among all managers and employees.
2. Provide a basis for all other strategic planning activities, including the internal and external assessment, establishing objectives, developing strategies, choosing among alternative strategies, devising policies, establishing organizational structure, allocating resources, and evaluating performance.
3. Provide direction.
4. Provide a focal point for all stakeholders of the firm.
5. Resolve divergent views among managers.
6. Promote a sense of shared expectations among all managers and employees.
7. Project a sense of worth and intent to all stakeholders.
8. Project an organized, motivated organization worthy of support.
9. Achieve higher organizational performance.
10. Achieve synergy among all managers and employees.

It reflects judgments about future growth directions and strategies that are based on forward-looking external and internal analyses. A business mission should provide useful criteria for selecting among alternative strategies. A clear mission statement provides a basis for generating and screening strategic options. The statement of mission should be dynamic in orientation, allowing judgments about the most promising growth directions and those considered less promising.

A Customer Orientation

A good mission statement describes an organization's purpose, customers, products or services, markets, philosophy, and basic technology. According to Vern McGinnis, a mission statement should (1) define what the organization is and what the organization aspires to be, (2) be limited enough to exclude some ventures and broad enough to allow for creative growth, (3) distinguish a given organization from all others, (4) serve as a framework for evaluating both current and prospective activities, and (5) be stated in terms sufficiently clear to be widely understood throughout the organization.

A good mission statement reflects the anticipations of customers. Rather than developing a product and then trying to find a market, the operating philosophy of organizations should be to identify customers' needs and then provide a product or service to fulfill those needs.

The following utility statements are relevant in developing a 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 CDs. 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.

A major reason for developing a business mission statement is to attract customers who give meaning to an organization. Hotel customers today want to use the Internet, so more and more hotels are providing Internet service. A classic description of the purpose of a business reveals the relative importance of customers in a statement of mission:

Mission Statement Components

Mission statements can and do vary in length, content, format, and specificity. Most practitioners and academicians of strategic management feel that an effective statement should include nine components. Because a mission statement is often the most visible and public part of the strategic-management process, it is important that it includes the nine characteristics as summarized in Table 2.4, as well as the following nine components:

Table 2.4

The nine characteristics of successfull mission statement

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?
Concern for 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?
Self-concept—What is the firm's distinctive competence or major competitive advantage?
Concern for public image—Is the firm responsive to social, community, and environmental concerns?
Concern for employees—Are employees a valuable asset of the firm?

Excerpts from the mission statements of different organizations are provided in Table 2.5 to exemplify the nine essential mission statement components.

Table 2.5

Characteristics of a Mission Statement

Broad in scope; do not include monetary amounts, numbers, percentages, ratios, or objectives
Less than 250 words in length
Inspiring
Identify the utility of a firm's products
Reveal that the firm is socially responsible
Reveal that the firm is environmentally responsible
Include 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

Writing and Evaluating Mission Statements

Perhaps the best way to develop a skill for writing and evaluating mission statements is to study actual company missions. Therefore, the mission statements presented on pages 23-25 are evaluated based on the nine desired components. Note earlier in Table 2.2 that numbers provided in each statement reveal what components are included in the respective documents. Among the statements in Table 2.2, note that the Dell mission statement is the best because it lacks only one component, whereas the L'Oreal statement is the worst, lacking six of the nine recommended components.

There is no one best mission statement for a particular organization, so good judgment is required in evaluating mission statements. Realize that some individuals are more demanding than others in assessing mission statements in this manner. For example, if a statement merely includes the word "customers" without specifying who the customers are, is that satisfactory? Ideally a statement would provide more than simply inclusion of a single word such as "products" or "employees" regarding a respective component. Why? Because the statement should be informative, inspiring, enduring, and serve to motivate stakeholders to action. Evaluation of a mission statement regarding inclusion of the nine components is just the beginning of the process to assess a statement's overall effectiveness.

LECTURE 3
The External Assessment

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Describe how to conduct an external strategic-management audit.
2. Discuss 10 major external forces that affect organizations: economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive.
3. Describe key sources of external information, including the Internet.
4. Discuss important forecasting tools used in strategic management.
5. Discuss the importance of monitoring external trends and events.
6. Explain how to develop an EFE Matrix.
7. Explain how to develop a Competitive Profile Matrix.
8. Discuss the importance of gathering competitive intelligence.
9. Describe the trend toward cooperation among competitors.
10. Discuss market commonality and resource similarity in relation to competitive analysis.

The purpose of an external audit is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term finite suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it 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. Figure 3.1 illustrates how the external audit fits into the strategic-management process.

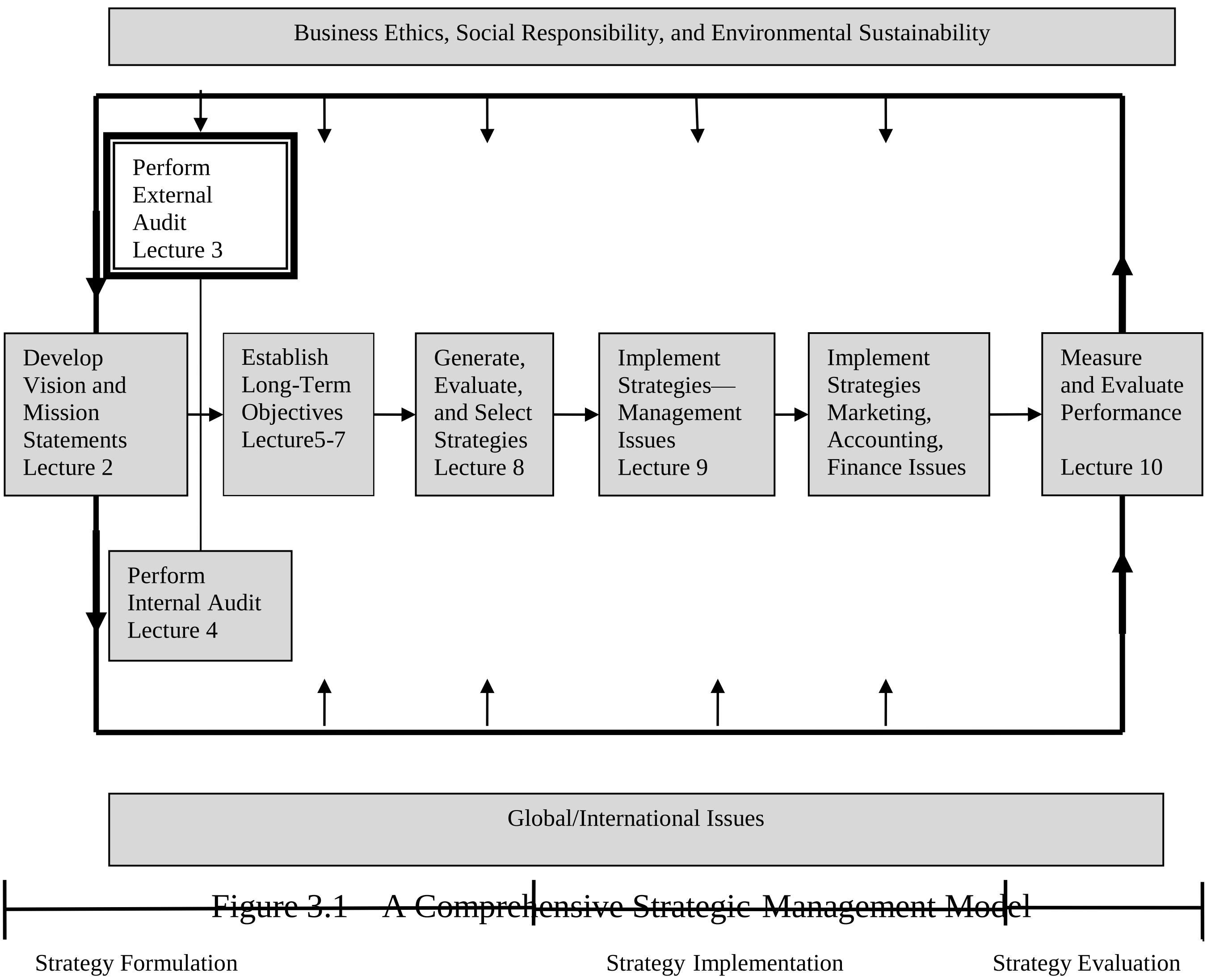


Figure 3.1 A Comprehensive Strategic Management Model

Key External Forces

External forces can be divided into five broad categories: (1) economic forces; (2) social, cultural, demographic, and natural environment forces; (3) political, governmental, and legal forces; (4) technological forces; and (5) competitive forces. Relationships among these forces and an organization are depicted in Figure 3.2. External trends and events, such as the global economic recession, significantly affect products, services, markets, and organizations worldwide.

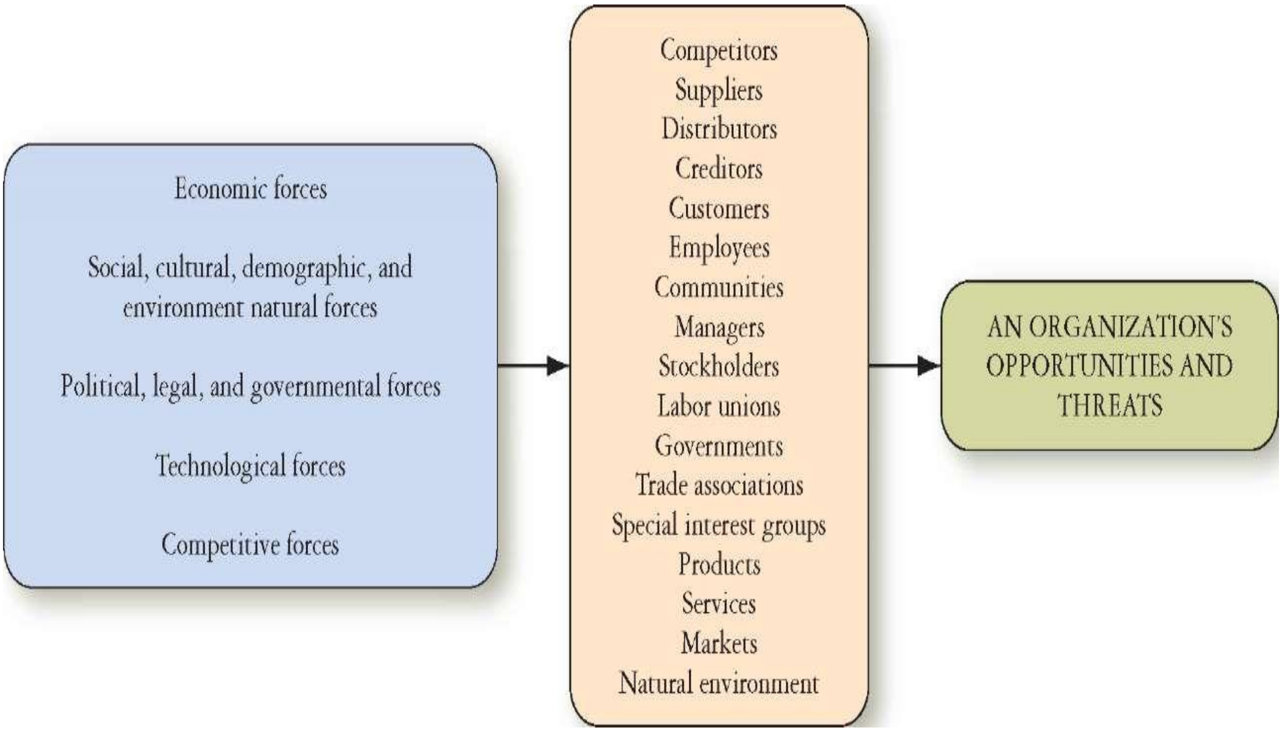


Figure 3.2 – Relationships Between Key External Forces and an Organization

Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The Process of Performing an External Audit

The process of performing an external audit must involve as many managers and employees as possible. As emphasized in earlier chapters, involvement in the strategic-management process can lead to understanding and commitment from organizational members. Individuals appreciate having the opportunity to contribute ideas and to gain a better understanding of their firms' industry, competitors, and markets.

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit. This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information. Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm. These key external factors should be listed on flip charts or a chalkboard. Freund emphasized that these key external factors should be (1) important to achieving long-term and annual objectives, (2) measurable, (3) applicable to all competing firms, and (4) hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas. A final list of the most important key external factors should be communicated and distributed widely in the organization. Both opportunities and threats can be key external factors.

Sources of External Information

A wealth of strategic information is available to organizations from both published and unpublished sources. 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. The Internet has made it easier for firms to gather, assimilate, and evaluate information.

Forecasting Tools and Techniques

Forecasts are educated assumptions about future trends and events. Forecasting is a complex activity because of factors such as technological innovation, cultural changes, new products, improved services, stronger competitors, shifts in government priorities, changing social values, unstable economic conditions, and unforeseen events. Managers often must rely on published forecasts to effectively identify key external opportunities and threats.

A sense of the future permeates all action and underlies every decision a person makes. People eat expecting to be satisfied and nourished in the future. People sleep assuming that in the future they will feel rested. They invest energy, money, and time because they believe their efforts will be rewarded in the future. They build highways assuming that automobiles and trucks will need them in the future. Parents educate children on the basis of forecasts that they will need certain skills, attitudes, and knowledge when they grow up. Sometimes organizations must develop their own projections. Most organizations forecast (project) their own revenues and profits annually. Organizations sometimes forecast market share or customer loyalty in local areas. Because forecasting is so important in strategic management and because the ability to forecast (in contrast to the ability to use a forecast) is essential, selected forecasting tools are examined further here.

Forecasting tools can be broadly categorized into two groups: quantitative techniques and qualitative techniques. Quantitative forecasts are most appropriate when historical data are available and when the relationships among key variables are expected to remain the same in the future. Linear regression, for example, is based on the assumption that the future will be just like the past—which, of course, it never is. As historical relationships become less stable, quantitative forecasts become less accurate.

No forecast is perfect, and some forecasts are even wildly inaccurate. This fact accents the need for strategists to devote sufficient time and effort to study the underlying bases for published forecasts and to develop internal forecasts of their own. Key external opportunities and threats can be effectively identified only through good forecasts. Accurate forecasts can provide major competitive advantages for organizations. Forecasts are vital to the strategic-management process and to the success of organizations.

Making Assumptions

Planning would be impossible without assumptions. McConkey defines assumptions as the "best present estimates of the impact of major external factors, over which the manager has little if any control, but which may exert a significant impact on performance or the ability to achieve desired results." Strategists are faced with countless variables and imponderables that can be neither controlled nor predicted with 100 percent accuracy.

By identifying future occurrences that could have a major effect on the firm and by making reasonable assumptions about those factors, strategists can carry the strategic- management process forward. Assumptions are needed only for future trends and events that are most likely to have a significant effect on the company's business. Based on the best information at the time, assumptions serve as checkpoints on the validity of strategies. If future occurrences deviate significantly from assumptions, strategists know that corrective actions may be needed. Without reasonable assumptions, the strategy- formulation process could not proceed effectively. Firms that have the best information generally make the most accurate assumptions, which can lead to major competitive advantages.

Industry Analysis: The External Factor Evaluation (EFE) Matrix

An External Factor Evaluation (EFE) Matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Illustrated in Table 3.1, the EFE Matrix can be developed in five steps:

An example of an EFE Matrix is provided in Table 3.2 for a local ten-theatre cinema complex. Note that the most important factor to being successful in this business is "Trend toward healthy eating eroding concession sales" as indicated by the 0.12 weight. Also note that the local cinema is doing excellent in regard to handling two factors, "TDB University is expanding 6 percent annually" and "Trend toward healthy eating eroding concession sales." Perhaps the cinema is placing flyers on campus and also adding yogurt and healthy drinks to its concession menu. Note that you may have a 1, 2, 3, or 4 anywhere down the Rating column. Note also that the factors are stated in quantitative terms to the extent possible, rather than being stated in vague terms. Quantify the factors as much as possible in constructing an EFE Matrix. Finally, note that the total weighted score of 2.58 is above the average (midpoint) of 2.5, so this cinema business is doing pretty well, taking advantage of the external opportunities and avoiding the threats facing the firm. There is definitely room for improvement, though, because the highest total weighted score would be 4.0. As indicated by ratings of 1, this business needs to capitalize more on the "two new neighborhoods nearby" opportunity and the "movies rented from Time Warner" threat. Note also that there are many percentage-based factors among the group. Be quantitative to the extent possible! Note also that the ratings range from 1 to 4 on both the opportunities and threats.

Table 3.2

EFE Matrix for a Local Ten-Theatre Cinema Complex

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Rowan County is growing 8% annually in population	0.05	3	0.15
2. TDB University is expanding 6% annually	0.08	4	0.32
3. Major competitor across town recently ceased operations	0.08	3	0.24
4. Demand for going to cinema growing 10% annually	0.07	2	0.14
5. Two new neighborhoods being developed within 3 miles	0.09	1	0.09
6. Disposable income among citizens grew 5% in prior year	0.06	3	0.18

7. Unemployment rate in county declined to 3.1%	0.03	2	0.06
Threats			
8. Trend toward healthy eating eroding concession sales	0.12	4	0.48
9. Demand for online movies and DVDs growing 10% annually	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 theatre	0.04	3	0.12
12. County and city property taxes increasing 25% this year	0.08	2	0.16
13. Local religious groups object to R-rated movies being shown	0.04	3	0.12
14. Movies rented from local Blockbuster store 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

The Competitive Profile Matrix (CPM)

The Competitive Profile Matrix (CPM) identifies a firm's major competitors and its particular strengths and weaknesses in relation to a sample firm's strategic position. The weights and total weighted scores in both a CPM and an EFE have the same meaning. However, critical success factors in a CPM include both internal and external issues; therefore, the ratings refer to strengths and weaknesses, where 4 = major strength, 3 = minor strength, 2 = minor weakness, and 1 = major weakness. The critical success factors in a CPM are not grouped into opportunities and threats as they are in an EFE. In a CPM, the ratings and total weighted scores for rival firms can be compared to the sample firm. This comparative analysis provides important internal strategic information.

A sample Competitive Profile Matrix is provided in Table 3.3. In this example, the two most important factors to being successful in the industry are "advertising" and "global expansion," as indicated by weights of 0.20. If there were no weight column in this analysis, note that each factor then would be equally important. Thus, having a weight column makes for a more robust analysis, because it enables the analyst to assign higher and lower numbers to capture perceived or actual levels of importance. Note in Table 3.3 that Company 1 is strongest on "product quality," as indicated by a rating of 4, whereas Company 2 is strongest on "advertising." Overall, Company 1 is strongest, as indicated by the total weighted score of 3.15.

Another Competitive Profile Matrix is provided in Table 3.4. Note that Company 2 has the best product quality and management experience; Company 3 has the best market share and inventory system; and Company 1 has the best price as indicated by the ratings. Avoid assigning duplicate ratings on any row in a CPM.

Table 3.3

An Example Competitive Profile Matrix

		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
Product Quality	0.10	4	0.40	3	0.30	2	0.20
Price Competitiveness	0.10	3	0.30	2	0.20	4	0.40
Management	0.10	4	0.40	3	0.20	3	0.30
Financial Position	0.15	4	0.60	2	0.30	3	0.45
Customer Loyalty	0.10	4	0.40	3	0.30	2	0.20
Global Expansion	0.20	4	0.80	1	0.20	2	0.40
Market Share	0.05	1	0.05	4	0.20	3	0.15
Total	1.OO		3.15		2.50		2.70

Note: (1) The ratings values are as follows: 1 = major weakness, 2 = minor weakness, 3 = minor strength, 4 = major strength.

(2) As indicated by the total weighted score of 2.50, Competitor 2 is weakest. (3) Only eight critical success factors are included for simplicity; this is too few in actuality.

LECTURE 4
The Internal Assessment

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Describe how to perform an internal strategic-management audit.
2. Discuss the Resource-Based View (RBV) in strategic management.
3. Discuss key interrelationships among the functional areas of business.
4. Identify the basic functions or activities that make up management, marketing, finance/accounting, production/ operations, research and development, and management information systems.
5. Explain how to determine and prioritize a firm's internal strengths and weaknesses.
6. Explain the importance of financial ratio analysis.
7. Discuss the nature and role of management information systems in strategic management.
8. Develop an Internal Factor Evaluation (IFE) Matrix.
9. Explain benchmarking as a strategic management tool.

The Nature of an Internal Audit

All organizations have strengths and weaknesses in the functional areas of business. No enterprise is equally strong or weak in all areas. Maytag, for example, is known for excellent production and product design, whereas Procter & Gamble is known for superb marketing. Internal strengths/weaknesses, coupled with external opportunities/threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalizing upon internal strengths and overcoming weaknesses.

Key Internal Forces

It is not possible in a strategic-management text to review in depth all the material presented in courses such as marketing, finance, accounting, management, management information systems, and production/operations; there are many subareas within these functions, such as customer service, warranties, advertising, packaging, and pricing under marketing.

A firm's strengths that cannot be easily matched or imitated by competitors are called distinctive competencies. Building competitive advantages involves taking advantage of distinctive competencies. Strategies are designed in part to improve on a firm's weaknesses, turning them into strengths—and maybe even into distinctive competencies.

Figure 4.1 illustrates that all firms should continually strive to improve on their weaknesses, turning them into strengths, and ultimately developing distinctive competencies that can provide the firm with competitive advantages over rival firms.

