



NATIONAL OPEN UNIVERSITY OF NIGERIA

FACULTY OF MANAGEMENT SCIENCES

BUSINESS POLICY AND STRATEGY

COURSE CODE: BUS 427

COURSE MATERIAL DEVELOPMENT

Course Code BUS 427
Code Title Business Policy and Strategy (3 credits units)

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COURSE GUIDE

1.0 INTRODUCTION

BUS 427 Business Policy and Strategy is a first semester, course of 3 units for 400 level students of Bachelors' degree of Business Administration which serves as elective for all undergraduate programme of the Faculty of Management Sciences. This course consists of sixteen units. The material has been developed to suit students for their learning process and prepare them as potential or active entrepreneurs. This course guide tells you briefly what the course is about, what course materials you will be using and how you are to use them. It provides some general guidelines for the amount of time you might be spending in order to successfully completed each unit of the course.

2.0 COURSE AIMS

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

3.0 COURSE OBJECTIVES

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

Understand the basic considerations in business policies

Understand the functions and responsibilities of an enterprises general management

unit Identify problems associated with the management of an enterprise

Understand the design and implementation of corporate strategies

4.0 WORKING THROUGH THE COURSE

This course, BUS 427 Business Policy and Strategy expects you to do a lot of reading in order to cover the materials in the course material. It implies that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals in research. The course material has been made easy to read and user-friendly.

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

5.0 COURSE MATERIALS

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

Course Guide

Study Units

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

6.0 STUDY UNITS

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

MODULE 1 BASICS ABOUT BUSINESS POLICY

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

MODULE 2 CONCEPT OF CORPORATE STRATEGY AND MANAGEMENT

Unit 1	Concept of Corporate Strategy
Unit 2	Strategy Decision Making
Unit 3	Process of Strategic Management
Unit 4	Overview of Strategic Management
Unit 5	Historical Development of Strategic Management
Unit 6	Hierarchy of Strategic Intent

MODULE 3 STRATEGY FORMULATION

Unit 1	Basic Models of Strategic Management
Unit 2	Environmental Appraisal
Unit 3	Organizational Appraisal
Unit 4	Hierarchical Levels of Strategy

MODULE 4 CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Unit 1	Corporate Governance: Role of the Board of Directors
Unit 2	Corporate Governance: Role of the Top Management
Unit 3	Social Responsibilities of Strategic Decision Makers
Unit 4	Ethical Decision Making

MODULE 5 INTRODUCTION TO CASE STUDIES/ANALYSIS

Unit 1	Methodologies for Case Studies
Unit 2	Case Studies

The modules and units are self- explanatory as they summarize Business Policy for 400 level students of Bachelors‘ degree of Entrepreneurial and Business Management. You will need to work in groups with other students in this course and program in order to discuss, compare notes and thoughts in order to exchange and share ideas.

7.0 ASSESSMENTS

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

8.0 TUTOR-MARKED ASSIGNMENT (TMA)

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

9.0 FINAL EXAMINATION AND GRADING

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

Table 1: Course Marking Scheme

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

10.0 HOW TO GET THE MOST FROM THIS COURSE

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

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

achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

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

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

In summary:

Try to read this course guide.

Organize a study schedule.

Do everything you can to stick to the schedule.

Assemble the study materials.

Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through this unit, you will be instructed to read sections from your set books or other further readings.

Review the objectives for each study unit confirms that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult.

When you are sure of having achieved a unit's objectives, you can then start on the next unit.

After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives and the course objectives.

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

11.0 SUMMARY

This course BUS 427 is designed to give you some knowledge which would help you to understand Analysis of Financial Statement of business enterprise Endeavour to go through this course successfully and you would be in a good position to pass your examination at the end of the semester

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

COURSE DESCRIPTION AS IN THE OPP/DPP

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

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MODULE 1 BASICS ABOUT BUSINESS POLICY

Unit 1	Business Policy – Definition and Discussion of Concepts
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UNIT 1 BUSINESS POLICY – DEFINITION AND DISCUSSION OF CONCEPT

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3.5	Objectives of Business Policy
4.0	Conclusion
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References/Further Reading

1.0 INTRODUCTION

Every organisation has a purpose for which it was established – either for profit making or non-profit making, and closely allied to the purpose of an organisation are the principles on which it is to be conducted. These principles in business parlance are commonly called “**Policy**”. Policy, according to Kalejaye (1998), denotes a future course of action of intent towards the activities of an organisation.

He opined that there is more to the meaning of policy than an expression of intent. To him, there is usually the connotation that policies should express the beliefs of the organisation, the things that are right to do and the courses of action which it ought to take in the organisation. This explains why policies on the same subject can be so different from one organisation to another.

Every business requires guidelines which are to be embedded in policy. Policy is a decision rule, not a decision (Ackoff 1993). Principles in business parlance are commonly known as policy. Policy denotes a future course of action of intent towards the activities of an organization.

In this unit, you will be introduced to the meaning of business policy in order to prepare you for all the associated ideas about the concept in business management. We shall also highlight the

reasons why business policy is necessary. Finally, we shall explain business policy implementation in an organisation.

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

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

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

3.1 Definition of Policy

What comes to your mind when the word policy is mentioned? As stated in the introduction earlier, policy is defined as a decision rule not a decision. For example, of a policy- Hire only professionally qualified accountants for senior accounting positions. When such a person is hired it is a decision.

A policy is considered the general guideline for decision making. Kalejaye, A. (1998) defined policy as the objectives, the mode of thought and the body of principle underlying the activities of an organization

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

Policies are plans in that they are general statements or understandings that guide or channel thinking in decision making. In actual business situation, not all policies are –statements!; they

are often merely implied from the action of managers. The president of a company (organization), for example may strictly follow-perhaps for convenience rather than as policy-the practice of promoting from within; the practice may be interpreted as policy and carefully followed by subordinates. Weighrich & Koontz (2005)

To be candid, it is incumbent upon the managers to ensure that subordinates do not interpret as minor managerial decisions that are not intended to serve as patterns.

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

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

Self-Assessment Exercise 1.1

Define a policy.

3.2 Definition of Business

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

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

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

Sole proprietorship: A sole proprietorship is a business owned by one person for-profit. The owner may operate the business alone or may employ others. The owner of the business has unlimited liability for the debts incurred by the business.

Partnership: A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of for-profit partnerships are general partnerships, limited partnerships, and limited liability partnerships.

Corporation: A corporation is a limited liability business that has a separate legal personality from its members. Corporations can be either government-owned or privately-owned, and corporations can organize either for-profit or not-for-profit. A privately-owned, for-profit corporation is owned by shareholders who elect a board of directors to direct the corporation and hire its managerial staff. A privately-owned, for-profit corporation can be either privately held or publicly held.

Cooperative: Often referred to as a "co-op", a cooperative is a limited liability business that can organize for-profit or not-for-profit. A cooperative differs from a for-profit corporation in that it has members, as opposed to shareholders, who share decision-making authority. Cooperatives are typically classified as either consumer cooperatives or worker cooperatives. Cooperatives are fundamental to the ideology of economic democracy.

Self Assessment Exercise 1.2

What is a business?

3.3 Definition of Business Policy

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

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

Specific- Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.

Clear- Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.

Reliable/Uniform- Policy must be uniform enough so that it can be efficiently followed by the subordinates.

Appropriate- Policy should be appropriate to the present organizational goal.

Simple- A policy should be simple and easily understood by all in the organization.

Inclusive/Comprehensive- In order to have a wide scope, a policy must be comprehensive.

Flexible- Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.

Stable- Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

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

A business policy is an implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.

A business policy is one, which focuses attention on the strategic allocation of scarce resources. Conceptually speaking strategy is the direction of such resource allocation while planning is the limit of allocation.

A business policy represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions.

A business policy is the study of the nature and process of choice about the future of independent enterprises by those responsible for decisions and their implementation.

The purpose of a business policy is to enable the management to relate properly the organization's work to its environment. Business policies are guides to action or channels to thinking.

3.3.1 Difference between Policy and Strategy

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

Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.

Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.

Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.

Policy is concerned with both thought and actions. While strategy is concerned mostly with action.

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

Self Assessment Exercise 1.3

Define, in your own words, the concept ‘Business Policy’.
State the major differences between a policy and a strategy.

3.4 Objectives of Business Policy

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

Business policy specific objectives ensure:

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

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

The major reasons for having policies are as follows:

3.4.1 Why Create Business Policies?

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

- Drive strategic planning, and help set expectations and performance objectives.

- Lead to more efficient internal operations.

- Engage and align the values of stakeholders; and build mutual understanding of expectations and challenges.

- Ensure accountability and create transparency.

Promote ethical and responsible decision-making.

Assess and mitigate risk.

Streamline new staff orientation; having established written policies that staff can refer to creates consistency, clarity, and provides an understanding of the goals and culture of the company.

Result in time savings: proactively thinking about how specific situations and issues will be handled eliminates having to discuss and debate how to handle issues every time they come to the forefront.

Meet legal requirements; some laws require employers to adopt certain policies to guide the actions of their staff and management. Example: Discrimination/Harassment Policy.

Self-assessment exercise 1.4

What are the objectives of Business Policy?

4.0 CONCLUSION

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

5.0 SUMMARY

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

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

6.0 TUTOR MARKED ASSIGNMENT

Define a Business Policy.

What are the main objectives of Business Policy?

Why does a business create policy?

7.0 REFERENCES/FURTHER READING

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

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

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<http://www.citeman.com/11809-nature-of-business-policy.html#ixzz1naSwscRY>

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

UNIT 2 EVOLUTION OF BUSINESS POLICY AS A DISCIPLINE

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3.4	Historical Perspectives of the Evolution of Business Policy
3.5	Pointers to the Future
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 Evolution of Business Policy as a Discipline

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

3.2 The Genesis of Business Policy

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

In 1969, the American Assembly of Collegiate Schools of Business), a regulatory body for business schools, made the course of business policy a mandatory requirement for the purpose of recognition. In the last two decades, business policy has become an integral part of management education curriculum. The practice of including business policy in the management curriculum has spread from the United States to other parts of the world. The contents of the course, teaching methodology and so on vary from institution to institution. But basically, business policy is considered a capstone integrative course offered to students who have already been through a set of core functional area courses. The term –business policy (Kazmi, 2006) has been used traditionally though new titles such as strategic management, corporate strategy and policy and so on are now used extensively for the course. The discussion has so far been related to the academic status of the business policy course. In practice, however, the development has been along different lines.

