Principles of strategic management

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PRINCIPLES OF STRATEGIC MANAGEMENT

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1 THE PROCESS OF MANAGEMENT

1.1 INTRODUCTION

The strategic dimension of management has grown in importance, largely due to the increasing complexity of modern business organisations.

Cole (1994) stated, "Strategic management is a process, directed by top management, to determine the fundamental aims or goals of the organisation, and to ensure a range of decisions which will allow for the achievement of those aims or goals in the long term, while providing for adaptive responses in the shorter term."

However, in order to examine how today's situation has arisen – with the emphasis being placed on strategic management – we must look back to the 'roots' of management thinking with regard to management as an integrated activity, and the various elements or functions of which it is composed.

1.2 THE PROCESS OF MANAGEMENT

Henry Fayol (1930) was mostly concerned with the process of management, that is, what the actual job of a manager was. He suggested that there are five elements of management which are universal to all managers in all organisations.

1.3 FAYOL'S ELEMENTS OF MANAGEMENT

According to Fayol, "to manage is to forecast and plan, to organise, to command, to coordinate and to control."

1.3.1 TO FORECAST AND TO PLAN

Managing entails looking ahead: assessing the future and determining as accurately as possible, the probable course of future events which might affect an organisation and its operations. A 'forecast' is an assessment of the expected pattern of future events, and the ways in which it might have effects on the activities of the organisation or subsystems of it. Based on the forecast, plans can be formulated to attempt to deal successfully with the expected pattern of future events, and to take steps to overcome problems which it is anticipated will arise in the future; and as far as possible to avoid them before they arise.

The process of planning entails making decisions on how the predetermined objectives of an organisation, or a subsystem of it, should be achieved in the most efficient and economical way. We can say that 'plans' are 'roots to objectives.'

The managements of most modern organisations have integrated Fayol's ideas into their strategies, and they undertake both long-term and short-term planning on an organisation-wide basis.

1.3.2 TO ORGANISE

Organising involves putting the plans into practice, implementing the managerial decisions made, and so arranging the work which is to be performed that the organisation's objectives will be achieved as laid down in the plans. Fayol used the term 'organise' to mean the integration of the material resources and the human resources of the organisation. Not only does this include the purchasing processes for materials and services, and the recruitment procedure for personnel, but also the task of dividing up of the work – specialisation – among the workforce, determining the function and sphere of action of each worker or workgroup, and giving the appropriate training. All these activities lead to the most efficient use of resources.

We can say that 'organising' involves ensuring that the right workers, the right materials and the right machinery and equipment are in the right places at the right times in the right quantities, so that work will proceed in accordance with the formulated plans without delays, hold-ups or stoppages.

1.3.3 TO COMMAND

Fayol was conscious of the need to keep everyone on their toes, to keep the organisation in an active, rather than a passive state. 'Commanding' implies knowing the workers well and the business thoroughly, and issuing instructions in such a way that a high level of activity by the workforce is maintained. By using the leadership skills, a manager aims to get the best possible performance from his/her subordinates.

1.3.4 TO COORDINATE

Fayol's underlying theme in this connection was harmony. Each manager's efforts must dovetail with those of others, and he/she must keep their section/department in line with the total, overall objectives of the organisation. A regular exchange of information – what we today refer to as 'horizontal communication' – is necessary.

We can say that 'coordination' involves ensuring that all efforts move smoothly together in the same direction, that is, towards the achievement of the organisation's objectives.

1.3.5 TO CONTROL

Fayol was emphatic that it is not enough to order activity into motion; management must be certain that what is being done is in conformity with the plan. A 'control system' is essential. An inspection section is necessary to set standards, to monitor performance, and to take corrective action if and when it is needed.

Control also includes the recording of performances to provide a guide for similar activities in the future.

1.4 CONTEMPORARY VIEWS ON MANAGEMENT FUNCTIONS

Various ideas have been put forward during the last 100 years as to what a manager's job is, or what it comprises; but they can all be traced back to Fayol's ideas.

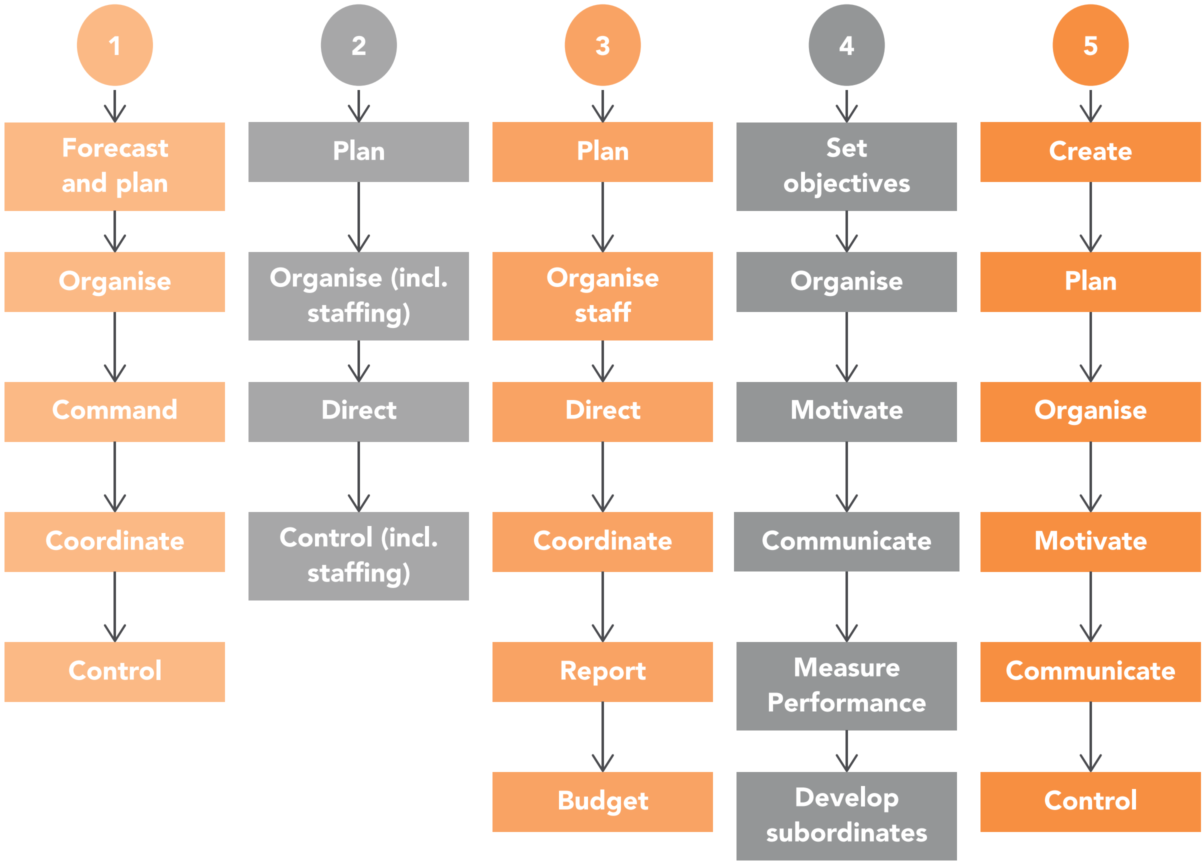

Fig. 1/1: Five different perspectives of a manager's job

The table in Fig. 1/1 provides five different suggested aspects of a manager's job. Fayol's list is at No. 1 on the extreme left.

There is no complete agreement as to what precisely a manager's job is, but it could be said that different managerial jobs call for all the listed activities, but with vastly different emphasis at different times and in different circumstances.

For example, any manager in any type of organisation will command, direct, coordinate, control and measure performance most of the time, but at other times he/she will need to plan their work, report to superiors and motivate their subordinates. A 'technical manager' will probably be more concerned with organising, with the setting of objectives, with measuring performance, and with communicating, but at times he/she will need to plan ahead, to be creative and to motivate their subordinates. However, there is a degree of overlap between the terms, and between all five lists. The final one on the extreme right (No. 5) seems closest to a complete survey of a manager's role, including: creating, planning, organising, motivating, communicating, and controlling.

Fayol's early 20^{th} century list of five 'Elements of Management' conspicuously omitted 'motivating.' Today, of course, the correct motivation of subordinates is regarded as a very important element or function of management in its own right.

1.4.1 CREATING

In the past, there was a generally held view that most people were not 'creative.' The notion that creativity only belonged to a small special group was dispelled by, among others, Douglas McGregor (1985) who concluded, "The capacity to exercise a relatively high degree of imagination, ingenuity and creativity in the solution of organisational problems is widely, not narrowly, distributed in the population."

What we broadly call 'creativity,' can include innovation, synthesis and development.

- **Innovation** refers to finding new or alternative ways of thinking about or doing something. It is one thing, however, to have plenty of time to think about something new, but quite another to 'improvise' quickly on the shop floor. But when a manager or supervisor uses an alternative material for a job in an emergency, finds a quicker way round a job, works out a new procedure, he/she is being innovative or creative.
- **Synthesis** occurs when ideas are input from several different sources and combined or 'pooled.' A person doing a project at work or for an examination is usually engaged in this type of problem-solving exercise. A company's sales manager might call upon its production manager for advice on satisfying the needs of a customer, who might need to ask for ideas from the purchasing manager or other executives, or even from experts outside the company.

- **Development** occurs when a basic idea or product is expanded upon or extended. For example, the computer was originally designed and built to perform complex mathematical calculations. But today, the original concept of the computer has been developed out of all recognition, and computer systems are found to have innumerable different guises and sizes in all walks of life.

1.5 PLANNING IN MANAGEMENT

Basically planning is a decision-making process by which the top management of an organisation decides:

- What the organisation is to achieve – what its aims, goals, or objectives are to be;
- What the organisation's policies are to be – the policies laid down stipulate:
  - How it is intended that the organisation will achieve its objectives; and
  - In what manner the organisation will operate to achieve them.

Management planning can therefore be seen as a 'formulation process,' concerned with ends, means and conduct.

1.5.1 PRINCIPLES OF PLANNING

Whatever may be the planning period, certain principles are involved. They are as follows:

- The purpose of a plan must be determined. Goals to be achieved must be clearly identified.
- Plans must be formulated on clearly defined data and information. Forecasts help in this connection, but other data sources must also be used, such as past records, performance experience etc. The planners' own past experiences can be utilised, but in this connection it is vital to separate fact from opinion or prejudice.
- The plans of the various functions or subsystems of the organisation must be coordinated to avoid confusion. Coordination becomes progressively more difficult as it reaches the level of long-term tactical planning, largely because the personnel involved are remote from the operational level. The ultimate aim should be total coordination, which is one of the aims of corporate planning.
- Standards to be achieved by the plans must be set, and performance must be monitored.
- Plans must be flexible to allow for modification in the light of experience of their practical implementation.
- Full communication between all personnel concerned in operating the plans, at any level, is essential. Involvement by all people concerned is an important factor in successful planning.

- Plans must be seen to be achievable. Over-ambition must be avoided as that tends to lead to discouragement and frustration at the failure to attain the goals set. On the other hand, under-ambition in planning provides no incentive, and encourages inefficiency.

1.5.2 IMPORTANCE OF PLANNING

Operational and short-term planning is important because they relate directly to the day-to-day activities of the organisation. This type of planning is also carried out at the lower levels of management and supervision, with the emphasis being on practical application and implementation.

Long-term planning – both strategic and tactical – is also of vital importance, and is the only means of setting and keeping an organisation 'on course' for the attainment of its principal objectives.

Every aspect of the organisation should be subject to planning in order to make the utmost use of resources, to stimulate programmes for management and non-management training, to provide for and reach production, sales and financial targets, to ensure a reasonable return on capital and investment, and generally to guide the organisation in the attainment of its objectives. The development of well-considered plans enables management at all levels to take a hard look at itself and the organisation in which it operates.

1.5.3 RESPONSIBILITY FOR PLANNING

Operational and very short-term planning are usually carried out by the managers and/or supervisors actually concerned with the activities involved. For example, a sales manager will formulate the plans necessary for the effective activities of the entire salesforce over the short-term, say, a week. The sales team leaders or supervisors will take the responsibility for planning the operations and activities of their respective teams over each day of the week.

Long-term tactical planning will be carried out by the more senior executives in areas such as marketing and production. Forecasts in the areas concerned will also be taken into account, and there might be, in a large organisation, the output of a special department staffed by experts, such as operational research. In smaller organisations, senior executives and their immediate subordinates will have the responsibility for gathering the necessary forecasts through perusing trade journals, government reports etc.

Long-term strategic planning will be undertaken by the governing body with the assistance and advice of its senior executives. Forecasts from internal and external sources will be utilised as well as analysed of the past performance of the organisation, and managerial experience.

In both tactical and strategic planning, however, the actual activity is often delegated to a 'planning committee' or, if the organisation is sufficiently large, to a 'planning department.' This means that more uninterrupted time can be allotted to the planning exercise than would be the case if the directors or senior executives tried to formulate plans while still engaged in their day-to-day activities. Effective planning needs the undivided attention of the planners. Nevertheless, whosoever draws up the plans, it is the chief executive who must assume ultimate responsibility for long-term planning – either strategic or long-term or tactical. The approval of and authority to implement plans are the chief executive's responsibility.

1.5.4 STAGES IN PLANNING

The activity of planning starts by defining 'ends' – the aims and objectives of the organisation. This activity requires an assessment to be made of the external environment of the organisation and its internal structure, processes and resources.

Planning also involves taking steps to agree on the 'means' by which the organisation's aims and objectives will be fulfilled. This is as much concerned with decision-making processes as with the provision of resources and the allocation of time schedules.

Part of the planning process is concerned with the 'manner' in which plans will be carried out, that is, the 'conduct' of the organisation. This aspect of planning has received greater prominence in recent years as organisations have striven towards meeting objectives associated with such concepts as 'customer satisfaction' and 'excellence.'

Planning is a 'closed-loop' activity, in which the results of earlier decisions provide 'feedback' to the other parts of the process. Such a 'cycle' provides crucial information which can be taken into account by management when assessing the earlier aims and objectives set, the means used to achieve them, and the manner in which those means were implemented in practice.

1.5.5 RELATIONSHIP BETWEEN FORECASTING AND PLANNING

Forecasting is an essential accompaniment of planning in order for management to be able to carry out effectively its planning function. Forecasting becomes fruitful only when its findings are utilised in the formulation of plans for the future. The more accurate the forecasting, the higher is the possibility of formulating reliable plans, and the greater is the likelihood of the organisation achieving its preset goals.

The planners will rely heavily on forecasts. They will, therefore, combine their own experience and knowledge of their organisation and its industry with the forecasts available. By this means they will produce both short-term and long-term plans in which they have confidence, and which they will set and maintain the organisation's course towards the achievement of its objectives. It is not sufficient merely to implement plans, set them in motion, and expect them to run smoothly. The progress of the plans must be constantly monitored, checked and controlled. The reasons for any deviations must be identified to enable corrective action to be taken as necessary without delay.