The Process of Performing an Internal Audit

The process of performing an internal audit closely parallels the process of performing an external audit. Representative managers and employees from throughout the firm need to be involved in determining a firm's strengths and weaknesses. The internal audit requires gathering and assimilating information about the firm's management, marketing, finance/accounting, production/operations, research and development (R&D), and management information systems operations.

Key factors should be prioritized as described in Chapter 3 so that the firm's most important strengths and weaknesses can be determined collectively.

Compared to the external audit, the process of performing an internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization. This is a great benefit because managers and employees perform better when they understand how their work affects other areas and activities of the firm. For example, when marketing and manufacturing managers jointly discuss issues related to internal strengths and weaknesses, they gain a better appreciation of the issues, problems, concerns, and needs of all the functional areas. In organizations that do not use strategic management, marketing, finance, and manufacturing managers often do not interact with each other in significant ways. Performing an internal audit thus is an excellent vehicle or forum for improving the process of communication in the organization. Communication may be the most important word in management.

Weaknesses	=>	Strengths	=>	Distinctive Competencies	=>	Competitive Advantage

Figure 4.1 – The Process of Gaining Competitive Advantage in a Firm

Performing an internal audit requires gathering, assimilating, and evaluating information about the firm's operations.

Strategic management is a highly interactive process that requires effective coordination among management, marketing, finance/accounting, production/operations, R&D, and management information systems managers. Although the strategic-management process is overseen by strategists, success requires that managers and employees from all functional areas work together to provide ideas and information. Financial managers, for example, may need to restrict the number of feasible options available to operations managers, or R&D managers may develop products for which marketing managers need to set higher objectives. A key to organizational success is effective coordination and understanding among managers from all functional business areas. Ansoff explained:

During the first fifty years, successful firms focused their energies on optimizing the performance of one of the principal functions: production/operations, R&D, or marketing. Today, due to the growing complexity and dynamism of the environment, success increasingly depends on a judicious combination of several functional influences. This transition from a single function focus to a multifunction focus is essential for successful strategic management.

Financial ratio analysis exemplifies the complexity of relationships among the functional areas of business. A declining return on investment or profit margin ratio could be the result of ineffective marketing, poor management policies, research and development errors, or a weak management information system. The effectiveness of strategy formulation, implementation, and evaluation activities hinges upon a clear understanding of how major business functions affect one another. For strategies to succeed, a coordinated effort among all the functional areas of business is needed.

The Resource-Based View (RBV)

Some researchers emphasize the importance of the internal audit part of the strategic- management process by comparing it to the external audit.

The Resource-Based View (RBV) approach to competitive advantage contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage. In contrast to the I/O theory presented in the previous chapter, proponents of the RBV view contend that organizational performance will primarily be determined by internal resources that can be grouped into three all-encompassing categories: physical resources, human resources, and organizational resources. RBV theory asserts that resources are actually what helps a firm exploit opportunities and neutralize threats.

For a resource to be valuable, it must be either (1) rare, (2) hard to imitate, or (3) not easily substitutable. Often called empirical indicators, these three characteristics of resources enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage. The more a resource(s) is rare, non- imitable, and nonsubstitutable, the stronger a firm's competitive advantage will be and the longer it will last.

Rare resources are resources that other competing firms do not possess. If many firms have the same resource, then those firms will likely implement similar strategies, thus giving no one firm a sustainable competitive advantage. This is not to say that resources that are common are not valuable; they do indeed aid the firm in its chance for economic prosperity. However, to sustain a competitive advantage, it is more advantageous if the resource(s) is also rare.

Integrating Strategy and Culture

Relationships among a firm's functional business activities perhaps can be exemplified best by focusing on organizational culture, an internal phenomenon that permeates all departments and divisions of an organization. Organizational culture can be defined as "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."6 This definition emphasizes the importance of matching external with internal factors in making strategic decisions.

Defined in Table 4.1, cultural products include values, beliefs, rites, rituals, ceremonies, myths, stories, legends, sagas, language, metaphors, symbols, heroes, and heroines. These products or dimensions are levers that strategists can use to influence and direct strategy formulation, implementation, and evaluation activities. Both culture and personality are enduring and can be warm, aggressive, friendly, open, innovative, conservative, liberal, harsh, or likable.

Table 4.1

Example Cultural Products Defined

Rites	Planned sets of activities that consolidate various forms of cultural expressions into one event.

Ceremonial	Several rites connected together.
Ritual	A standardized set of behaviors used to manage anxieties.
Myth	A narrative of imagined events, usually not supported by facts.
Saga	A historical narrative describing the unique accomplishments of a group and its leaders.
Legend	A handed-down narrative of some wonderful event, usually not supported by facts.
Story	A narrative usually based on true events.
Folktale	A fictional story.
Symbol	Any object, act, event, quality, or relation used to convey meaning.
Language	The manner in which members of a group communicate.
Metaphors	Shorthand of words used to capture a vision or to reinforce old or new values
Values	Life-directing attitudes that serve as behavioral guidelines
Belief	An understanding of a particular phenomenon
Heroes/Heroines	Individuals greatly respected.

Dimensions of organizational culture permeate all the functional areas of business. It is something of an art to uncover the basic values and beliefs that are deeply buried in an organization's rich collection of stories, language, heroes, and rituals, but cultural products can represent both important strengths and weaknesses. Culture is an aspect of an organization that can no longer be taken for granted in performing an internal strategic-management audit because culture and strategy must work together.

Table 4.2 provides some example (possible) aspects of an organization's culture. Note you could ask employees/managers to rate the degree that the dimension

Table 4.2

Fifteen Example (Possible) Aspects of an Organization's Culture

Dimension	Degree				
Strong work ethic; arrive early and leave late	1	2	3	4	5
High ethical beliefs; clear code of business ethics followed	1	2	3	4	5
Formal dress; shirt and tie expected	1	2	3	4	5
Informal dress; many casual dress days	1	2	3	4	5
Socialize together outside of work	1	2	3	4	5
Do not question supervisor's decision	1	2	3	4	5
Encourage whistle-blowing	1	2	3	4	5
Be health conscious; have a wellness program	1	2	3	4	5
Allow substantial "working from home"	1	2	3	4	5
Encourage creativity/innovation/openmindness	1	2	3	4	5
Support women and minorities; no glass ceiling	1	2	3	4	5
Be highly socially responsible; be philanthropic	1	2	3	4	5
Have numerous meetings	1	2	3	4	5
Have a participative management style	1	2	3	4	5
Preserve the natural environment; have a sustainability program	1	2	3	4	5

characterizes the firm. When one firm acquires another firm, integrating the two cultures can be important. For example, in Table 4.2, one firm may score mostly 1's and the other firm may score mostly 5's, which would present a challenging strategic problem.

The strategic-management process takes place largely within a particular organization's culture. Lorsch found that executives in successful companies are emotionally committed to the firm's culture, but he concluded that culture can inhibit strategic management in two basic ways. Organizational culture significantly affects business decisions and thus must be evaluated during an internal strategic-management audit. If strategies can capitalize on cultural strengths, such as a strong work ethic or highly ethical beliefs, then management often can swiftly and easily implement changes. However, if the firm's culture is not supportive, strategic changes may be ineffective or even counterproductive. A firm's culture can become antagonistic to new strategies, with the result being confusion and disorientation.

An organization's culture should infuse individuals with enthusiasm for implementing strategies. Allarie and Firsirotu emphasized the need to understand culture:

The potential value of organizational culture has not been realized fully in the study of strategic management. Ignoring the effect that culture can have on relationships among the functional areas of business can result in barriers to communication, lack of coordination, and an inability to adapt to changing conditions. Some tension between culture and a firm's strategy is inevitable, but the tension should be monitored so that it does not reach a point at which relationships are severed and the culture becomes antagonistic. Internal strengths and weaknesses associated with a firm's culture sometimes are overlooked because of the interfunctional nature of this phenomenon. It is important, therefore, for strategists to understand their firm as a sociocultural system. Success is often determined by linkages between a firm's culture and strategies. The challenge of strategic management today is to bring about the changes in organizational culture and individual mind-sets that are needed to support the formulation, implementation, and evaluation of strategies.

Management

The functions of management consist of five basic activities: planning, organizing, motivating, staffing, and controlling. An overview of these activities is provided in Table 4.3.

Table 4.3

The Basic Functions of Management

Function	Description	Stage of Strategic-Management Process When Most Important
Planning	Planning consists of all those managerial activities related to preparing for the future.	Strategy Formulation

	Specific tasks include forecasting, establishing objectives, devising strategies, developing policies, and setting goals.	
Organizing	Organizing includes all those managerial activities that result in a structure of task and authority relationships. Specific areas include organizational design, job specialization, job descriptions, job specifications, span of control, unity of command, coordination, job design, and job analysis.	Strategy Implementation
Motivating	Motivating involves efforts directed toward shaping human behavior. Specific topics include leadership, communication, work groups, behavior modification, delegation of authority, job enrichment, job satisfaction, needs fulfillment, organizational change, employee morale, and managerial morale.	Strategy Implementation
Staffing	Staffing activities are centered on personnel or human resource management. Included are wage and salary administration, employee benefits, interviewing, hiring, firing, training, management development, employee safety, affirmative action, equal employment opportunity, union relations, career development, personnel research, discipline policies, grievance procedures, and public relations.	Strategy Implementation
Controlling	Controlling refers to all those managerial activities directed toward ensuring that actual results are consistent with planned results. Key areas of concern include quality control, financial control, sales control, inventory control, expense control, analysis of variances, rewards, and sanctions.	Strategy Evaluation

Management Audit Checklist of Questions

The following checklist of questions can help determine specific strengths and weaknesses in the functional area of business. An answer of no to any question could indicate a potential weakness, although the strategic significance and implications of negative answers, of course, will vary by organization, industry, and severity of the weakness. Positive or yes answers to the checklist questions suggest potential areas of strength.

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?

Are employee turnover and absenteeism low?

Are organizational reward and control mechanisms effective?

Marketing

Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services. There are seven basic functions of marketing: (1) customer analysis, (2) selling products/services, (3) product and service planning, (4) pricing, (5) distribution, (6) marketing research, and (7) opportunity analysis. Understanding these functions helps strategists identify and evaluate marketing strengths and weaknesses.

Customer Analysis

Customer analysis—the examination and evaluation of consumer needs, desires, and wants—involves administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies. The information generated by customer analysis can be essential in developing an effective mission statement. Customer profiles can reveal the demographic characteristics of an organization's customers.

Selling Products/Services

Successful strategy implementation generally rests upon the ability of an organization to sell some product or service. Selling includes many marketing activities, such as advertising, sales promotion, publicity, personal selling, sales force management, customer relations, and dealer relations. These activities are especially critical when a firm pursues a market penetration strategy. The effectiveness of various selling tools for consumer and industrial products varies. Personal selling is most important for industrial goods companies, and advertising is most important for consumer goods companies.

Determining organizational strengths and weaknesses in the selling function of marketing is an important part of performing an internal strategic-management audit. With regard to advertising products and services on the Internet, a new trend is to base advertising rates exclusively on sales rates. The new cost-per-sale online advertising rates are possible because any Web site can monitor which user clicks on which advertisement and then can record whether that consumer actually buys the product. If there are no sales, then the advertisement is free.

Product and Service Planning

Product and service planning includes activities such as test marketing; product and brand positioning; devising warranties; packaging; determining product options, features, style, and quality; deleting old products; and providing for customer service. Product and service planning is particularly important when a company is pursuing product development or diversification.

Pricing

Five major stakeholders affect pricing decisions: consumers, governments, suppliers, distributors, and competitors. Sometimes an organization will pursue a forward integration strategy primarily to gain better control over prices charged to consumers. Governments can impose constraints on price fixing, price discrimination, minimum prices, unit pricing, price advertising, and price controls.

Distribution

Distribution includes warehousing, distribution channels, distribution coverage, retail site locations, sales territories, inventory levels and location, transportation carriers, wholesaling, and retailing. Most producers today do not sell their goods directly to consumers. Various marketing entities act as intermediaries; they bear a variety of names such as wholesalers, retailers, brokers, facilitators, agents, vendors—or simply distributors.

Marketing Research

Marketing research is the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services. Marketing research can uncover critical strengths and weaknesses, and marketing researchers employ numerous scales, instruments, procedures, concepts, and techniques to gather information. Marketing research activities support all of the major business functions of an organization. Organizations that possess excellent marketing research skills have a definite strength in pursuing generic strategies.

Cost/Benefit Analysis

The seventh function of marketing is cost/benefit analysis, which involves assessing the costs, benefits, and risks associated with marketing decisions. Three steps are required to perform a cost/benefit analysis: (1) compute the total costs associated with a decision, (2) estimate the total benefits from the decision, and (3) compare the total costs with the total benefits. One key factor to be considered is risk. Cost/benefit analysis should also be performed when a company is evaluating alternative ways to be socially responsible.

Marketing Audit Checklist of Questions

The following questions about marketing must be examined in strategic planning:

Are markets segmented effectively?

Is the organization positioned well among competitors?

Has the firm's market share been increasing?

Are present channels of distribution reliable and cost effective?

Does the firm have an effective sales organization?

Does the firm conduct market research?

Are product quality and customer service good?

Are the firm's products and services priced appropriately?

Does the firm have an effective promotion, advertising, and publicity strategy?

Are marketing, planning, and budgeting effective?

Do the firm's marketing managers have adequate experience and training?

Is the firm's Internet presence excellent as compared to rivals?

Finance/Accounting

Financial condition is often considered the single best measure of a firm's competitive position and overall attractiveness to investors. Determining an organization's financial strengths and weaknesses is essential to effectively formulating strategies. A firm's liquidity, leverage, working capital, profitability, asset utilization, cash flow, and equity can eliminate some strategies as being feasible alternatives. Financial factors often alter existing strategies and change implementation plans.

Finance/Accounting Functions

The investment decision, also called capital budgeting, is the allocation and reallocation of capital and resources to projects, products, assets, and divisions of an organization. Once strategies are formulated, capital budgeting decisions are required to successfully implement strategies. The financing decision must consider both short-term and long-term needs for working capital. Two key financial ratios that indicate whether a firm's financing decisions have been effective are the debt-to-equity ratio and the debt-to-total-assets ratio.

Paying cash dividends is customary. Failure to do so could be thought of as a stigma. A dividend change is considered a signal about the future.

Dividends represent a sales point for investment bankers. Some institutional investors can buy only dividend-paying stocks.

Shareholders often demand dividends, even in companies with great opportunities for reinvesting all available funds.

A myth exists that paying dividends will result in a higher stock price.

Basic Types of Financial Ratios

Financial ratios are computed from an organization's income statement and balance sheet. Computing financial ratios is like taking a picture because the results reflect a situation at just one point in time. Comparing ratios over time and to industry averages is more likely to result in meaningful statistics that can be used to identify and evaluate strengths and weaknesses.

However, all the ratios are not significant for all industries and companies. For example, accounts receivable turnover and average collection period are not very meaningful to a company that primarily does a cash receipts business. Key financial ratios can be classified into the following five types:

1. **Liquidity ratios** measure a firm's ability to meet maturing short-term obligations. Current ratio

Quick (or acid-test) ratio

2. **Leverage ratios** measure the extent to which a firm has been financed by debt.

Debt-to-total-assets ratio

Debt-to-equity ratio

Long-term debt-to-equity ratio

Times-interest-earned (or coverage) ratio

3. **Activity ratios** measure how effectively a firm is using its resources.

Inventory turnover

Fixed assets turnover

Total assets turnover

Accounts receivable turnover

Average collection period

Financial ratio analysis must go beyond the actual calculation and interpretation of ratios. The analysis should be conducted on three separate fronts:

How has each ratio changed over time? This information provides a means of evaluating historical trends. It is important to note whether each ratio has been historically increasing, decreasing, or nearly constant. For example, a 10 percent profit margin could be bad if the trend has been down 20 percent each of the last three years. But a 10 percent profit margin could be excellent if the trend has been up, up, up. Therefore, calculate the percentage change in each ratio from one year to the next to assess historical financial performance on that dimension. Identify and examine large percent changes in a financial ratio from one year to the next.

How does each ratio compare to industry norms? A firm's inventory turnover ratio may appear impressive at first glance but may pale when compared to industry standards or norms. Industries can differ dramatically on certain ratios. For example grocery companies, such as Kroger, have a high inventory turnover whereas automobile dealerships have a lower turnover. Therefore, comparison of a firm's ratios within its particular industry can be essential in determining strength/weakness.

How does each ratio compare with key competitors? Oftentimes competition is more intense between several competitors in a given industry or location than across all rival firms in the industry. When this is true, financial ratio analysis should include comparison to those key competitors. For example, if a firm's profitability ratio is trending up over time and compares favorably to the industry average, but it is trending down relative to its leading competitor, there may be reason for concern.

Finance/Accounting Audit Checklist

The following finance/accounting questions, like the similar questions about marketing and management earlier, should be examined:

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 and/or equity?

Does the firm have sufficient working capital?

Are the firm's financial managers experienced and well trained?

Is the firm's debt situation excellent?

Production/Operations

The production/operations function of a business 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. A manufacturing operation transforms or converts inputs such as raw materials, labor, capital, machines, and facilities into finished goods and services. As indicated in Table 4.5, Roger Schroeder suggested that production/operations management comprises five functions or decision areas: process, capacity, inventory, workforce, and quality.

Table 4.5

The Basic Functions (Decisions) Within Production/Operations

Decision Areas	Example Decisions
Process	These decisions include choice of technology, facility layout, process flow analysis, facility location, linebalancing, process control, and transportation analysis. Distances from raw materials to production sites to customers are a major consideration.
Capacity	These decisions include forecasting, facilities planning, aggregate planning, scheduling, capacity planning, and queuing analysis. Capacity utilization is a major consideration.
Inventory	These decisions involve managing the level of raw materials, work-in-process, and finished goods, especially considering what to order, when to order, how much to order, and materials handling.
Workforce	These decisions involve managing the skilled, unskilled, clerical, and managerial employees by caring for job design, work measurement, job enrichment, work standards, and motivation techniques.
Quality	These decisions are aimed at ensuring that high-quality goods and services are produced by caring for quality control, sampling, testing, quality assurance, and cost control.

As shown in Table 4.6, James Dilworth outlined implications of several types of strategic decisions that a company might make.

Table 4.6

Implications of Various Strategies on Production/Operations

Various Strategies	Implications
Low-cost provider	Creates high barriers to entry Creates larger market Requires longer production runs and fewer product changes
A high-quality provider	Requires more quality-assurance efforts Requires more expensive equipment Requires highly skilled workers and higher wages
Provide great customer service	Requires more service people, service parts, and equipment Requires rapid response to customer needs or changes in customer tastes Requires a higher inventory investment
Be the first to introduce new products	Has higher research and development costs Has high retraining and tooling costs
Become highly automated	Requires high capital investment Reduces flexibility May affect labor relations Makes maintenance more crucial
Minimize layoffs	Serves the security needs of employees and may develop employee loyalty Helps to attract and retain highly skilled employees

Production/Operations Audit Checklist

Questions such as the following should be examined:

Are supplies of raw materials, parts, and subassemblies reliable and reasonable?

Are facilities, equipment, machinery, and offices in good condition?

Are inventory-control policies and procedures effective?

Are quality-control policies and procedures effective?

Are facilities, resources, and markets strategically located?

Does the firm have technological competencies?

Research and Development

The fifth major area of internal operations that should be examined for specific strengths and weaknesses is research and development (R&D). Many firms today conduct no R&D, and yet many other companies depend on successful R&D activities for survival. Firms pursuing a product development strategy especially need to have a strong R&D orientation.

Organizations invest in R&D because they believe that such an investment will lead to a superior product or service and will give them competitive advantages. Research and development expenditures are directed at developing new products before competitors do, at improving product quality, or at improving manufacturing processes to reduce costs.

Internal and External R&D

Cost distributions among R&D activities vary by company and industry, but total R&D costs generally do not exceed manufacturing and marketing start-up costs. Four approaches to determining R&D budget allocations commonly are used: (1) financing as many project proposals as possible, (2) using a percentage-of-sales method, (3) budgeting about the same amount that competitors spend for R&D, or (4) deciding how many successful new products are needed and working backward to estimate the required R&D investment.

R&D in organizations can take two basic forms: (1) internal R&D, in which an organization operates its own R&D department, and/or (2) contract R&D, in which a firm hires independent researchers or independent agencies to develop specific products. Many companies use both approaches to develop new products. A widely used approach for obtaining outside R&D assistance is to pursue a joint venture with another firm. R&D strengths (capabilities) and weaknesses (limitations) play a major role in strategy formulation and strategy implementation.

Most firms have no choice but to continually develop new and improved products because of changing consumer needs and tastes, new technologies, shortened product life cycles, and increased domestic and foreign competition. Scarpello, Boulton, and Hofer emphasized that different strategies require different R&D capabilities:

Research and Development Audit

Questions such as the following should be asked in performing an R&D audit:

Does the firm have R&D facilities? Are they adequate?

If outside R&D firms are used, are they cost-effective?

Are the organization's R&D personnel well qualified?

Are R&D resources allocated effectively?

Are management information and computer systems adequate?

Is communication between R&D and other organizational units effective?

Are present products technologically competitive?

Management Information Systems

Information ties all business functions together and provides the basis for all managerial decisions. It is the cornerstone of all organizations. Information represents a major source of competitive management advantage or disadvantage. Assessing a firm's internal strengths and weaknesses in information systems is a critical dimension of performing an internal audit.