3.3 Evolution based on Managerial Practices

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

3.4 Historical Perspective of the Evolution of Business Policy

Hofer et al., (1984) have viewed the evolution of business policy in terms of four paradigm shifts. For the sake of convenience, these shifts may be considered as four overlapping phases in the development of the subject, business policy. It is interesting to note that the development of business policy, as a field of study, has closely followed the demands of real-life business. He

further the first phase which can be traced to the mid-1930s, rested on the paradigm of ad-hoc policy-making. The need for policy-making arose due to the nature of the American business firms of that period. The first, which had originally commenced operations in a single product line catering to a unique set of customers in a limited geographical area, expanded in one or all of these three dimensions. Informal control and coordination became partially irrelevant as expansion took place and the need to integrate functional areas arose. This integration was brought about by framing policies to guide managerial action. Policy-making became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management. Due to the increasing environmental changes in the 1930s and 40s in the United States, planned policy formulation replaced ad-hoc policy-making. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.

Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the needs of a business could no longer be served by policy-making and functional area integration only. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship to the environment. The concept of strategy satisfied this requirement and the third phase, based on a strategy paradigm, emerged in the early sixties. The current thinking – which emerged in the eighties – is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the strategic process of business firms and the responsibilities of general management.

The story is far from over. As Thompson and Strickland (1984) say, the approaches and methods of analysis of strategic management –have not yet coalesced into a ‘theory’ of how to manage an enterprise, but –they very definitely do represent a powerful way of thinking to resolve strategic issues.

3.5 Pointers to the Future

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

The direction in which strategic management is moving can be anticipated from what (Ansoff, 1984) calls an emerging comprehensive approach of –management of discontinuous change, which takes account of psychological, sociological, political, and systemic characteristics of complex organizations. With the emergence of futuristic organizations, which, in the words of Toffler, are no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political,

racial, sexual, and social problems,|| (Toffler, 1980) the demands on business policy are expected to rise tremendously. The general managers of tomorrow may be called upon to shoulder a set of entirely new responsibilities necessitating a drastic review of the emerging concepts and techniques in business policy. Responding to the need for evolving new approaches to the teaching of business policy, the AACSB no longer insists on the provision of just one course in this area. Now there is an emerging trend to have several courses, such as, the theory of strategic competitive strategy, industry dynamics, hyper-competition, and global strategy in the curriculum (Kazmi, 2006).

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

How do firms behave? Or, do firms really behave like rational actors, and, if not, what models of their behavior should be used by researchers and policy-makers?

Why are firms different? Or, what sustains the heterogeneity in resources and performance among close competitors despite competition and imitative attempts?

What is the function of or the value added by the headquarters unit in a diversified firm? Or, what limits the scope of a firm?

What determines success or failure in international competition? Or, what are the origins of success and what are their particular manifestations in international settings or global competition?

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

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

6.0 TUTOR-MARKED ASSIGNMENT

Business policy is a capstone, integrative course. Explain.

In what direction is strategic management likely to move in the future?

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UNIT 3 NATURE, OBJECTIVE AND PURPOSE OF BUSINESS POLICY

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1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

- state the nature of business policy;
- highlight the importance of business policy;
- enumerate the purposes of business policy
- List the objectives of business policy.

3.0 MAIN CONTENT

3.1 The Nature of Business Policy

Before we proceed to understand the nature of business policy, let us witness these situations, as reported in an issue of a reputed business magazine in India: (Kazmi, 2006). Exide reaps the benefits of its strategies, which include modernization, expansion, and acquisitions, to become the integrated leader in the battery sector. Costly expansions and poor demand have forced JK Corp to rework its strategies. It is now banking its future on its core paper business. This will come through the divestment of its cement division, Laxmi Cements, and the acquisition of the Central Pulp Mills. Tisco is using divestments and mergers to restructure its core businesses of steel, allied industries, refractory, and engineering. Exim Bank (the Export and Import Bank of India), established in the early eighties with the objective of extending support to Indian

exporters and importers, still remains small given the Indian economy's requirements. As it faces tough competition from the scheduled commercial banks it needs a strategic vision to cope with the increasing competition in the new millennium.

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

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

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

The senior management consists of those managers who are primarily responsible for long-term decisions, and who carry designations, such as, Chief Executive Officer, President, General Manager, or Executive Director. These are persons who are not concerned with the day-to-day problems but are expected to devote their time and energy to thinking and deciding about the future course of action. With its concern for the determination of the future course of action, business policy lays down a long-term plan, which the organization then follows. While deciding about a future course of action, the senior management are confronted with a wide array of decisions and actions that could possibly be taken. The senior management exercises a choice, on the basis of given circumstances, and which, in their opinion, would lead the organization in a specific direction. By moving in a predetermined direction, an organization can attain its planned identity and character.

3.2 The Importance of Business Policy

Kazmi (2006) opined that business policy is important as a course in the management curriculum and as a component of executive development programmes for middle-level managers who are preparing to move up to the senior management level. A study of business policy fulfills the needs of management students as well as those of middle-level managers. To highlight the

importance of business policy, we shall consider four areas where this course proves to be beneficial.

3.2.1 Learning the Course

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

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

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

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

3.2.2 Understanding the Business Environment

Regardless of the level of management a person belongs to, business policy helps to *create an understanding of how policies are formulated*. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation. By gaining an understanding of the business environment, *managers become more receptive to the ideas and suggestions of the senior management*. Such an attitude on the part of the management makes the task of policy implementation simpler. When they become capable of relating environmental changes to policy changes within an organization *managers feel themselves to be a part of a greater design*. This helps to reduce their feeling of isolation.

3.2.3 Understanding the Organization

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

Business policy, like most other areas of management, brings *the benefit of years of distilled experience in strategic decision-making* to the organization and also to its managers. Case study – which is the most common pedagogical tool in business policy – provides illustrations of real-life business strategy formulation and implementation. An understanding of business policy may also lead to an *improvement in job performance*. As a middle-level manager, a person is enabled to understand the linkage between the different sub-units of an organization and how a particular

sub- unit fits into the overall picture. This has far-reaching implications for managerial functions like coordination and communication, and also for the avoidance of inter-departmental conflicts.

3.2.4 Personal Development

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

While making a career choice, a study of business policy *provides an adequate grounding for understanding the macro factors and their impact at the micro level*. By gaining an understanding of such an impact, an executive is better placed to identify the growth areas. For instance, in the current business situation in India, a career in the computer industry, especially in software, would offer better personal growth opportunities than, say, the steel industry. Business policy offers *a unique perspective to executives to understand the senior management's viewpoint*. With such an understanding the chances that a proposal made by or an action taken by an executive will be appreciated by senior managers is decidedly better.

An interesting by-product of the business policy course is the *theoretical framework provided in the form of the strategic management model*. The applicability of this model is not limited to businesses alone. It can be applied to organizations like, services, educational institutions, family, government, public administration, and to many other areas. In fact, the model provides powerful insights for dealing with policy-making at the macro level as well as at an individual level through self-analysis. The importance of business policy stems from the fact that it offers advantages to an executive from multiple sources. Apart from the intangible benefits, an executive gains an understanding of the business environment and the organization he or she works in. such an understanding can help considerably in career planning and development.

3.3 The Purpose of Business Policy

‘Business policy’ is a term associated with the integrated management course, which is generally studied in the latter part of the degree or diploma, and is preceded by the study of functional area courses in finance, marketing, operations and personnel (Kazmi, 2006). A business policy

course seeks to integrate the knowledge gained in various functional areas so as to develop a generalist approach in management students. Such an approach is helpful in viewing organizational problems in their totality. It can also create awareness about the repercussions that an action taken in one area of management can have on other areas individually, and on the organization as a whole.

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

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

- to integrate the knowledge gained in various functional areas of management;

- to adopt a generalist approach to problem-solving, and

- to understand the complex inter linkages operating within an organization through the use of a systems approach to decision-making and relating these to the changes taking place in the external environment.

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

3.4 The Objectives of Business Policy

It is essential that we should first state the objectives of business policy and only then proceed further. The objectives of business policy have been stated in terms of knowledge, skills and attitudes which could be derived from the purpose of business policy.

3.4.1 Knowledge

The learners of business policy have to understand the various concepts involved. Many of these concepts, like, strategy, policies, plans, and programmes are encountered in the functional area courses too. It is imperative to understand these concepts specifically in the context of business policy.

A knowledge of the external and internal environment and how it affects the functioning of an organization is vital to an understanding of business policy. Through the tools of analysis and diagnosis, a learner can understand the environment in which a firm operates. Information about the environment helps in the determination of the mission, objectives, and strategies of a firm. The learner appreciates the manner in which strategy is formulated.

The implementation of strategy is a complex issue and is invariably the most difficult part of strategic management. Through the knowledge gained from business policy, the learner will be able to visualize how the implementation of strategic management can take place.

To learn that the problems in real-life business are unique and so are the solutions is an enlightening experience for the learners. The knowledge component of such an experience stresses the general approach to be adopted in problem-solving and decision-making. With a generalized approach, it is possible to deal with a wide variety of situations. The development of this approach is an important objective to be achieved in terms of knowledge.

To survey the literature and learn about the research taking place in the field of business policy is also an important knowledge objective.

3.4.2 Skills

The attainment of knowledge should lead to the development of skills so as to be able to apply that which has been learnt. Such an application can take place by an analysis of case studies and their interpretation, and by an analysis of the business events taking place around us.

The study of business policy should enable a student to develop analytical ability and use it to understand the situation in a given case or incident.