Forecasting should be a 'continuing' exercise, and forecasts should be available at regular intervals – monthly, quarterly, half-yearly or annually, as the circumstances pertaining to a particular planning area demand.

1.5.6 EVALUATING FOR PRE-PLANNING FORECASTS AND INFORMATION

The information on which to base the planning operation is rather like any other research. There is a tendency to collect too many statistics, forecasts and other material that will be likely to affect the planning. This has two effects:

- They are likely to contain a mass of detail, and might even specify slightly conflicting actions where the 'source material' has been in some way contradictory. This may lead to plans being imprecise and difficult to understand clearly.
- If the information is in abundance, there might be a tendency for the planners to detail too many specific courses of action to deal with possible deviations from their plans.

To remedy this situation, the planners must ruthlessly discard any material which does not have a precise and definite bearing on the plans they are preparing. Contradictory information must be evaluated, and decisions must be made as to what is really relevant and pertinent.

Moreover, the planners must differentiate between opinion and fact and discard the former in favour of the latter where there is conflict, however informed the opinion might be. In this way, the source material will be reduced to manageable proportions, and will therefore assist in the preparation of plans which are clear, understandable and easy for all managers and supervisors concerned to assimilate.

1.5.7 LEVELS OF PLANNING

In formal management theory it is usual to consider that there are three basic levels of planning. They are:

- **Top-level planning:** This is undertaken by top management, and is commonly termed 'strategic planning.' It emphasises the long-term objectives and policies of the organisation, and it is concerned with 'corporate' – that is, organisation-wide – results, rather than with sectional or functional achievements. Strategic planning also involves 'corporate planning.'

- **Second-level planning:** This is carried out by senior executives and is commonly called 'tactical planning.' Tactical planning involves planning the deployment of resources (human and material) to the best advantage. Tactical planning is concerned mainly, but not exclusively, with long-term planning, but its nature is such that the time spans are usually shorter than those of strategic planning. This is because its attention is usually devoted to the step-by-step attainment of the organisation's main objectives. Thus the very long-term plans of top management are broken down. Tactical planning is, in fact, orientated to individual functions and departments rather than to the organisation as a whole.
- **Third-level planning:** This is frequently termed 'operational' or 'activity' planning, and is the concern of departmental managers and supervisors. It confines itself to the very short term. It involves sectional and departmental operations and also individual assignments, and it establishes performance controls.

Although there are three categories of planning, in practice there will be more than three levels of management and supervision, and to a certain extent there will be some overlap of the planning activity.

1.6 STRATEGIC, TACTICAL AND OPERATIONAL PLANNING

Of necessity, the three levels of planning react upon each other, but the resulting effects are different in each case. Operational planning might impose restraints on tactical plans because of practical difficulties arising from time to time. The effect of a necessary alteration in an operational plan, because of the short term involved, is likely to be more of an inconvenience than a reason for abandoning a tactical plan. Operational plans are unlikely to have any effect on strategic planning, as they are relatively remote from each other. On the other hand, strategic planning will, although remote, have some effect on operational planning because the mode of operational activities will to some extent depend upon strategic plans.

There is a clear relationship between operational planning and tactical planning, because the former arises very directly out of the latter. A change of tactics might very well impose adjustments to operational plans. For example, a small change in the design of a product – a tactical decision to combat new competition – might well cause production plans at shop floor level to be drastically revised. On the other hand, unless tactical planning has been very rigid, modifications in operational planning can often be absorbed at this level without difficulty.

A similar relationship exists between strategic planning and tactical planning. The strategic plan might remain constant despite the fact that the tactics employed to achieve it might have to be modified from time to time. In other words, tactics can change without alteration to the strategic plan becoming necessary. However, if the strategic plan is altered, the tactical plans will invariably have to be changed to meet the new situation.

2 MEANING AND NATURE OF STRATEGIC MANAGEMENT

2.1 INTRODUCTION

Strategic management has become widely established in all sectors of modern economies, although mainly in larger organisations. The prescription view of strategic planning emphasised the importance of the organisational environment as a source of threats and opportunities, and the need for effective responses was expressed in a plan. Typically this plan formulated major decisions about entry to new industries or the development of new products or services and was guided by sets of objectives and goals. The study by Quinn (1980) had a more descriptive intent than some earlier studies of strategic management, and emphasised the emergent but rational quality of strategy formulation. This meant that strategic thinking was logical but issues of organisational politics and managerial ignorance affected the way in which strategy might be implemented. This and other studies alerted managers to the issues of strategic implementation.

2.2 DEFINITION

Ohmae (1982) has drawn attention to three key groups – the corporation, the customer, and the competitors. Strategic management might be defined, therefore, as the pursuit of superior performance by using a strategy that ensures a better or stronger matching of corporate strengths to customer needs than is provided by competitors.

Ohmae also emphasises the importance of moving from abstract ideas of strategy to concrete planning of implementation. This suggests that strategic management is based on an interdependent relationship between strategic ideas and operational level changes.

2.3 NEED FOR STRATEGIC MANAGEMENT

The last few decades have seen a growth in the importance of the strategic dimension of management in response to the necessity for business organisations to become ever more complex. This has happened because of the following factors:

- Increased expectations of customers for quality and variety of consumer goods and personal services;
- Advancement in technology – for example, Internet – which has resulted in speeding up the process of availability of goods and services;
- Increased competition among businesses;

- The entry of low-cost manufacturing businesses – mainly in Asian countries;
- Increased awareness of the need for protection of natural resources, leading to development of alternative materials and sources of energy;
- Greater emphasis on 'consumer rights';
- Improvement in worldwide communication;
- Greater interconnection between the nations and peoples due to commercial activities of multinational corporations, and political and economic associations, such as European Union (EU), the Oil Producing and Exporting Countries (OPEC), and the General Agreement on Trade and Tariffs (GATT).

2.3.1 THE CHALLENGE FOR TOP MANAGEMENT

The scenario with regard to several industrial and commercial organisations is quite complex. The managements of these organisations need to have longer-term view. Strategic thinking has to address the following questions:

- What is our core business?
- Where do we want the organisation 'to be' in 5, 10 or 20 years' time?
- What do we have to achieve in order for the organisation to get there?
- What resources are we likely to require?
- What changes are we likely to have to cope with in our operating environment?
- How can we gain and/or retain a competitive advantage over other businesses?

These questions can form the principal challenge to the top management of an organisation. They have to concentrate on the positive aspect of strategic management, that is, planning for growth and development. However, it is important to recognise that in circumstances in which a once major industry – for example, shipbuilding, coal mining, or steel manufacturing – is in steady decline, the issues are how to make the operation a viable business and yet demonstrate responsibility to the local communities concerned. Often, in such circumstances, the governments of the nations concerned intervene on behalf of those communities affected.

2.3.2 KEY ISSUES IN STRATEGIC MANAGEMENT

Leading academics make the assumption that strategic management is about:

- reconciling the often conflicting forces present in the formulation and implementation of strategy;
- developing agreed goals and objectives;
- adopting a viable internal organisational structure; and
- meeting the demands of the 'external world.'

Figure 2/1 below shows a simplified working model of strategic management highlighting the key issues.

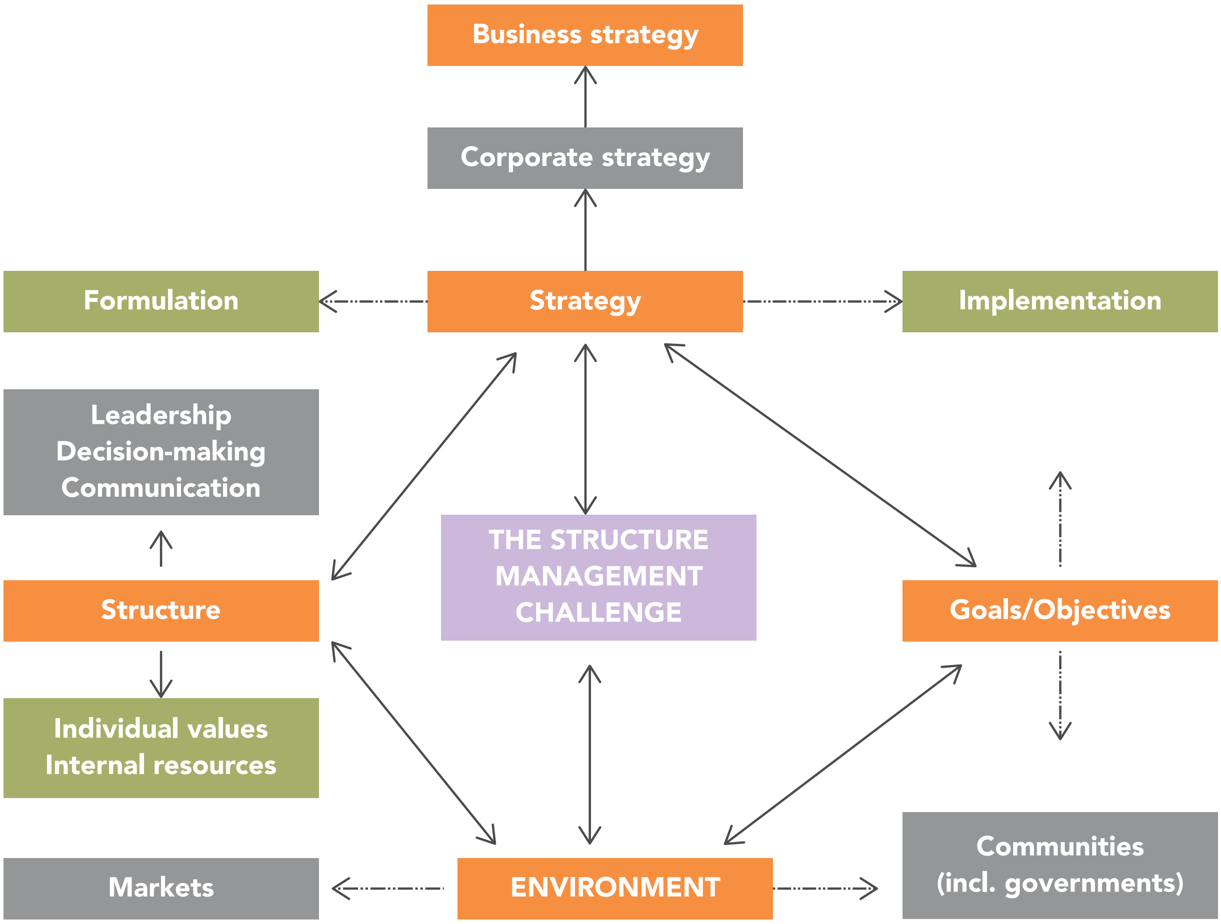

Fig. 2/1 Key issues in strategic management

This model highlights the following points:

- It separates strategy from goals/objectives, and implies that strategy is a means to an end, and so should be separate from the defining of ends. Not all theorists may agree to this.
- It suggests that goals/objectives are not set only for the long term. Shorter-term goals might also be set in response to changes in the operating environment. Thus part of strategic thinking involves 'reacting quickly' to cope successfully with unexpected changes in business conditions.
- A key element of strategic management is the development of a viable structure of leadership and reliable decision making to promote and sustain the implementation of strategy.

- The external environment is composed not only of 'markets' but also of communities of people (including governments) who have needs and priorities which are of a non-market nature, and who might have power to force change on the organisation.
- This model suggests that the role, or challenge, of strategic management is to coordinate all these diverse elements into an overall 'master' plan for the success of an organisation.

2.4 THE THEORISTS AND THEIR THEORIES

Some writers, who have made special studies of the concepts of strategy and strategic management, have developed their ideas mainly from the results of their research into active business organisations. They are the following.

2.4.1 ALFRED D. CHANDLER

An important early definition of strategy was provided by Chandler (1962) as being:

> *"the determination of basic long-term goals and objectives of all enterprise, and the adoption of courses and the allocation of resources necessary for carrying out these goals."*

A prime element in Chandler's study of large corporations was the link between 'strategy' and 'organisational structure.' It stated that structure follows strategy, that is, the adoption of a strategy has inevitable implications for the kind of organisational structure which is needed to deliver the aims and goals of the strategy.

According to Chandler, 'growing' organisations can pass through a number of phases of development from the single-location, single-product and single-entrepreneur organisation through geographic expansion to vertical integration and then to functional divisionalisation, and finally to diversification in a multi-dimensional organisational structure.

2.4.2 KENNETH ANDREWS

He also combines goal-setting with the policies and plans needed to achieve the organisation's goals. He distinguishes between:

- **Corporate strategy** – which he defines as the type(s) of markets an organisation is to compete in; and
- **Business strategy** – which, according to him, determines how the organisation will compete in a given type of market.

Andrews states that business strategy is subordinate to corporate strategy, although both are seen as the outcomes of strategic management. His view of corporate strategy is that it is:

> *"a pattern of decisions, which represents the unity, coherence and internal consistency of a company's strategic decisions that position a company in the environment and give the organisation its identity, its powers to mobilise its strengths, and its likelihood of success in the marketplace."*

2.4.3 H.I. ANSOFF

Ansoff (1965) prefers to separate objectives from strategy. However, he envisages a close relationship between the two, in which an objective is followed by a strategy, which after evaluation might lead to a revision of the original objective.

Ansoff argues that three types of decisions need to be made: strategic, administrative and operative decisions. He has suggested a matrix of product-market alternatives which has been widely used. In basic terms the matrix offers the alternatives illustrated below in Fig. 2/2.