Because organizations are becoming more complex, decentralized, and globally dispersed, the function of information systems is growing in importance. Spurring this advance is the falling cost and increasing power of computers. There are costs and benefits associated with obtaining and evaluating information, just as with equipment and land. Like equipment, information can become obsolete and may need to be purged from the system. An effective information system is like a library, collecting, categorizing, and filing data for use by managers throughout the organization. Information systems are a major strategic resource, monitoring internal and external issues and trends, identifying competitive threats, and assisting in the implementation, evaluation, and control of strategy.

Management Information Systems Audit

Questions such as the following should be asked when conducting this audit:

Do all managers in the firm use the information system to make decisions?

Is there a chief information officer or director of information systems position in the firm?

Are data in the information system updated regularly?

Do managers from all functional areas of the firm contribute input to the information system?

Are there effective passwords for entry into the firm's information system?

Are strategists of the firm familiar with the information systems of rival firms?

Is the information system user-friendly?

Do all users of the information system understand the competitive advantages that information can provide firms?

Are computer training workshops provided for users of the information system? 10. Is the firm's information system continually being improved in content and user-friendliness?

Value Chain Analysis (VCA)

According to Porter, the business of a firm can best be described as a value chain, in which total revenues minus total costs of all activities undertaken to develop and market a product or service yields value. All firms in a given industry have a similar value chain, which includes activities such as obtaining raw materials, designing products, building manufacturing facilities, developing cooperative agreements, and providing customer service. A firm will be profitable as long as total revenues exceed the total costs incurred in creating and delivering the product or service. Firms should strive to understand not only their own value chain operations but also their competitors', suppliers', and distributors' value chains.

More and more companies are using VCA to gain and sustain competitive advantage by being especially efficient and effective along various parts of the value chain. For example, Wal-Mart has built powerful value advantages by focusing on exceptionally tight inventory control, volume purchasing of products, and offering exemplary customer service. Computer companies in contrast compete aggressively along the distribution end of the value chain. Of course, price competitiveness is a key component of effectiveness among both mass retailers and computer firms.

Benchmarking

Benchmarking is an analytical tool used to determine whether a firm's value chain activities are competitive compared to rivals and thus conducive to winning in the marketplace. Benchmarking entails measuring costs of value chain activities across an industry to determine "best practices" among competing firms for the purpose of duplicating or improving upon those best practices. Benchmarking enables a firm to take action to improve its competitiveness by identifying (and improving upon) value chain activities where rival firms have comparative advantages in cost, service, reputation, or operation.

The Internal Factor Evaluation (IFE) Matrix

A summary step in conducting an internal strategic-management audit is to construct an Internal Factor Evaluation (IFE) Matrix. This strategy-formulation tool summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas. Intuitive judgments are required in developing an IFE Matrix, so the appearance of a scientific approach should not be interpreted to mean this is an all-powerful technique. A thorough understanding of the factors included is more important than the actual numbers.

Regardless of how many factors are included in an IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0, with the average score being 2.5. Total weighted scores well below 2.5 characterize organizations that are weak internally, whereas scores significantly above 2.5 indicate a strong internal position. Like the EFE Matrix, an IFE Matrix should include from 10 to 20 key factors. The number of factors has no effect upon the range of total weighted scores because the weights always sum to 1.0.

When a key internal factor is both a strength and a weakness, the factor should be included twice in the IFE Matrix, and a weight and rating should be assigned to each statement.

Table 4.7

A Sample Internal Factor Evaluation Matrix for a Retail Computer Store

Key Internal Factors	**Weight**	**Rating**	**Weighted Score**
Strengths			
1. Inventory turnover increased from 5.8 to 6.7	0.05	3	0.15
2. Average customer purchase increased from $97 to $128	0.07	4	0.28
3. Employee morale is excellent	0.10	3	0.30
4. In-store promotions resulted in 20 percent increase in sales	0.05	3	0.15
5. Newspaper advertising expenditures increased 10 percent	0.02	3	0.06
6. Revenues from repair/service segment of store up 16 percent	0.15	3	0.45
7. In-store technical support personnel have MIS college degrees	0.05	4	0.20
8. Store's debt-to-total assets ratio declined to 34 percent	0.03	3	0.09
9. Revenues per employee up 19 percent	0.02	3	0.06
Weaknesses			
1. Revenues from software segment of store down 12 percent	0.10	2	0.20
2. Location of store negatively impacted by new Highway 34	0.15	2	0.30
3. Carpet and paint in store somewhat in disrepair	0.02	1	0.02
4. Bathroom in store needs refurbishing	0.02	1	0.02
5. Revenues from businesses down 8 percent	0.04	1	0.04
6. Store has no Web site	0.05	2	0.10
7. Supplier on-time delivery increased to 2.4 days	0.03	1	0.03
8. Often customers have to wait to check out	0.05	1	0.05
Total	1.00		2.50

An example of an IFE Matrix is provided in Table 4.7 for a retail computer store. Note that the two most important factors to be successful in the retail computer store business are "revenues from repair/service in the store" and "location of the store." Also note that the store is doing best on "average customer purchase amount" and "in-store technical support." The store is having major problems with its carpet, bathroom, paint, and checkout procedures. Note also that the matrix contains substantial quantitative data rather than vague statements; this is excellent. Overall, this store receives a 2.5 total weighted score, which on a 1-to-4 scale is exactly average/halfway, indicating there is definitely room for improvement in store operations, strategies, policies, and procedures.

The IFE Matrix provides important information for strategy formulation. For example, this retail computer store might want to hire another checkout person and repair its carpet, paint, and bathroom problems. Also, the store may want to increase advertising for its repair/services, because that is a really important (weight 0.15) factor to being successful in this business.

In multidivisional firms, each autonomous division or strategic business unit should construct an IFE Matrix. Divisional matrices then can be integrated to develop an overall corporate IFE Matrix.

LECTURE 5
The nature and types of business strategies

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Discuss the value of establishing longterm objectives.
2. Identify 16 types of business strategies.
3. Discuss the Balanced Scorecard.
4. Identify numerous examples of organizations pursuing different types of strategies.
5. Discuss guidelines when particular strategies are most appropriate to pursue.

Long-Term Objectives

Long-term objectives represent the results expected from pursuing certain strategies. Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years.

The Nature of Long-Term Objectives

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Each objective should also be associated with a timeline. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility. Clearly established objectives offer many benefits. They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs. Objectives provide a basis for consistent decision making by managers whose values and attitudes differ. Objectives serve as standards by which individuals, groups, departments, divisions, and entire organizations can be evaluated.

Table 5.1

Varying Performance Measures by Organizational Level

Organizational Level	Basis for Annual Bonus or Merit Pay
Corporate	75% based on long-term objectives
	25% based on annual objectives
Division	50% based on long-term objectives
	50% based on annual objectives
Function	25% based on long-term objectives
	75% based on annual objectives

Table 5.2

The Desired Characteristics of Objectives

1. Quantitative
2. Measurable
3. Realistic
4. Understandable
5. Challenging
6. Hierarchical
7. Obtainable
8. Congruent across departments

Table 5.3

The Benefits of Having Clear Objectives

Provide direction by revealing expectations
Allow synergy
Aid in evaluation by serving as standards
Establish priorities
Reduce uncertainty
Minimize conflicts
Stimulate exertion
Aid in allocation of resources
Aid in design of jobs
Provide basis for consistent decision making

Financial versus Strategic Objectives

Two types of objectives are especially common in organizations: financial and strategic objectives. Financial objectives include those associated with growth in revenues, growth in earnings, higher dividends, larger profit margins, greater return on investment, higher earnings per share, a rising stock price, improved cash flow, and so on; while strategic objectives include things such as a larger market share, quicker on-time delivery than rivals, shorter design-to-market times than rivals, lower costs than rivals, higher product quality than rivals, wider geographic coverage than rivals, achieving technological leadership, consistently getting new or improved products to market ahead of rivals, and so on.

2. The Balanced Scorecard

Developed in 1993 by Harvard Business School professors Robert Kaplan and David Norton, and refined continually through today, the Balanced Scorecard is a strategy evaluation and control technique. Balanced Scorecard derives its name from the perceived need of firms to "balance" financial measures that are oftentimes used exclusively in strategy evaluation and control with nonfinancial measures such as product quality and customer service. An effective Balanced Scorecard contains a carefully chosen combination of strategic and financial objectives tailored to the company's business.

Although the Balanced Scorecard concept is covered in more detail in Lecture 11 as it relates to evaluating strategies, note here that firms should establish objectives and evaluate strategies on items other than financial measures. This is the basic tenet of the Balanced Scorecard. Financial measures and ratios are vitally important. However, of equal importance are factors such as customer service, employee morale, product quality, pollution abatement, business ethics, social responsibility, community involvement, and other such items. In conjunction with financial measures, these "softer" factors comprise an integral part of both the objective-setting process and the strategy-evaluation process.

3. Types of Strategies

Defined and exemplified in Table 5.4, alternative strategies that an enterprise could pursue can be categorized into 11 actions: forward integration, backward integration, horizontal integration, market penetration, market development, product development, related diversification, unrelated diversification, retrenchment, divestiture, and liquidation. Each alternative strategy has countless variations. For example, market penetration can include adding salespersons, increasing advertising expenditures, couponing, and using similar actions to increase market share in a given geographic area.

Many, if not 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. Priority must be established. Organizations, like individuals, have limited resources. Both organizations and individuals must choose among alternative strategies and avoid excessive indebtedness.

Table 5.4

Alternative Strategies Defined and Exemplified

Strategy	Definition	2009 Examples
Forward Integration	Gaining ownership or increased control over distributors or retailers	PepsiCo launched a hostile takeover of Pepsi Bottling Group after its $4.2 billion offer was rejected
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Chinese carmaker Geely Automobile Holdings Ltd. purchased Australian car-parts maker Drivetrain Systems International Pty. Ltd.
Horizontal Integration	Seeking ownership or increased control over competitors	Pfizer acquires Wyeth; both are huge drug companies
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Coke spending millions on its new slogan "Open Happiness"
Market Development	Introducing present products or services into new geographic area	Time Warner purchased 31 percent of Central European Media Enterprises Ltd. in order to expand into Romania, Czech Republic, Ukraine, and Bulgaria

Product Development	Seeking increased sales by improving present products or services or developing new ones	News Corp.'s book publisher HarperCollins began producing audio books for download, such as Jeff Jarvis's "What Would Google Do?"
Related Diversification	Adding new but related products or services	Sprint Nextel Corp. diversified from the cell phone business by partnering with Garmin Ltd. to deliver wireless Internet services into GPS machines
Unrelated Diversification	Adding new, unrelated products or services	Cisco Systems Inc. entered the camcorder business by acquiring Pure Digital Technology
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	The world's largest steelmaker, ArcelorMittal, shut down half of its plants and laid off thousands of employees even amid worker protests worldwide
Divestiture	Selling a division or part of an organization	The British airport firm BAA Ltd. divested three UK airports
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	Michigan newspapers such as the Ann Arbor News, Detroit Free Press, and Detroit News liquidated hard-copy operations

Organizations cannot do too many things well because resources and talents get spread thin and competitors gain advantage. In large diversified companies, a combination strategy is commonly employed when different divisions pursue different strategies. Also, organizations struggling to survive may simultaneously employ a combination of several defensive strategies, such as divestiture, liquidation, and retrenchment.

Levels of Strategies

Strategy making is not just a task for top executives. As discussed, middle- and lower-level managers too must be involved in the strategic-planning process to the extent possible. In large firms, there are actually four levels of strategies: corporate, divisional, functional, and operational—as illustrated in Figure 5-2. However, in small firms, there are actually three levels of strategies: company, functional, and operational.

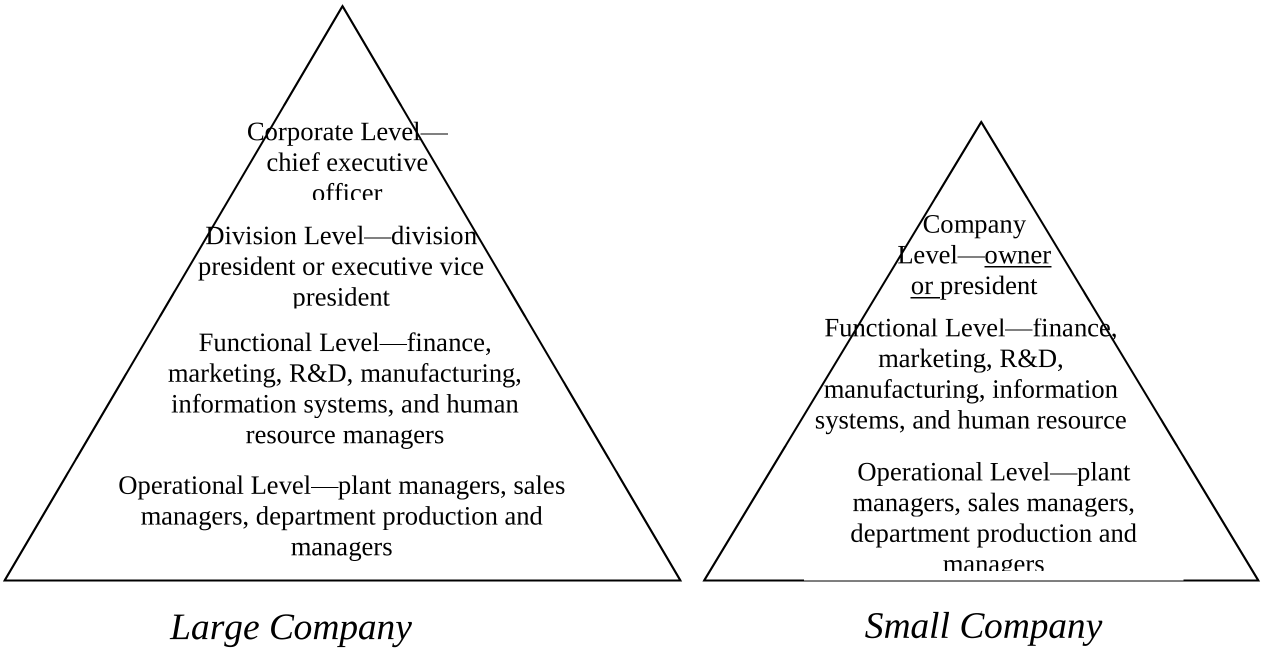


FIGURE 5-2 Levels of Strategies with Persons Most Responsible

In large firms, the persons primarily responsible for having effective strategies at the various levels include the CEO at the corporate level; the president or executive vice president at the divisional level; the respective chief finance officer (CFO), chief information officer (CIO), human resource manager (HRM), chief marketing officer (CMO), and so on, at the functional level; and the plant manager, regional sales manager, and so on, at the operational level. In small firms, the persons primarily responsible for having effective strategies at the various levels include the business owner or president at the company level and then the same range of persons at the lower two levels, as with a large firm.

4. Integration Strategies

Forward integration, backward integration, and horizontal integration are sometimes collectively referred to as vertical integration strategies. Vertical integration strategies allow a firm to gain control over distributors, suppliers, and/or competitors.

Forward Integration

Forward integration involves gaining ownership or increased control over distributors or retailers. Increasing numbers of manufacturers (suppliers) today are pursuing a forward integration strategy by establishing Web sites to directly sell products to consumers. Some Microsoft shareholders are concerned that the company's plans to open stores will irk existing retail partners such as Best Buy.

Backward Integration

Both manufacturers and retailers purchase needed materials from suppliers. Backward integration is a strategy of seeking ownership or increased control of a firm's suppliers. This strategy can be especially appropriate when a firm's current suppliers are unreliable, too costly, or cannot meet the firm's needs.

Seven guidelines for when backward integration may be an especially effective strategy are:

When an organization's present suppliers are especially expensive, or unreliable, or incapable of meeting the firm's needs for parts, components, assemblies, or raw materials.

When the number of suppliers is small and the number of competitors is large.

When an organization competes in an industry that is growing rapidly; this is a factor because integrative-type strategies (forward, backward, and horizontal) reduce an organization's ability to diversify in a declining industry.

When an organization needs to quickly acquire a needed resource.

Horizontal Integration

Horizontal integration refers to a strategy of seeking ownership of or increased control over a firm's competitors. One of the most significant trends in strategic management today is the increased use of horizontal integration as a growth strategy. Mergers, acquisitions, and takeovers among competitors allow for increased economies of scale and enhanced transfer of resources and competencies. Kenneth Davidson makes the following observation about horizontal integration:

These five guidelines indicate when horizontal integration may be an especially effective strategy:

When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government for "tending substantially" to reduce competition.

When competitors are faltering due to a lack of managerial expertise or a need for particular resources that an organization possesses; note that horizontal integration would not be appropriate if competitors are doing poorly, because in that case overall industry sales are declining.

5. Intensive Strategies

Market penetration, market development, and product development are sometimes referred to as intensive strategies because they require intensive efforts if a firm's competitive position with existing products is to improve.

Market Penetration

A market penetration strategy seeks to increase market share for present products or services in present markets through greater marketing efforts. This strategy is widely used alone and in combination with other strategies. Market penetration includes increasing the number of salespersons, increasing advertising expenditures, offering extensive sales promotion items, or increasing publicity efforts.

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's basic industry is rapidly becoming global in scope.

Product Development

Product development is a strategy that seeks increased sales by improving or modifying present products or services. Product development usually entails large research and development expenditures. Google's new Chrome OS operating system illuminates years of monies spent on product development. Google expects Chrome OS to overtake Microsoft Windows by 2015.

These five guidelines indicate when product development may be an especially effective strategy to pursue:

When an organization has successful products that are in the maturity stage of the product life cycle; the idea here is to attract satisfied customers to try new (improved) products as a result of their positive experience with the organization's present products or services.

6. Diversification Strategies

There are two general types of diversification strategies: related and unrelated. Businesses are said to be related when their value chains posses competitively valuable cross-business strategic fits; businesses are said to be unrelated when their value chains are so dissimilar that no competitively valuable cross-business relationships exist. Most companies favor related diversification strategies in order to capitalize on synergies as follows:

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 well-known brand name.

Related Diversification

Based in Baltimore, the sports apparel maker Under Armour pursued related diversification in 2009 when it introduced athletic "running" shoes for the first time. This strategy broadened Under Armour's appeal from boys and young men to women, older consumers, and more casual athletes. The athletic footwear business is dominated by Nike and Adidas, but Under Armour uses sophisticated design software, new manufacturing techniques, the latest in material engineering, and robust information technology systems to produce all its products. Under Armour's 2009 sales are expected to increase 20 percent to $900 million.

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

An unrelated diversification strategy favors capitalizing on a portfolio of businesses that are capable of delivering excellent financial performance in their respective industries, rather than striving to capitalize on value chain strategic fits among the businesses. Firms that employ unrelated diversification continually search across different industries for companies that can be acquired for a deal and yet have potential to provide a high return on investment. However, some firms are successful pursuing unrelated diversification, such as Walt Disney, which owns ABC, and General Electric, which owns NBC.

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 between the acquired and acquiring firm. (Note that a key difference between related and unrelated diversification is that the former should be based on some commonality in markets, products, or technology, whereas the latter should be based more on profit considerations.)

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.

7. Defensive Strategies

In addition to integrative, intensive, and diversification strategies, organizations also could pursue retrenchment, divestiture, or liquidation.

Retrenchment

Retrenchment occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. Sometimes called a turnaround or reorganizational strategy, retrenchment is designed to fortify an organization's basic distinctive competence. During retrenchment, strategists work with limited resources and face pressure from shareholders, employees, and the media. Retrenchment can entail selling off land and buildings to raise needed cash, pruning product lines, closing marginal businesses, closing obsolete factories, automating processes, reducing the number of employees, and instituting expense control systems.

Divestiture

Six guidelines for when divestiture may be an especially effective strategy to pursue follow:

When an organization has pursued a retrenchment strategy and failed to accomplish needed 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; this can result from radically different markets, customers, managers, employees, values, or needs.

When a large amount of cash is needed quickly and cannot be obtained reasonably from other sources.

LECTURE 6

The use of Michael Porter's Five Generic Strategies in strategic management

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1) Discuss Porter's five generic strategies.
2) Discuss strategies for competing in turbulent, high-velocity markets.

Michael Porter's Five Generic Strategies

Probably the three most widely read books on competitive analysis in the 1980s were Michael Porter's Competitive Strategy (Free Press, 1980), Competitive Advantage (Free Press, 1985), and Competitive Advantage of Nations (Free Press, 1989). According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter calls these bases generic strategies. Type 1 is a low-cost strategy that offers products or services to a wide range of customers at the lowest price available on the market. Type 2 is a best-value strategy that offers products or services to a wide range of customers at the best price-value available on the market; the best-value strategy aims to offer customers a range of products or services at the lowest price available compared to a rival's products with similar attributes. Both Type 1 and Type 2 strategies target a large market.

Porter's Type 3 generic strategy is differentiation, a strategy aimed at producing products and services considered unique industrywide and directed at consumers who are relatively price-insensitive.