Further, the study of business policy should lead to the skill of identifying the factors relevant in decision-making. The analysis of the strengths and weaknesses of an organization, the threats and opportunities present in the environment, and the suggestion of appropriate strategies and policies form the core content of general management decision-making.

The above objectives, in terms of skills, increase the mental ability of the learners and enable them to link theory with practice. Such an ability is important in managerial decision-

making where a large number of factors have to be considered at once to suggest appropriate action.

As a part of business policy study, case analysis leads to the development of oral as well as written communication skills.

3.4.3 Attitude

The attainment of the knowledge and skill objectives should lead to the inculcation of an appropriate attitude among the learners. The most important attitude developed through this course is that of a generalist. The generalist attitude enables the learners to approach and assess a situation from all possible angles.

By acting in a comprehensive manner, a generalist is able to function under conditions of partial ignorance by using his or her judgement and intuition. Typically, case studies provide only a glimpse of the overall situation and a case analyst frequently faces the frustrating situation of working with less than the required information. Experience has shown that managers, specially in the area of long-range planning, have to work with incomplete information. A specialist would tend to postpone or avoid a decision under such conditions but a generalist would go ahead with whatever information was available. In this way, he or she acts more like a practitioners rather than a perfectionist.

For a general manager information and suggestions are important to possess a liberal attitude and be receptive to new ideas. Dogmatism with regard to techniques should be replaced with a practical approach to decision-making for problem-solving. In this way, a general manager can act like a professional manager.

It is important to have the attitude to ‘go beyond and think’ when faced with a problematic situation. Developing a creative and innovative attitude is the hallmark of a general manager who refuses to be bound by precedents and stereotyped decisions.

3.4.4 An Alternative Viewpoint on the Objectives of Business Policy Course

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

Integration of functionally specific knowledge. Business policy acts as an integrative, capstone course demonstrating the interdependence between separate functional areas, such as marketing, finance, and so on.

Understanding the ‘big picture’. Communicating the appreciation of the synergy created by managing the interdependence among the functional areas is a critical objective of business policy. A general management perspective aids in exposing the student to the tradeoffs involved in achieving superior performance by balancing the internal competencies with the external requirements.

Working in, managing, and leading a team. Working with and managing a diverse and flexible team is a critical priority with the corporate recruiters. (Interestingly, a similar view is expressed on the basis of surveys conducted by the Indian business magazines too.) Business policy tries to build up the teamwork spirit by illustrating the finer aspects of group dynamics and by bringing together students from different specialization areas.

Enhancement of comprehension and communication skills. Business policy lays great emphasis on allowing students to be active participants in the learning process. In contrast to the functional courses, there is a stress on using methodologies, such as case discussions, and oral and written presentations and reports.

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

Having looked at the above alternative view of the objectives of business policy course, you will be in a position to gain further insight into the issue. The objective business policy, in terms of knowledge, skills and attitude could be further extended to the areas of behavior and performance. After having attained knowledge of the objectives in the classroom, or in an executive development programme, the learner is expected to exhibit appropriate behavior and good performance on the job. The structure of business policy, built through the accumulation of experience as one moves up the managerial ladder. The richness and variety of experience gained as one moves up the managerial ladder in business offers opportunities of testing, validating, and replicating the mental images and models learnt in the business policy course. Such an approach imparts an added impetus to the development of general management capability which is the *sine qua non* for a manager who wishes to succeed in his or her job and make a meaningful contribution to the organization he or she works for.

4.0 CONCLUSION

An attempt has been made to understand the nature of business policy through a definition and its explanation. The nature of business policy deals with studying the functions and responsibilities of the senior management. These involve setting the future course of action by defining the purpose of an organization and the likely shape that it should take in the future. The senior management is also concerned with the resources necessary to help the organization achieve its goals.

5.0 SUMMARY

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

6.0 TUTOR-MARKED ASSIGNMENT

Questions:

What are the different aspects of the nature of business policy? Discuss each one of them with the help of suitable examples.

What are the objectives set for a business policy course in terms of knowledge, skills and attitudes?

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UNIT 4 CHARACTERISTIC OF BUSINESS POLICY

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1.0 INTRODUCTION

In this unit, we shall continue with the discussion on overview of business policy. This discussion will centre on the nature and characteristics of policy, reasons for formulating policies, and formulation of policy.

The policy thrust of an organisation solely depends on the type of business offered – whether it is for production or services; the intensity of needs of operation and quality of human resources to be employed. It provides guidance to achieving objectives and goals of organizations.

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

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

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

3.1 Characteristics of Policy

Sound policies usually contain a combination of the following characteristics:

- Destiny
- Top Management Approval and Commitment
- Intellectual Input
- Consistency and Long-term in Nature
- Acceptability
- Communicated to Staff
- Genuine Intention and Application
- Balanced Interpretation
- Alignment with Objective

Destiny – A common characteristic of policy is that it denotes future action and intent. It usually describes a goal or destiny which is there to be achieved. In addition, it implies a conviction in a set of beliefs which is considered –rightll for the people in the organisation. The manner a policy is expressed and the detailed procedures which stem from it all point in the same direction and do not allow individual actions to follow a different direction. If the actual procedures and wording do not imply belief in a course of action, then it is probably a wrongly formulated policy.

Top Management Approval and Commitment – In practice, making contributions and recommendations on policy issues may be the function at the lower levels of management in the organisation, but it is the hallmark of policy that it is approved and endorsed by the top management. This may be Board of Directors and Managing Director or the responsibility may be delegated to a top executive committee. Directors and top managers are primarily responsible for policy making and setting long-term objectives. Once the series of policies are approved at the top, there is every possibility that all segments of the organisation will move to the same direction toward the set objectives.

Intellectual Input – Policy requires a high level of intellectual and intelligent inputs because policies are concerned about the future activities deemed to be just and right for the organisation. Policies must be able to withstand pressures, opposition and challenges from all parts of the organisation and its environment which may see and treat the policies differently. Without a high degree of thorough analysis and deep thought of reasoning during formation, a policy may be less effective and may even fail to provide the framework for enduring decision making.

Consistency and Long-term in Nature – Usually, policy makers have thought through all aspects of a particular policy culminating into consistent and enduring policy thereby making frequent amendments difficult. Constant changes in the course of action and direction of an

organisation will surely bring about confusion, resenting and even generally derail all things that sound policies are trying to achieve. Practically, almost all policies are long-term in nature, although for practical purposes; long-term policies are sub-divided into short-term.

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

Acceptability – The degree of acceptance of organisation policy to everyone is marked by the persistence and understanding of employees who want to know why the policy is made or changed. Genuine reasons must be forthcoming and management needs to provide supervisors with sufficient information to satisfy queries regarding a policy. There is danger in withholding information which often leads to gossip and speculation in an organisation as this can be disorganizing, cause increased friction between management and employees, upset and strain relationships through general suspicion and mistrust.

Communicated to Staff – As soon as policies are formulated and ratified, they should be communicated to members of the organisation. Everybody must be aware about the mission and objectives of the organisation; hence, there should be no exception in communicating policies to the members of the organisation. Appropriate channels must be used in channeling policies throughout the organisation, so that nobody is left out. This, of course, will cement relationship in the organisation and motivate the staff to reach higher heights.

Genuine Intention and Application – It is not uncommon for management to declare policy for prestige purposes, such as publicity and then fail to put the policy into practice. Management's intention, in these circumstances, is to ignore and dump the declared policies.

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

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

Alignment with Objective – All policies must follow parallel courses of action which are directly related to objectives. If they cross or oppose objectives, collective effect is lost and

disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy. These identified dangers highlight the need for careful checking of ambiguity in policy so as to avoid misunderstanding especially at the lower level of management hierarchy.

Self Assessment Exercise 2.1

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

3.2 Sources of Policy

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

Originated Source – The most acclaimed source of policies is the one from top management which originates for the express purpose of guiding the company's operations. Originated policies flow basically from the objectives of the enterprise, as they are defined by top executive authority. These types of policies may be broad in scope, allowing key subordinates to give them clearer definition or they might be promulgated so completely and comprehensively as to leave little room for definition or interpretation.

Appealed Source – In practice, in most cases, policies stem from appeal through the hierarchical level of management authority. If occasion for decision arises for executives who do not know whether they have sufficient authority or how such matters should be handled, they appeal to their supervisors for the necessary support and action. As appeals are taken upward and decisions are made on them, a kind of rules and procedures are established. Precedent, therefore, develops and becomes guides for future managerial action and serves as reference point.

Implied Source – Useful policies are developed from the actions which employees see about them and believe to constitute them. Employees will readily understand what real policy is if they work for a company that operates policies that produce high quality goals, or sound labour policy, for instance, though the real policy is implied.

Externally-imposed Source – To a large extent, policies are externally-imposed by such agencies as the government, trade unions, professional associations and others like trade association. This might come in form of direct regulation or one of the many conditions of accepting government aid or contract; it could also be to maintain industrial peace. Besides, local and state governments, professional associations, social and charitable organisations do influence the policies of organisations.

Self Assessment Exercise 2.2

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

3.3 What Makes a Good Policy

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

Purpose Statement, outlining why the organization is issuing the policy, and what the desired effect or outcome of the policy is.

Specifications, including statements indicating the specific regulations, requirements, and organizational behavior that the policy is creating.

Implementation section, indicating which parties is responsible for carrying out individual policy statements and how policy adherence will be ensured.

Effective Date, which indicates when the policy is considered in force (an executive signature or endorsement can be useful to legitimize the policy).

Applicability and Scope Statement, describing whom the policy affects and which actions are impacted by the policy.

Background, indicating any reasons, history, and intent that led to the creation of the policy, which may be listed as motivating factors.

Definitions, providing clear definitions for terms and concepts found in the policy document.

4.0 CONCLUSION

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

5.0 SUMMARY

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

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

6.0 TUTOR-MARKED ASSIGNMENT

What makes a good policy? List them and briefly explain.

Sound policies usually contain some features or characteristics. List these features and briefly explain them.