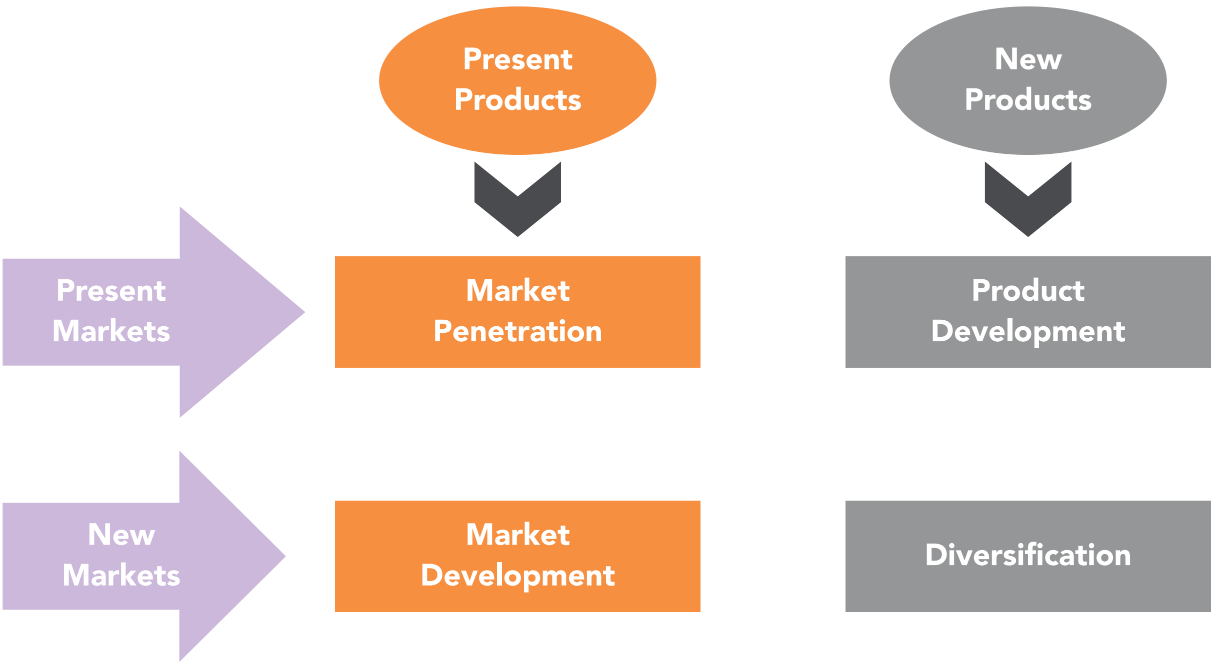

Fig. 2/2 Ansoff's product-market growth strategies

The matrix suggests the following growth strategies:

- Managements of organisations which choose to stay in their present markets with current products are basically presented with a strategy of market penetration, that is, aiming for an increased market share.
- Managements of organisations seeking new products in their present markets will focus on developing appropriate new products or brands.
- Managements of organisations aiming to take existing products into new markets will concentrate on sustaining market development activities.
- Managements of organisations which intend to develop new products in new markets will pursue a strategy diversification.

Ansoff (1984) redefined strategic management as being:

> *"a systematic approach for managing change which consists of: positioning the organisation through strategy and capability planning, real-time strategic response through issue management, systematic management of resistance during strategic implementation."*

2.4.4 THE BOSTON CONSULTANCY GROUP (BCG)

The BCG matrix, also known as 'portfolio framework,' is based on three major variables:

- An organisation's relative market share;
- The growth rate of its market(s);
- The cash flow (negative or positive) generated by the organisation's activities.

The matrix yields four alternative outcomes for an organisation, expressed as 'stars,' 'cash cows,' 'dogs' or 'question marks.'

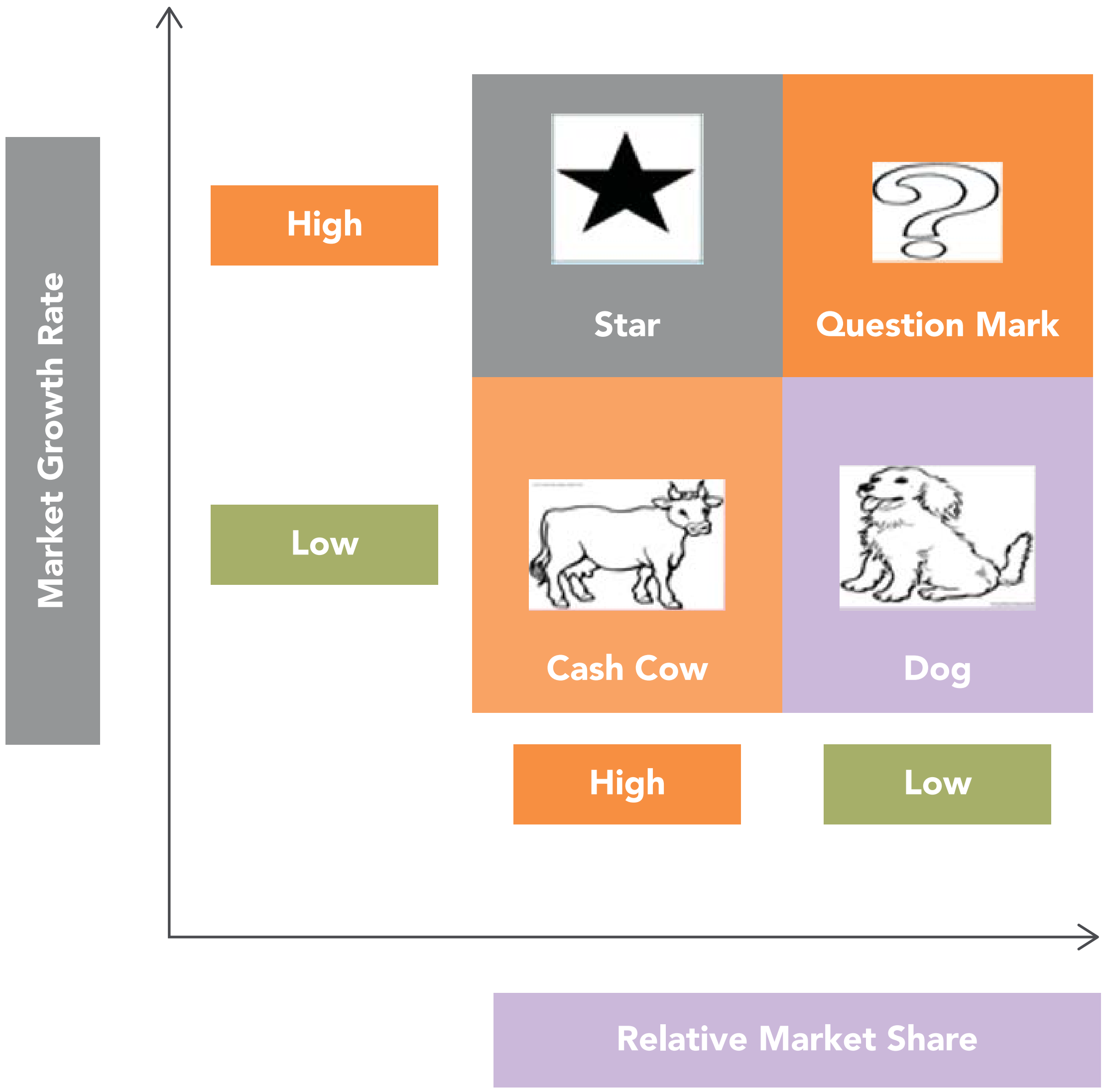

Fig. 2/3 Outline of the BCG Matrix

- **Stars** are businesses which have a high market share in an expanding market and could be profitable, but where there might be a **negative** cash flow because of the need to keep up investment to keep pace with market growth.
- **Cash cows** are businesses which have a high share of a slow-growing market and which are usually very profitable and generate a **positive** cash flow.
- **Dogs** are businesses with a low share of a slow-moving market and might produce either a **modest positive** cash flow or an equally **modest negative** cash flow.
- **Question marks** are those businesses which have a low share of a fast-growing market and which require considerable investment to keep up with the growth in the market, thus producing **negative** cash flow. Yet it is precisely these businesses which might have the potential to exploit the growing market and go on to achieve greater market share, healthy cash flow and adequate profitability.

The BCG growth-share Matrix composes levels of growth with levels of competitive position. Those are the benefits of profit strategy. Those which are high in position and growth are 'stars.' Those which are high in growth but low in market position are 'question marks.' Those which are low in both categories are 'dogs.'

Eventually a successful 'question mark' can turn into a 'star,' and then into a 'cash cow.' However, this outcome depends on an appropriate management strategy, including adequate funding.

2.4.5 GE'S BUSINESS SCREEN

GE's (General Electric) Business Screen is a more complex version of the BCG. It makes a classification of SBUs into nine cell matrix based on the following indicators:

- **Industry/market indicators:**
  - **Market factors** – size, growth rate, seasonality;
  - **Competition** – type of competition, degree of concentration;
  - **Financial and economic** – margins of contribution, barriers to entry;
  - **Technological** – patents and copyrights;
  - **Social and political** – social attitudes, laws.

- **Business strength indicators:**
  - **Market** – company's market share;
  - **Competition** – price, promotion, distribution;
  - **Financial** – economies of scale;
  - **Technologies** – technological skills, ability to manage change;
  - **Social and political** – company's ability to respond to social factors and government rules and regulations.

Industry Indicators	Business Strength Indicators		
	Strong	Average	Weak
High	Grow	Grow	Hold
Medium	Grow	Hold	Harvest
Low	Hold	Harvest	Harvest
	High	Medium	Low

Fig. 2/4 GE Business Screen

2.4.6 M.E. PORTER

Michael Porter (1980) proposed a different approach to developing corporate strategy, taking competitive advantage as his focus. He suggested that the competitive environment should be analysed using a Five Forces Analysis. This involved scanning the environment for various pressures. Michael Porter's Five Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful because it helps the organisation to understand both the strength of its current competitive position and the strength of a position it is considering moving to.

With a clear understanding of where power resides, an organisation can take advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. According to Porter, there are five important factors which decide power in a business situation. They are the following:

- **Supplier power:** Here it is assessed how easy it is for suppliers to increase prices. This is done by the number of suppliers of each key input, their strength, and the cost of changing from one to the other. If the choices of suppliers are less, the organisation needs more help from them. This makes the suppliers more powerful.
- **Buyer power:** Buyers may bring the prices down. This can be done by the number of buyers, the importance of each buyer and the cost of changing buyers. If an organisation deals with less number of buyers, they are more powerful and buy products or services on their own terms.
- **Competition:** If the organisation has many competitors who offer similar products or services, the suppliers and buyers will go to other organisations. They will remain with the same organisation if they get a better deal from it. But an organisation has great strength if it can offer what no other can.
- **Threat of substitution:** If the organisation's customers have the ability to find a different way of doing what this organisation does, they may use substitute methods. For example, if an organisation supplies particular software that automates a process, people may find a substitute in doing it manually, or may outsource the process. This makes the organisation's position weak.
- **Threat of new entry:** If more people are easily able to enter an organisation's market, the power of the organisation is affected. If it costs little time and money to compete with an existing organisation, new competitors will enter the market, and thus weaken its position. On the other hand, if an existing organisation has strong barriers, its position will be maintained.

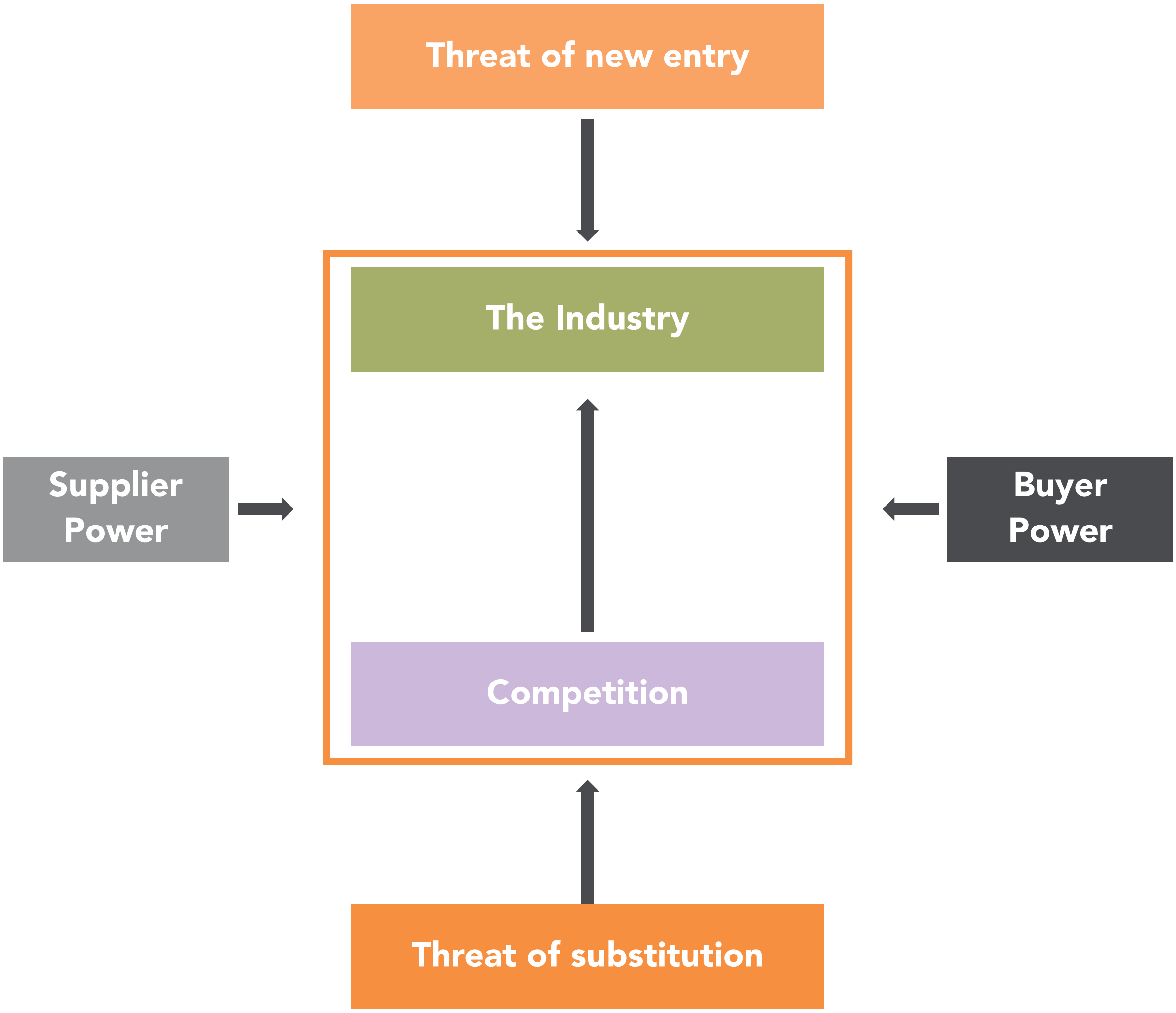

Fig. 2/5 Porter's view of competitive forces

Porter's Five Forces can be utilised by organisations in strategy formulation, and particularly in their SWOT analysis – their assessments of their strengths and weaknesses, opportunities and threats. Any such analysis is most likely to start with an examination of the organisation's industry competitors. For example, at a time of intense rivalry, competitors advertise strongly, offering incentives to buyers and devising ways of differentiating their products. The managements of organisations have to consider how they are going to respond to their immediate threats to their sales from rivals.

In such circumstances, suppliers are in a relatively weak position in relation to the organisation since their sales are dependent on the end product being sold. For example, it is bad news for its suppliers if a manufacturing business is stockpiling products because their own long-term sales will be affected.

Conversely, buyers are in a strong position in those same circumstances, and can therefore drive harder than usual bargains with dealers, for example, by seeking larger discounts, longer periods of credit, free delivery, etc. Assuming an intensity of competition, with low profit margins all around, new entrants to the industry are unlikely, because the costs of entering would be high and their returns low.