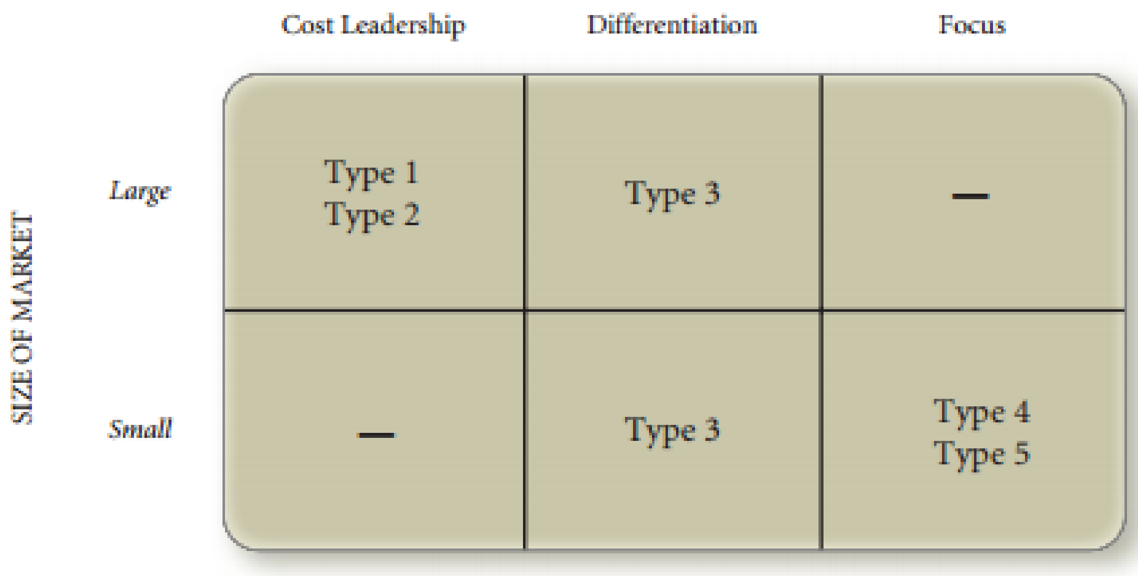


Figure 6.1 – Porter's Five Generic Strategies

Porter stresses the need for strategists to perform cost-benefit analyses to evaluate "sharing opportunities" among a firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or increasing differentiation. In addition to prompting sharing, Porter stresses the need for firms to effectively "transfer" skills and expertise among autonomous business units to gain competitive advantage. Depending on factors such as type of industry, size of firm, and nature of competition, various strategies could yield advantages in cost leadership, differentiation, and focus.

Cost Leadership Strategies (Type 1 and Type 2)

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain low-cost or best-value cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors.

1. Perform value chain activities more efficiently than rivals and control the factors that drive the costs of value chain activities. Such activities could include altering the plant layout, mastering newly introduced technologies, using common parts or components in different products, simplifying product design, finding ways to operate close to full capacity year-round, and so on.

2. Revamp the firm's overall value chain to eliminate or bypass some cost-producing activities. Such activities could include securing new suppliers or distributors, selling products online, relocating manufacturing facilities, avoiding the use of union labor, and so on.

When employing a cost leadership strategy, a firm must be careful not to use such aggressive price cuts that their own profits are low or nonexistent. Constantly be mindful of cost-saving technological breakthroughs or any other value chain advancements that could erode or destroy the firm's competitive advantage. A Type 1 or Type 2 cost leadership strategy can be especially effective under the following conditions:

1. When price competition among rival sellers is especially vigorous.

2. When the products of rival sellers are essentially identical and supplies are readily available from any of several eager sellers.

3. When there are few ways to achieve product differentiation that have value to buyers.

4. When most buyers use the product in the same ways.

5. When buyers incur low costs in switching their purchases from one seller to another.

6. When buyers are large and have significant power to bargain down prices.

7. When industry newcomers use introductory low prices to attract buyers and build a customer base.

Differentiation Strategies (Type 3)

Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may quickly develop ways to copy the differentiating features. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.

Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people. Firms can pursue a differentiation (Type 3) strategy based on many different competitive aspects. For example, Mountain Dew and root beer have a unique taste; Lowe's, Home Depot, and Wal-Mart offer wide selection and one-stop shopping; Dell Computer and FedEx offer superior service; BMW and Porsche offer engineering design and performance; IBM and Hewlett-Packard offer a wide range of products; and E*Trade and Ameritrade offer Internet convenience. A Type 3 differentiation strategy can be especially effective under the following conditions:

1. When there are many ways to differentiate the product or service and many buyers perceive these differences as having value.
2. When buyer needs and uses are diverse.
3. When few rival firms are following a similar differentiation approach.
4. When technological change is fast paced and competition revolves around rapidly evolving product features.

Focus Strategies (Type 4 and Type 5)

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it or that consumer preferences will drift toward the product attributes desired by the market as a whole.

An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments to serve a well-defined but narrow market better than competitors who serve a broader market.

A low-cost (Type 4) or best-value (Type 5) focus strategy can be especially attractive under the following conditions:

1. When the target market niche is large, profitable, and growing.
2. When industry leaders do not consider the niche to be crucial to their own success.
3. When industry leaders consider it too costly or difficult to meet the specialized needs of the target market niche while taking care of their mainstream customers.
4. When the industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its own resources.
5. When few, if any, other rivals are attempting to specialize in the same target segment.

Strategies for Competing in Turbulent, High-Velocity Markets

The world is changing more and more rapidly, and consequently industries and firms themselves are changing faster than ever. Some industries are changing so fast that researchers call them turbulent, high-velocity markets, such as telecommunications, medical, biotechnology, pharmaceuticals, computer hardware, software, and virtually all Internet-based industries. High-velocity change is clearly becoming more and more the rule rather than the exception, even in such industries as toys, phones, banking, defense, publishing, and communication.

LECTURE 7

Strategic management in organizations of different types

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Describe strategic management in nonprofit, governmental, and small organizations.
2. Compare and contrast financial with strategic objectives.
3. Discuss the levels of strategies in large versus small firms.
4. Explain the First Mover Advantages concept.
5. Discuss recent trends in outsourcing.

Means for Achieving Strategies Cooperation Among Competitors

Cooperation Among Competitors

Strategies that stress cooperation among competitors are being used more. For collaboration between competitors to succeed, both firms must contribute something distinctive, such as technology, distribution, basic research, or manufacturing capacity. But a major risk is that unintended transfers of important skills or technology may occur at organizational levels below where the deal was signed.26 Information not covered in the formal agreement often gets traded in the day-to-day interactions and dealings of engineers, marketers, and product developers. Firms often give away too much information to rival firms when operating under cooperative agreements! Tighter formal agreements are needed.

The idea of joining forces with a competitor is not easily accepted by Americans, who often view cooperation and partnerships with skepticism and suspicion. Indeed, joint ventures and cooperative arrangements among competitors demand a certain amount of trust if companies are to combat paranoia about whether one firm will injure the other. However, multinational firms are becoming more globally cooperative, and increasing numbers of domestic firms are joining forces with competitive foreign firms to reap mutual benefits.

Joint Venture/Partnering

Joint venture is a popular strategy that occurs when two or more companies form a temporary partnership or consortium for the purpose of capitalizing on some opportunity. Often, the two or more sponsoring firms form a separate organization and have shared equity ownership in the new entity. Other types of cooperative arrangements include research and development partnerships, cross-distribution agreements, cross-licensing agreements, cross-manufacturing agreements, and joint-bidding consortia.

Joint ventures and cooperative arrangements are being used increasingly because they allow companies to improve communications and networking, to globalize operations, and to minimize risk. Joint ventures and partnerships are often used to pursue an opportunity that is too complex, uneconomical, or risky for a single firm to pursue alone. Such business creations also are used when achieving and sustaining competitive advantage when an industry requires a broader range of competencies and know-how than any one firm can marshal.

Joint ventures among once rival firms are commonly being used to pursue strategies ranging from retrenchment to market development.

Although ventures and partnerships are preferred over mergers as a means for achieving strategies, certainly they are not all successful. The good news is that joint ventures and partnerships are less risky for companies than mergers, but the bad news is that many alliances fail. Forbes has reported that about 30 percent of all joint ventures and partnership alliances are outright failures, while another 17 percent have limited success and then dissipate due to problems. There are countless examples of failed joint ventures. A few common problems that cause joint ventures to fail are as follows:

- ✓ Managers who must collaborate daily in operating the venture are not involved in forming or shaping the venture.
- ✓ The venture may benefit the partnering companies but may not benefit customers, who then complain about poorer service or criticize the companies in other ways.
- ✓ The venture may not be supported equally by both partners. If supported unequally, problems arise.
- ✓ The venture may begin to compete more with one of the partners than the other.

Six guidelines for when a joint venture may be an especially effective means for pursuing strategies are:

- ➢ When a privately owned organization is forming a joint venture with a publicly owned organization; there are some advantages to being privately held, such as closed ownership; there are some advantages of being publicly held, such as access to stock issuances as a source of capital. Sometimes, the unique advantages of being privately and publicly held can be synergistically combined in a joint venture.

- ➢ When a domestic organization is forming a joint venture with a foreign company; a joint venture can provide a domestic company with the opportunity for obtaining local management in a foreign country, thereby reducing risks such as expropriation and harassment by host country officials.
- ➢ When the distinct competencies of two or more firms complement each other especially well.
- ➢ When some project is potentially very profitable but requires overwhelming resources and risks.
- ➢ When two or more smaller firms have trouble competing with a large firm.
- ➢ When there exists a need to quickly introduce a new technology.

Merger/Acquisition

Merger and acquisition are two commonly used ways to pursue strategies. A merger occurs when two organizations of about equal size unite to form one enterprise. An acquisition occurs when a large organization purchases (acquires) a smaller firm, or vice versa. When a merger or acquisition is not desired by both parties, it can be called a takeover or hostile takeover. In contrast, if the acquisition is desired by both firms, it is termed a friendly merger. Most mergers are friendly.

Not all mergers are effective and successful. Pricewaterhouse Coopers LLP recently researched mergers and found that the average acquirer's stock was 3.7 percent lower than its industry peer group a year later. BusinessWeek and the Wall Street Journal studied mergers and concluded that about half produced negative returns to shareholders. Warren Buffett once said in a speech that "too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favorable business developments." So a merger between two firms can yield great benefits, but the price and reasoning must be right. Some key reasons why many mergers and acquisitions fail are provided in Table 7.1.

Among mergers, acquisitions, and takeovers in recent years, same-industry combinations have predominated. A general market consolidation is occurring in many industries, especially banking, insurance, defense, and health care, but also in pharmaceuticals, food, airlines, accounting, publishing, computers, retailing, financial services, and biotechnology. For example, SXR Uranium One Inc. purchased rival uranium miner UrAsia Energy Ltd., creating the world's second-largest uranium company after Cameco

Table 7.1

Key Reasons Why Many Mergers and Acquisitions Fail

Integration difficulties
Inadequate evaluation of target
Large or extraordinary debt
Inability to achieve synergy
Too much diversification
Managers overly focused on acquisitions
Too large an acquisition
Difficult to integrate different organizational cultures
Reduced employee morale due to layoffs and relocations

Table 7.2 shows some mergers and acquisitions completed in 2009. There are many potential benefits of merging with or acquiring another firm, as indicated in Table 7.3.

Table 7.2

Some Large Mergers Completed Globally in 2009

Acquiring Firm	Acquired Firm	Price (in $Billions)
InBev	Anheuser-Busch Cos.	52.000
Bank of America Corp.	Merrill Lynch & Co.	50.0
Wells Fargo & Co.	Wachovia Corp.	15.1
Delta Air Lines	Northwest Airlines Corp.	2.600
AT&T	Centennial Communications	0.937
Johnson & Johnson	Mentor Corp.	1.070

King Pharmaceuticals Inc.	Alpharma Inc.	1.600
CenturyTel	Embark	5.000

The volume of mergers completed annually worldwide is growing dramatically and exceeds $1 trillion. The proliferation of mergers is fueled by companies' drive for market share, efficiency, and pricing power, as well as by globalization, the need for greater economies of scale, reduced regulation and antitrust concerns, the Internet, and e-commerce.

A leveraged buyout (LBO) occurs when a corporation's shareholders are bought (hence buyout) by the company's management and other private investors using borrowed funds (hence leverage)? Besides trying to avoid a hostile takeover, other reasons for initiating an LBO are senior management decisions that particular divisions do not fit into an overall corporate strategy or must be sold to raise cash, or receipt of an attractive offering price. An LBO takes a corporation private.

Table 7.3

Potential Benefits of Merging with or Acquiring Another Firm

To provide improved capacity utilization
To make better use of the existing sales force
To reduce managerial staff
To gain economies of scale
To smooth out seasonal trends in sales
To gain access to new suppliers, distributors, customers, products, and creditors
To gain new technology
To reduce tax obligations

First Mover Advantages

First mover advantages refer to the benefits a firm may achieve by entering a new market or developing a new product or service prior to rival firms. As indicated in Table 7.4, some advantages of being a first mover include securing access to rare resources, gaining new knowledge of key factors and issues, and carving out market share and a position that is easy to defend and costly for rival firms to overtake. First mover advantages are analogous to taking the high ground first, which puts one in an excellent strategic position to launch aggressive campaigns and to defend territory. Being the first mover can be especially wise when such actions (1) build a firm's image and reputation with buyers, (2) produce cost advantages over rivals in terms of new technologies, new components, new distribution channels, and so on, (3) create strongly loyal customers, and (4) make imitation or duplication by a rival hard or unlikely.

Table 7.4

Benefits of a Firm Being the First Mover

1.	Secure access and commitments to rare resources
2.	Gain new knowledge of critical success factors and issues
3.	Gain market share and position in the best locations
4.	Establish and secure long-term relationships with customers, suppliers, distributors, and investors
5.	Gain customer loyalty and commitments

To sustain the competitive advantage gained by being the first mover, such a firm also needs to be a fast learner. There would, however, be risks associated with being the first mover, such as unexpected and unanticipated problems and costs that occur from being the first firm doing business in the new market. Therefore, being a slow mover (also called fast follower or late mover) can be effective when a firm can easily copy or imitate the lead firm's products or services. If technology is advancing rapidly, slow movers can often leapfrog a first mover's products with improved second-generation products. Strategic-management research indicates that first mover advantages tend to be greatest when competitors are roughly the same size and possess similar resources. If competitors are not similar in size, then larger competitors can wait while others make initial investments and mistakes, and then respond with greater effectiveness and resources.

Outsourcing

Business-process outsourcing (BPO) is a rapidly growing new business that involves companies taking over the functional operations, such as human resources, information systems, payroll, accounting, customer service, and even marketing of other firms.

Strategic Management in Nonprofit and Governmental Organizations

The strategic-management process is being used effectively by countless nonprofit and governmental organizations, such as the Girl Scouts, Boy Scouts, the Red Cross, chambers of commerce, educational institutions, medical institutions, public utilities, libraries, government agencies, and churches. The nonprofit sector, surprisingly, is by far America's largest employer. Many nonprofit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and strategic management. For many nonprofit examples of strategic planning in practice, click on Strategic Planning Links found at the www.strategyclub.com Web site.

Strategic Management in Small Firms

Almost everyone wants to own a business—from teens and college students, who are signing up for entrepreneurial courses in record numbers, to those over age 65, who are forming more companies every year.

Numerous magazine and journal articles have focused on applying strategic-management concepts to small businesses. A major conclusion of these articles is that a lack of strategic- management knowledge is a serious obstacle for many small business owners. Other problems often encountered in applying strategic-management concepts to small businesses are a lack of both sufficient capital to exploit external opportunities and a day- to-day cognitive frame of reference. Research also indicates that strategic management in small firms is more informal than in large firms, but small firms that engage in strategic management outperform those that do not.

LECTURE 8
Strategy Analysis and Choice

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Describe a three-stage framework for choosing among alternative strategies.
2. Explain how to develop a SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and QSPM.
3. Identify important behavioral, political, ethical, and social responsibility considerations in strategy analysis and choice.
4. Discuss the role of intuition in strategic analysis and choice.
5. Discuss the role of organizational culture in strategic analysis and choice.
6. Discuss the role of a board of directors in choosing among alternative strategies.

The Nature of Strategy Analysis and Choice

The Process of Generating and Selecting Strategies

Strategists never consider all feasible alternatives that could benefit the firm because there are an infinite number of possible actions and an infinite number of ways to implement those actions. Therefore, 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. Representatives from each department and division of the firm should be included in this process. Recall that involvement provides the best opportunity for managers and employees to gain an understanding of what the firm is doing and why and to become committed to helping the firm accomplish its objectives.

A Comprehensive Strategy-Formulation Framework

Important strategy-formulation techniques can be integrated into a three-stage decision-making framework, as shown in Figure 8.1. The tools presented in this framework are applicable to all sizes and types of organizations and can help strategists identify, evaluate, and select strategies.

Stage 1 of the formulation framework consists of the EFE Matrix, the IFE Matrix, and the Competitive Profile Matrix (CPM). Called the Input Stage, Stage 1 summarizes the basic input information needed to formulate strategies. Stage 2, called the Matching Stage, focuses upon generating feasible alternative strategies by aligning key external and internal factors.

Stage 2 techniques include the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix, the Strategic Position and Action Evaluation (SPACE) Matrix, the Boston Consulting Group (BCG) Matrix, the Internal-External (IE) Matrix, and the Grand Strategy Matrix. Stage 3, called the Decision Stage, involves a single technique, the Quantitative Strategic Planning Matrix (QSPM). A QSPM uses input information from Stage 1 to objectively evaluate feasible alternative strategies identified in Stage 2. A QSPM reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies.

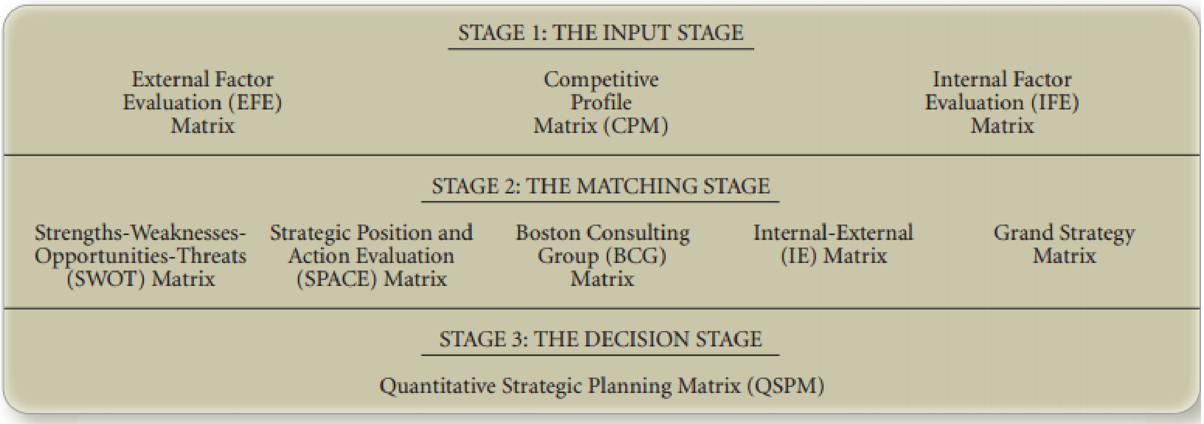


Figure 8.1 – The Strategy-Formulation Analytical Framework

Quantitative Strategic Planning Matrix (QSPM)

All nine techniques included in the strategy-formulation framework require the integration of intuition and analysis. Autonomous divisions in an organization commonly use strategy-formulation techniques to develop strategies and objectives. Divisional analyses provide a basis for identifying, evaluating, and selecting among alternative corporate-level strategies.

The Input Stage

Procedures for developing an EFE Matrix, an IFE Matrix, and a CPM were presentedin Lectures 3 and 4. The information derived from these three matrices provides basic input information for the matching and decision stage matrices described later in this chapter.

The input tools require strategists to quantify subjectivity during early stages of the strategy-formulation process. Making small decisions in the input matrices regarding the relative importance of external and internal factors allows strategists to more effectively generate and evaluate alternative strategies. Good intuitive judgment is always needed in determining appropriate weights and ratings.

The Matching Stage

Strategy is sometimes defined as the match an organization makes between its internal resources and skills and the opportunities and risks created by its external factors.2 The matching stage of the strategy-formulation framework consists of five techniques that can be used in any sequence: the SWOT Matrix, the SPACE Matrix, the BCG Matrix, the IE Matrix, and the Grand Strategy Matrix. Matching external and internal critical success factors is the key to effectively generating feasible alternative strategies. For example, a firm with excess working capital (an internal strength) could take advantage of the cell phone industry's 20 percent annual growth rate (an external opportunity) by acquiring Cellfone, Inc., a firm in the cell phone industry. This example portrays simple one-to-one matching. In most situations, external and internal relationships are more complex, and the matching requires multiple alignments for each strategy generated. The basic concept of matching is illustrated in Table 8.1.

Table 8.1.

Matching Key External and Internal Factors to Formulate Alternative Strategies

Key Internal Factor	Key External Factor	Resultant Strategy
Excess working capital (an internal strength)	+ 20 percent annual growth in the cell phone industry (an external opportunity)	=Acquire Cellfone, Inc.
Insufficient capacity (an internal weakness)	+ Exit of two major foreign competitors from the industry (an external opportunity)	=Pursue horizontal integration by buying competitors' facilities
Strong R&D expertise (an internal strength)	+ Decreasing numbers of younger adults (an external threat)	=Develop new products for older adults
Poor employee morale (an internal weakness)	+ Rising healthcare costs (an external threat)	=Develop a new wellness program

Any organization, whether military, product-oriented, service-oriented, governmental, or even athletic, must develop and execute good strategies to win. A good offense without a good defense, or vice versa, usually leads to defeat. Developing strategies that use strengths to capitalize on opportunities could be considered an offense, whereas strategies designed to improve upon weaknesses while avoiding threats could be termed defensive. Every organization has some external opportunities and threats and internal strengths and weaknesses that can be aligned to formulate feasible alternative strategies.