Briefly explain the nature of a policy.

7.0 REFERENCES/FURTHER READINGS

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UNIT 5 TYPES/KINDS OF POLICIES

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1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

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

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

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

3.1 Formulation of Policy

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

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

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

3.2.1 Policies from Top to Bottom

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

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

3.2.2 Policies within Functional Areas of Departments

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

3.2.3 Policies from Bottom to the Top

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

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

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

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

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

Self Assessment Exercise 3.1

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

3.2 Types of Policies

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

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

There are many types of policies. Examples include:

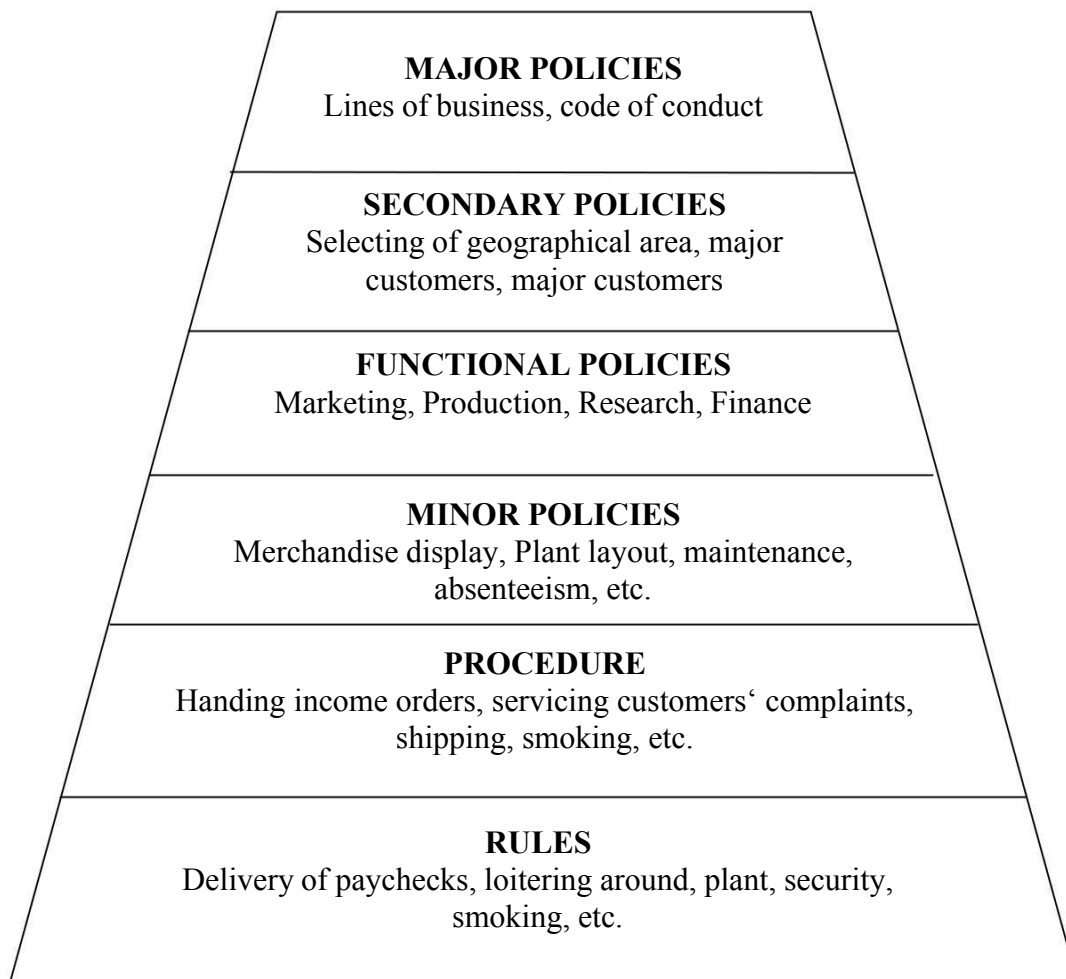
hiring university-trained engineers;
encouraging employees suggestions for improved cooperation;
promoting from within, conforming strictly to a high standards of business
ethics; setting competitive prices; and
insisting on fixed, rather than cost-plus, pricing.

Hicks and Gullett (1985) expressed the opinion that every operating areas ranging from sales, procurement, manufacturing, personnel (human resources) and finance need a hierarchy of

supporting policies to drive the business. This move enhances policies as guide to decision define the boundaries within the organization and they direct decisions toward accomplishing objectives thereof. In the progression from objectives to policies to procedures to rules, the limits become increasingly narrow.

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

Figure 3.1 Steiner's Pyramid of Business Policies



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

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

Rules

3.2.1 Major Policies

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

3.2.2 Secondary or Corporate Policies

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

3.2.3 Functional Policies

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

3.2.4 Minor Policies

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

3.2.5 Procedure

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

3.2.6 Rules

This is a statement of what may, must or must not be done in a particular situation or when playing a game. It explains in a lucid manner what an employee should do or is advised to do in a particular situation. You can also describe rules as the habits, the normal state of things, or what is true in most cases. Finally, a rule is a statement of what is possible according to a particular system. Rules permit the use of discretion in performing a particular task.

Self-Assessment Exercise 3.2

What is the main characteristic of functional policy?

3.3 Business policies

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

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

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

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

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

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

3.3.1 Catalog business policies

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

3.3.2 Payment business policies

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

3.3.3 Returns business policies

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

3.3.4 Shipping business policies

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

3.3.5 Referral interface business policies

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

Business policies may be of the following types:

External Policies:

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

Internal Policies:

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

Appealed Policies:

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

Explicit Policies:

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

Implicit Policies:

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

3.4 Reasons for Formulating Policies

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

It is impossible and wrong to rely on expediency or precedents to solve problems which arise intervally or regularly. To that extent, decision-making is more consistent and detailed when policy is defined and known.

Policy provides continuity for the organisation. They are more permanent than the individuals who are employed and later leave for greener pastures or are sacked; thereby providing an enduring foundation for continuity.

They help to facilitate expansion and integration of new businesses into the company so that when growth occurs, there is already a firm foundation policy to apply in the new situation.

They provide a yardstick with which to measure progress in the organisation. For example, policy on issue of stock items – stipulating that no condition on which stock should be issued on verbal instruction. This may not be achievable instantly, but it sets a standard against which progress can be measured as the policy is implemented.

They stimulate action, because managers and supervisors have the knowledge and confidence to make decisions and take actions knowing fully well that they are following the laid down policies.

Policies also save management time because the information is available and the procedures for carrying them out are known. This, of course, assumes that the policies are made freely available to those who require them.

They promote fairness in treating employee matters; provided the policies take account of the needs of the entire organisation and are interpreted consistently.

Policies serve as bases for the defence of the various organisation actions and activities in the event of challenges and litigation in the court of law.

Self Assessment Exercise 3.3

Itemize the reasons why policies are formulated.

3.4 Uses of Policies for Management Effectiveness

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

Policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organisational units thus facilitating the delegation process.

Policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to further action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things. As long as managers are conforming to the organisation's policies, they can safely proceed and use their own initiatives.

Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organisation.

Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that their actions are consistent with organisational policies, they are more likely to take actions than do nothing.

Definiteness and flexibility are both desirable to goals attainment, but calculating the trade-off lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.

To the subordinates, policies will not only serve as means of exercising authorities, it also lay down the guidelines that define and limit the exercise of the subordinates authorities and responsibilities.

Policies under-guide the planning of a future course of actions. They show the way the future plans and activities of an organisation are formulated and implemented.

Policies define and clarify the objectives and goals of an organisation. They give a further definition on how the objectives of the organisation can be accomplished.

Policies are particularly necessary at lower levels where relationship between actions and objectives are most of the time vaguely articulated. Policies are used to bridge the gap – ensuring that staff actions are consistent with the broad policies and actions of others in the organisation. If this were not done by policies, every action will have to be approved, putting an impossible communications burden on coordinating supervisors.

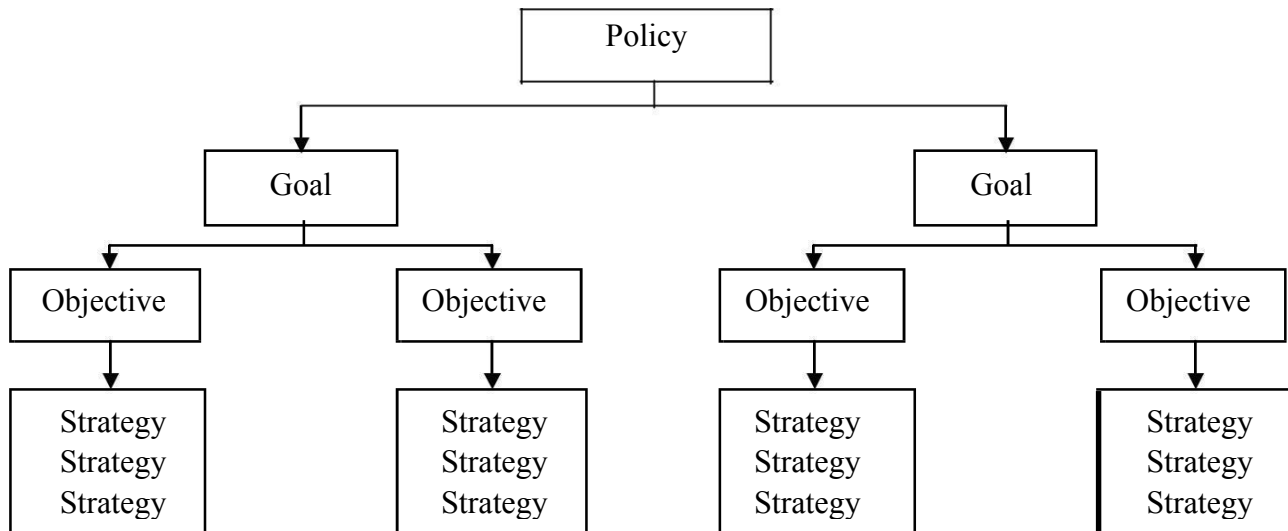
Policies are used to mould and project the image of the organisation before the interest groups such as shareholders, suppliers, customers, employees and the public in general. The reputation that a company enjoys, whether favourable or otherwise, is frequently linked to the way the outsider perceives the company through its policy structure. It is common to hear people making statement such as –the firm is known to be liberal in its credit policy or the policy dictates positive attitude towards employeesl.