2.4.7 HOFER AND SCHENDEL

Hofer and Schendel (1978) are particularly interested in the adaptations that successful businesses make to their specific environment – that is, the 'survival of the fittest' – compared with unsuccessful businesses. They are also keen to emphasise the difference between effectiveness and efficiency. They see:

- **effectiveness** as referring to the extent to which an organisation achieves what it has set out to achieve (actual versus desired outputs); and
- **efficiency** as referring to the ratio between outputs and inputs.

Hofer and Schendel concluded that when businesses adapt to events in their external environment, the results are more likely to make an impact on effectiveness. In contrast, they state, when businesses adapt their structures and ways of working by responding to the internal environment, the impact is more likely to be felt on efficiency.

On a day to day basis, managers are interested mainly in efficiency. But so far as strategic management is concerned, it is effectiveness which is the more important, they claim, and this implies the necessity for attention to the external environment of the business.

Hofer and Schendel prefer to separate goal-setting from strategy formulation, and they see strategy as:

> ***"a pattern of present and planned resource deployments and environmental interactions that indicates how the organisation will achieve its objectives."***

For them, strategy is clearly to do with means rather than with ends. They conclude that strategy has four components:

- **Scope or domain:** This is the extent of the organisation's interactions with its environment. This could, for example, be represented by its product-market position.
- **Resource deployments:** They are both past and present resources and skill developments that help to achieve organisational goals. These are also referred to as the organisation's 'distinctive competencies.'
- **Competitive advantages:** These refer to the unique competitive position developed by an organisation through the pattern of resource deployment and scope decisions.
- **Synergy or the "2 + 2 = 5 effect":** This refers to the total effect sought by the organisation through its entire strategic decision making. The expression '2 + 2 = 5 effect' refers to the sum being greater than the total of the parts.

2.4.8 THOMPSON AND STRICKLAND

Thompson and Strickland (1999) suggest that there are five tasks of strategic management, which can be summarised as follows:

- **Task 1:** It is to define the overall business, and to develop a mission. This is an entrepreneurial task involving vision, risk and judgment.
- **Task 2:** It is to break down the 'mission statement' into specific performance objectives. Thompson and Strickland see this task as a separate objectives-setting exercise.
- **Task 3:** It is the crafting of a strategy, that is, "the pattern of organisational moves and managerial approaches used to achieve organisational objectives…..and mission." At this stage the activities are those of business planning in support of the goals and objectives, and will be concerned both with effectiveness and efficiency.
- **Task 4:** It is to implement and execute the strategy. This stage will be more concerned with team leadership, efficiency and other operational matters.
- **Task 5:** It is to evaluate, review and adjust the implementation activities, as necessary. A key consideration at this point is organising the feedback of the results of the review, and the model described by Thompson and Strickland allows for feedback to connect with every previous task.

Thompson and Strickland's model is useful in showing the link between 'top-level strategy formulation' and 'lower-level strategy implementation.'

3 HISTORY AND RELEVANCE OF STRATEGIC MANAGEMENT

3.1 INTRODUCTION

Prior to World War II, whatever planning that occurred in the vast majority of business organisations was concerned typically with physical operations in manufacturing: the design and construction of facilities, the introduction of technologies, processes, tools and equipment, and the like.

3.2 HISTORY OF IMPLEMENTATION

True business planning began with the introduction of general forecasting of economic conditions and detailed proposals for individual projects for appropriating capital expenditures. The practice of capital and expense budgeting spread fast and was taken up more broadly by business organisations after World War II. Until mid-century the main purpose of budgeting, however, was not enhancing management's ability to provide for the firm's future success. Rather, budgeting was focused more on controlling expenditures in the near term.

After World War II three major trends began transferring businesses, and the way they were managed. They were the following:

- Marketing began to emerge as an increasingly important element of doing business.
- The impact of new technologies started spreading at an accelerating pace especially in electronics, information, communications and materials.
- Pent-up consumer demand created growth opportunities for business organisations.

3.2.1 LONG-RANGE PLANNING

At first each department was asked to plan for the next several years rather than only for the next year. It was assumed that functional specialists at departmental level were best able to anticipate future developments and what it would take to deal with them. It was further assumed that a viable long-range plan for the company could be achieved by aggregating all the departmental long-range plans.

In the late 1950s, bottoms-up of long-range planning gave way in more sophisticated firms to long-range business planning. For the first time four to five year long-range plans were being developed that focused on a single business, not on a department. A driving presumption of top managers for long-range business planning was that if they identified their true strengths as a firm and capitalized on these, and also overcame their weaknesses, the success of the business would be assured.

3.2.2 EXTERNAL AND INTERNAL CHANGES

By 1970, external environment of firms was becoming more complex and uncertain. The world was changing rapidly. Both competition and opportunities were becoming global rather than national. Many international competitors were playing the game by unfamiliar rules, created by more patient investors, more supportive regulatory and labour conditions, and dramatically lower labour costs. Capital and energy costs were increasing dramatically. The regulatory environment was changing with many new areas subject to regulation – for example, environment, working hours and conditions, employment of minors, product safety etc. – and many industries being deregulated, for example, airlines, telecommunications etc.

There were changes taking place in social values, consumer behaviour and technology. Consumers were becoming more aware and demanding of products and services. The rapid development of computer and telecommunications technologies was revolutionizing the availability and management of information.

In response to external changes, major changes were taking place inside organisations. Many corporations became engaged in many, often diverse businesses. Global competition led to global sourcing and geographic dispersion. Large firms adopted complex multi-business, multi-divisional, multi-layered and multi-national structures. Changes in consumer behaviour coupled with changes in technology led both to proliferation of products and services to meet specialised market demands, and to shorter product and service life cycles. The need for organisations more frequently to design, develop and market many more products and services placed unprecedented strain on business firms.

Another area within organisations that changed was the nature of the workforce. Many firms experienced a dramatic increase in the proportion of women and professionals in the workforce, while the proportion of more traditional 'blue-collar' workers declined. Better educated and more demanding than the typical workforce of the 1950s and 1960s, the new workforce was no longer content to be dealt with as unthinking instruments of production. Rather, they demanded immediate, positive satisfaction from both their work and their working environment.

All these changes had a profound effect on most firms' cost structures. Furthermore, the cost of fringe benefits, especially for health care, had risen substantially.

The cumulative effect of all these external and internal changes on management, especially top executives, was enormous. No manager had been prepared, either through education or experience, to deal with the levels of external volatility and uncertainty, together with internal complexity. Senior management wanted new means and tools to cope. Strategic planning appeared to offer some answers to meet this urgent need.

3.3 STRATEGIC PLANNING

Business leaders, initially in the USA and soon after in the UK and Western Europe, realised that they needed more sophisticated information about the firms' external environment as a basis for establishing the direction for the business, setting priorities and allocating resources. Strategic alternatives were then identified and evaluated. Corporate strategy in multi-business firms was developed by reconciling:

- the opportunities, threats, intended strategies and promised performance for each of the corporation's separate businesses; and
- objectives, priorities and resources of the corporation as a whole.

The adoption of strategic planning in the 1970s by the managements of the largest enterprises was driven by management consultants. They provided the conceptual frameworks and analytical methods and tools necessary to address the complexities of each firm's external environment. The new emphasis on external research and analysis caused the managements of the world's leading corporations to establish large number of corporate and business unit planners. To them was delegated the task of formulating business and corporate strategies. By 1981 one survey estimated that about half of the top Fortune 1000 firms were actively engaged in strategic planning.

However, it was found in the early 1980s that there was constant failure in implementing the strategy once formulated. A frequent cause for this failure was that strategic planning was in the hands of planners, often former consultants, who were focused on theory and analytical methods, and who were far removed from the realities of the competitive marketplace. By the early 1980s, many leading firms had already begun to dismantle their planning personnel and shift the primary responsibility for formulating strategy to line executives.

3.3.1 BENEFITS OF STRATEGIC PLANNING

There have been numerous studies of strategic planning and performance. One study indicated organisations that planned performed better than organisations that did not plan. A study by Ansoff and colleagues (1979) found that deliberate and systematic preplanning of acquisition strategies was correlated with better financial performance. Overviews of such empirical studies usually conclude that there is a preponderance of evidence in favour of a link between company performance and planning.

3.3.2 PRACTITIONERS

Most practitioners think that there is definitely a link between formal strategic planning and better performance, and that it is worthwhile to invest their time and effort in developing strategic plans. Surveys of practitioners suggest that their experience has confirmed that investing in strategic planning is a good idea.

3.3.3 A FUNCTIONAL VIEW

Even if academic research finds a correlation between strategic planning and performance, it might still be objected that the case for strategic planning is unproven. It might be said, for example, that better performing organisations have the extra managerial capacity needed to carry out strategic planning. In contrast, organisations that are doing less well may not have the time or spare attention to think about strategic planning.

3.3.4 STRENGTH AND PERFORMANCE

A key idea in strategic management thinking is that firms should select strategies that make use of their strengths. If this idea is usually taken as self-evidently true, then the application of strategic management in ways that involve an organisation making use of its strengths should result in better performance. There is some empirical evidence linking strengths and performance. For example, Vasconcellos and Hambrick (1989) found that organisations that rated highest on key success factors for an industry were better performers.

3.3.5 BENEFITS OF STRATEGIC INNOVATION

Innovation has come to be seen as the key driver of growth and profitability. It is a part and parcel of the history of business cycles. In the late 18^{th} and early 19^{th} century textiles and iron were the new industries. In the second half of the 19^{th} century rail and steel industries became important. In the last century new industries included electricity and chemicals, and then petrochemicals, electronics and aviation came to the fore. The latest wave of innovation covering the present period is summed up by describing the period as the Information Age, meaning that there are new products and services around digital technology, software and new media.

3.4 THE STRATEGIC MANAGER

The essence of strategic planning is to help a company develop and sustain advantages in the marketplace through unique resources, agility, superior products and/or services. Strategic planning is 'strategic' because it requires an understanding of how the external environment impacts a firm's ability to create value.

In order to ensure this, strategic managers have lead roles in the strategy planning and implementation activities of an organisation. They are usually found in higher levels of management where they have greater authority and can make strategic decisions for the firm. The CEO is the most visible and critical strategic manager. However, any manager who has the responsibility for a unit or division, responsibility for profit and loss outcomes, and direct authority over a major piece of the business is a strategic manager. Strategic manager needs to be a visionary and should have leadership skills, ability to see the big picture, ability to see how the parts relate to each other and the big picture, and ability to sell the vision.

3.5 WHY STRATEGIES FAIL?

Quite often strategic plans fail. The main reasons for the failure are the following:

- Failure to understand the customer:
  - Why do they buy?
  - Is there a real need for the product?
  - Inadequate or incorrect market research.
- Inability to predict environmental reaction:
  - What will competitors do?
  - Will the government intervene?
- Over-estimation of resource competence:
  - Can staff handle the new strategy?
  - Failure to develop new employees and management skills.
- Failure to coordinate:
  - Reporting and control relationships not adequate;
  - Organisational structure not flexible enough.
- Failure to obtain senior management commitment:
  - Failure to get management involved right from the start;
  - Failure to obtain sufficient company resources to accomplish task.
- Failure to obtain employee commitment:
  - New strategy not explained well to employees;
  - No incentives given to workers to embrace the new strategy.
- Under-estimation of time requirements:
  - No critical path;
  - Failure to follow the plan.
- Failure to manage change:
  - Inadequate understanding of the internal resistance to change;
  - Lack of vision on the relationships between processes, technology and organisation.
- Poor communication:
  - Insufficient information sharing among stakeholders;
  - Exclusion of stakeholders.
- Failure to focus:
  - Inability or unwillingness to make choices which are true to the strategic mission;
  - Unrealistic expectations.

4 CORPORATE OBJECTIVES AND PLANNING

4.1 INTRODUCTION

Planning involves decisions about ends (objectives) as well as means. It also involves decisions about conduct as well as about results. The objectives for a particular organisation will be determined and laid down by its top management.

The classification and definition of its prime objectives is vital for any organisation because they provide it with a sense of direction. Invariably, the objectives of a business organisation will be based on such concepts as profitability, customer service, the satisfaction of shareholders and the motivation of employees. In contrast, the objectives of a public service organisation – such as healthcare or education – are likely to focus on the efficient delivery of a service to the community.

4.2 CORPORATE PLANNING

We can think of corporate planning as a process which enables the management of an organisation to identify the following:

- Its purpose and main objectives;
- Its strengths and weaknesses;
- Opportunities and threats posed by its external environment;
- The basis of the long-term plans;
- The context of its short-term plans;
- The main performance standards that it is seeking to achieve;
- The ethical principles it is prepared to support.

There is much which is similar to the process of strategic management. However, there are major differences between corporate planning and long-term planning. They are:

- Corporate planning is organisation-wide, whereas long-term planning focuses on one part of the organisation at a time.
- Corporate planning looks at the future comprehensively, whereas long-term planning looks at the future selectively.

4.3 CORPORATE OBJECTIVES

There are usually two distinct types of corporate objectives laid down for an organisation. They are:

- Those which set out its overall objectives; and
- Those which set out its long-term, strategic, aims.

4.3.1 OVERALL OBJECTIVES

These objectives apply to the organisation as a whole, and might be:

> *"to develop a successful business for the benefit of customers, shareholders, employees, suppliers, and the country in which the company operates."*

The objectives of a public service organisation might be:

> *"to provide an efficient, responsive and considerate nationwide health service (or education) for all citizens of the country."*

Overall objectives are stated in general terms and are usually intended to be permanent. They are often accompanied by 'policy statements' which outline how the organisation is to be conducted in the pursuit of its purpose.

4.3.2 STRATEGIC OBJECTIVES

Strategic objectives are normally set for all major functions of an organisation, and taken together they sum up what position the organisation's management intends it to be in during the foreseeable future. Strategic objectives cover areas such as markets, product development and profitability or efficiency.

Strategic objectives are usually set for at least five years, so inevitably they have to be set out in fairly generalised terms. If they were to be specific and highly quantifiable, they would not then be strategic objectives; they would be operational – or tactical – objectives.

However, strategic objectives should be carefully worded in such a way that it will be possible at a later date to determine whether they have been achieved or not. For example, a strategic objective for the sale and marketing function in an organisation might be set down as being:

"to ensure the continued growth of sales of the company's products nationwide over the next five years."

This statement says nothing about the volumes of different products to be sold, or the overall increase in sales – by volume, value or percentage – which is expected to be achieved. However, it would be quite possible after the period concerned to assess whether the sales and marketing department had (or had not) met its long-term aim.

4.4 POLICIES

After setting up the corporate objectives, the top management of the organisation can begin to specify what the organisation will do in pursuance of its overall objectives. Policies are not the same as objectives or plans. They differ in the following manner:

- Objectives state aims or goals.
- Policies outline a framework within which action can take place to achieve the objectives.
- Policies are neither ends nor means; they are statements of conduct. Moreover, they reflect and contribute to the organisation's culture.