The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix

The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix is an important matching tool that helps managers develop four types of strategies: SO (strengths-opportunities) Strategies, WO (weaknesses-opportunities) Strategies, ST (strengths-threats) Strategies, and WT (weaknesses-threats) Strategies. Note in Table 8.1 that the first, second, third, and fourth strategies are SO, WO, ST, and WT strategies, respectively.

There are eight steps involved in constructing a SWOT Matrix:

1. List the firm's key external opportunities.
2. List the firm's key external threats.
3. List the firm's key internal strengths.
4. List the firm's key internal weaknesses.
5. Match internal strengths with external opportunities, and record the resultant SO Strategies in the appropriate cell.
6. Match internal weaknesses with external opportunities, and record the resultant WO Strategies.
7. Match internal strengths with external threats, and record the resultant ST Strategies.
8. Match internal weaknesses with external threats, and record the resultant WT Strategies.

Some important aspects of a SWOT Matrix are evidenced in Figure 8.3. For example, note that both the internal/external factors and the SO/ST/WO/WT Strategies are stated in quantitative terms to the extent possible. This is important. For example, regarding the second SO #2 and ST #1 strategies, if the analyst just said, "Add new repair/service persons," the reader might think that 20 new repair/service persons are needed. Actually only two are needed. Always be specific to the extent possible in stating factors and strategies.

It is also important to include the "S1, O2" type notation after each strategy in a SWOT Matrix. This notation reveals the rationale for each alternative strategy. Strategies do not rise out of the blue. Note in Figure 8.3 how this notation reveals the internal/external factors that were matched to formulate desirable strategies. For example, note that this retail computer store business may need to "purchase land to build new store" because a new Highway 34 will make its location less desirable. The notation (W2, O2) and (S8, T3) in Figure 8.3 exemplifies this matching process.

The purpose of each Stage 2 matching tool is to generate feasible alternative strategies, not to select or determine which strategies are best. Not all of the strategies developed in the SWOT Matrix, therefore, will be selected for implementation.

Strengths	**Weaknesses**
1. Inventory turnover up 5.8 to 6. 7	1. Software revenues in store down 12%
2. Average customer purchase	2. Location of store hurt by new
3. Employee morale is excellent	up $97 to $128 Hwy 34
4. In-store promotions = 20%	3. Carpet and paint in store
5. Newspaper advertising	in disrepair
6. Revenues from repair/service	4. Bathroom in store needs
7. In-store technical support	increase in sales refurbishing
8. Store’s debt-to-total assets ratio	5. Total store revenues down 8% expenditures down 10%
	6. Store has no Web site in-store up 16%
	7. Supplier on-time-delivery up to persons have MIS degrees 2.4 days
	8. Customer checkout process down 34% too slow

		9. Revenues per employee up 19%
Opportunities	**SO Strategies**	**WO Strategies**
1. Population of city growing 10% 2. Rival computer store opening 3. Vehicle traffic passing store up 12% 4. Vendors average six new products/yr 5. Senior citizen use of computers up 8% 6. Small business growth in area up 10% 7. Desire for Web sites up 18% by Realtors 8. Desire for Web sites up 12% by small firms	1. Add 4 new in-store promotions 2. Add 2 new repair/service 3. Send flyer to all seniors over	1. Purchase land to build new monthly (S4,O3) store (W2, O2) 2. Install new carpet/paint/bath 1 mile away persons (S6, O5) (W3, W4, O1) 3. Up Web site services by 50% age 55 (S5, O5) (W6, O7, O8) 4. Launch mailout to all Realtors in city (W5, O7)
Threats	**ST Strategies**	**WT Strategies**
1. Best Buy opening new store 2. Local university offers computer 3. New bypass Hwy 34 in 1 yr will 4. New mall being built nearby 5. Gas prices up 14% 6. Vendors raising prices 8%	1. Hire two more repair persons 2. Purchase land to build new 3. Raise out-of-store service calls divert traffic from $60 to $80 (S6, T5)	1. Hire 2 new cashiers in 1yr nearby and market these new services (W8, T1, T4) (S6, S7, T1) 2. Install new carpet/paint/ repair store (S8, T3) bath (W3, W4, T1)

Figure 8.3 – A SWOT Matrix for a Retail Computer Store

The strategy-formulation guidelines can enhance the process of matching key external and internal factors. For example, when an organization has both the capital and human resources needed to distribute its own products (internal strength) and distributors are unreliable, costly, or incapable of meeting the firm's needs (external threat), forward integration can be an attractive ST Strategy. When a firm has excess production capacity (internal weakness) and its basic industry is experiencing declining annual sales and profits (external threat), related diversification can be an effective WT Strategy.

The Strategic Position and Action Evaluation (SPACE) Matrix

The Strategic Position and Action Evaluation (SPACE) Matrix, another important Stage 2 matching tool, is illustrated in Figure 8.4. Its four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are most appropriate for a given organization. The axes of the SPACE Matrix represent two internal dimensions (financial position [FP] and competitive position [CP]) and two external dimensions (stability position [SP] and industry position [IP]). These four factors are perhaps the most important determinants of an organization's overall strategic position.

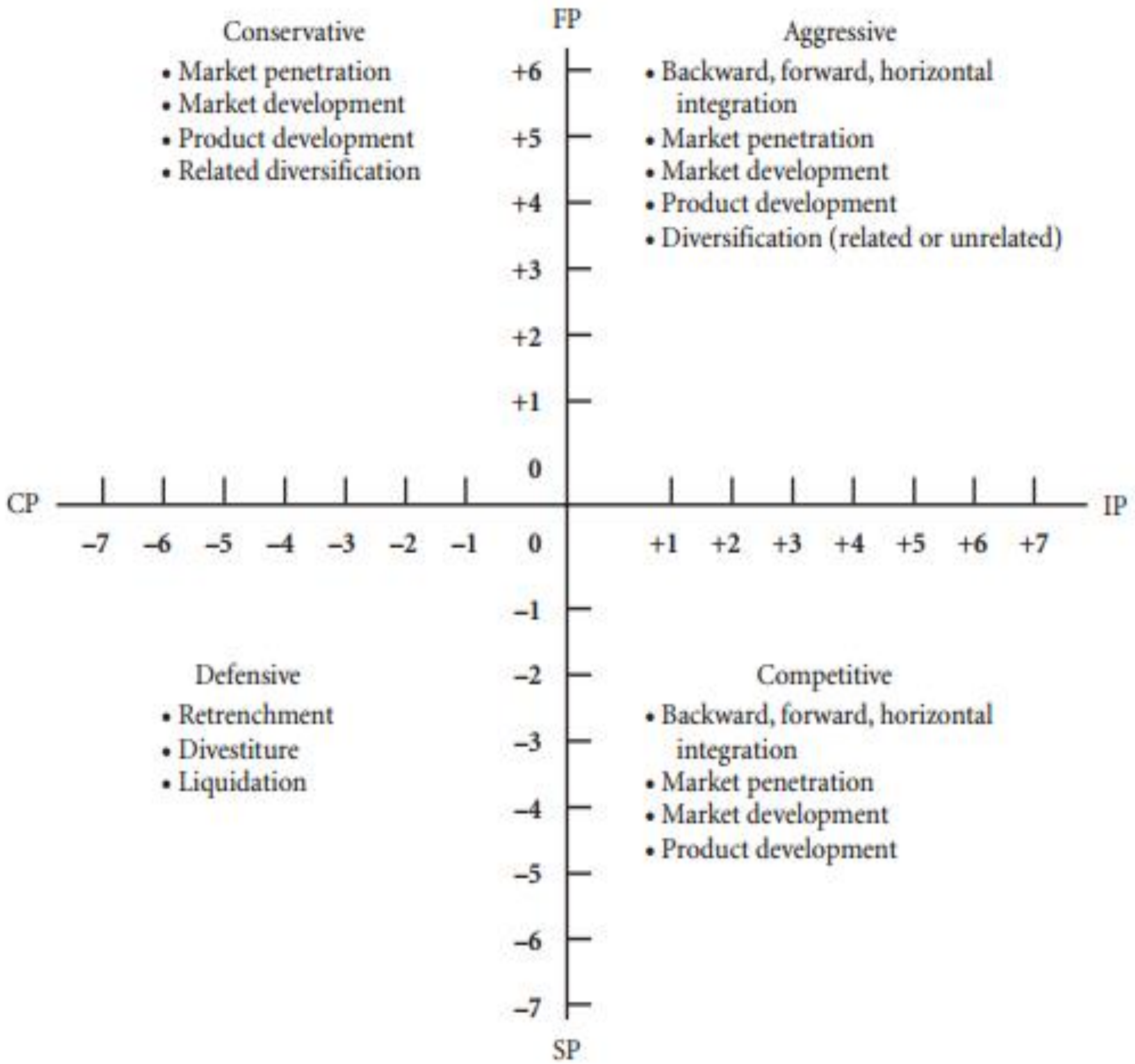


Figure 8.4 – The SPACE Matrix

Depending on the type of organization, numerous variables could make up each of the dimensions represented on the axes of the SPACE Matrix. Factors that were included earlier in the firm's EFE and IFE Matrices should be considered in developing a SPACE Matrix. Other variables commonly included are given in Table 8.2. For example, return on investment, leverage, liquidity, working capital, and cash flow are commonly considered to be determining factors of an organization's financial strength. Like the SWOT Matrix, the SPACE Matrix should be both tailored to the particular organization being studied and based on factual information as much as possible.

Table 8.2

Example Factors That Make Up the SPACE Matrix Axes

Internal Strategic Position	**External Strategic Position**
Financial Position (FP)	***Stability Position (SP)***
Return on investment	Technological changes
Leverage	Rate of inflation
Liquidity	Demand variability
Working capital	Price range of competing products
Cash flow	Barriers to entry into market
Inventory turnover	Competitive pressure
Earnings per share	Ease of exit from market
Price earnings ratio	Price elasticity of demand
	Risk involved in business
Competitive Position (CP)	***Industry Position (IP)***
Market share	Growth potential
Product quality	Profit potential
Product life cycle	Financial stability
Customer loyalty	Extent leveraged
Capacity utilization	Resource utilization
Technological know-how	Ease of entry into market
Control over suppliers and distributors	Productivity, capacity utilization

LECTURE 9

Implementing Strategies: Management and Operations Issues

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Explain why strategy implementation is more difficult than strategy formulation.
2. Discuss the importance of annual objectives and policies in achieving organizational commitment for strategies to be implemented.
3. Explain why organizational structure is so important in strategy implementation.
4. Compare and contrast restructuring and reengineering.
5. Describe the relationships between production/operations and strategy implementation.
6. Explain how a firm can effectively link performance and pay to strategies.
7. Discuss employee stock ownership plans (ESOPs) as a strategic-management concept.
8. Describe how to modify an organizational culture to support new strategies.

The Nature of Strategy Implementation

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

- Strategy formulation is positioning forces before the action.
- Strategy implementation is managing forces during the action.
- Strategy formulation focuses on effectiveness.
- Strategy implementation focuses on efficiency.
- Strategy implementation requires coordination among many individuals.

Strategy-formulation concepts and tools do not differ greatly for small, large, for-profit, or nonprofit organizations. However, strategy implementation varies substantially among different types and sizes of organizations. Implementing strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization's pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system. These types of activities obviously differ greatly between manufacturing, service, and governmental organizations.

Management Perspectives

In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle- and lower-level managers. Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities. Of equal importance, strategists should be involved as much as possible in strategy-implementation activities.

Management changes are necessarily more extensive when strategies to be implemented move a firm in a major new direction.

Table 9.1

Some Management Issues Central to Strategy Implementation

Establish annual objectives
Devise policies Allocate resources
Alter an existing organizational structure
Restructure and reengineer
Revise reward and incentive plans
Minimize resistance to change
Match managers with strategy
Develop a strategy-supportive culture
Adapt production/operations processes
Develop an effective human resources function Downsize and furlough as needed
Link performance and pay to strategies resources function, and, if necessary, downsizing.

Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success. The rationale for objectives and strategies should be understood and clearly communicated throughout an organization.

Annual Objectives

Establishing annual objectives is a decentralized activity that directly involves all managers in an organization. Active participation in establishing annual objectives can lead to acceptance and commitment. Annual objectives are essential for strategy implementation because they (1) represent the basis for allocating resources; (2) are a primary mechanism for evaluating managers; (3) are the major instrument for monitoring progress toward achieving long-term objectives; and (4) establish organizational, divisional, and departmental priorities. Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented. Approving, revising, or rejecting annual objectives is much more than a rubber-stamp activity. The purpose of annual objectives can be summarized as follows:

Annual objectives should be compatible with employees' and managers' values and should be supported by clearly stated policies. More of something is not always better. Improved quality or reduced cost may, for example, be more important than quantity. It is important to tie rewards and sanctions to annual objectives so that employees and managers understand that achieving objectives is critical to successful strategy implementation. Clear annual objectives do not guarantee successful strategy implementation, but they do increase the likelihood that personal and organizational aims can be accomplished. Overemphasis on achieving objectives can result in undesirable conduct, such as faking the numbers, distorting the records, and letting objectives become ends in themselves. Managers must be alert to these potential problems.

Policies

Changes in a firm's strategic direction do not occur automatically. On a day-to-day basis, policies are needed to make a strategy work. Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives. For example, Carnival's Paradise ship has a no smoking policy anywhere, anytime aboard ship. It is the first cruise ship to ban smoking comprehensively.

They represent the means for carrying out strategic decisions. Examples of policies that support a company strategy, a divisional objective, and a departmental objective are given in Table 9.2.

Table 9.2.

A Hierarchy of Policies

Company Strategy

Acquire a chain of retail stores to meet our sales growth and profitability objectives.

Supporting Policies

1. "All stores will be open from 8 A.M. to 8 P.M. Monday through Saturday." (This policy could increase retail sales if stores currently are open only 40 hours a week.)

2. "All stores must submit a Monthly Control Data Report." (This policy could reduce expense-to-sales ratios.)

3. "All stores must support company advertising by contributing 5 percent of their total monthly revenues for this purpose." (This policy could allow the company to establish a national reputation.)

Divisional Objective

Increase the division's revenues from $10 million in 2009 to $15 million in 2010.

Supporting Policies

1. "Beginning in January 2010, each one of this division's salespersons must file a weekly activity report that includes the number of calls made, the number of miles traveled, the number of units sold, the dollar volume sold, and the number of new

accounts opened." (This policy could ensure that salespersons do not place too great an emphasis in certain areas.)

2. "Beginning in January 2010, inventory levels carried in warehouses will be decreased by 30 percent in accordance with a just-in-time (JIT) manufacturing approach." (This policy could reduce production expenses and thus free funds for increased marketing efforts.)

Production Department Objective

Increase production from 20,000 units in 2009 to 30,000 units in 2010.

Supporting Policies

1. "Beginning in January 2010, employees will have the option of working up to 20 hours of overtime per week." (This policy could minimize the need to hire additional employees.)

2. "Beginning in January 2010, perfect attendance awards in the amount of $100 will be given to all employees who do not miss a workday in a given year." (This policy could decrease absenteeism and increase productivity.)

Some example issues that may require a management policy are provided in Table 9.3.

Table 9.3

Some Issues That May Require a Management Policy

- To offer extensive or limited management development workshops and seminars
- To centralize or decentralize employee-training activities
- To recruit through employment agencies, college campuses, and/or newspapers
- To promote on the basis of merit or on the basis of seniority
- To tie executive compensation to long-term and/or annual objectives
- To use one or more suppliers
- To buy, lease, or rent new production equipment

- To greatly or somewhat stress quality control
- To establish many or only a few production standards
- To discourage sexual harassment
- To discourage smoking at work
- To discourage insider trading
- To discourage moonlighting

Resource Allocation

Resource allocation is a central management activity that allows for strategy execution. In organizations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated according to priorities established by annual objectives.

Nothing could be more detrimental to strategic management and to organizational success than for resources to be allocated in ways not consistent with priorities indicated by approved annual objectives.

Below the corporate level, there often exists an absence of systematic thinking about resources allocated and strategies of the firm. Yavitz and Newman explain why:

Managing Conflict

Interdependency of objectives and competition for limited resources often leads to conflict. Conflict can be defined as a disagreement between two or more parties on one or more issues. Establishing annual objectives can lead to conflict because individuals have different expectations and perceptions, schedules create pressure, personalities are incompatible, and misunderstandings between line managers (such as production supervisors) and staff managers (such as human resource specialists) occur.

Table 9.4 reveals some important management trade-off decisions required in strategy implementation.

Table 9.4

Some Management Trade-Off Decisions Required in Strategy Implementation

To emphasize short-term profits or long-term growth
To emphasize profit margin or market share
To emphasize market development or market penetration
To lay off or furlough
To seek growth or stability
To take high risk or low risk
To be more socially responsible or more profitable
To outsource jobs or pay more to keep jobs at home
To acquire externally or to build internally
To restructure or reengineer
To use leverage or equity to raise funds
To use part-time or full-time employees

Conflict is unavoidable in organizations, so it is important that conflict be managed and resolved before dysfunctional consequences affect organizational performance. Conflict is not always bad. An absence of conflict can signal indifference and apathy. Conflict can serve to energize opposing groups into action and may help managers identify problems.

Matching Structure with Strategy

Changes in strategy often require changes in the way an organization is structured for two major reasons. First, structure largely dictates how objectives and policies will be established. For example, objectives and policies established under a geographic organizational structure are couched in geographic terms. Objectives and policies are stated largely in terms of products in an organization whose structure is based on product groups. The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities.

Numerous external and internal forces affect an organization; no firm could change its structure in response to every one of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organizational structure may become ineffective. As indicated in Table 9.5, symptoms of an ineffective organizational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and too many unachieved objectives.

Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to implement new

Table 9.5

Symptoms of an Ineffective Organizational Structure

Too many levels of management
Too many meetings attended by too many people
Too much attention being directed toward solving interdepartmental conflicts
Too large a span of control
Too many unachieved objectives
Declining corporate or business performance
Losing ground to rival firms

Revenue and/or earnings divided by number of employees and/or number of managers is low compared to rival firms strategies and how these changes can best be accomplished. We examine this issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

The Functional Structure

The most widely used structure is the functional or centralized type because this structure is the simplest and least expensive of the seven alternatives. A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems. A university may structure its activities by major functions that include academic affairs, student services, alumni relations, athletics, maintenance, and accounting. Besides being simple and inexpensive, a functional structure also promotes specialization of labor, encourages efficient use of managerial and technical talent, minimizes the need for an elaborate control system, and allows rapid decision making.

Table 9.6 summarizes the advantages and disadvantages of a functional organizational structure.

Table 9.6

Advantages and Disadvantages of a Functional Organizational Structure

Advantages	Disadvantages
1. Simple and inexpensive	1. Accountability forced to the top
2. Capitalizes on specialization of business activities such as marketing and finance	2. Delegation of authority and responsibility not encouraged
3. Minimizes need for elaborate control system	3. Minimizes career development
	4. Low employee/manager morale
4. Allows for rapid decision making	5. Inadequate planning for products and markets
	6. Leads to short-term, narrow thinking
	7. Leads to communication problems

The Divisional Structure

The divisional or decentralized structure is the second most common type used by U.S. businesses. As a small organization grows, it has more difficulty managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations. The divisional structure can be organized in one of four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each separate division.

Table 9.7 summarizes the advantages and disadvantages of divisional organizational structure. Ghoshal and Bartlett, two leading scholars in strategic management, note the following:

Table 9.7

Advantages and Disadvantages of a Divisional Organizational Structure

Advantages	Disadvantages
1. Accountability is clear	1. Can be costly
2. Allows local control of local situations	2. Duplication of functional activities
3. Creates career development chances	3. Requires a skilled management force
4. Promotes delegation of authority	4. Requires an elaborate control system
5. Leads to competitive climate internally	5. Competition among divisions can become so intense as to be dysfunctional
6. Allows easy adding of new products or regions	6. Can lead to limited sharing of ideas and resources
7. Allows strict control and attention to products, customers, and/or regions	7. Some regions/products/customers may receive special treatment

A divisional structure by geographic area is appropriate for organizations whose strategies need to be tailored to fit the particular needs and characteristics of customers in different geographic areas. This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas. A divisional structure by geographic area allows local participation in decision making and improved coordination within a region. Hershey Foods is an example of a company organized using the divisional by geographic region type of structure. Hershey's divisions are United States, Canada, Mexico, Brazil, and Other. Analysts contend that this type of structure may not be best for Hershey because consumption patterns for candy are quite similar worldwide. An alternative—and perhaps better—type of structure for Hershey would be divisional by product because the company produces and sells three types of products worldwide: (1) chocolate, (2) nonchocolate, and (3) grocery.

When a few major customers are of paramount importance and many different services are provided to these customers, then a divisional structure by customer can be the most effective way to implement strategies. This structure allows an organization to cater effectively to the requirements of clearly defined customer groups. For example, book publishing companies often organize their activities around customer groups, such as colleges, secondary schools, and private commercial schools. Some airline companies have two major customer divisions: passengers and freight or cargo services.

The Strategic Business Unit (SBU) Structure

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. For example, in a large conglomerate organization composed of 90 divisions, such as ConAgra, the chief executive officer could have difficulty even remembering the first names of divisional presidents. In multidivisional organizations, an SBU structure can greatly facilitate strategy-implementation efforts. ConAgra has put its many divisions into three primary SBUs: (1) food service (restaurants), (2) retail (grocery stores), and (3) agricultural products.