3.5 Integration and Relationship of Policies to Objectives

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

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

Figure 3.2 Relationships between Objectives, Policies and Strategies



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

The above sketch indicates a situation where the boat is going up a river. The surrounding terrains represent the organisational purpose, and the surroundings terrains that influence the general flow and direction of the river. The primary objective is the harbour or stopping point of some distance up the river to be reached by a certain time. Organisational objectives and other subordinate goals and plans can be represented by other milestones between the boat's present position and the harbour. Policies are the river bank that directs and guides the boat towards the harbour. Like the river bank, policies remain the effect, after the primary objectives had been reached. They are independent of time and must be reviewed as to acceptability and consistency whenever objectives are set. By all indications, it has been established that policies and objectives are related and that one leads to another. Policies serve as guide that provide direction and vision to managers in decision making. With articulated and purposive policies, managers can make decisions with some assurance that the decisions are likely to make the organisation's corporate objective realizable within the stipulated time.

Self Assessment Exercise 3.4

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

3.6 Management Policy Areas

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

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

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

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

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

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

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

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

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

3.7 The Role of Workers in Policy Formulation

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

Workers participation is viewed as a means of advancing the interest of workers;

Workers participation is a way of distributing power within the enterprise more equally and in handling conflicts of interest by democratic procedure otherwise known as industrial democracy.

By involving workers in policy formulation, this will bring about effective utilization of the human resources of the enterprise.

Workers participation in management policy is in effect seen as the antidote towards uncooperative attitudes and increase in industrial conflicts.

4.0 CONCLUSION

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

5.0 SUMMARY

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

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

6.0 TUTOR MARKED ASSIGNMENT

Discuss extensively the relationship between policy and objectives.

Identify the various areas in which policies can be directed or addressed in an organisation.

7.0 REFERENCES/FURTHER READING

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UNIT 6 ORGANIZATIONAL POLICIES

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1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

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

subsystems of the organization. In this unit of the study material, therefore, the discussion is on organizational policy.

3.1 Meaning of Organisational Policy

According to Pearce II and Robinson Jr. (1998, cited in Abdullahi, 2009), policies are specific guides for operating managers and their subordinates. Policies are powerful tools for strategy implementation and control once they are clearly linked to operating strategies and long-term objectives. In the opinion of Thompson Jr. and Strickland (1987, quoted in Abdullahi, 2009), policies are directives designed to guide the thinking, decisions, and actions of managers and their subordinates in implementing an organization's strategy. Policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm's strategic objectives. Often referred to as standard operating procedures, policies serve to increase managerial effectiveness by standardizing many routine decisions and controlling the discretion of managers and subordinates in implementing operational strategies. Logically, policies should be derived from functional strategies (and, in some instances, from corporate or business strategies) with the key purpose of aiding in strategy execution. In essence, a policy is a guideline for organisational action and the implementation of goals and objectives. Policy is translated into rules, plans and procedures; it relates to all activities of the organisation, and to all levels of the organisation. Clearly stated, policy can help reinforce the main functions of the organisation, make for consistency and reduce dependence on the actions of individual managers.

Policy clarifies roles and responsibilities of managers and other members of staff and provides guidelines for managerial behaviour. Securing agreement to a new or revised policy can help overcome reliance on outdated practices and aid the introduction of organisational change. Policy provides guiding principles for areas of decision-making and delegation, for example, specific decisions relating to personnel policy may be to: give priority to promotion from within the organization; enforce retirement at government pensionable age; employ only graduate or professionally qualified accountants and permit line managers, in consultation with the personnel manager, to appoint staff up to a given salary/wage level. Some policy decisions are directly influenced by external factors, for example, government legislation on equal opportunities.

3.2 Nature of Organizational Policy

Policies in their nature can vary in their level of strategic significance. Some, such as travel reimbursement procedures, are really work rules that are not necessarily linked to the implementation of a specific strategy. A policy, for instance, couched that requirement that every location invest a certain percent of gross revenue in local advertising are virtually functional strategies. Policies can also be externally imposed or internally derived depending on the ownership interest. Policies regarding equality of opportunity practices are often developed in compliance with external (government) requirements. In the same vein, some organizational policies regarding leasing or depreciation may be strongly influenced by current tax regulations. Regardless of the origin, formality, and nature of the policy, the key point to bear in mind is the valuable role policies can play in strategy implementation. In utmost consideration, the carefully constructed policies enhance strategy implementation in several ways. Obviously, it is

imperative to examine existing policies and ensure the existence of policies necessary to guide and control operating activities consistent with current business and functional strategies. Ensuring communication of specific policies will help overcome resistance to strategic change and foster greater organisational commitment for successful strategy implementation.

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

Self-Assessment Exercise 1

Explain the term _organizational policy'.

3.3 The Purpose of Policies

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

Policies establish indirect control over independent action by making a clear statement about how things are now to be done. By limiting discretion, policies in effecting control decisions and the conduct of activities without direct intervention by top management.

Policies promote uniform handling of similar activities. This facilitates coordination of work tasks and helps reduce friction arising from favoritism, discrimination, and disparate handling of common functions.

Policies ensure quicker decisions by standardizing answers to previously answered questions that would otherwise recur and be pushed up the management hierarchy again and again.

Policies help institutionalize basic aspects of organisation behaviour. This minimizes conflicting practices and establishes consistent patterns of action in terms of how organisational members attempt to make the strategy work.

Policies reduce uncertainty in repetitive and day-to-day decision making, there providing a necessary foundation for coordinated, efficient efforts.

Policies can counteract resistance to or rejection of chosen strategies by organisation members. When major strategic change is undertaken, unambiguous operating policies help clarify what is expected and facilitate acceptance, particularly when operating managers participate in policy development.

Policies offer a predetermined answer to routine problems, giving managers more time to cope with non-routine matters; dealing with ordinary and extraordinary problems is greatly expedited – the former by referring to established policy and the latter by drawing on a portion of the manager's time.

Policies afford managers a mechanism for avoiding hasty and ill-conceived decisions in changing operations. Prevailing policy can always be used as a reason for not yielding to emotion-based, expedient, or temporarily valid arguments for altering procedures and practices.

A policy can either be in writing and documented or implied. In other words, policies may be written and formal or unwritten and informal. The positive reasons for informal, unwritten policies are usually associated with some strategic need for competitive secrecy. Some unwritten policies, such as –consultation with the employees, are widely known (or expected) by employees and implicitly sanctioned by management. On the contrary, unwritten, informal policies may be contrary to the long-term success of a strategy. Still, managers and employees often like the latitude –granted when policies are unwritten and informal.

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

- Managers are required to think through the policy's meaning, content, and intended use.

- The policy is explicit so misunderstandings are reduced.

- Equitable and consistent treatment of problems is more likely.

- Unalterable transmission of policies is ensured.

- Authorization or sanction of the policy is more clearly communicated, which can be helpful in many cases.

- A convenient and authoritative reference can be supplied to all concerned with the policy.

- Indirect control and organisation-wide coordination, key purposes of policies, are systematically enhanced.

Self-Assessment Exercise 2

What are the reasons for the formulation of organizational policies?

3.4 Distinction between Objectives and Policy

While objectives set out more specifically the goals of the organisation; the aims to be achieved and the desired end-results, policy is developed within the framework of objectives. It provides the basis for decision-making and the course of action to follow in order to achieve objectives. The relationship between the organisation, its objectives and management is espoused as one of the managerial duties of an organization, which it is to ensure that the human and material organisation is consistent with the objective, resources and requirements of the concern. The established objectives and policy therefore constitute an integral part of the process of management and a necessary function in every organisation. The objectives of an organisation are related to the input-conversion-output cycle. In order to achieve its objectives and satisfy its goals, the organisation buys inputs from the environment, through a series of activities transforms or converts these inputs into outputs and returns them to the environment as inputs to the systems. The organisation operates within a dynamic setting and success in achieving its goals will be influenced by a multiplicity of interactions with the environment.

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

Objectives may be just implicit but the formal, explicit definition of objectives will help highlight the activities which the organisation needs to undertake as the comparative importance of its various functions. An explicit statement of objectives may assist communications and reduce misunderstandings, and provide more meaningful criteria for evaluating organisational performance. However, objectives should not be stated in such a way that they detract from the recognition of possible new opportunities, potential danger areas, the initiative of staff or the need for innovation or change. Objectives emphasise aims and are stated as expectations, but policies emphasise rules and are stated in the form of directives. In terms distinction between objectives and policy, the figure below is very relevant.

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



Source: Daft, Richard (2009). Strategy Formulation and Implementation (Management 6th Edition) p.26

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

4.0 CONCLUSION

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

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

6.0 SUMMARY

In this unit, the topics discussed include the meaning of organizational policy; nature of organizational policy; the purpose of policies, and distinctions between objectives and policy.

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

6.0 TUTOR-MARKED ASSIGNMENT

Differentiate between policy and objective in business functional areas.

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UNIT 7 FUNCTIONS AND RESPONSIBILITIES OF BUSINESS POLICY IN MANAGEMENT

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1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.1 Business Policy in different Organizations

Hicks & Gullett (1985) stated that once goals have been established, a top-level manager consider the numerous ways in which this goal could be accomplished. In the progression from objectives to policies to procedures to rules, the limits become increasingly narrow. Rules are specific statements what should and what should not be done.

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

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

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

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

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

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

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

The focus areas will thus include: Production policy - Purchasing policy - Financial policy -Marketing policy - Credit policy - Selling and promotion policy - etc.