The variety of organisational policies can be considerable, but the intention is the same in all cases. They are meant to guide the managers of the organisations concerned in the conduct of their particular affairs.

4.5 ETHICS IN BUSINESS

While policy statements tend to concentrate on matters of 'behaviour,' ethical codes tend to go further and focus on matters of 'right and wrong.' For example, an organisation's ethical code might be that its management will never ignore the discovery of a possible health risk or safety hazard in or from the use of one of its products. A 'code of conduct' applies individually as well as collectively to the organisation's managers and workers, and affects its internal affairs as well as those with its external stakeholders. This code of conduct must be strongly supported by top management.

4.6 SOCIAL RESPONSIBILITY

In addition to their roles as employers and producers, larger businesses are expected by society to play a direct role in meeting community needs in the arts and education, in health and environmental affairs, in social welfare, and in various other areas.

There are two ways to encourage business organisations to develop a sense of social responsibility: they can be forced by law, or they can be persuaded to act voluntarily. In many countries the law plays an important role in regulating the relationships between businesses and their various stakeholders. For example, there might be laws designed to protect the community from undesirable effects of commercial activities, such as industrial pollution, unsightly building developments and hazardous products.

However, the term 'social responsibility' refers in general to 'voluntary' measures undertaken by businesses as part of their wider role in modern day society. The most typical types of community activities which commercial organisations support include the following:

- Job creation schemes;
- Welfare programmes;
- Support for educational institutions;
- Support for the arts;
- Support for sports;
- Aid in times of national disaster.

4.7 OVERVIEW OF CORPORATE PLANNING

Strategic planning has traditionally been considered to be the province of top management, tactical planning that of senior executives, and operational planning that of lower levels of management and supervision. The result of this approach is the fragmentation of the planning operation. As organisations become larger in size and scope, the fragmentation approach becomes less efficient, and it has been realised that a different approach is necessary. This modern approach is called 'corporate planning,' and although it is not a new concept in itself, it has been slow in being widely adopted.

4.7.1 DEFINITION OF CORPORATE PLANNING

Corporate planning may be defined as:

> *"a systematic and comprehensive process of long-term planning taking account of the resources and capability of the organisation and the environment within which it has to operate, and viewing the organisation as a total, corporate, system."*

By its nature, corporate planning takes the long view, and its time span is normally over a minimum period of five years and frequently extends very much longer than that – sometimes up to 20 or more years ahead.

Furthermore, the corporate plan must be frequently updated, and it is usual to review performance and adherence to the corporate plan at least annually so that modifications may be made in the light of experience gained from its implementation in practice.

4.7.2 NEEDS OF CORPORATE PLANNING

There are a number of factors essential to an organisation's survival and growth. The management needs to:

- identify specifically the attainable long-term objectives, and to decide which to pursue;
- evaluate all the internal resources of the organisation;
- appraise the external environment of the organisation within which it operates;
- coordinate all activities and plans throughout the organisation;
- establish the internal strengths and weaknesses of the organisation, and the possible external opportunities and threats – SWOT approach;
- establish a formal planning procedure with an effective feedback mechanism; and
- recognise that, although it is essentially long-term in approach, to be effective corporate planning requires constant reviewing and updating.

4.8 FACTORS IN CORPORATE PLANNING

The long-term strategic objectives having been decided upon, the following actions will be taken:

- **Appraisal:** This involves an examination of the existing internal situation of the organisation such as financial position, return on investment, production capacity, marketing effectiveness, research and development, utilization of workforce, training programmes etc.
- **Evaluation:** This involves the evaluation of the present and future competition.
- **Assessment:** This means analysing the economic factors surrounding the organisation's activities.
- **Review:** It involves the review of:
  - the organisation's position in the marketplace;
  - the legal aspects of operating the organisation;
  - the effect of immediate and possible future government action.

The results arising out of the above will be the starting point of corporate planning. The manner of obtaining the information will differ from organisation to organisation. Two commonly used techniques are 'top-down' and 'bottom-up' given below.

4.8.1 TOP-DOWN PLANNING

In this method the planning process starts at the top – in the planning committee or department. The long-term strategic plans are formulated by the specialist planners. The corporate plan is then broken down for use by the various divisions or departments of the organisation, each receiving its own sectional strategic plan from the top.

While this method has the advantage of the use of highly specialised skills and is widely used, it does have the following possible drawbacks:

- Often there is no involvement in the planning by the operating managers, thereby causing resentment on the part of the personnel who have the task of putting the plans into practice.
- Where operational research models have been used, the operating managers might not understand the mathematical techniques involved, and so might lack confidence in the plans.

4.8.2 BOTTOM-UP PLANNING

In this method, the various divisions or departments of an organisation are required to produce their own separate plans, and those are then considered together by the central planners. After appraisal and modification or rejection as considered necessary, the divisional or departmental plans are used as 'ingredients' in the corporate plan.

This method has the advantage of ensuring the involvement in the organisation's strategic planning of all those who will be required to implement their own parts of it.

However, a possible disadvantage is that top management might pay only lip-service to the sectional offerings and might pursue strategies outside the corporate plan so evolved.

5 THE ANATOMY OF IMPLEMENTATION

5.1 INTRODUCTION

There is a subtle basis for success or failure in implementation plans. Implementation success depends on the fact that strategic plans require major changes in the work environment of organisations. The successful achievement of these changes requires durable and far-reaching changes both in how the organisation works as a whole and how individuals behave in that system.

5.1.1 REQUIRED CHANGES IN THE EXISTING SYSTEM

Most strategies aim to improve business performance – faster growth, larger market share, higher profits etc. This necessitates that an organisation has to operate differently – including all its departments and the people in these departments. For example, one strategy may require new products and/or services in order to meet customer demands.

Another strategy may require extensive improvement in the quality of products/services. This will mean aggressive pricing and reduced costs.

If strategies are to succeed, fundamental changes are to be made in the behaviour of the existing organisation or its operating system. Though each operating system has its own culture and performance capabilities, including an inherent ability to resist change, it is for the management to take measures in order to ensure that resistance to change is eliminated with persuasion and creation of awareness about the issues involved. An extraordinary managerial effort is sure to achieve desired changes in the behaviour of all involved in the process.

5.1.2 KEY ISSUES

Managements need to address the following key issues in order to bring about changes in the whole organisation and its operating system:

- How thoroughly does everyone involved understand?
  - What are the needs of customers?
  - What is to be achieved, and why?
  - How is the strategy to be accomplished?
  - What is the timetable?
  - What resources are to be applied?
  - What specific changes are required in the behaviour of personnel?

- How strong is the commitment of managers and employees?
  - How do they look at the objectives?
  - To what extent do they 'own' the objectives?
  - What has been their participation level in the process?
  - How is commitment to be sustained?

- How successfully have the resources been identified and provided?
  - Funds
  - Tools
  - Skills
  - Time

- How systematic a process has been instituted for tracking implementation progress?
  - How will the projected gains be measured, monitored and communicated?
  - How will timely revisions be made?

- How consistent is a climate of accountability maintained?
  - How clearly do the personnel believe in sustaining their commitment?
  - What will be the consequences for success or failure?
  - How visible and consistent is leadership behaviour?

5.1.3 ACTION STEPS

Action of implementation is broadly based on the following steps:

- Eliminate factors that the industry takes for granted but add no perceived value to customers.
- Reduce factors well below the industry's standard to avoid mistake of over-delivering in order to beat the competition.
- Raise factors well above the industry's standard so the customers won't have to make compromises.
- Create new sources of value that the industry has never offered.

5.2 STRATEGY IMPLEMENTATION WITH OPERATING PLANS

Operating plan is the most appropriate medium both for specifying what changes need to be made in the operating system and for directing management how these are to be installed. Operating plans differ from strategic plans in the following manner:

- A strategic plan lays down the moves the firm wants to make in the marketplace in order to improve its position in all respects.
- A strategic plan outlines whatever internal organisational actions are needed to support the external strategy.
- Operating plans are orientated primarily to the firm's internal environment.
- An effective operating plan lays down in considerable detail the work required to change how things are done within the organisation in order to support the achievements of the firm's strategic business objectives.

5.2.1 DETERMINING THE NUMBER OF OPERATING PLANS

The number of operating plans should be determined by the need to address the special characteristics of each facility or group of facilities. Operating plans should be formulated immediately following the development of the strategic plan.

In smaller organisations, the operating and strategic plans can be integrated into a single plan. The same group of managers can develop first the business strategy and then the operating plan in a single integrated process.

5.2.2 KEY ISSUES FOR OPERATING PLANS

In order to ensure successful implementation of operating plan, management has to deal with the following key issues concerned with:

- Understanding;
- Commitment;
- Resources;
- Measuring and monitoring; and
- A climate of accountability.

Management can use the operating plan as an effective mechanism to address all these issues except the last one i.e. a climate of accountability. This factor depends on the quality of top level leadership and middle and lower management throughout the implementation period. All other issues can be effectively addressed because a good plan will answer many questions those affected might have. It helps both to allay any fears that might encourage resistance to the intended changes and to establish credibility.

5.3 SETTING THE STAGE

Before formulating an operating plan, it is necessary to define the scope of the operating system, which will be addressed by the operating plan. The scope will also help in identifying the senior executive who will be accountable for the effective implementation of the operating plan.

5.3.1 DEFINING THE SCOPE

It requires a two-stage process:

- First, the operating system relevant to a single SBU is defined.
- If this scope proves to be very large and complex as to be unmanageable, a second-stage analysis is required to unbundle the 'macro' system into more manageable sub-systems.

Determining the scope is a matter first of setting the boundaries of the macro system, and then establishing what must be addressed within these boundaries. Boundaries should be drawn to include all organisational functions, activities, workflows and supporting processes, systems and procedures required to carry out the strategy for a single SBU.

However, when the SBU is large, involving a number of different facilities (or it is a multi-business operation), the problem of determining scope becomes even more complex.

5.3.2 FORMING THE PLANNING GROUP

After deciding the scope of an operating system, a planning group needs to be set up in order to formulate a plan. It could include around 12–18 people. Members of this group should have understanding of all significant components of the operating system and how they work together dynamically. Even though each member will be familiar with only one part of the operating system, they will have perceptions and assumptions about the other elements of the system. However, the group should be able to reach a common understanding of the system in its entirety.

The group should include managers from senior level to lower middle level. There should be some representation from first-line supervision also. It is important to include personnel from all levels because successful implementation of most strategies ultimately depends on the whole-hearted support of all. It will also help to gain credibility and support with supervisors throughout the organisation. Another reason to include supervisors in the planning group is their expertise as they are the part of management closest to where the work is actually done. Their detailed knowledge of how the operating system really works at the level where things get done is especially valuable in formulating action plans to support each strategy.

5.3.3 SPONSORSHIP

The next step is the designation of a sponsor for the operating plan and his/her role in formulating and implementing the plan.

Ordinarily the sponsor is a senior level manager who has direct authority for the greatest number of key functions in the operating system. In smaller organisations, the sponsor is typically the chief executive officer, managing director or chief operating officer.

The sponsor may not actually participate directly as a member of the planning group. However, he/she has an important role to play in setting the stage for formulating the operating plan.

The sponsor must:

- validate the definition of the operating system;
- ensure that all key functions, processes, systems, workflows, interactions, etc. are included within the boundaries of organisational territory to be addressed by the operating plan;
- determine whether a single operating plan is sufficient or manageable, or whether more than one operating plan will be required;
- decide which functions, activities, systems, etc. must be represented in each planning group, and validate the prospective members;
- establish a supportive climate for members' involvement.

In order to ensure successful implementation of the plan, it is necessary that the sponsor should believe in and be comfortable with the following:

- There is a need for a carefully conceived, comprehensive and integrated approach towards the plan.
- Improving the performance of large, complex operating system requires investment in time and effort required to formulate a sound, credible plan.
- There needs to be vigorous, open debate about key issues and decisions made.
- Managers who are key to carrying out the plan should be directly involved in its formulation.

5.3.4 CHOOSING THE PLANNING GROUP LEADER

The planning group leader should have the ability to:

- deal with difficult situations;
- think broadly, creatively, and with an integrative approach;
- sustain a perspective that references the strategic business imperatives as the framework for reaching conclusions.

Such leaders are more likely to be found outside the operating system, probably at corporate level, such as those belonging to planning, organisational development or human resources.

5.4 SETTING THE RIGHT PRIORITIES AND OBJECTIVES

The purposes of an operating plan are:

- to describe what changes are required of the operating system to enhance its support of the SBU's business strategy; and
- to outline how these changes are to be achieved.

For an operating plan to achieve these purposes, it must be closely aligned with the business strategy.

5.4.1 KEY ISSUES IN ACHIEVING ALIGNMENT

The following issues must be addressed to ensure a correct alignment of operating plans with business strategies:

- Often business strategy is determined by senior executives. However, when most company assets and a substantial portion of the payroll are in operations and in technical functions, these often develop their own sense of priorities and momentum, which are often at odds with the business strategy.
- Cost reduction is not necessarily the only or even the primary objective of an operating plan. Cost reduction should have top priority only when the business strategy requires a reduction in operating costs or the cost of goods and services sold.
- When a single operating plan serves two or more businesses, each with its own strategy, differentiated priorities must reflect any different strategic imperatives. Each business strategy must be supported by an appropriate operating plan that addresses its special requirements.

5.4.2 HOW TO ENSURE ALIGNMENT

It is crucial that the management group responsible for implementing an operating plan share a common understanding of the business strategy they are supporting. The following steps are crucial for developing consensus about operating system priorities:

- Operating system managers need to make explicit whatever perceptions they have about the priorities that are actually driving current decisions.
- The planning group reviews the current strategy to identify the strategic business imperatives for the operating system.

- In the light of these strategic imperatives and the capabilities of the operating system to perform against these imperatives, the planning group discusses and reaches consensus on what the operating system priorities should be, in order to support the business strategy.
- The planning group compares their consensus with the perceptions of current actual priorities. The nature and extent of any difference will determine the actions required to reorient and redirect all managers and supervisors in the operating system.

5.5 SWOT ANALYSIS

SWOT is the acronym for 'Strengths, Weaknesses, Opportunities and Threats.' It is in effect a distillation of all the steps and considerations that should be taken to formulate an effective corporate strategic plan.

5.5.1 STRENGTHS

In this area will be found all the advantageous aspects of the organisation, for example, exceptional customer goodwill and brand loyalty, ideal location of its stores, highly efficient technical personnel, adequate financial resources, enthusiastic sales force, etc. The strengths represent the foundations on which the organisation's continued success and prosperity can be built.

5.5.2 WEAKNESSES

These must be honestly investigated and faced because they represent influences which could retard the growth and success of the organisation. Remedies must be sought to overcome weaknesses once they are identified.