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses. Also, the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of improved coordination and accountability. Another advantage of the SBU structure is that it makes the tasks of planning and control by the corporate office more manageable.

Citigroup in 2009 reorganized the whole company into two SBUs: (1) Citigroup, which includes the retail bank, the corporate and investment bank, the private bank, and global transaction services; and (2) Citi Holdings, which includes Citi's asset management and consumer finance segments, CitiMortgage, CitiFinancial, and the joint brokerage operations with Morgan Stanley. Citigroup's CEO, Vikram Pandit, says the restructuring will allow the company to reduce operating costs and to divest (spin off) Citi Holdings.

The Matrix Structure

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication. A matrix structure can result in higher overhead because it creates more management positions. Other disadvantages of a matrix structure that contribute to overall complexity include dual lines of budget authority (a violation of the unity-of-com- mand principle), dual sources of reward and punishment, shared authority, dual reporting channels, and a need for an extensive and effective communication system.

Despite its complexity, the matrix structure is widely used in many industries, including construction, health care, research, and defense. As indicated in Table 9.8, some advantages of a matrix structure are that project objectives are clear, there are many channels of communication, workers can see the visible results of their work, and shutting down a project can be accomplished relatively easily.

Table 9.8

Advantages and Disadvantages of a Matrix Structure

Advantages	Disadvantages
Project objectives are clear	Requires excellent vertical and horizontal flows of communication
Employees can clearly see results of their work	Costly because creates more manager positions
Shutting down a project is easily accomplished	Violates unity of command principle
Facilitates uses of special equipment/personnel/facilities	Creates dual lines of budget authority
Functional resources are shared instead of duplicated as in a divisional structure	Creates dual sources of reward/punishment
	Creates shared authority and reporting Requires mutual trust and understanding

Another advantage of a matrix structure is that it facilitates the use of specialized personnel, equipment, and facilities. Functional resources are shared in a matrix structure, rather than duplicated as in a divisional structure. Individuals with a high degree of expertise can divide their time as needed among projects, and they in turn develop their own skills and competencies more than in other structures. Walt Disney Corp. relies on a matrix structure.

For a matrix structure to be effective, organizations need participative planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence. The matrix structure is being used more frequently by U.S. businesses because firms are pursuing strategies that add new products, customer groups, and technology to their range of activities. Out of these changes are coming product managers, functional managers, and geographic-area managers, all of whom have important strategic responsibilities. When several variables, such as product, customer, technology, geography, functional area, and line of business, have roughly equal strategic priorities, a matrix organization can be an effective structural form.

LECTURE 10
Strategy Review, Evaluation, and Control

LECTURE OBJECTIVES

After studying this lecture, you should be able to do the following:

1. Describe a practical framework for evaluating strategies.
2. Explain why strategy evaluation is complex, sensitive, and yet essential for organizational success.
3. Discuss the importance of contingency planning in strategy evaluation.
4. Discuss the role of auditing in strategy evaluation.
5. Explain how computers can aid in evaluating strategies.
6. Discuss the Balanced Scorecard.
7. Discuss three twenty-first-century challenges in strategic management.

The Nature of Strategy Evaluation

The strategic-management process results in decisions that can have significant, long- lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse. Most strategists agree, therefore, that strategy evaluation is vital to an organization's well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. Strategy evaluation includes three basic activities: (1) examining the underlying bases of a firm's strategy, (2) comparing expected results with actual results, and (3) taking corrective actions to ensure that performance conforms to plans.

Adequate and timely feedback is the cornerstone of effective strategy evaluation.

It is impossible to demonstrate conclusively that a particular strategy is optimal or even to guarantee that it will work. One can, however, evaluate it for critical flaws. Richard Rumelt offered four criteria that could be used to evaluate a strategy: consistency, consonance, feasibility, and advantage. Described in Table 10.1, consonance and advantage are mostly based on a firm's external assessment, whereas consistency and feasibility are largely based on an internal assessment.

Strategy evaluation is important because organizations face dynamic environments in which key external and internal factors often change quickly and dramatically. Success today is no guarantee of success tomorrow! An organization should never be lulled into complacency with success. Countless firms have thrived one year only to struggle for survival the following year.

Strategy evaluation is becoming increasingly difficult with the passage of time, for many reasons. Domestic and world economies were more stable in years past, product life cycles were longer, product development cycles were longer, technological advancement was slower, change occurred less frequently, there were fewer competitors, foreign companies were weak, and there were more regulated industries. Other reasons why strategy evaluation is more difficult today include the following trends:

1. A dramatic increase in the environment's complexity
2. The increasing difficulty of predicting the future with accuracy
3. The increasing number of variables
4. The rapid rate of obsolescence of even the best plans
5. The increase in the number of both domestic and world events affecting organizations
6. The decreasing time span for which planning can be done with any degree of certainty

Table 10.1

Rumelt's Criteria for Evaluating Strategies

Consistency
A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic inconsistency. Three guidelines help determine if organizational problems are due to inconsistencies in strategy: • If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent. • If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.
Consonance
Consonance refers to the need for strategists to examine sets of trends, as well as individual trends, in evaluating strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, the day-care explosion came about as a combined result of many trends that included a rise in the average level of education, increased inflation, and

an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.

Feasibility

A strategy must neither overtax available resources nor create unsolvable subproblems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is evaluated. It is sometimes forgotten, however, that innovative approaches to financing are often possible. Devices, such as captive subsidiaries, sale-leaseback arrangements, and tying plant mortgages to long-term contracts, have all been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individual and organizational capabilities. In evaluating a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy

Advantage

A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas: (1) resources, (2) skills, or (3) position. The idea that the positioning of one's resources can enhance their combined effectiveness is familiar to military theorists, chess players, and diplomats. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible—meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. Therefore, in evaluating strategy, organizations should examine the nature of positional advantages associated with a given strategy.

A fundamental problem facing managers today is how to control employees effectively in light of modern organizational demands for greater flexibility, innovation, creativity, and initiative from employees. How can managers today ensure that empowered employees acting in an entrepreneurial manner do not put the well-being of the business at risk?

A Strategy-Evaluation Framework

Table 10.3 summarizes strategy-evaluation activities in terms of key questions that should be addressed, alternative answers to those questions, and appropriate actions for an organization to take. Notice that corrective actions are almost always needed except when (1) external and internal factors have not significantly changed and (2) the firm is progressing satisfactorily toward achieving stated objectives. Relationships among strategy-evaluation activities are illustrated in Figure 10.1.

Reviewing Bases of Strategy

As shown in Figure 10.1, reviewing the underlying bases of an organization's strategy could be approached by developing a revised EFE Matrix and IFE Matrix. A revised IFE Matrix should focus on changes in the organization's management, marketing, finance/accounting,

Table 10.3

A Strategy-Evaluation Assessment Matrix

Have Major Changes Occurred in the Firm Internal Strategic Position?	**Have Major Changes Occurred in the Firm External Strategic Position?**	**Has the Firm Progressed Satisfactorily Toward Achieving Its Stated Objectives?**	**Result**
No	No	No	Take corrective actions
Yes	Yes	Yes	Take corrective actions
Yes	Yes	No	Take corrective actions
Yes	No	Yes	Take corrective actions
Yes	No	No	Take corrective actions
No	Yes	Yes	Take corrective actions
No	Yes	No	Take corrective actions
No	No	Yes	Continue present strategic course

production/operations, R&D, and management information systems strengths and weaknesses. A revised EFE Matrix should indicate how effective a firm’s strategies have been in response to key opportunities and threats. This analysis could also address such questions as the following:

1. How have competitors reacted to our strategies?
2. How have competitors’ strategies changed?
3. Have major competitors’ strengths and weaknesses changed?
4. Why are competitors making certain strategic changes?
5. Why are some competitors’ strategies more successful than others?
6. How satisfied are our competitors with their present market positions and profitability?
7. How far can our major competitors be pushed before retaliating?
8. How could we more effectively cooperate with our competitors?

External opportunities and threats and internal strengths and weaknesses that represent the bases of current strategies should continually be monitored for change. It is not really a question of whether these factors will change but rather when they will change and in what ways. Here are some key questions to address in evaluating strategies:

1. Are our internal strengths still strengths?
2. Have we added other internal strengths? If so, what are they?
3. Are our internal weaknesses still weaknesses?
4. Do we now have other internal weaknesses? If so, what are they?
5. Are our external opportunities still opportunities?
6. Are there now other external opportunities? If so, what are they?
7. Are our external threats still threats?
8. Are there now other external threats? If so, what are they?
9. Are we vulnerable to a hostile takeover?

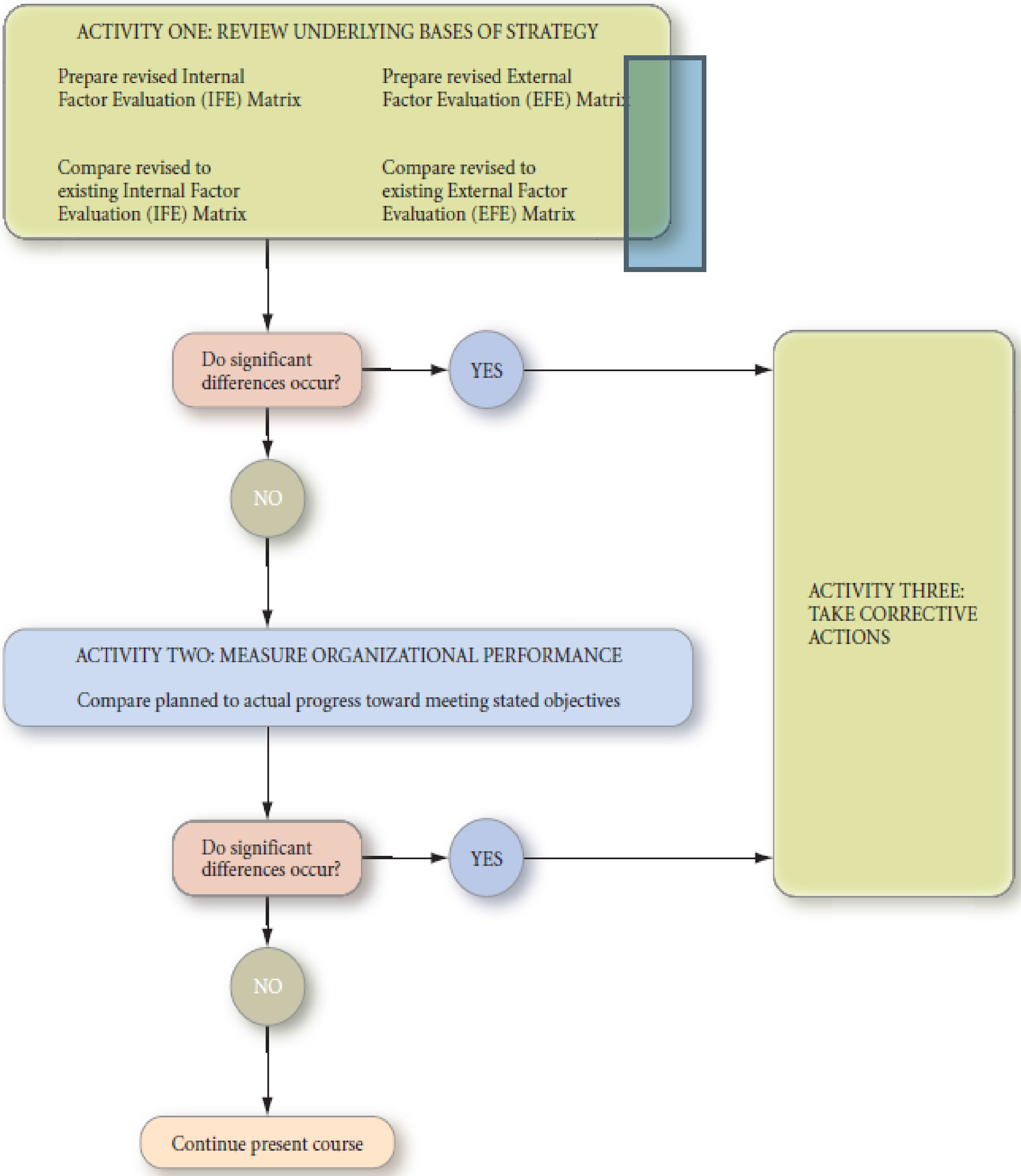


Figure 10.1 – A Strategy-Evaluation Framework

Measuring Organizational Performance

Another important strategy-evaluation activity is measuring organizational performance. This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Criteria that predict results may be more important than those that reveal what already has happened. Really effective control requires accurate forecasting.

Some key financial ratios that are particularly useful as criteria for strategy evaluation are as follows:

1. Return on investment (ROI)
2. Return on equity (ROE)
3. Profit margin
4. Market share
5. Debt to equity
6. Earnings per share
7. Sales growth
8. Asset growth

Table 10.4

A Sample Framework for Measuring Organizational Performance

Factor	Actual Result	Expected Result	Variance	Action Needed
Corporate Revenues Corporate Profits Corporate ROI				
Region 1 Revenues Region 1 Profits Region 1 ROI				
Region 2 Revenues Region 2 Profits Region 2 ROI				
Product 1 Revenues Product 1 Profits Product 1 ROI				
Product 2 Revenues Product 2 Profits Product 2 ROI				

Some additional key questions that reveal the need for qualitative or intuitive judgments in strategy evaluation are as follows:

1. How good is the firm’s balance of investments between high-risk and low-risk projects?

2. How good is the firm's balance of investments between long-term and short-term projects?

3. How good is the firm's balance of investments between slow-growing markets and fast-growing markets?

4. How good is the firm's balance of investments among different divisions?

Taking Corrective Actions

The final strategy-evaluation activity, taking corrective actions, requires making changes to competitively reposition a firm for the future. As indicated in Table 10.5, examples of changes that may be needed are altering an organization's structure, replacing one or more key individuals, selling a division, or revising a business mission. Taking corrective actions does not necessarily mean that existing strategies will be abandoned or even that new strategies must be formulated.

Table 10.5

Corrective Actions Possibly Needed to Correct Unfavorable Variances

Alter the firm's structure
Replace one or more key individuals
Divest a division
Alter the firm's vision and/or mission
Revise objectives
Alter strategies
Devise new policies
Install new performance incentives
Raise capital with stock or debt
Add or terminate salespersons, employees, or managers
Allocate resources differently
Outsource (or rein in) business functions

No organization can survive as an island; no organization can escape change. Taking corrective actions is necessary to keep an organization on track toward achieving stated objectives. Strategy evaluation enhances an organization's ability to adapt successfully to changing circumstances.

Resistance to change is often emotionally based and not easily overcome by rational argument. Resistance may be based on such feelings as loss of status, implied criticism of present competence, fear of failure in the new situation, annoyance at not being consulted, lack of understanding of the need for change, or insecurity in changing from well-known and fixed methods. It is necessary, therefore, to overcome such resistance by creating situations of participation and full explanation when changes are envisaged.

The Balanced Scorecard

Introduced earlier in the Lecture 5 discussion of objectives, the Balanced Scorecard is an important strategy-evaluation tool. It is a process that allows firms to evaluate strategies from four perspectives: financial performance, customer knowledge, internal business processes, and learning and growth. The Balanced Scorecard analysis requires that firms seek answers to the following questions and utilize that information, in conjunction with financial measures, to adequately and more effectively evaluate strategies being implemented:

1. How well is the firm continually improving and creating value along measures such as innovation, technological leadership, product quality, operational process efficiencies, and so on?
2. How well is the firm sustaining and even improving upon its core competencies and competitive advantages?
3. How satisfied are the firm's customers?

A sample Balanced Scorecard is provided in Table 10.6.

Table 10.6.

An Example Balanced Scorecard

Area of Objectives	Measure or Target	Time Expectation	Primary Responsibility
Customers 1. 2. 3. 4. Managers/Employees 1. 2. 3. 4. Operations/Processes 1. 2. 3. 4. Community/Social Responsibility 1. 2. 3. 4. Business Ethics/Natural Environment 1. 2. 3. 4. Financial 1. 2. 3. 4.			

Notice that the firm examines six key issues in evaluating its strategies: (1) Customers, (2) Managers/Employees, (3) Operations/Processes, (4) Community/Social Responsibility, (5) Business Ethics/Natural Environment, and (6) Financial. The basic form of a Balanced Scorecard may differ for different organizations. The Balanced Scorecard approach to strategy evaluation aims to balance long-term with short-term concerns, to balance financial with nonfinancial concerns, and to balance internal with external concerns. It can be an excellent management tool, and it is used successfully today by Chemical Bank, Exxon/Mobil Corporation, CIGNA Property and Casualty Insurance, and numerous other firms.

Characteristics of an Effective Evaluation System

Strategy evaluation must meet several basic requirements to be effective. First, strategy- evaluation activities must be economical; too much information can be just as bad as too little information; and too many controls can do more harm than good. Strategy-evaluation activities also should be meaningful; they should specifically relate to a firm's objectives. They should provide managers with useful information about tasks over which they have control and influence. Strategy-evaluation activities should provide timely information; on occasion and in some areas, managers may daily need information. Frequent measurement and rapid reporting may frustrate control rather than give better control. The time dimension of control must coincide with the time span of the event being measured.

Large organizations require a more elaborate and detailed strategy-evaluation system because it is more difficult to coordinate efforts among different divisions and functional areas. Managers in small companies often communicate daily with each other and their employees and do not need extensive evaluative reporting systems. Familiarity with local environments usually makes gathering and evaluating information much easier for small organizations than for large businesses. There is no one ideal strategy-evaluation system. The unique characteristics of an organization, including its size, management style, purpose, problems, and strengths, can determine a strategy-evaluation and control system's final design. Robert Waterman offered the following observation about successful organizations' strategy-evaluation and control systems:

Contingency Planning

A basic premise of good strategic management is that firms plan ways to deal with unfavorable and favorable events before they occur. Too many organizations prepare contingency plans just for unfavorable events; this is a mistake, because both minimizing threats and capitalizing on opportunities can improve a firm's competitive position.

Some contingency plans commonly established by firms include the following:

1. If a major competitor withdraws from particular markets as intelligence reports indicate, what actions should our firm take?

2. If our sales objectives are not reached, what actions should our firm take to avoid profit losses?

3. If demand for our new product exceeds plans, what actions should our firm take to meet the higher demand?

4. If certain disasters occur—such as loss of computer capabilities; a hostile takeover attempt; loss of patent protection; or destruction of manufacturing facilities because of earthquakes, tornadoes or hurricanes—what actions should our firm take?

5. If a new technological advancement makes our new product obsolete sooner than expected, what actions should our firm take?

Too many organizations discard alternative strategies not selected for implementation although the work devoted to analyzing these options would render valuable information. Alternative strategies not selected for implementation can serve as contingency plans in case the strategy or strategies selected do not work.

Part II
Practical cases

As a result of practical cases student must be able to:

- describe the nature and role of vision and mission statements in strategic management. Discuss why the process of developing a mission statement is as important as the resulting document. Identify the components of mission statements. Write good vision and mission statements;

- explain how to develop an EFE Matrix. Explain how to develop a Competitive Profile Matrix;

- perform an internal strategic-management audit. Explain how to determine and prioritize a firm's internal strengths and weaknesses. Develop an Internal Factor Evaluation (IFE) Matrix;

- identify 16 types of business strategies. Discuss and develop the Balanced Scorecard. Describe the relationships between production/operations and strategy implementation;

-develop a SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and QSPM;

- identify important behavioral, political, ethical, and social responsibility considerations in strategy analysis and choice;

- explain why strategy implementation is more difficult than strategy formulation.

LECTURE 1 The Nature of Strategic Management

Assurance of Learning Exercise 1A

Gathering Strategy Information

Purpose

The purpose of this exercise is to get you familiar with strategy terms introduced and defined in Chapter 1. Let's apply these terms to McDonald's Corporation (stock symbol = MCD).

Instructions

Step 1Go to www.mcdonalds.com, which is McDonald's Web site. Click on the word Search.

Then type in the words Annual Report. Then print the 2013 McDonald's Annual Report. The Annual Report contains excellent information for developing a list of internal strengths and weaknesses for MCD.

Step 2Go to your college library and make a copy of Standard & Poor's Industry Surveys for the restaurant industry. This document will contain excellent information for developing a list of external opportunities and threats facing MCD.

Step 3Go to the www.finance.yahoo.com Web site. Enter MCD. Note the wealth of information on McDonald's that may be obtained by clicking any item along the left column. Click on Competitors down the left column. Then print out the resultant tables and information. Note that McDonald's two major competitors are Yum! Brands, Inc. and Burger King Holdings.

Step 4 Using the www.finance.yahoo information, the 2013 Annual Report, and the Industry Survey document, on a separate sheet of paper list what you consider to be MCD's three major strengths, three major weaknesses, three major opportunities, and three major threats. Each factor listed for this exercise must include a %, #, $, or ratio to reveal some quantified fact or trend. These factors provide the underlying basis for a strategic plan because a firm strives to take advantage of strengths, improve weaknesses, avoid threats, and capitalize on opportunities.

Step 5 Through class discussion, compare your lists of external and internal factors to those developed by other students and add to your lists of factors. Keep this information for use in later exercises at the end of other chapters.

Step 6 Be mindful that whatever case company is assigned to your team of students this semester, you can start to update the information on your company by following the steps just listed for any publicly-held firm.