All these policies are expected to give support to overall objectives of the organization as defined by the top management and they complement each other. Although it is customary to think of policies as written statements it is not necessarily the case. For example a firm may simply decline to consider handicapped employees in the selection of new personnel. In effect, this becomes an effective policy even though the company has never verbalized its position.

Self-Assessment Exercise

Give examples of business policy.

3.1.1 Business Policy and Implementation in Organization

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

3.2 Managerial Functions and Policy Implementation

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

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

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

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

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

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

3.3 Business Policy – Issues, Challenges and Solutions

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

The implementation policy depends on the type of organization and the service rendered. Policy comes to form one of the structures of organization. It follows procedures, rules, programmes, budgets etc. All these gear to give policy reliable focus. Every organization including business requires a policy as a decision rule to guide the activities and performance of the business to eventually achieve goals and objective of the organization.

Policy Implementation

Set up a committee/working group. Setting up and engaging the correct people to devise (and oversee) the policy is essential to the success of the planning and implementation.

Consult stakeholders. Consult employees, board, and other stakeholders who will be affected by the policy about policy inclusions, how the policy will be implemented, and assistance offered etc. throughout the development and implementation stages. This can be done via surveys/questionnaires, emails and team meetings.

Devise draft policy (see recommended policy content above). **Circulate. Revise.**

Have policies reviewed for legal accuracy. You may want to have policies reviewed to make sure they are not requiring or prohibiting something that would violate the law.

If a board of directors or advisory board exists, do a board vote.

Set policy implementation date. Once the policy has been amended and agreed upon, designate an implementation date, sign, and then promote.

Monitor and review. The staff responsible for monitoring the policy must ensure adherence to the policy. It is good practice to review the policy at two yearly intervals.

Consider creating & distributing a Policy Manual. Keeping all of your policies in one place makes them easy to refer to and review. Copies should be provided to all members of an organization, along with applicable stakeholders.

4.0 CONCLUSION

We discussed business policy in different organisations. We noted that a business organization requires policy as an added out-standing plan of organization. We also noted that there are policies in different organizations depending if it is service or product oriented and that policies in each of these operational areas will be formulated along the various functions of management and how they relate to implementation of business policy in an organisation. Finally, we discussed issues, challenges as solutions as they affect business policy.

5.0 SUMMARY

In this unit, we have discussed business policy as they relate to different organisations; enumerated the function of Business policy in management and discussed the responsibility of Business policy in management.

6.0 TUTOR MARKED ASSIGNMENT

In what way(s) does the function of management relate to implementation of business policy in an organisation?

Policy comes to form one of the structures of organization. Discuss

7.0 REFERENCES/FURTHER READING

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MODULE 2 CONCEPT OF CORPORATE STRATEGY AND MANAGEMENT

Unit 1	The Concept of Corporate Strategy
Unit 2	Strategic Decision Making
Unit 3	Process of Strategic Management
Unit 4	Overview of Strategic Management
Unit 5	Historical Developments of Strategic Management
Unit 6	Hierarchy of Strategic Intent

UNIT 1: THE CONCEPT OF CORPORATE STRATEGY

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1.0 INTRODUCTION

This is second module of this course. Business policy, as we have seen in Unit 2, is the name given to an integrative course in management (Kazimi, 2006). It is an emerging discipline and is a study of the functions and responsibilities of the senior management. In this unit, our prime objective is to understand the concept of strategy and the process of strategic management. We shall also see the roles that different strategies play in strategic management. We would start with a discussion on the concept of strategy, which is undoubtedly the most significant concept in business policy and strategic management. Then, we present a set of definitions of strategy given by the authorities in the field and derive the main characteristics of strategy.

The next section is about the levels at which strategy operates. Here, we shall tell you how strategies can be formulated at different levels in an organisation. We explore the nature of

strategic decision-making by pointing out how it is similar to conventional decision-making and yet how it differs in its coverage, reach and depth.

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 Corporate Strategy

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

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

Rollatainers, after divesting a major stake in ITC, is contemplating an expansion strategy.

The combined turnover of Rollatainers and ITC’s packaging division, which is Rs 500 crore at present, is likely to touch Rs 1000 crore in the next five years.

TTK Prestige is part of the diversified TTK Group. It is focusing on its core strength of manufacturing and marketing of kitchenware. It has a US-based subsidiary Mantra Inc which markets multi-cooking systems.

Singer India, which has been associated with sewing machines, is entering the white goods and colour television market as part of its diversification strategy.

Birla Trans Asia Carpets is a sick unit from the Yash Birla group. As it is faced with excessive manpower and high interest costs, it is attempting a turnaround strategy by retrenching three-fourth of its employees, importing synthetic carpets and tiles, and exporting to the US carpet markets.

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

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

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

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

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

The application of the concept of strategy to real-life situations may tend to oversimplify things. Actual situations are complex and contain several variables that are not amenable to structuring. The concept of strategy tends to distort reality and, as an abstraction of reality, it is anything but a true reflection of the actual situation. Of course, this limitation is not unique to strategy. It is present in any situation where modelling has to be resorted to in order to provide a structured understanding of reality. Just as several mathematical formulations start with a phrase that indicates that a certain number of variables are assumed to be constant.

The application of the concept of strategy commits an organisation to a predetermined course of action. While this is essential to chart out the path ahead, it can often blind an organisation to emergent situations as it goes along the path. Rigidity can lead to an attitude of finality with regard to those situations that are actually not known at the time of starting the journey. It might be better, thus, to move slowly, one step at a time, and keep in mind the maxim: look before you leap. One might say that this may already be known to perspective managers. Yet there is no harm in being cautious. ‘Discretion is certainly the better part of valour’.

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

3.2 Defining and Explaining Strategy

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

3.2.1 Alfred D. Chandler (1962)

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

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

3.2.2 Kenneth Andrews (1965)

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

3.2.3 Igor Ansoff (1965)

Professor Ansoff is a well-known authority in the field of strategic management and has been a prolific writer for the last three decades. In one of his earlier books, *Corporate Strategy* (1965), he explained the concept of strategy as: –The common thread among the organisation’s activities and product-markets ...that defines the essential nature of business that the organisation was or planned to be in future (Ansoff, 1965).

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

3.2.4 William F. Glueck (1972)

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

3.2.5 Henry Mintzberg (1987)

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

3.2.6 Michael E. Porter (1996)

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

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

It must be noted that the different approaches referred to above to define strategy cover nearly a quarter of a century. This is an indication of what a complex concept strategy is and how various authors have attempted to define it. To put it in another way, there are as many definitions as there are experts. The same authors may change the approach they had earlier adopted. Witness what Ansoff said 19 years later in 1984 (his earlier definition is of 1965): –Basically, a strategy is a set of decision –making rules for the guidance of organizational behavior‖ (Porter, 1996).

We have tried to give you an assortment of definitions out of the many available. Rather than an assortment, it may be more appropriate to call this section a bouquet of definitions and explanations of strategy. Each flower (definition) is resplendent by itself yet contributes synergistically to the overall beauty of the bouquet. The field of strategy is indeed fascinating, prompting an author to give the title – –What is Strategy and does it matter?‖ – to his thought-

provoking book (Porter, 1996). Drucker goes to the extent of terming the strategy of an organisation as its —theory of the business (Porter, 1996).

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

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

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

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

3.3 Levels at which Strategy Operates

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

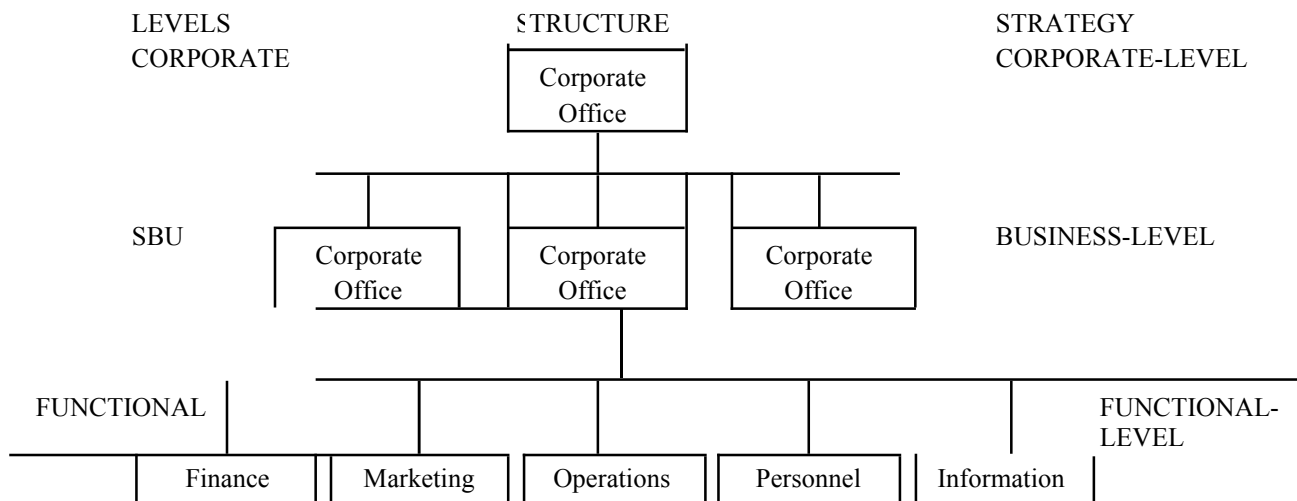
It is not uncommon to find many companies, or a group of companies, working in different business lines with regard to either products/services, markets or technology. Here are a few illustrations (Kazmi, 2006):

- Hindustan Levers, the venerable multinational subsidiary, is in several businesses, such as animal feeds, beverages, oils and dairy fat, soaps and detergents, and specialty chemicals.
- Sundaram Clayton and its associate companies – Harita Grammar, Sundaram Fasteners, TVS Suzuki, TVS Electronics and TVS Whirlpool – operate in technology areas as diverse as brake and signal systems for railways, two-wheelers, computer peripherals, and electrical appliances.
- Balmer Lawrie, a public sector company, has a diversified portfolio of businesses in the fields of cargo, chemicals, containerization, lubricants, packaging, project consultancy, tea exports, and international business.