Weaknesses can occur in any or all areas of an organisation – depending on the particular organisation and its activities. Examples of weaknesses could be obsolescent machinery, lack of provision for senior management succession, skills shortages, inadequate research and development facilities resulting in lack of new products to succeed current production models.

The remedies to be applied will, of course, depend upon the weaknesses involved. Top management of the organisation concerned should consider carefully about investing in new machinery, the promotion of management training programmes, and increased investment in research and development. If its financial position is one of the organisation's strengths, then these remedies would not be difficult to implement. If finance is one of the weaknesses, that aspect would need to be given attention first.

5.5.3 OPPORTUNITIES

Whereas strengths and weaknesses emanate chiefly – although not entirely – from inside the organisation, opportunities are usually external. They might come about fortuitously or by an application of research. The important factor is that opportunities should be recognised and grasped firmly when they arise.

Some examples of opportunities are a new market opening up that could be filled from existing resources, the opportunity to take over another company which would improve the organisation's capabilities, such as a manufacturer taking over a retailing chain, or the opportunity to take on to the management team an expert in some appropriate field who would improve the organisation's performance.

Opportunities abound if they are actively sought and recognised. They are important for the organisation, and its management should be ready for them so that they are able to be seized on when they occur, provided they coincide with the main objectives of the organisation.

5.5.4 THREATS

Most threats to an organisation are from external sources, and they must be identified, and steps must be taken to deal with them. Though the actual threats are mostly external, their disadvantageous repercussions on the organisation are chiefly due to weak or inept management and management planning. Some examples of threats could be technological developments, thrusting competition (especially from other countries), economic and political uncertainty.

Two very important threats which can arise internally must not, however, be overlooked. The first is management complacency, and the other is inadequate financial management. Complacency results from the assumption that things will always remain 'as they are' – and therefore management has the plans to meet technological or other changes, or the consequent strong competition.

5.5.5 ADVANTAGES OF SWOT APPROACH

The advantage of SWOT approach to corporate planning is that it requires management to look very closely and analytically at every aspect of the organisation's operations so that objectives can be assessed as attainable, and a clear picture can be built up of the strategies that must be adopted to achieve them. Even strategy must also be examined with care, so that the constraints under which operations have to be conducted will be recognised. Some of these constraints, which might cause certain strategies to be abandoned, will be external and some will be internal.

Some external constraints might be outside management's control altogether. These would include raw material price rises, government legislation, and the economic climate. Others might be circumvented. Examples could be substitution of an alternative material for one whose supply has ceased, or finding a new outlet for products whose overseas market has ceased to exist because, say, of import controls.

Internal constraints include lack of specialist labour, poor industrial relations, faulty products owing to poor quality – control and lack of research and development support. Such constraints might require the re-examination of corporate strategies, and the planners and management will have to consider the alternatives of either abandoning some strategies or of remedying the constraints.

6 TRACKING STRATEGY IMPLEMENTATION

6.1 INTRODUCTION

Strategy implementation is an on-going, integrated process requiring continuous reassessment. It involves the following:

- Allocation of sufficient resources – financial, personnel, time, I.T. support;
- Establishing a chain of command;
- Managing the process by monitoring results, comparing to benchmarks, evaluating the efficiency of the process, controlling for variances, and making necessary adjustments;
- Developing the process involving training, process testing, documentation and integration with legacy processes.

6.2 ISSUES INVOLVED

In order to achieve successful implementation it is also necessary to understand the relationship between performance measures, monitoring progress and implementation success.

These issues are:

- Every organisation has a set of some performance measures. Some are at departmental or functional level while others are those that relate to work processes.
- These measures may not always align with planned future strategies.
- Behavioural norms consistent with these established measures can be barriers to changes in the operating system.
- Performance measures can be most effective at three levels:
  - The SBU level
  - The operating system
  - Departmental or functional level.

6.3 COMPLEX SYSTEMS

There are several issues which need to be considered because of the complexity in SBUs and operating systems. They are:

- Those involved need to assess whether the investments in their strategies – effort, time and resources – are actually paying off in terms of the desired gains.
- They need to have the ability to measure with reasonable precision, cause-effect relationships within complex systems in the context of performance improvement.
- These measures must be made at all levels – against business objectives, against operating system objectives, and against departmental objectives.
- The managers need to get unambiguous answers about accountability.
- They need to understand that the ultimate measure of any operating system's performance lies in its marketplace. When the system supports an SBU, that marketplace is outside the organisation. When the system is focused on a support function within the organisation (e.g. Human Resources, Finance, Maintenance, etc.), its marketplace is its internal clients.

6.4 MEASUREMENT OF PERFORMANCE

There is a gap between the management's need for precision and clarity in measuring system performance and anyone's ability to meet this need. For example, almost every attempt to measure the performance of single elements within organisations, in actuality measures much more than it was intended to measure. Moreover, the act of applying a measure influences the outcome – sometimes in unproductive ways.

6.4.1 PRACTICAL APPROACH

A practical approach to measuring performance improvement in operating systems requires an understanding of the dilemma of gap between the management's need for precision and the ability to meet this need. This means that the management must recognise the current limitations of measuring performance and cause-effect relationships in operating systems. They must therefore be willing to settle for something less than precise gains resulting from specific changes. However, the usefulness and effectiveness of performance measures can be improved over time by trial and error. Often the measures in use at the end of the first year of plan execution are quite different from the ones applied at the outset of the application.

6.4.2 SPECIFIC MEASUREMENT PACKAGE

There are two requirements for a practical approach to measuring any performance improvement in an operating system resulting from the implementation of an operating plan:

- A package of different types of measures can be used, rather than a single measure. A consistent picture stemming from a multi-dimensional approach is more reliable than a similar picture derived from only one type of measure.
- The measurement package need not be standardised, but rather tailored to and derived from the specific operating plan.

6.4.3 TYPES OF MEASURES

The tailored and specific package should contain the following measures:

- **Global measures:** When the operating system centres on a function that provides services within rather than on revenues:
  - Net units processes divided by total person-hours worked; or
  - Net units of output (provided to 'client' departments) divided by total person-hours worked.

- **Strategic Performance Gap (SPG):** It is focused on the implication of any Strategic Performance Gap (SPG) that may exist between the level of system performance required to meet strategic business objectives and the current level of performance.
- **Targeted measures:** It means a set of targeted measures for each strategy in the operating plan. It is the opposite of a global measure. A targeted measure illuminates improvements only in certain elements of the operating system. The development of targeted measures for a tailored measurement package is more likely to require a selection from measures already in use than the invention of entirely new measures.
- **Detailed action programmes:** A well-developed action programme specifies tasks, start and completion dates and accountabilities. Performance against the action programme is a qualitative indicator of how reliably the commitments to perform planned work are actually met.
- **Cost systems and work standards:** Tracking variances from both work and cost standards can add another dimension of measurement provided that the standards have some validity and have been well maintained.

6.5 DEVELOPMENT OF MEASUREMENT PACKAGE

In order to develop the tailored package of measures for their operating plans, a planning group needs to consider how they want to use these measures. Moreover, measures can be a powerful force to enhance employee motivation. In that case, the measures must meet a set of special criteria:

- They must be easy to understand;
- They should have a high degree of credibility;
- Feedback must be more frequent than that used for monitoring implementation progress.

No operating plan can be considered complete without an initially defined tailored measurement package designed to track implementation progress.

To develop the measurement package, the planning group is involved in the following process:

- They review the action programme, and identify the source of expected gains.
- They estimate the probable magnitude of these gains after the first and then the second year of plan implementation.
- They need to select the global and targeted measures, and calculate the SPG (Strategic Performance Gap).

The following questions can serve as a useful checklist against which to test an initially formulated tailored measurement package:

- To what extent are these measures focusing on the areas that really count in achieving the desired changes to the operating system?
- How practical are these measures in terms of the relationship between the effort required and their expected value?
- Are the measures sufficiently comprehensive?
- Will we be able to get performance feedback soon enough to help us make any needed mid-course corrections?
- To what extent are these measures easy to understand?
- How credible will these measures be?

6.5.1 CONGRUENCE WITH BUDGETS AND REWARDS

In some organisations, the budget is a more deeply extended and respected system than strategic and operating plans. Thus it is the budget that prevails and the plan that suffers.

Plans are likely to be implemented successfully when there is a close alignment and linkage among the business strategy, operating plan and systems of budgets and rewards.

However, several large corporations have begun to address this problem by radically changing their budget development process so as to base budgets on strategy. This type of budget avoids any possible conflict or incongruence with the business strategy and operating plan.

In a strategy-based budgeting process, each function or department carries out the following steps:

- It must be able to meet the specific demands of any strategy.
- For each step of action programmes, estimates are made for associated expense and any revenue that might accrue to a department.
- For each strategy and its associated action programme, the department totals the expenses by line item and offsets these with any anticipated revenues.

6.5.2 REWARD SYSTEM

In order to ensure that strategy implementation is integrated into day-to-day operations, it is essential that the reward system is congruent with the strategies being implemented.

For example, for each manager:

- Merit increases are geared directly to the extent, to which he/she exceeds, meets or slips commitments regarding action plan implementation.
- Executive bonuses are awarded on the basis of the extent to which specific strategic or tactical goals are achieved, exceeded or missed.
- Stock option awards are based on performance against individual commitments met in implementing strategies.
- Advancement within the organisation is based on performance on strategy implementation.

Thus, by gearing personal rewards directly to the achievement of strategic objectives, everyone affected has a strong personal stake in achieving successful implementation outcomes.

6.5.3 SYSTEMATIC MONITORING PROCESS

The process for systematically monitoring implementation progress needs to be established. There should also be scope for updating and modifying the plan when necessary. No plan can be expected to remain valid for a long time. There may be unanticipated events both within and outside the organisation, and these may call for changes in strategy.

Management, therefore, require:

- a clear delineation of the course they intend to take;
- signals to inform them when they are no longer on that course; and
- regular opportunities to take stock of the situation and decide what action to take.

6.5.4 SIGNAL GENERATORS

A planning group can implant some signal generators in the operating plan to complement their measurement package.

These are:

- A set of explicit assumptions made by the planning group on which successful plan implementation depends;
- A summary of the major qualitative changes that are expected to occur to the operating system once the operating plan is successfully implemented;
- An analysis and measurement of the risk that management will fail to implement the operating plan as intended.

- The planning groups first identify and note any major obstacles to implementation success;
- Next they assess the risk of failure by recording their consensus in answering the questions regarding the following:
  - Defined objectives to successful implementation;
  - Ambitiousness of plan objectives;
  - Management's familiarity with strategies in the operating plan;
  - Management's past record in successfully changing the operating system;
  - Overall management competence;
  - Organisational responsiveness;
  - Conflict with established culture;
  - Overall risk assessment.

6.5.5 PROGRESS REVIEWS

Management need to complete their monitoring/updating process by establishing regular opportunities to review the progress and decide on appropriate actions, if necessary. For this purpose, a strategy manager/coordinator needs to be designated. He/she will regularly meet the members of the particular group, and review and report on the following:

- Progress achieved in completing the task;
- Any problems or obstacles encountered;
- Any changes required to the timetable;
- Any suggested additional tasks that should be undertaken;
- Anything else that should be shared.

After each manager, who is accountable, reports on his/her action step, the entire group meets to discuss the reports. Depending on what the group learns from their review of implementation status, they consider whether or not any changes are required to the plan.

This process enables the group to maintain a relevant, vital plan by continuously injecting updates, additions and modifications. In this way, the operating plan remains a vital mechanism for managing the organisation.

7 IMPLEMENTING STRATEGY

7.1 INTRODUCTION

Implementing a strategy requires initiating a number of changes in the operating system(s) that support each Strategic Business Unit (SBU). This can be achieved by:

- carefully formulating a plan for change; and
- implementing that plan in a systematic way.

For formulating an operating plan, it is necessary to:

- make a decision about its scope; and
- decide upon the Sponsor.

7.1.1 SCOPE

It means reaching a workable compromise among the following considerations:

- Ensuring that the operating system contains all the key functions, workflows, supporting systems, practices, procedures etc.;
- Avoiding a complex definition of scope;
- Ensuring to effectively address significant differences of place, technology and other organisational characteristics.

7.1.2 THE SPONSOR

The designated Sponsor, who is a senior executive, sets the stage for operating plan formulation. He/she reviews and validates or modifies the plan proposed by the planning group. He/she helps to ensure that focus and momentum are sustained. It is his/her job to resolve any issues identified by the planning group, and to maintain a climate of accountability for the managers and supervisors involved with implementing the operating plan.

7.2 THE PLANNING GROUP

The operating plan is formulated by a group of managers and supervisors – 20 to 30 – in the operating system. They represent all key functions and departments in the operating system.

It is important for these managers and supervisors to be directly involved in developing an operating plan because of the following reasons:

- They are able to bring knowledge and expertise of the operating system;
- They have the operational details of the system's elements;
- They are in a position to establish a strong foundation for successful implementation of the operating plan.

For very large organisations, these managers and supervisors constitute a core which can be subsequently expanded once implementation begins.

7.3 PLANNING GROUP WORKING SESSIONS

A planning group usually works in a structured process. There are three full-group sessions which are held off-site in order to ensure that there are no distractions or interruptions. First, there are two two-day sessions. Second, there is a one-day session. Each of these sets of sessions is held four to five weeks apart. These sessions are really productive if they are conducted by someone who is outside the operating system, and so can think objectively.

Before the first two-day session, two critical inputs are prepared:

- **Straw-person situation characterization:** This is a description of the operating system, and describes:
    - the context of the operating system;
    - its components; and
    - the working of the system.

This is developed from research based on interviews with managers, supervisors and employees in the operating system.

- **Analysis of demands made by business strategy:** This is an analysis of demands as perceived by managers in the operating system.