Assurance of Learning Exercise 1B

Strategic Planning for My University

Purpose

External and internal factors are the underlying bases of strategies formulated and implemented by organizations. Your college or university faces numerous external opportunities/threats and has many internal strengths/weaknesses. The purpose of this exercise is to illustrate the process of identifying critical external and internal factors

External influences include trends in the following areas: economic, social, cultural, demographic, environmental, technological, political, legal, governmental, and competitive. External factors could include declining numbers of high school graduates; population shifts; community relations; increased competitiveness among colleges and universities; rising numbers of adults returning to college; decreased support from local, state, and federal agencies; increasing numbers of foreign students attending U.S. colleges; and a rising number of Internet courses.

Internal factors of a college or university include faculty, students, staff, alumni, athletic programs, physical plant, grounds and maintenance, student housing, administration, fund- raising, academic programs, food services, parking, placement, clubs, fraternities, sororities, and public relations.

Instructions

Step 1On a separate sheet of paper, write four headings: External Opportunities, External Threats, Internal Strengths, and Internal Weaknesses.

Step 2As related to your college or university, list five factors under each of the four headings.

Step 3Discuss the factors as a class. Write the factors on the board.

Step 4What new things did you learn about your university from the class discussion? How could this type of discussion benefit an organization?

Assurance of Learning Exercise 1C

Strategic Planning at a Local Company

Purpose

This activity is aimed at giving you practical knowledge about how organizations in your city or town are doing strategic planning. This exercise also will give you experience interacting on a professional basis with local business leaders.

Instructions

Step 1Use the telephone to contact business owners or top managers. Find an organization that does strategic planning. Make an appointment to visit with the strategist (president, chief executive officer, or owner) of that business.

Step 2Seek answers to the following questions during the interview:

- ✓ How does your firm formally conduct strategic planning? Who is involved in the process? Does the firm hold planning retreats? If yes, how often and where?
- ✓ Does your firm have a written mission statement? How was the statement developed? When was the statement last changed?
- ✓ What are the benefits of engaging in strategic planning?
- ✓ What are the major costs or problems in doing strategic planning in your business?
- ✓ Do you anticipate making any changes in the strategic-planning process at your company? If yes, please explain.

Step 3Report your findings to the class.

Assurance of Learning Exercise 1D

Getting Familiar with SMCO

Purpose

This exercise is designed to get you familiar with the Strategic Management Club Online (SMCO), which offers many benefits for the strategy student. The SMCO site also offers templates for doing case analyses in this course.

Instructions

Step 1Go to the www.strategyclub.com Web site. Review the various sections of this site.

Step 2Select a section of the SMCO site that you feel will be most useful to you in this class.

Write a one-page summary of that section and describe why you feel it will benefit you most.

LECTURE 2 The Business Vision and Mission

Assurance of Learning Exercise 2A

Evaluating Mission Statements

Purpose

A business mission statement is an integral part of strategic management. It provides direction for formulating, implementing, and evaluating strategic activities. This exercise will give you practice evaluating mission statements, a skill that is a prerequisite to writing a good mission statement.

Instructions

Step 1On a clean sheet of paper, prepare a 9 x 3 matrix. Place the nine mission statement components down the left column and the following three companies across the top of your paper.

Step 2Write Yes or No in each cell of your matrix to indicate whether you feel the particular mission statement includes the respective component.

Step 3 Turn your paper in to your instructor for a classwork grade.

Mission Statements

General Motors

Our mission is to be the world leader in transportation products and related services. We aim to maintain this position through enlightened customer enthusiasm and continuous improvement driven by integrity, teamwork, innovation and individual respect and responsibility of our employees.

North Carolina Zoo

Our mission is to encourage understanding of and commitment to the conservation of the world's wildlife and wild places through recognition of the interdependence of people and nature. We will do this by creating a sense of enjoyment, wonder and discovery throughout the Park and in our outreach programs.

Samsonite

Our mission is to be the leader in the travel industry. Samsonite's ambition is to provide unparalleled durability, security and dependability in all of its products, through leading edge functionality, features, innovation, technology, contemporary aesthetics and design. In order to fill every niche in the travel market, Samsonite will seek to create strategic alliances, combining our strengths with other partners in our brands.

Assurance of Learning Exercise 2B

Writing a Vision and Mission Statement for McDonald's Corporation

Purpose

There is always room for improvement in regard to an existing vision and mission statement. Currently McDonald's does not have a vision statement or mission statement, so this exercise will ask you to develop one.

McDonald's Corporation's Values

We place the customer experience at the core of all we do Our customers are the reason for our existence. We demonstrate our appreciation by providing them with high quality food and superior service, in a clean, welcoming environment, at a great value.

We are committed to our people

We provide opportunity, nurture talent, develop leaders and reward achievement. We believe that a team of well-trained individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continued success.

We believe in the McDonald’s system

McDonald’s business model, depicted by the “three-legged stool” of owner/operators, suppliers, and company employees, is our foundation, and the balance of interests among the three groups is key.

We operate our business ethically

Sound ethics is good business. At McDonald’s, we hold ourselves and conduct our business to high standards of fairness, honesty, and integrity. We are individually accountable and collectively responsible.

We give back to our communities

We take seriously the responsibilities that come with being a leader. We help our customers build better communities, support Ronald McDonald House Charities, and leverage our size, scope and resources to help make the world a better place.

We grow our business profitably

McDonald’s is a publicly traded company. As such, we work to provide sustained profitable growth for our shareholders. This requires a continuing focus on our customers and the health of our system.

We strive continually to improve

We are a learning organization that aims to anticipate and respond to changing customer, employee and system needs through constant evolution and innovation.

Instructions

Step 1On a clean sheet of paper, write a one-sentence vision statement for McDonald's.

Step 2 On that same sheet of paper, write a mission statement for McDonald's.

Assurance of Learning Exercise 2C

Writing a Vision and Mission Statement for My University

Purpose

Most universities have a vision and mission statement. The purpose of this exercise is to give you practice writing a vision and mission statement for a nonprofit organization such as your own university.

LECTURE 3 The External Assessment

Assurance of Learning Exercises 3A

Developing an EFE Matrix for McDonald's Corporation

Purpose

This exercise will give you practice developing an EFE Matrix. An EFE Matrix summarizes the results of an external audit. This is an important tool widely used by strategists.

Instructions

Step 1 Join with two other students in class, and jointly prepare an EFE Matrix for McDonald's Corporation. Identify external opportunities and threats. Be sure not to include strategies as opportunities, but do include as many monetary amounts, percentages, numbers, and ratios as possible.

Step 2All three-person teams participating in this exercise should record their EFE total weighted scores on the board. Put your initials after your score to identify it as your team's.

Step 3Compare the total weighted scores.

Discuss reasons for variation in the scores reported on the board.

Assurance of Learning Exercise 3B

The External Assessment

Purpose

This exercise will help you become familiar with important sources of external information available in your college library. A key part of preparing an external audit is searching the Internet and examining published sources of information for relevant economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends and events. External opportunities and threats must be identified and evaluated before strategies can be formulated effectively.

Instructions

Step 1Select a company or business where you currently or previously have worked. Conduct an external audit for this company. Find opportunities and threats in recent issues of newspapers and magazines. Search for information using the Internet. Use the following six Web sites:

http://marketwatch.multexinvestor.com

www.hoovers.com

http://moneycentral.msn.com

http://finance.yahoo.com

www.clearstation.com

https://us.etrade.com/e/t/invest/markets.

Step 2On a separate sheet of paper, list 10 opportunities and 10 threats that face this company. Be specific in stating each factor.

Step 3Include a bibliography to reveal where you found the information.

Step 4Write a three-page summary of your findings, and submit it to your instructor.

Assurance of Learning Exercise 3C

Developing an EFE Matrix for My University

Purpose

More colleges and universities are embarking on the strategic-management process. Institutions are consciously and systematically identifying and evaluating external opportunities and threats facing higher education in your state, the nation, and the world.

Assurance of Learning Exercise 3D

Developing a Competitive Profile Matrix for McDonald's Corporation

Purpose

Monitoring competitors' performance and strategies is a key aspect of an external audit. This exercise is designed to give you practice evaluating the competitive position of organizations in a given industry and assimilating that information in the form of a Competitive Profile Matrix.

Assurance of Learning Exercise 3E

Developing a Competitive Profile Matrix for My University

Purpose

Your college or university competes with all other educational institutions in the world, especially those in your own state. State funds, students, faculty, staff, endowments, gifts, and federal funds are areas of competitiveness. Other areas include athletic programs, dorm life, academic reputation, location, and career services. The purpose of this exercise is to give you practice thinking competitively about the business of education in your state.

LECTURE 4 The Internal Assessment

Assurance of Learning Exercise 4A

Performing a Financial Ratio Analysis for McDonald's Corporation (MCD)

Purpose

Financial ratio analysis is one of the best techniques for identifying and evaluating internal strengths and weaknesses. Potential investors and current shareholders look closely at firms' financial ratios, making detailed comparisons to industry averages and to previous periods of time. Financial ratio analyses provide vital input information for developing an IFE Matrix.

Instructions

Step 1 On a separate sheet of paper, number from 1 to 20. Referring to McDonald's income statement and balance sheet (pp. 31-32), calculate 20 financial ratios for 2008 for the company. Use Table 4-7 as a reference.

Step 2 In a second column, indicate whether you consider each ratio to be a strength, a weakness, or a neutral factor for McDonald's.

Step 3 Go to the Web sites in Table 4-6 that calculate McDonald's financial ratios, without your having to pay a subscription (fee) for the service. Make a copy of the ratio information provided and record the source. Report this research to your classmates and your professor.

Assurance of Learning Exercise 4B

Constructing an IFE Matrix for McDonald's Corporation

Purpose

This exercise will give you experience in developing an IFE Matrix. Identifying and prioritizing factors to include in an IFE Matrix fosters communication among functional and divisional managers. Preparing an IFE Matrix allows human resource, marketing, production/operations, finance/accounting, R&D, and management information systems managers to articulate their concerns and thoughts regarding the business condition of the firm. This results in an improved collective understanding of the business.

Assurance of Learning Exercise 4C

Constructing an IFE Matrix for My University

Purpose

This exercise gives you the opportunity to evaluate your university's major strengths and weaknesses. As will become clearer in the next chapter, an organization's strategies are largely based upon striving to take advantage of strengths and improving upon weaknesses

LECTURE 5 The nature and types of business strategies

Assurance of Learning Exercise 5A

Examining Strategy Articles

Purpose

Strategy articles can be found weekly in journals, magazines, and newspapers. By reading and studying strategy articles, you can gain a better understanding of the strategic- management process. Several of the best journals in which to find corporate strategy articles are Advanced Management Journal, Business Horizons, Long Range Planning, Journal of Business Strategy, and Strategic Management Journal. These journals are devoted to reporting the results of empirical research in management. They apply strategic-management concepts to specific organizations and industries. They introduce new strategic- management techniques and provide short case studies on selected firms.

Other good journals in which to find strategic-management articles are Harvard Business Review, Sloan Management Review, California Management Review, Academy of Management Review, Academy of Management Journal, Academy of Management Executive, Journal of Management, and Journal of Small Business Management.

In addition to journals, many magazines regularly publish articles that focus on business strategies. Several of the best magazines in which to find applied strategy articles are Dun's Business Month, Fortune, Forbes, BusinessWeek, Inc., and Industry Week. Newspapers such as USA Today, Wall Street Journal, New York Times, and Barrons cover strategy events when they occur—for example, a joint venture announcement, a bankruptcy declaration, a new advertising campaign start, acquisition of a company, divestiture of a division, a chief executive officer's hiring or firing, or a hostile takeover attempt.

In combination, journal, magazine, and newspaper articles can make the strategic-management course more exciting. They allow current strategies of for-profit and nonprofit organizations to be identified and studied.

Assurance of Learning Exercise 5B

Classifying Some Year 2009 Strategies

Purpose

This exercise can improve your understanding of various strategies by giving you experience classifying strategies. This skill will help you use the strategy-formulation tools presented later. Consider the following 8 actual year-2009 strategies by various firms:

1. Microsoft developed a new videocamera for its Xbox 360 console that allowed players to control games with the movement of their bodies, rather than by holding a plastic wand in their hands, as required with Nintendo's popular Wii game console.
2. Wells Fargo and Bank of America began to "tweet"—post messages of 140 characters or less on Twitter.com, so customers could see product features. Banks are also putting marketing videos on YouTube.
3. The United Kingdom's huge telecom firm, BT Group PLC, cut 15,000 more jobs on top of the 15,000 the prior year.
4. Japanese electronics maker Panasonic Corp. acquired Osaka, Japan-based Sanyo Electric Company.
5. News Corp. sold off many of its television stations.
6. More than 1,000 Chrysler dealers closed their doors and ceased doing business.
7. Germany's Metro AG, the world's fourth-largest retailer after Wal-Mart, Carrefour SA, and Home Depot, is expanding aggressively into China.
8. Time Warner plans to spin off or sell all or part of AOL.

Assurance of Learning Exercise 5C

Developing BSC for company

Indicators	The minimum value	The maximum value	The actual value	Normalized score (max 10 p)	Weight	Normalized weighted score
Revenue growth	0	25	10			
Return on equity	0	40	20			
Unit cost						
Total under the perspective "Financial"						
% of sales from new products						
Ontime delivery						
Share of key accounts						
Number of cooperative efforts						
Total under the perspective "Customer"						
Cycle time, yield						
Engineering efficiency						
Total under the perspective "Internal Business Process"						
Time to new process maturity						
% of products representing 80% of sales						
Time compared to that of competitors						
Total under the perspective "Learning and Growth "						

$$Sn = \frac{Xact - X\min}{X\max - X\min} \times 10,$$

$$Sn = (1 - \frac{Xact - X\min}{X\max - X\min}) \times 10,$$

$$Snw = Sn \times W$$

Assurance of Learning Exercise 5C

How Risky Are Various Alternative Strategies?

Purpose

This exercise focuses on how risky various alternative strategies are for organizations to pursue. Different degrees of risk are based largely on varying degrees of externality, defined as movement away from present business into new markets and products. In general, the greater the degree of externality, the greater the probability of loss resulting from unexpected events. High-risk strategies generally are less attractive than low-risk strategies.

Instructions

Step 1On a separate sheet of paper, number vertically from 1 to 10. Think of 1 as "most risky," 2 as "next most risky," and so forth to 10, "least risky."

Step 2Write the following strategies beside the appropriate number to indicate how risky you believe the strategy is to pursue: horizontal integration, related diversification, liquidation, forward integration, backward integration, product development, market development, market penetration, retrenchment, and unrelated diversification.

LECTURE 7 Strategic management in organizations of different types

Assurance of Learning Exercise 7A

Developing Alternative Strategies for My University

Purpose

It is important for representatives from all areas of a college or university to identify and discuss alternative strategies that could benefit faculty, students, alumni, staff, and other constituencies. As you complete this exercise, notice the learning and understanding that occurs as people express differences of opinion. Recall that the process of planning is more important than the document.

Instructions

Step 1Recall or locate the external opportunity/threat and internal strength/weakness factors that you identified as part of Exercise 1B. If you did not do that exercise, discuss now as a class important external and internal factors facing your college or university.

Step 3On a separate sheet of paper, number from 1 to 10. Everyone in class individually should rate the strategies identified, using a 1 to 3 scale, where 1 = I do not support implementation, 2 = I am neutral about implementation, and 3 = I strongly support implementation. In rating the strategies, recognize that your institution cannot do everything desired or potentially beneficial.

Step 4 Go to the board and record your ratings in a row beside the respective strategies. Everyone in class should do this, going to the board perhaps by rows in the class.

Step 5 Sum the ratings for each strategy so that a prioritized list of recommended strategies is obtained. This prioritized list reflects the collective wisdom of your class. Strategies with the highest score are deemed best.

Step 6 Discuss how this process could enable organizations to achieve understanding and commitment from individuals.

Assurance of Learning Exercise 7B

Lessons in Doing Business Globally

Purpose

The purpose of this exercise is to discover some important lessons learned by local businesses that do business internationally.

Instructions

Contact several local business leaders by phone. Find at least three firms that engage in international or export operations. Visit the owner or manager of each business in person. Ask the businessperson to give you several important lessons that his or her firm has learned in globally doing business. Record the lessons on paper, and report your findings to the class.

LECTURE 8 Strategy Analysis and Choice

Assurance of Learning Exercise 8A

Developing a SWOT Matrix for McDonald's

Purpose

The most widely used strategy-formulation technique among U.S. firms is the SWOT Matrix. This exercise requires the development of a SWOT Matrix for McDonald's. Matching key external and internal factors in a SWOT Matrix requires good intuitive and conceptual skills. You will improve with practice in developing a SWOT Matrix.

Instructions

Recall from Experiential Exercise 1A that you already may have determined McDonald's external opportunities/threats and internal strengths/weaknesses. This information could be used to complete this exercise. Follow the steps outlined as follows:

Assurance of Learning Exercise 8B

Developing a SPACE Matrix for McDonald's

Purpose

Should McDonald's pursue aggressive, conservative, competitive, or defensive strategies? Develop a SPACE Matrix for McDonald's to answer this question. Elaborate on the strategic implications of your directional vector. Be specific in terms of strategies that could benefit McDonald's.

Assurance of Learning Exercise 8C

Developing a BCG Matrix for McDonald's

Purpose

Portfolio matrices are widely used by multidivisional organizations to help identify and select strategies to pursue. A BCG analysis identifies particular divisions that should receive fewer resources than others. It may identify some divisions that need to be divested. This exercise can give you practice developing a BCG Matrix.

Assurance of Learning Exercise 8D

Formulating Individual Strategies

Purpose

Individuals and organizations are alike in many ways. Each has competitors, and each should plan for the future. Every individual and organization faces some external opportunities and threats and has some internal strengths and weaknesses. Both individuals and organizations establish objectives and allocate resources. These and other similarities make it possible for individuals to use many strategic-management concepts and tools. This exercise is designed to demonstrate how the SWOT Matrix can be used by individuals to plan their futures. As one nears completion of a college degree and begins interviewing for jobs, planning can be particularly important.

Instructions

On a separate sheet of paper, construct a SWOT Matrix. Include what you consider to be your major external opportunities, your major external threats, your major strengths, and your major weaknesses. An internal weakness may be a low grade point average. An external opportunity may be that your university offers a graduate program that interests you. Match key external and internal factors by recording in the appropriate cell of the matrix alternative strategies or actions that would allow you to capitalize upon your strengths, overcome your weaknesses, take advantage of your external opportunities, and minimize the impact of external threats.

Assurance of Learning Exercise 8H

The Role of Boards of Directors

Purpose

This exercise will give you a better understanding of the role of boards of directors in formulating, implementing, and evaluating strategies.

Instructions

Identify a person in your community who serves on a board of directors. Make an appointment to interview that person, and seek answers to the following questions. Summarize your findings in a five-minute oral report to the class.

- On what board are you a member?
- How often does the board meet?
- How long have you served on the board?
- What role does the board play in this company?
- How has the role of the board changed in recent years?
- What changes would you like to see in the role of the board?
- To what extent do you prepare for the board meeting?
- To what extent are you involved in strategic management of the firm?

The portfolio of activities of the manufacturer of electronic equipment for production purposes includes five strategic business units. Data on the sale of this PROPERTY and their rivals in the table. Information about the sale of these SBU and their competitors are given in the table.

SBU	Sales volume,mln pieces	The number of competitors	The sales volume of the three main competitors	The market growth rate, %
A	1,0	7	1,4/1,4/1,0	15
B	3,2	18	3,2/3,2/2,0	20
C	3,8	12	3,8/3,0/2,5	7
D	6,5	5	6,5/1,6/1,4	4

You must build a BCG matrix for trade enterprises according to the table. 1.