The Flowmore group of companies manufactures pumps for irrigation, a range of engineering products, turbines, castings, specialized conversion equipments, and has recently started the manufacture of polyester films. It also offers engineering consultancy services for power projects and environmental engineering.

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

Different Levels of Strategy



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

Generally, SBUs are involved in a single line of business. A complementary concept to the SBU, valid for the external environment of a company, is a strategic business area (SBA) . It is defined as –a distinctive segment of the environment in which the firms does (or may want to do) business (Drucker in Kazmi, 2006). A number of SBUs, relevant for different SBAs, form a cluster of units under a corporate umbrella. Each one of the SBUs has its own functional departments, or a few major functional departments, while common functions are grouped under the corporate level. These different levels are illustrated in the figure stated above. Two types of levels are depicted in this figure. One relates to the organizational levels and the other to the strategic levels. The organizational levels are those of the corporate, SBU and functional levels. The strategic levels are those of the corporate, SBU and functional level strategies.

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

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

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

Some strategies are also required to be set at lower levels. One step down the functional level, a company could set its operations-level strategies. Each functional area could have a number of operational strategies. These would deal with a highly specific and narrowly defined area. For instance, a functional strategy at the marketing level could be subdivided into sales, distribution, pricing, product and advertising strategies. Activities in each of the operational areas of marketing, whether sales or advertising, could be performed in such a way that they contribute to the functional objectives of the marketing department. The functional strategy of marketing is interlinked with those of the finance, production and personnel departments. All these functional strategies operate under the SBU-level. Different SBU-level strategies are put into action under the corporate-level strategy which, in turn, is derived from the societal-level strategy of a corporation. Ideally, a perfect match is envisaged among all strategies at different levels so that a corporation, its constituent companies, their different SBUs, the functions in each SBU, and various operational areas in every functional area are synchronized. Perceived in this manner, an organisation moves ahead towards its objectives and mission like a well-oiled piece of machinery. Such an ideal, though extremely difficult – if not impossible of attainment – is the intent of strategic management.

A note of caution to readers here: when we refer to strategy in business policy texts, it is generally meant to be a corporate-level strategy or a business- or SBU-level strategy. Societal strategies are manifest in the form of vision and mission statements, while functional and operational strategies take the shape of functional and operational implementation, respectively. A reading of this section will give the impression that an organisation could have a number of strategies at different levels and that would solve its strategic problems or lay down the groundwork for its strategic success. Mark the words we have used – *the organisation moves ahead...like a well-oiled machinery*/. In reality, however, rarely does an organisation move

ahead so smoothly. We have viewed strategy from several perspectives. In some cases it is seen as something which arises systematically due to conscious decision-making. Yet in other cases it may seem to be the product of a messy and complicated series of maneuvers. The next section provides an overview of the strategic decision-making process.

3.4 Forms of Organizational Strategy

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

3.4.1 Corporate Strategy

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

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

3.4.2 Business Strategy:

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

3.4.3 Operational Strategy:

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

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

3.4.4 Functional Strategy

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

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

3.4.5 Grand Strategy

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

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

4.0 CONCLUSION

Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of relevant courses of action and the allocation of resources to pursue and achieve these goals. Formulation of strategy goes through a process while some factors needed to be taken into consideration in the course of formulating strategy. There are reasons and advantages which necessitate the use of strategy, and strategy assumes various forms such as corporate strategy, business strategy, operational strategy, functional strategy and grand strategy.

5.0 SUMMARY

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

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

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss the various forms of organizational strategy

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UNIT 2: STRATEGIC DECISION MAKING

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 Strategic Decision-Making

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

3.1.1 Conventional Decision-making

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

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

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

3.1.2 Strategic Decision-making

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

Strategic Decision-making at Zodiac Clothing:

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

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

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

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

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

Apart from the fundamental decisional choice, as pointed above, there are numerous occasions when the senior management has to make important strategic decisions. Environmental threats and opportunities are abundant; that the senior management focuses its attention on only a few of

those. Likewise, there are many company strengths and weaknesses; the senior management considers only a limited number at any given time. With regard to resource allocation, the management faces a strategic choice from among a number of alternatives that it could allocate resources to. Thus, strategic decision-making forms the core of strategic management.

3.2 Issues in Strategic Decision-making

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

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

Criteria for decision-making. The process of decision-making requires objective-setting. These objectives serve as yardsticks to measure the efficiency and effectiveness of the decision-making process. In this way, objectives serve as the criteria for decision-making. There are three major viewpoints regarding setting criteria for decision-making:

The first is the concept of maximization. It is based on the thinking of economists who consider objectives as those attributes which are set at the highest point. The behavior of the firm is oriented towards achieving these objectives and, in the process, maximising its returns.

The second view is based on the concept of satisficing. This envisages setting objectives in such a manner that the firm can achieve them realistically through a process of optimization.

The third viewpoint is that of the concept of incrementalism. According to this view, the behavior of a firm is complex and the process of decision-making, which includes objective-setting, is essentially a continually-evolving political consensus-building. Through such an approach, the firm moves towards its objectives in small, logical and incremental steps.

Rationality in decision-making. In the context of strategic decision-making, rationality means exercising a choice from among various alternative courses of action in such a way that it may lead to the achievement of the objectives in the best possible manner. Those economists who support the maximizing criterion consider a decision to be rational if it leads to profit maximization. Behaviourists, who are proponents of the satisfying concept, believe that

rationality takes into account the constraints under which a decision-maker operates. Incrementalists are of the opinion that the achievement of objectives depends on the bargaining process between different interested coalition groups existing in an organisation, and therefore a rational decision-making process should take all these interest into consideration.

Creativity in decision-making. To be creative, a decision must be original and different. A creative strategic decision-making process may considerably affect the search for alternatives where novel and untried means may be looked for and adopted to achieve objectives in an exceptional manner. Creativity as a trait is normally associated with individuals and is sought to be developed through techniques such as brainstorming. You may recall that one of the attitudinal objectives of a business policy course is to develop the ability to go beyond and think, which, in other words, is using creativity in strategic decision-making.

Variability in decision-making. It is a common observation that given an identical set of conditions two decision-makers may reach totally different conclusions. This often happens during case discussions too. a case may be analysed differently by individuals in a group of learners, and, depending on the differing perceptions of the problem and its solutions, they may arrive at different conclusions. This happens due to variability in decision-making. It also suggests that every situation is unique and there are no set formulas that can be applied in strategic decision-making.

Person-related factors in decision-making. There are a host of person-related factors that play a role in decision-making. Some of these are age, education, intelligence, personal values, cognitive styles, risk-taking, and creativity. Attributes like age, knowledge, intelligence, risk-taking ability, and creativity are generally supposed to play a positive role in strategic decision-making. A cognitive style which enables a person to assimilate a lot of information, interrelate complex variables, and develop an integrated view of the situation is specially helpful in strategic decision-making. Values, as enduring prescriptive beliefs, are culture-specific and important in matters of social responsibility and business ethics – issues that are important to strategic management.

Individual versus group decision-making. Owing to person-related factors, there are individual differences among decision-makers. These differences matter in strategic decision-making. An organisation, as it possesses special characteristics, operates in a unique environment. Decision-makers who understand an organisation's characteristics and its environment are in a vantage position to undertake strategic decision-making. Individuals such as chief executives or entrepreneurs play the most important role as strategic decision-makers. But as organisations become bigger and more complex, and face an increasingly turbulent environment, individuals come together in groups for the purpose of strategic decision-making. We will be referring to many such groups when we deal with the role of strategists in the last section of this unit.

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

3.3 Schools of Thought on Strategy Formation

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

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

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

The Prescriptive Schools

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

The Descriptive Schools

- Entrepreneurial school where strategy formation is a visionary process
- Cognitive school where strategy formation is a mental process
- Learning school where strategy formation is an emergent process
- Power school where strategy formation is a negotiation process
- Cultural school where strategy formation is a collective process
- Environmental school where strategy formation is a reactive process

The Integrative School

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

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

The design school, which perceives strategy formation as a process of conception developed mainly in the late 1950s and 60s. Under this school, strategy is seen as something unique which is in the form of a planned perspective. The CEO as the main architect guides the process of strategy formation. The process of strategy formation is simple and informal and based on judgement and thinking.

The planning school, which perceives strategy formation as a formal process developed mainly in the 1960s. Under this school, strategy is seen as a plan divided into substrategies and programmes. The lead role in strategy formation is played by the planners. The process of strategy formation is formal and deliberate.

The positioning school, which perceives strategy formation as an analytical process developed mainly in the 1970s and 80s. Under this school, strategy is seen as a set of planned generic positions chosen by a firm on the basis of an analysis of the competition and the industry in which they operate. The lead role in strategy formation is played by the analysts. The process of strategy formation is analytical, systematic and deliberate.

The entrepreneurial school, which perceives strategy formation as a visionary process developed mainly in the 1950s. Under this school, strategy is seen as the outcome of a personal and unique perspective often aimed at the creation of a niche. The lead role in strategy formation is played by the entrepreneur/leader. The process of strategy formation is intuitive, visionary, and largely deliberate.

The cognitive school, which perceives strategy formation as a mental process, developed mainly in the 1940s and 50s. Under this school strategy is seen as an individual concept that is the outcome of a mental perspective. The lead role in strategy formation is played by the thinker-philosopher. The process of strategy formation is mental and emergent.

6. *The learning school*, which perceives strategy formation as an emergent process has had a legacy from the 1950s through the 1990s. Under this school, strategy is seen as a pattern that is unique. The lead role is played by the learner within the organisation whoever that might be. The process of strategy formation is emergent, informal and messy. .

The power school, which perceives strategy formation as a negotiation process, developed mainly during the 1970s and 80s. Under this school, strategy is seen as a political and cooperative process or pattern. The lead role in strategy formation is played by any person in power (at the micro level) and the whole organization (at the macro level). The process of strategy formation is messy, consisting of conflict, aggression and cooperation. At the micro level the process of strategy formation is emergent while at the macro level it is deliberate.