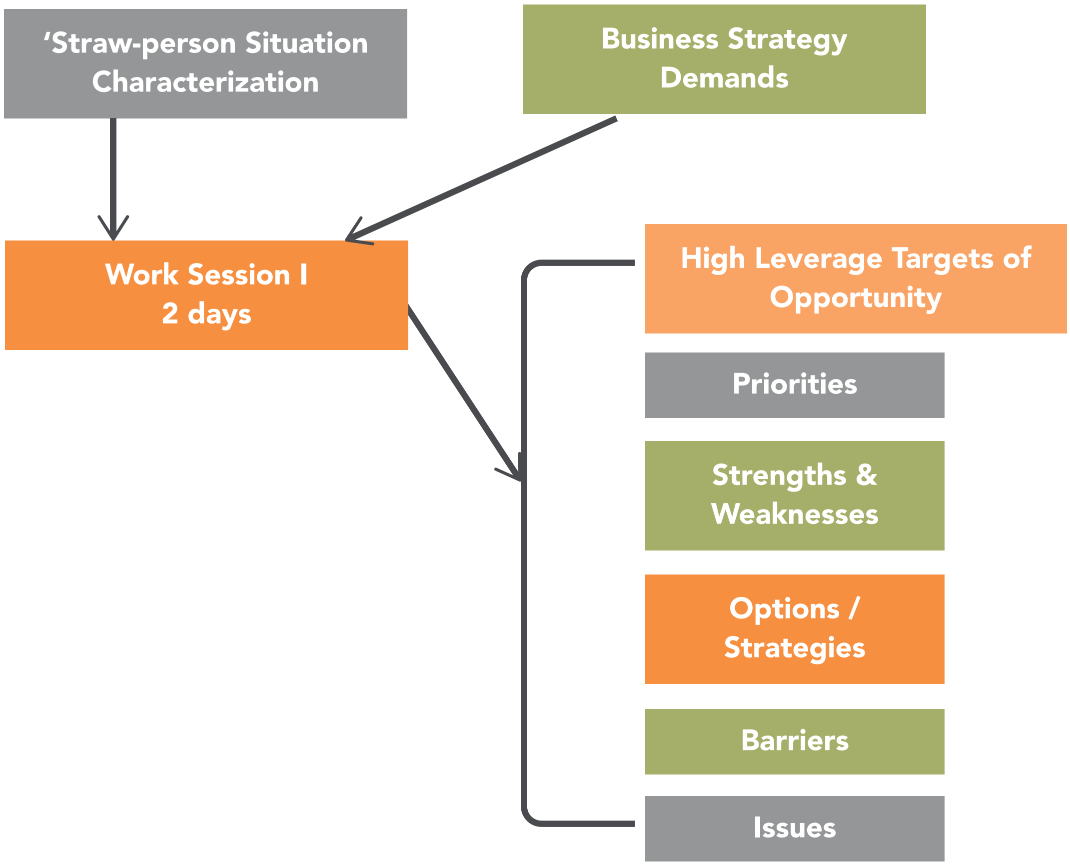

Fig. 7/1 Operating Plan Formulation Process I

7.3.1 INITIAL WORKING SESSION

The planning group devotes most of the first day to reviewing, modifying and validating the 'Straw-person' situation characterization. Each member of the planning group completes an Organisation and Management Readiness Assessment (OMRA) questionnaire. This is done by them individually and anonymously, and their responses are analysed at the beginning of work on the second day.

The second day is devoted to consensus building and identifying priorities necessary to drive the operating system in support of the business strategy. Then the highest priority targets are translated into objectives for the operating plan.

This is followed by assessing the capabilities of the operating system's management to implement successfully strategies for improving system performance. In this process, past system change efforts are reviewed and an effort is made to draw some general conclusions regarding future improvement efforts. The group then discusses the feedback from their responses to OMRA (Organisation and Management Readiness Assessment) questionnaire, and identifies specific areas of strength and weakness. Then they select the strategy options on which to base their operating plan.

The planning group then identifies obstacles that might interfere with the selected strategies. For each strategy in the operating plan a task group is formed to develop a proposed sequence of action steps outlining the work required to implement each strategy.

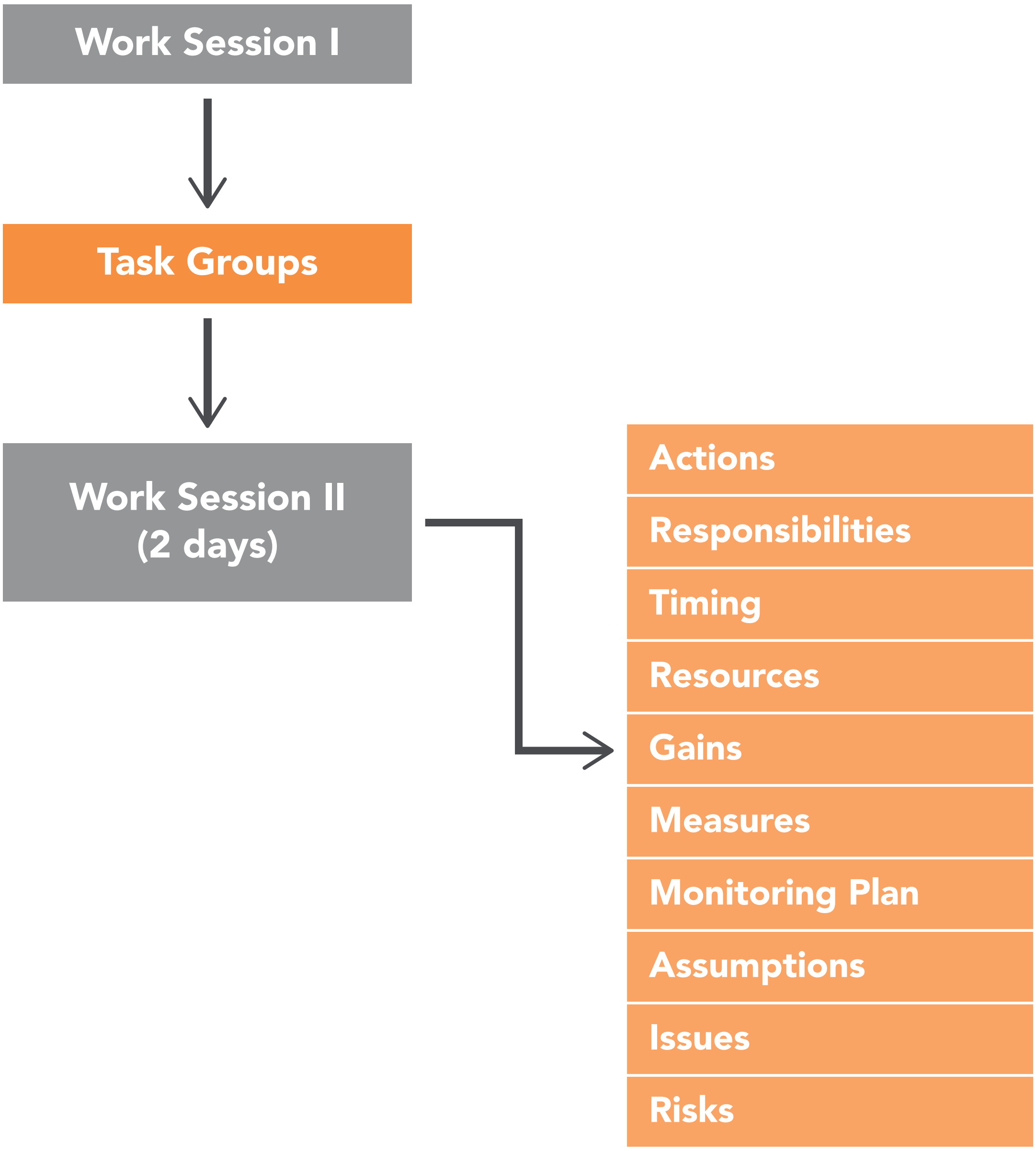

Fig. 7/2 Operating Plan Formulation Process II

7.3.2 SECOND WORKING SESSION

During this session the proposals of task groups are discussed, and the planning group formulates detailed action programmes. These programmes also include a plan for monitoring the implementation progress. In short, the planning group:

- identifies issues requiring help from the Sponsor;
- states the assumptions regarding successful implementation;
- summarizes the expected change in the operating system; and
- identifies and assesses the extent of risk involved in successful implementation.

7.3.3 FINAL WORKING SESSION

Before the final working session, a draft proposed operating plan is prepared, and the same is reviewed and completed. Before doing this, the group may make any necessary modifications to the plan document to ensure that it:

- reflects the group's consensus accurately;
- communicates clearly the plan rationale; and
- provides a comprehensive roadmap for implementation.

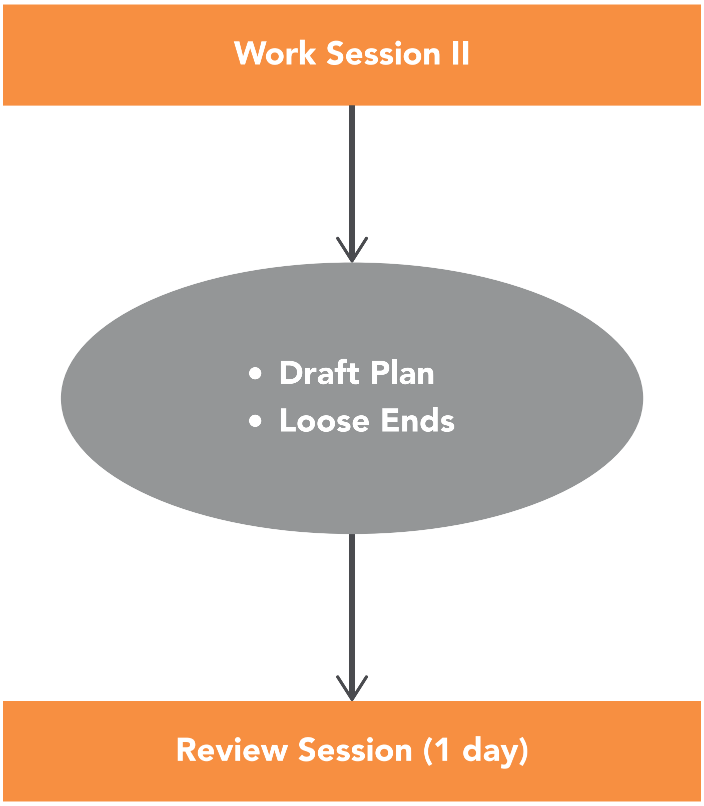

Fig. 7/3 Operating Plan Formulation Process III

7.4 SPONSOR APPROVAL AND PLAN IMPLEMENTATION LAUNCH

A final plan document is submitted to the Sponsor for review and validation, or modification (if necessary). This is done only when the Sponsor has not participated directly in the planning group. After validation the operating plan document is distributed to managers and supervisors in the operating system, and to other selected executives and managers. Meetings are held with all employees in the operating system to explain the plan.

7.5 IMPLEMENTING THE OPERATING PLAN

At the initial stages of implementation the Sponsor works to resolve any critical issues. Managers and supervisors are involved in formulating more detailed action plans. This makes it possible for a majority of the management group to believe in the plan and they are determined to achieve its objectives.

As implementation proceeds, regular executive staff meetings are held to review and discuss implementation progress on key action steps.

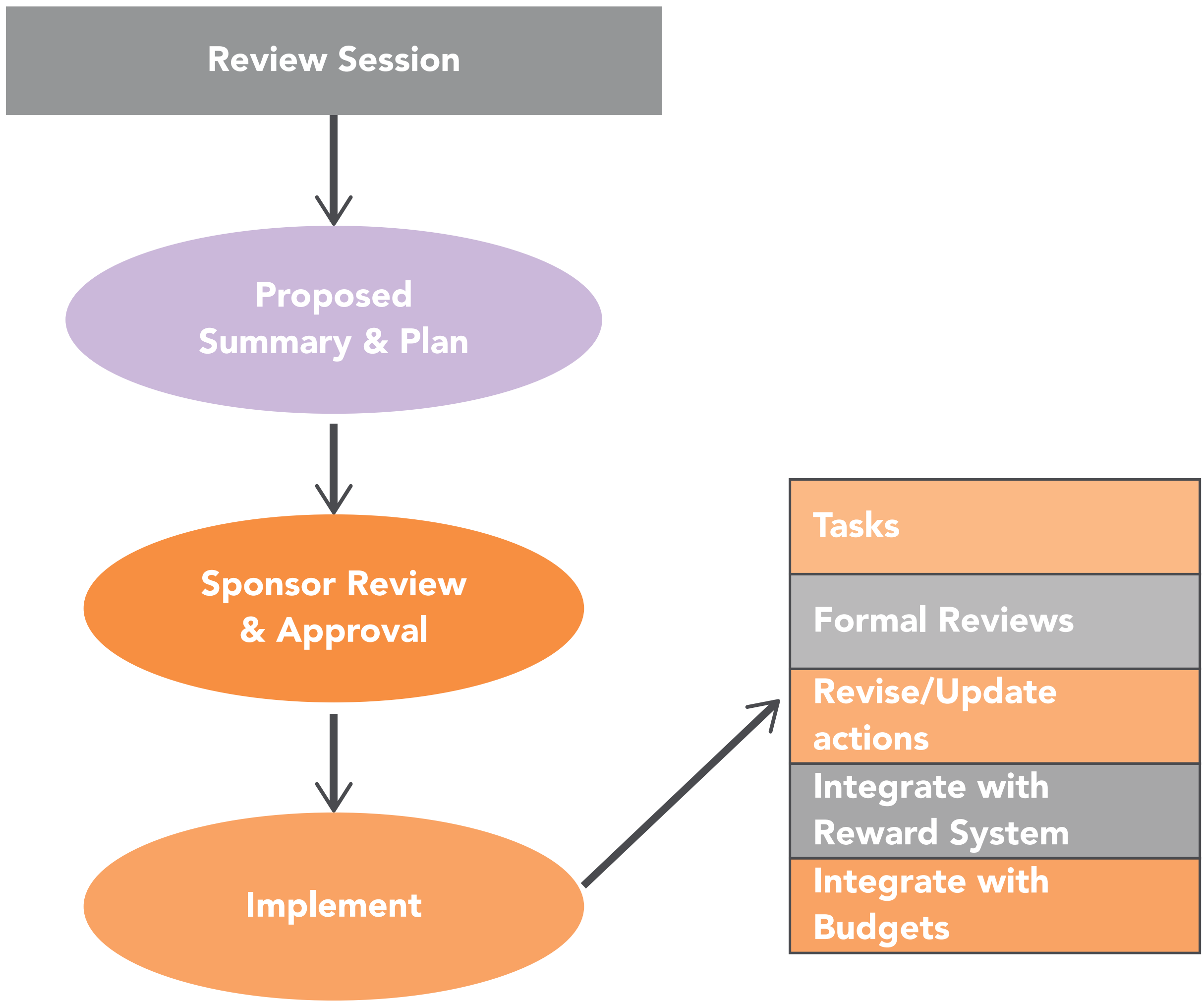

Fig. 7/4 Operating Plan Formulation Process IV

8 MULTI-BUSINESSES

8.1 INTRODUCTION

In modern times alliances between different business organisations have become a regular feature. There are some successes while there are some failures, too, for various reasons. However, it stands to reason that when an alliance doesn't seem to be working it is better to end it before any further damage can be caused.

8.2 THE CORPORATE 'GAP'

Corporate planning is a long-term one. Hence an organisation's strategies need to be reviewed at frequent intervals in order to be able to introduce necessary modifications. Flexibility in approach to corporate planning goes a long way in the achievement of objectives.

During these reviews the actual results of the existing activities of the organisation are compared with those required at the same juncture by the corporate plan. Where actual results fall short of planned results, it is termed the 'corporate gap.'

The extent of the gap signifies the amount of effort required to achieve the planned objectives. In order to ensure this, strategies have to be adjusted by the planners after re-examination.