№ products	The market growth rate, %	Relative market share	The share of products in total sales of the enterprise, %
1	2	8	10,7
2	14	0,7	4,2
3	8	1,5	6,7
4	16,5	5	27,0
5	11	0,2	1,2
6	7	9	5,3
7	17	7	1,6

LECTURE 9 Implementing Strategies: Management and Operations Issues

Assurance of Learning Exercise 9A

Revising McDonald's Organizational Chart

Purpose

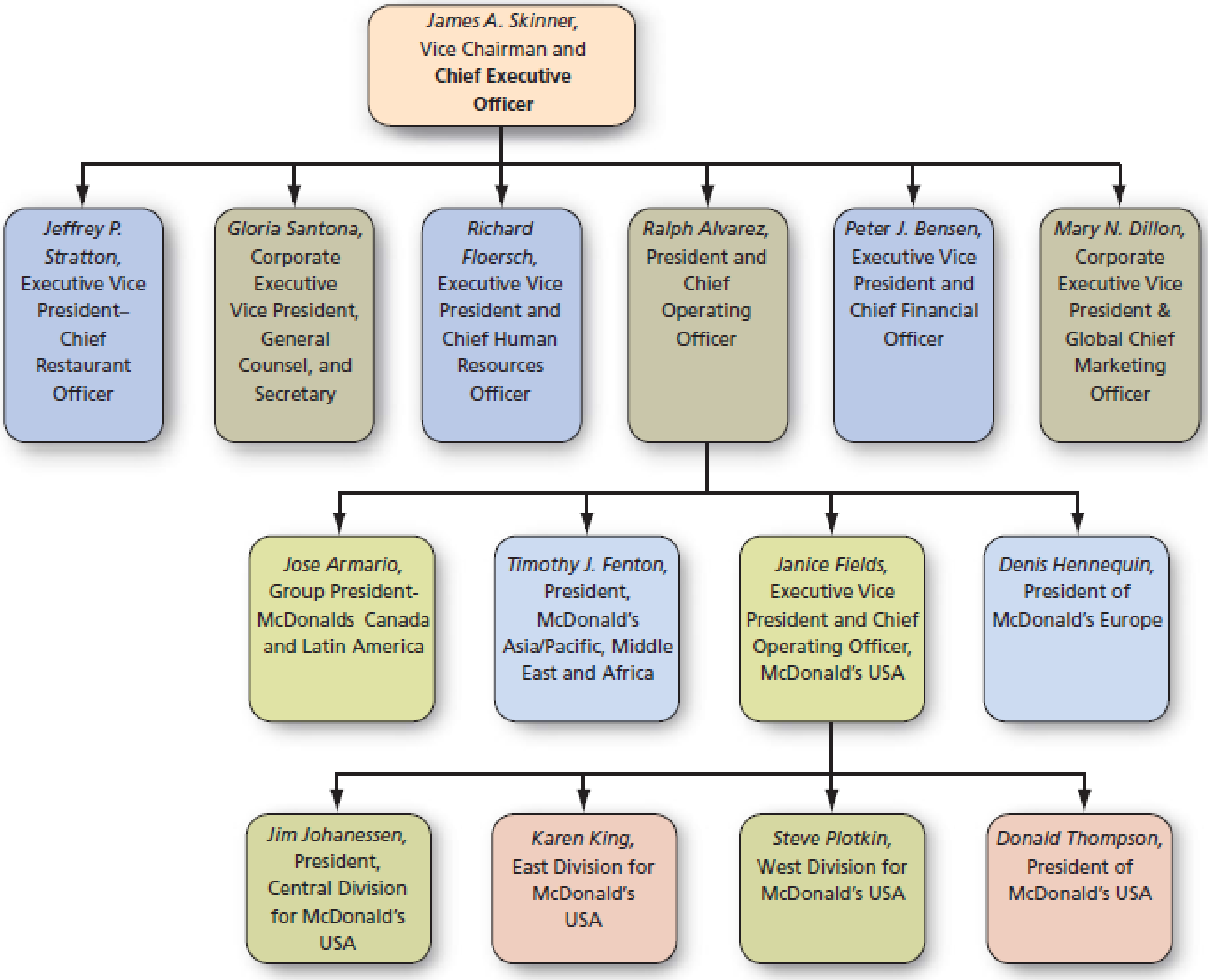
Developing and altering organizational charts is an important skill for strategists to possess. This exercise can improve your skill in altering an organization's hierarchical structure in response to new strategies being formulated.

Instructions

Step 1Review the organizational chart. On a separate sheet of paper, answer the following questions:

1. What type of organizational chart is illustrated for McDonald's?
2. What improvements could you recommend for the McDonald's organizational chart? Give your reasoning for each suggestion.
3. What aspects of McDonald's chart do you especially like?
4. What type of organizational chart do you believe would best suit McDonald's? Why?

EXHIBIT 3 McDonald's Corporation: Executive Officers and Organizational Chart



Assurance of Learning Exercise 9C

Understanding My University's Culture

Purpose

It is something of an art to uncover the basic values and beliefs that are buried deeply in an organization's rich collection of stories, language, heroes, heroines, and rituals, yet culture can be the most important factor in implementing strategies.

LECTURE 10 Strategy Review, Evaluation, and Control

Assurance of Learning Exercise 10A

Preparing a Strategy-Evaluation Report for McDonald's Corp.

Purpose

This exercise can give you experience locating strategy-evaluation information. Use of the Internet coupled with published sources of information can significantly enhance the strategy- evaluation process. Performance information on competitors, for example, can help put into perspective a firm's own performance.

Instructions

Step 1Visit

http://marketwatch.multexinvestor.com,

http://moneycentral.msn.com,

http://finance.yahoo.com,

www.clearstation.com to locate strategy-evaluation information on competitors. Read some recent articles that discuss the fast-food restaurant business.

Step 2 Summarize your research findings by preparing a strategy-evaluation report for your instructor. Include in your report a summary of McDonald's strategies and performance in 2010 and a summary of your conclusions regarding the effectiveness of McDonald's strategies.

Step 3 Based on your analysis, do you feel that McDonald's is pursuing effective strategies? What recommendations would you offer to McDonald's chief executive officer?

Assurance of Learning Exercise 10B

Evaluating My University's Strategies

Purpose

An important part of evaluating strategies is determining the nature and extent of changes in an organization's external opportunities/threats and internal strengths/weaknesses. Changes in these underlying critical success factors can indicate a need to change or modify the firm's strategies.

Part III

Coursework

Steps in Preparing a Comprehensive Written Analysis

In preparing a written case analysis, you could follow the steps outlined here, which correlate to the stages in the strategic-management process and the chapters in this text.

Step 1 Identify the firm's existing vision, mission, objectives, and strategies.
Step 2 Develop vision and mission statements for the organization.
Step 3 Identify the organization's external opportunities and threats.
Step 4 Construct a Competitive Profile Matrix (CPM).
Step 5 Construct an External Factor Evaluation (EFE) Matrix.
Step 6 Identify the organization's internal strengths and weaknesses.
Step 7 Construct an Internal Factor Evaluation (IFE) Matrix.
Step 8 Prepare a Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix, Strategic Position and Action Evaluation (SPACE) Matrix, Boston Consulting Group (BCG) Matrix, Internal-External (IE) Matrix, Grand Strategy Matrix, and Quantitative Strategic Planning Matrix (QSPM) as appropriate. Give advantages and disadvantages of alternative strategies.
Step 9 Recommend specific strategies and long-term objectives. Show how much your recommendations will cost. Clearly itemize these costs for each projected year. Compare your recommendations to actual strategies planned by the company.
Step 10 Specify how your recommendations can be implemented and what results you can expect. Prepare forecasted ratios and projected financial statements. Present a timetable or agenda for action.
Step 11 Recommend specific annual objectives and policies.

This is the coursework for the Management program. It aims to enable the learner develop and implement strategic cross-functional decisions towards the attainment of their organization's vision, mission and objectives using strategic management principles and integrating knowledge and skills learned from the other Management courses.

The learner will learn to do strategy formulation, implementation and evaluation, as well as to use various analytical frameworks and tools that can aid managers in decision making. Through this course, the learner's strategic thinking capability is expected to be strengthened in critically analyzing and integrating information about the company's external and internal environment in the local and global context, and to use this in formulating and implementing innovative strategies towards building a sustainable competitive advantage. The learners will likewise be made to understand the different strategy choices and to evaluate strategic management issues and concepts that are important. This course also aims to promote ethical business decisions, the practice of corporate social responsibility and making a contribution towards nation building.

LEARNING STRATEGIES:

The following methodologies will be utilized to achieve the learning objectives for the course:

1. Lectures
2. Class discussions
3. Workshop discussions (small groups)
4. Group assignments/reports
5. Individual assignments
6. Conferences, seminars and symposia when available

COURSE REQUIREMENTS:

1. Attendance/Punctuality

Learners are expected to attend all class sessions and be on time. Each session will run for two (2) hours. Although attendance per se is not given a grade equivalent, it will have a bearing on the learner's participation in class activities.

Learners who miss class sessions are responsible for the lessons taken up and are not excused from the work or assignments for that session.

The maximum number of absences is three (3), beyond which the learner will receive a "FAIL" grade. Habitual tardiness will be recorded. Tardiness exceeding 30 minutes is equivalent to an absence.

2. Class Participation

Each learner is expected to actively participate in discussions by way of sharing one's ideas and experiences relevant to the topic under discussion, giving comments and asking questions whenever appropriate. In order to participate actively in the class discussion, learners are expected to prepare and do the assignments prior to each session.

3. Individual Assignments

Learners are expected to do all assigned activities for each session and submit on time written reports specified in the course syllabus. Late reports will not be accepted and will not be given any grade credit. Failure to submit individual and group reports will also result to a "Fail" grade. The learners should be ready with a soft copy of their reports for presentation to the class when called by the professor.

4. Group Discussion/Presentation

Learners will be formed into small groups of 4-5 members and will be asked to apply the knowledge learned from some of the readings and the class discussion, using specific cases assigned by the facilitator or cases that involve companies and organizations that they are familiar with, including their STRAMA paper topic. Each learner is expected to actively participate in the group discussions and cooperate with the other team members in carrying out and fulfilling the requirements for the group assignment. The facilitator will give a grade for each group output/presentation and will require peer rating and evaluation in giving the individual grades for the group assignments.

5. Strategic Management (STRAMA) Paper

Each learner is expected to have an organization (business or non-profit) that he/she will write about for his/her strategic management paper.

a. Concept & Content

The STRAMA paper will be an integrative paper that should reflect the learner's ability in the following areas:

i. Proper application of the strategic management concepts and tools learned during the STRAMA course;

ii. Integration of learning from the various MBA subjects through the analysis and integration of functional issues and the development of consistent and supportive strategies in the various functional areas of business;

iii. Strategic thinking capability as shown in the analysis of strategic issues of the chosen business or organization and in the formulation of logical, rational and creative strategies;

iv. Translation of the strategies and programs into a consistent set of financial projections for the plan period, taking into account the resource requirements and financial implications of the strategies, among others.

In the formulation and development of the STRAMA paper, the learner is expected to undertake **rigorous research** to obtain the needed information relevant to the paper.

The learner is also expected to exercise professionalism in the manner of obtaining and using the information and in incorporating the same into the paper.

b. Guidelines in the Selection of a Company or an Organization for the STRAMA Paper

i. The company or organization should be preferably a medium-size or large, domestic or global and operating for at least four years to make a meaningful analysis of the company's overall performance. While the strategic management tools and concepts are applicable to small companies, using these as topics for the STRAMA paper is not encouraged because the learner may be constrained in applying some of the strategic management concepts and tools. **As a guideline, the company or organization should have an annual revenue (or budget, in case of non-profit or non-revenue generating organizations) of Php 12 million or more, with at least 15 employees.** Companies with smaller revenue size may be allowed by the professor on a case to case basis if he/she thinks that these can be good material for demonstrating the application of the various strategic management concepts and tools and at the same time encourage or develop the learner's strategic thinking capability. Not-for-Profit organizations and government agencies will be allowed as topics for the STRAMA paper but these should be discussed with the STRAMA professor.

ii. The learner must have the approval of the company to make it a subject of a STRAMA paper and must be able to draw information about its operating and financial performance.

iii. The learner should, as much as possible, be able to gather operating and financial information on the company's competitors.

iv. A large business unit within a company may be used for the STRAMA paper provided it has its own financial statements which the learner can access.

v. The professor must give clearance to the learner on the chosen company or organization.

c. Oral Defense and the Evaluation of the STRAMA Paper

The oral defense is aimed at validating the learner's mastery of the subject matter, his/her extent of understanding of the strategic issues and how well he/she is able to explain and justify the strategy recommendations.

The learner shall submit his/her STRAMA paper to the professor. The STRAMA paper shall be evaluated on the basis of how well it meets the requirements stated under (a) and (b) above and on how well the learner is able to orally present and defend it before a panel.

The learner will receive a grade for the actual STRAMA paper submitted (to be given a weight of 70%) and for the oral defense (to be given a weight of 30%).

For the STRAMA paper, the following criteria will be used (See Appendix A):

Completeness and technical correctness (40%) – the degree to which the prescribed content requirements of the paper have been met, at the same time indicating the correct application of the STRAMA concepts, theories and tools.

Critical thinking (40%) – the ability to integrate information and ideas and carry out a rational and in-depth analysis and the ability to identify key strategic management issues and produce substantive, creative, logical and well-thought out strategy recommendations

Organization and Writing Skills (20%) - the degree to which the topics have been logically sequenced within sections, use of correct grammar, spelling, tables and figures formats, and appropriateness of language used and the overall written communication skill as reflected in the paper.

For the oral defense, grading will be based on the degree to which the learner demonstrates mastery of the subject through the presentation of the summary and strategic issues and strategy recommendations and handling of the questions f. The learner's oral communication skills, clarity and effectiveness of the presentation materials used are also important and will be considered in the evaluation.

I. INTRODUCTION

Include a short background on the company

- ✓ Nature of business/products/services
- ✓ Current revenue size and profit
- ✓ Major markets served
- ✓ Number of employees
- ✓ Other relevant basic information

II. RESEARCH DESIGN AND METHODOLOGY

Identify the following:

- ✓ Data and information sources
- ✓ How information was obtained & methodologies used
- ✓ Major assumptions

III. COMPANY'S VISION AND MISSION

- ✓ State the current vision, mission and objectives of the company
- ✓ Comment or evaluate the vision and mission statements using David's framework and other criteria discussed in class. Recommend changes if needed. Or, develop new vision and mission statements. Explain how the recommended vision and mission meets the criteria based on David's framework, including how it takes into account ethical principles and nation building.
- ✓ Give recommendations on how you will communicate the vision and mission to the employees and other stakeholders.

IV. EXTERNAL ANALYSIS

A. General Environment

- ➢ Discuss *current and expected outlook* in the following areas, focusing only on factors that will have significant impact on your business. Consider the following areas only insofar as they are relevant and thus exert a significant impact on your industry

1. Economic developments
2. Socio-cultural, demographic trends, lifestyle changes
3. Technological developments
4. Political, legal, governmental aspects
5. Ecological aspects
6. Other external factors that may be more directly relevant to your business

➢ Translate the above in terms of what it means for your business, identifying opportunities and threats that may affect the following:

1. Market demand and opportunities
2. Types of products and services offered
3. Intensity of competition
4. Suppliers and distributors
5. Costs of doing business
6. Other aspects of the business

B. Industry and Competitor Analysis

➢ Analyze the industry's situation and prospects by looking into the following:

- ✓ Market size and/or growth rate and stage in the growth cycle
- ✓ Number of players and their relative sizes; market share analysis
- ✓ Market aspects (products or service, price, promotion, and channels of
- ✓ distribution)
- ✓ Buyer/Customer profile
- ✓ Factors affecting costs of doing business
- ✓ Operations/Production aspects
- ✓ Technology developments
- ✓ Industry financial analysis (growth, profitability, liquidity, leverage, efficiency)

- ✓ Problems in the industry
- ✓ Critical success factors in the industry

- ➢ Analyze your industry using Porter's Five Forces framework of competitive analysis and based on the preceding analysis, state your conclusion for each force.
- ➢ Do a competitor analysis:
- ✓ Identify your major competitors and provide relevant information for each, e.g. revenue size, financial health, market share, strategies, etc. If there are too many, select and focus only on a few (about two or three) and explain why you chose to focus on these competitors.
- ✓ Evaluate your competitors and your company vis-à-vis the critical success factors identified earlier. Do a Competitive Profile Matrix and explain the ratings.

C. Summary and Conclusion

Using the results of your general environment and industry analyses, identify and summarize the major opportunities and threats.

- ✓ Draw your conclusion about the industry's overall prospects and industry attractiveness.
- ✓ Identify key strategic issues that will have to be dealt with.
- ✓ Make a conclusion about your current company's competitive position or business strength in the industry, e.g., very strong, strong, middle-ground, weak.

V: COMPANY ANALYSIS

- ➢ Review the company's performance in terms of key performance indicators:
- ✓ Revenue/sales in the past three years
- ✓ How the company's growth compares with industry growth or vis-à-vis the other players

- ✓ Profitability, other relevant performance indicators
- ✓ Use David's functional audit to assess the different functional areas of the organization

VI: STRATEGY FORMULATION

Use the different strategy formulation tools (SWOT, SPACE, IE, GE/McKinsey, GRAND, and QSPM) and other relevant analytical tools to come up with strategic options and direction for the company. Explain the results of your analyses.

Make sure that your analysis and positioning in the various matrices/cells are consistent with the results of your external/industry and company analyses.

VII: OBJECTIVES, STRATEGY RECOMMENDATIONS AND ACTION PLANS

A. Strategic and Financial Objectives

- ➢ Provide a clear statement of your strategic and financial objectives for the company or business, for the next three years. It should state measurable objectives, e.g. market position, sales or revenue growth, net income or profit level, profitability or rate of return, etc. (Follow the SMART rule – specific, measurable, achievable, realistic, and time-bound.)
- ➢ Financial objectives: These can be stated in terms of revenues (level or growth), net income, profit margin, or other appropriate measures of financial performance
- ➢ Strategic objectives: These should define the major strategic thrust of the company
- ✓ It must be consistent with the results of your analytical tools under Lecture 8. For example, an aggressive expansion strategy should show more aggressive revenue growth while a "hold and maintain" position should show more moderate growth for the company.

- ➢ The time frame can be anywhere from three to five years, depending on the nature of the business and the characteristics of the industry where it belongs.

B. Recommended Business Strategies

- ✓ This should provide a more specific and comprehensive discussion of your proposed strategies consistent with the directions/generic strategies indicated by the strategy formulation tools. Avoid generic and motherhood statements. The strategies should enable the company or organization to achieve its objectives and address the strategic issues identified in your external and internal analysis.
- ✓ Include functional level strategies for the following areas: Marketing, Sales and Distribution, Operations/Production/Manufacturing, Finance and Human Resources.

C. Recommended Organizational Strategies

- ✓ Identify strategies that will involve the necessary changes needed in order to align the organization with the requirements of the business, given the long-term objectives and strategies.

Note that the business and organizational strategies may also be combined if deemed more appropriate.

D. The Strategy Map

Translate your strategy recommendations into a strategy map for the company.

E. Financial Projections and Overall Evaluation of the Strategies

- ✓ Show and discuss the long-term financial plan/projections in comparison with historical performance. Show and discuss the projected Income Statement, Balance Sheet and Cash Flows. Indicate ratio to sales and annual growth rates. For non-business oriented organizations, the financial projections may only involve projected budgets, costs or expenses.

✓ Make sure your strategies have logic based on your external and internal analysis and they will enable the company accomplish its strategic and financial objectives.

F. Departmental Programs

✓ This should outline the different programs and step by step action plans that will be undertaken to progress the implementation of the strategic plan. The action plans can be classified by strategic programs or by department or both.

✓ Specify milestones/expected output, timetable and persons or units responsible. Follow the template given in class.

VIII. STRATEGY EVALUATION, MONITORING AND CONTROL

✓ Prepare an appropriate Balanced Scorecard for the company as your strategy monitoring tool. This should allow the company to evaluate and monitor its strategies from four perspectives: financial performance, customer knowledge, internal business processes, and learning and growth. In each perspective, the Balanced Scorecard should contain the following: area of objectives, performance measures and targets, time frame, and unit/person primary responsible. Make sure that these are consistent with your strategy recommendations.

General notes:

Format for SM research paper: the paper must be written in a neat legible handwriting or provided in printed form. It has to be written (printed) on A4 sheets, the total number of pages should be 40-50 pages (excluding appendices). Required font is Times New Roman, 14, interval – 1,5, indention – 1,5, page setup – 2,5 (left side), 2 (right side, top and bottom).

1. Each chapter starts from a new page.

2. At the beginning of each chapter, the name of first, second, third, fourth and fifths chapters, Introduction, Conclusions, References (and so on) printed with bold and capital letters.

Writing method:

(1) Writing: using PC.

(2) Printing: using laser printers.

(3) Pages. After you are finished making all edits you have to add page numbering to your paper. Don't numerate Title Page and Task for the Master's research paper. Start numbering from Abstract and it will be page 3. Place numbering in the Contents. Place the page numbers on the right side of the page (footer). Print on one side of a sheet of paper.

Abstract:

(4) Tables:

- Table must be stated and explained in the body of the research paper.
- Table is placed in the nearest place after been mentioned in the writing body (or in the next page)
- The table title is written above it and title is preceded with word "Table" followed by its number Table 1.
- Table numbers are sequenced depending on its coming (1, 2, 3, 4 ...)
- Table pages are numbered in sequence with the rest of the paper pages.

(5) Figures:

- Figure number should be mentioned and referred to in the body of the master's research paper by placing a serial number for each figure in brackets (Figure 1, 2, 3, ...) and so on.
- Figures include graphs and photographs.
- Figure is placed in the nearest location to write pages where the figure was mentioned (or the next page)
- Number is written under the figure preceded by the word "Figure" and followed by two points Figure 1: then figure title.
- Figures pages are numbered in sequence with the rest of the pages.

Additional Guidelines:

- ✓ Do not be constrained by the company's current strategic plans or what you think will be acceptable to the company's management. What is important is that your recommended strategies follow the logic of your external and internal analyses and you strategy formulation tools and your own strategic insights.
- ✓ Make assumptions whenever necessary, but state these assumptions clearly.
- ✓ Ensure internal consistency of your strategic plan with the financial plan/projections.
- ✓ While the STRAMA paper will be evaluated largely on the basis of its logic, substance and content, it should be professionally done and written in formal style using the correct grammar, spelling, choice of words, and proper format. In addition, all tables and figures in the paper should be numbered for easy reference and should have appropriate titles, with units of measures used and data sources indicated. **All financial statements should be included in the paper as part of the Appendices.**

Acknowledge and cite your references and data sources. Proper footnoting should be followed. Note that the school enforces strict rules against plagiarism.

ACADEMIC INTEGRITY POLICY:

Each student is expected to abide by the standards of conduct and expectations of academic integrity that apply to academic undertakings**. In this connection, the student is especially cautioned against plagiarism. All STRAMA papers (the students are required to submit a soft copy of their STRAMA paper) will be subjected to a plagiarism check using a software.**