8.3 ENTREPRENEURIAL ACTIVITY AND CORPORATE PLANNING

It is believed that corporate planning can have a negative effect on 'entrepreneurial activity.' An entrepreneur has to be ready to exploit the market opportunities as they occur. He/she needs to have complete freedom of action within the resources available.

The restrictions imposed by a rigid corporate plan could hamper the exploitation of such opportunities. Hence it is necessary that corporate planning should not be restrictive. Change and adaptability are vital to continued progress. The planners should ensure that there is little or no conflict between entrepreneurial pursuits and the strategic plan. Corporate plan is not an end in itself; it should be the means to pursue the ultimate objectives of the organisation. Therefore, top management should ensure sufficient flexibility in the strategic planning. However, such activities need to be kept within reasonable limits and within the resources available.

8.3.1 ADVANTAGES OF CORPORATE PLANNING

The advantages of an efficient strategic planning can be summarised as follows:

- Strategic planning requires top management to make an analytical examination of the entire organisation.
- Strategic planning ensures continued progress of the organisation if it is carefully carried out and implemented.
- When personnel at all levels of management are involved in the planning operations and procedures, personal interest of those concerned is generated.
- Strategic planning requires that adequate attention is paid to the future over the long period.
- It becomes necessary to have an effective management information system.
- Strategic planning broadens the horizon of those who are mainly concerned with tactical planning.
- Those at the lower levels of management and supervision are also enabled to appreciate how the operational plans fit into the scheme of the organisation.

8.4 BUSINESS PLANNING

The basis of business planning is the strategic or corporate plan which identifies the direction which the organisation is to take over the next ten years or more, and the resources needed for the achievement of planned objectives.

Since external business environment is variable, the managements of most business organisations work on a 'rolling' five-year plan basis. In this method, only the following year's budgets are expressed in detail, and the remaining four years are set out in flexible terms. This allows for a number of unexpected contingencies.

8.5 HOW SHOULD MULTI-BUSINESSES COMPETE?

Portfolio management by Porter (1985) as the concept of corporate strategy is mostly in use. The most famous concept of portfolio management was the Boston Consulting Group (BCG) growth share matrix.

(Note: This has been described in detail in 2.4.4)

The use of the matrix can also be made when a business is being transferred from one to another. This presents a good opportunity for the whole business to be examined with decisions on future investment and/or disinvestment.

There has been a change in the way businesses pursue high growth strategies. There is a greater realisation that innovation is at the centre of achieving high growth. However, innovation requires a change in the mindset of strategists.

Associated with the emphasis on innovation comes an emphasis on core competencies. They are the building blocks for successful innovation. To ensure this across the multi-business, core competencies have to be seen as a corporate resource, and be available to all in the organisation.

8.6 THE CORPORATE CENTRE

Large organisations usually have several different business units producing a number of varied products. In some cases, they have operation centres in other countries, too. At the centre of all there is the corporate headquarters. It is here that all the major decisions are taken and strategies are formulated. One of the main tasks is to ensure introduction of innovative products in the market. This can be done in two ways.

- Producing and marketing new and creative products developed by the existing staff or by hiring fresh talent;
- Having an alliance or merger with another business organisation which has the capacity and capability to add value to the organisation.

However, alliance or merger may have certain negative implications. The existing personnel may resent the power and authority of newcomers joining from the other organisation. In this situation, the top management of the parent organisation must ensure that the existing team gets positively merged with the incoming team. This will require a great deal of leadership and team building skills.

8.7 THE BOARD

The Board of Directors of an organisation has the following responsibilities:

- To create the vision and mission of the organisation;
- To monitor the work of top managers;
- To approve the use of resources;
- To protect the interests of shareholders;
- To ensure that the Chief Executive is able to provide strategic leadership;
- To ensure the balance between the executive and non-executive members of the Board. (There is always a concern that non-executive members either do not have the requisite capabilities or do not give sufficient time to the deliberations of the Board.)

The Board needs to be pro-active and not a rubber stamp on the actions of the Chief Executive. The Board members must be able to question the actions and decisions of the Chief Executive, if it is required under certain circumstances.

8.8 INTEGRATION OF BUSINESS UNITS

Organisations having several diversified business units – often scattered around the world – have a problem of control. They need to decide from among the following options:

- Should they have one large corporate centre to take decisions regarding the working of all units?
- Should they have a small corporate centre, and have a decentralised structure?

Though it may seem logical to have one corporate centre and all decisions to flow from it, in practice it may prove to be counter-productive. Different units may have to operate under different cultural and market conditions. It will not be prudent to impose decisions – taken at the corporate centre – on all units without taking into consideration the specific realities of a particular market segment.

The most logical system would be to keep decision-making authority on over-all strategy at the corporate centre but decentralise the operation aspects. However, the corporate headquarters can add value to the activities of a particular unit by identifying and facilitating the horizontal relationships between businesses, such as transferring skills, technologies and core competencies and sharing activities.

8.9 THE GLOBAL BUSINESS

Global businesses face an interesting situation. How should they respond to local culture? It is necessary to think about this problem because what is liked in one country may not find favour in another. For example, what attracts the consumers in USA or UK may not attract those in Japan, or the product preferred in Europe may not find buyers in India or China.

Some global organisations – e.g. McDonald, KFC, and Pizza Hut – are good examples of this phenomenon. They have added regional tastes in their offerings and have been able to create markets in whichever country they have gone to.

It virtually means integrating local culture with the corporate culture. A smart global organisation somehow finds its way through these two extremes to be able to function effectively in various markets throughout the world.

8.10 STRATEGIC ALLIANCES

In the modern business world strategic alliances between various business organisations have become commonplace. Strategic alliances are made for a variety of reasons.

They are:

- To help with entry to the new market;
- To help with the cost of Research and Development (R&D);
- To help companies acquire core competencies.

Some examples of such alliances are: AT&T of USA with Microsoft, Sony and Philips, BT of UK with other partners, Walmart of USA with Citra in Mexico, etc.

Strategic alliance is quite often considered to be a better option than acquiring companies. These alliances may be:

- Joint ventures;
- Supplier-buyer relationships;
- Cross shareholding;
- Sharing R&D.

However, strategic alliances have to be managed carefully. Conflicts do emerge as partners start to feel they are getting the worst of the arrangement. Mutual trust is important but practically it is hard to maintain in the long term.

8.11 SELECTING PARTNERS

In order to select the right partner(s), it is essential to do a thorough research and evaluation. The resources to use could be company reports, market surveys, online searches, trade journals, value of stocks and shares etc.

The dimensions of the company profile might include the following:

- Size of the company;
- Products/services;
- Market position;
- Technological capabilities;
- Style and strength of management;
- Production capabilities, etc.

8.12 MAKING STRATEGIC ALLIANCES WORK

This involves the work of identifying goals and negotiating positions. Negotiations could include the following matters:

- Objectives of partnership;
- Legal and managerial arrangements;
- Financing;
- Contributions;
- Benefits;
- Decision-making procedures, etc.

Implementing a strategic alliance agreement requires the complete management structure. It will include the following:

- Continued sponsorship of the alliance by the top management;
- Monitoring the strategic alliance against specified targets;
- Training and briefing of personnel;
- Conflict-handling mechanism;
- Capacity to improve the partnership.

8.13 ALTERNATE CORPORATE STRATEGIES

After the SWOT analysis is completed, the next step is usually to develop a list of corporate strategies which will form the basis for the final corporate plan.

Strategies are developed for two purposes:

- Those aimed at producing actions to fulfil objectives; and
- Those aimed at ensuring the resources to support these actions.

Strategies, therefore, are usually developed with the following considerations:

- In terms of products and markets where action will be required, and sometimes not required;
- In terms of size, structure, financing and staffing.

Typical corporate strategies could be from among the following:

- Expand into new markets with existing products;
- Continue to maintain the present market share in existing markets with existing products;
- Add to product range through acquisition of a competitive business;
- Seek long-term low-interest loans;
- Re-organise the company into separate profit centres;
- Divest no-core business.

Such strategies point the direction in which an organisation is to move over the medium term.

8.14 THE FINAL STAGES

The final stages of corporate planning cover the issue of key targets in a year-on-year format to the various subsystems – sections, departments or divisions of the organisation.

Targets may be expressed in relation to the following:

- Budgets – e.g. sales revenue, direct and indirect costs, trading profit;
- Output per employee;
- Percentage utilisation of machines;
- Percentage increase in market share costs as a percentage of shares.

It is not sufficient merely to set targets; they need to be monitored, and then revised as and when required. If revisions are made, the whole plan is rolled forward as a consequence. Hence the long-term perspective is maintained, but the entire business plan is kept up to date.

9 SMALL BUSINESSES

9.1 INTRODUCTION

It is commonly believed that management in small business is flexible, intuitive and based on the personal energy and capability of the owner/manager. These qualities are used:

- To make sure the business survives; and
- To grow the business.

When the business grows, the intuitive style of management has to be replaced by a more systematic one including some formalization of strategy. Other managers may also have to be hired in order to look after the expanded business.

9.2 ENTREPRENEURS

People who are fed up with the constraints of large bureaucratic businesses often start new ones. Sometimes they do so because in large businesses they are bound by too many archaic rules and regulations which hamper their innovative and entrepreneurial vision. However, quite often such small entrepreneurial businesses ultimately do tend to grow into very large ones, and so the initial concept is lost, and they are not able to keep being entrepreneurial, for example, Richard Branson (Virgin Group), Bill Gates (Microsoft), Anita Roddick (The Body Shop), Larry Page and Sergey Brin (Google).

Given below are examples of some of the most valuable startups around the world:

- Uber (ride-hailing)
- Xiaomi (smartphone)
- Airbnb (home renting)
- Flipkart (e-commerce)
- Palantir (data analysis)

However, there is a difficulty with the notion that all startups, or for that matter all small businesses, are entrepreneurial. An entrepreneur is creative, interested in innovation and willing to take risks to bring about innovation and business growth. In the case of many small business owners these attributes are largely lacking. Many of them say that they do not want their business to grow beyond its present size. Many small firms stay about the same size for most of their lives with the owner-manager unwilling to take further risks.

9.3 PLANNING AND STRATEGIC MANAGEMENT IN SMALL FIRMS

A business plan is invariably requested by a bank or a financial institution when a firm is trying to raise loan. Quite often these firms are not in a position to come up with a credible business plan, and that is the end of their business venture. Therefore, it is necessary for them to prepare a realistic and viable plan prior to startup.

The principal value of strategic planning to these firms is that they have a framework for their assessments of overall performance. This means the managerial will to improve planning facilities, comparisons with alternative futures and opportunities. In fact, the most dynamic and progressive firms embrace management as a way of nurturing their own entrepreneurial motivation. This is consistent with the view held by Wheelan and Hunger (1995) that to be an entrepreneur requires strategic vision. They argue that an entrepreneurial business is more oriented towards growth and innovation than other small firms do. So, far from seeing strategic planning as an impediment to entrepreneurial and innovatory behaviour, they see it as a necessary part of it.

9.4 THE NATURE OF STRATEGIC MANAGEMENT IN SMALL FIRMS

While some small businesses might have well-developed strategic management, the usual assumption is that strategic management in small businesses typically needs to be a simplified version of that of a large business. Small firm managers, it is assumed, lack the skill to do what their counterparts in large organisations do.

However, it is not always so. There are innumerable small firms around the world that prepare strategic plans – though on a scale smaller than large organisations – and deploy similar systems of planning, implementation and operation.

10 E-BUSINESS

E-business (electronic business) is the conduct of business on the Internet, not only buying and selling but also servicing customers and collaborating with business partners. Companies are using the Internet to buy parts and supplies from other companies, to collaborate on sales promotions, to do joint research. Exploiting the convenience and world-wide reach of the Internet, a large number of companies have already discovered how to use the Internet successfully, for example, amzon.com, eBay, flipcart, bookboon.com, to name a few.

10.1 THE GROWTH OF E-BUSINESS

In the last few years there has been an astonishing growth of e-business all over the world. Now banks, insurance firms, book retailers, travel companies, hotels, airlines, and innumerable various other kinds of businesses have moved quickly to establish their presence on the Internet. Now one can access the Internet virtually for anything they want. However, many companies may have done so because they saw opportunities. Many may have joined the Internet band wagon simply in order to keep up with what their rivals are doing, or might soon do.

The e-businesses have grown extraordinarily fast, often returning growth rates that until recently were unimaginable.

10.2 ISSUES FOR NEW E-BUSINESS

E-businesses, like any other kind of business, initially face the issue of raising the capital necessary to start and keep them going until they have sufficient sales revenue from customers. However, the difficulties of obtaining startup capital to start an e-business may vary from one country to another.

Once the e-business has begun operating, another issue is how to build its share of the Internet market. Some spend money on offline advertising to build an online brand, which can be very expensive. Some others adopt a different approach to building a market share, and compete in price. This practice is usually adopted by providers of Internet and mobile phone services.

10.3 CONSOLIDATION

The development of e-business has been so rapid that issues of consolidation are already starting to emerge. Netscape, General Motors, Ford, Volkswagen, AOL are good examples of this phenomenon. These firms combined the resources and skills of other firms in order to offer services to companies.

10.4 OPERATIONAL EFFICIENCY

The Internet offers established firms new ways of operating. They can increase efficiency by moving to electronic procurement. They can also have closer integration with business customers.

10.5 E-BUSINESS STRATEGIES FOR ESTABLISHED FIRMS

Firms may decide to make a strategic response to the opportunities of the Internet. If they decide to do so, they have at least two options:

- They can respond by maintaining their existing business design but adding a Website; or
- Launch their e-business.

However, firms that create a presence on the Internet but do not substantially change the way they operate have business processes quite different from their e-business counterparts. Established firms facing the challenge of e-business might have to dismantle parts of their organisation and transform the way they operate.

10.6 STRATEGY PROCESS AND E-BUSINESS

A firm may decide it needs an e-business strategy to ensure that it keeps up with the development of the e-economy. This leads to e-business becoming very important in terms of the corporate business strategy.

10.7 VALUE CHAIN ANALYSIS

Value chain analysis may be useful as a way of thinking about the use of Internet technology to obtain competitive advantages.

The main support activities in the value chain identified by Porter (1985) are:

- Inbound logistics;
- Operations;
- Outbound sales;
- Marketing and sales;
- Service;
- Firm infrastructure;
- HR management;
- Technology development;
- Procurement.

The Internet can be used in a number of these activities to reduce costs or improve the value as perceived by the customer. In fact, e-business is more than just e-commerce. It involves business processes spanning the entire value chain: electronic purchasing and supply chain management, processing orders electronically, handling customer service, and cooperating with business partners. Special technical standards for business facilitate the exchange of data between companies. E-business software solutions allow the integration of intra and inter-firm business processes. E-business can be conducted using the Internet, intranets, extranets, or some combination of these.

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