The cultural school, which perceives strategy formation as a collective process developed mainly in the 1960s. Under this school, strategy is seen as a unique and collective perspective. The lead role in strategy formation is played by the collectivity displayed within the organisation. The process of strategy formation is ideological, constrained, collective and deliberate.

The environmental school, which perceives strategy formation as a reactive process, developed mainly in the late 190s and 70s. Under this school, strategy is seen as something generic occupying a specific position or niche in relation to the environment. The lead role in strategy

formation is played by the environment as an entity. The process of strategy formation is passive and imposed, and hence, emergent.

The configuration school, which perceives strategy formation as a transformation process developed during the 1960s and 70s. Under this school, strategy is viewed in relation to a specific context and thus could be in a form that corresponds to any process visualized under any of the other nine schools. The lead role may be played by any actor identified in the other nine schools. The process of strategy formation is integrative, episodic and sequential. In addition, the process could incorporate the elements pointed out under the other nine schools of thought.

4.0 CONCLUSION

The unit discussed all about the levels at which strategy operates. Here, you were told how strategies can be formulated at different levels in an organisation. We explored the nature of strategic decision-making by pointing out how it is similar to conventional decision-making and yet how it differs in its coverage, reach and depth.

5.0 SUMMARY

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

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

6.0 TUTOR MARKED ASSIGNMENT

In your own words, define strategic decision-making.

List the various schools of thought on strategic formation that you know and explain any four of them.

7.0 REFERENCES/FURTHER READING

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

UNIT 3 PROCESS OF STRATEGIC MANAGEMENT

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1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 The Process of Strategic Management

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

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

3.2 Definitions of Strategic Management

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

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

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

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

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

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

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

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

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

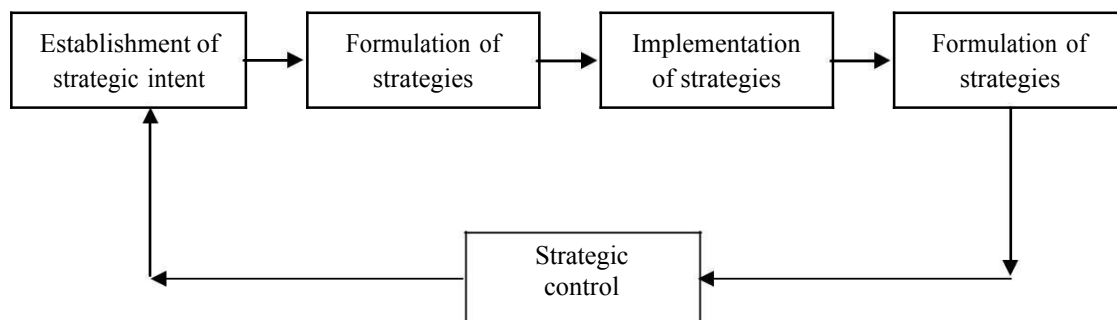
3.3 Phases in Strategic Management

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

- Establishing the hierarchy of strategic intent;
- Formulation of strategies;
- Implementation of strategies; and
- Performing strategic evaluation and control.

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

Figure showing phases in the Strategic Management Process:



However, in practice, the different phases of strategic management may not be clearly differentiable from each other. In fact, we prefer to call them phases rather than stages or steps (as some authors do) to signify that the different phases, at the interface, may exist simultaneously, and that the strategic activities gradually emerge in one phase to merge into the following phase. The feedback arising from each of the successive phases is meant to revise, reformulate or redefine the previous phases, if necessary. Such a representation yields a dynamic

model of strategic management which takes into account the emerging factors as the process moves on.

3.4 Elements in Strategic Management Process

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

Establishing the hierarchy of strategic intent:

- creating and communicating a vision;
- designing a mission statement;
- defining the business;
- setting objectives;

Formulation of strategies:

- performing environmental appraisal;
- doing organizational appraisal;
- considering corporate-level strategies;
- considering business-level strategies;
- undertaking strategic analysis;
- exercising strategic choice;
- formulating strategies;
- preparing a strategic plan;

Implementation of strategies:

- activating strategies;
- designing structures and systems;
- managing behavioural implementation;
- managing functional implementation;
- operationalising strategies;

Performing strategic evaluation and control:

- performing strategic evaluation;
- exercising strategic control; and
- reformulating strategies.

3.5 Models in Strategic Management Process

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

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

Figure 1 Comprehensive Model of Strategic Management Process

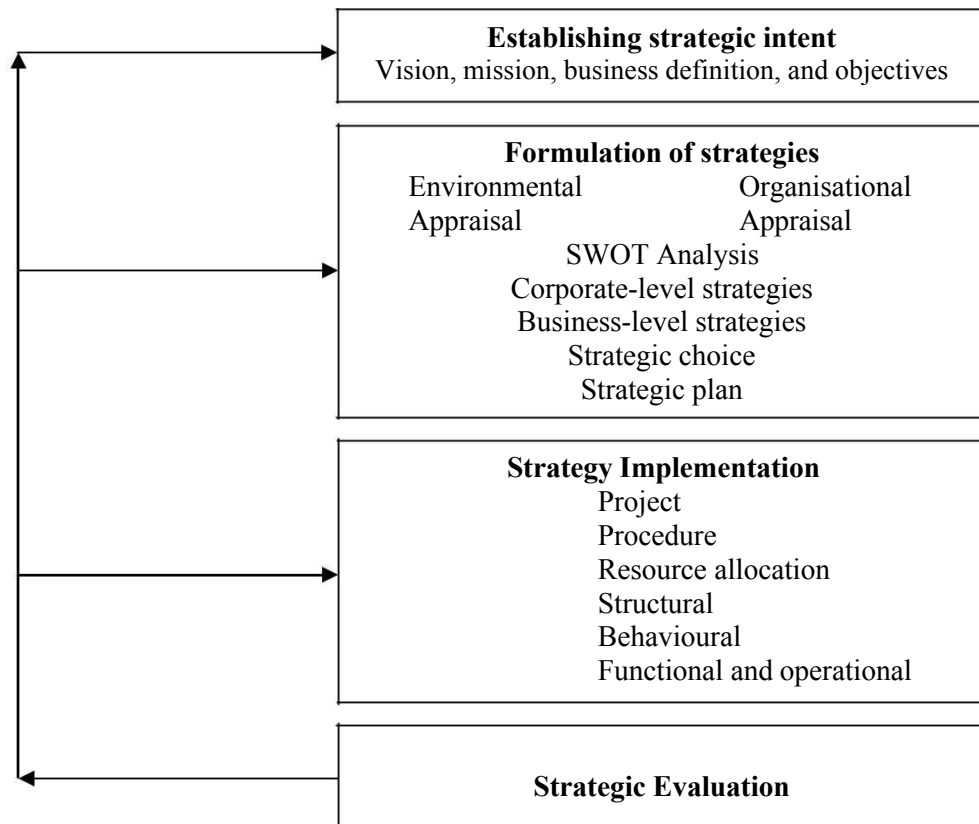
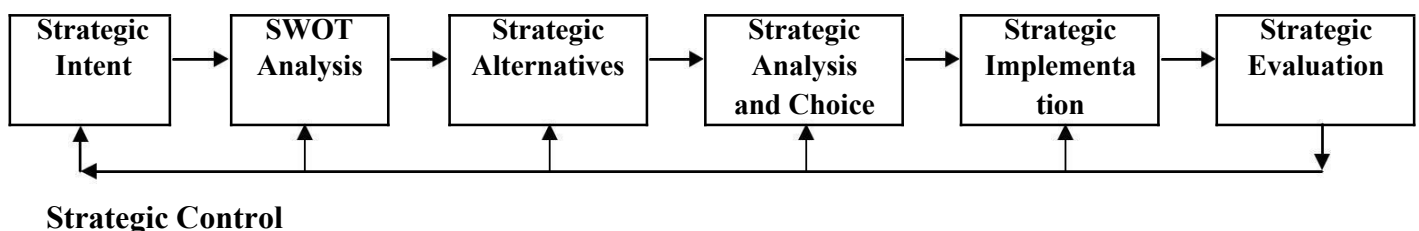


Figure 2 Working Model of Strategic Management Process



The hierarchy of strategic intent lays the foundation for the strategic management of any organisation. In this hierarchy, the vision, mission, business definition, and objectives are established. The strategic intent makes clear what an organisation stands for. The element of vision in the hierarchy of strategic intent serves the purpose of stating what an organisation

wishes to achieve in the long run. The mission relates an organisation to society. The business definition explains the businesses of an organisation in terms of customer needs, customer groups, and alternative technologies. The objectives of an organisation state what is to be achieved in a given time period. These objectives then serve as yardsticks and benchmarks for measuring organisational performance.

Environmental and organisational appraisal helps to find out the opportunities and threats operating in the environment and the strengths and weaknesses of an organisation in order to create a match between them. In such a manner, opportunities could be availed of and the impact of threats neutralized in order to capitalize on the organisational strengths and minimize the weaknesses.

Strategic alternatives and choices are required for evolving alternative strategies out of the many possible options, and choosing the most appropriate strategy or strategies in the light of environmental opportunities and threats and corporate strengths and weaknesses. Strategies are chosen at the corporate-level and the business-level. The process used for choosing strategies involves strategic analysis and choice. The end result of this set of elements is a strategic plan which can be implemented.

For the implementation of a strategy, the strategic plan is put into action through six sub-processes: project implementation, procedural implementation, resource allocation, structural implementation, behavioural implementation, and functional and operational implementation. Project implementation deals with setting up the organisation. Procedural implementation deals with different aspects of the regulatory framework within which the organisations have to operate. Resource allocation relates to the procurement and commitment of resources for implementation. The structural aspects of implementation deal with the designing of appropriate organisational structures and systems, and reorganizing to match the structure to the needs of the strategy. The behavioural aspects consider the leadership styles for implementing strategies and other issues like corporate culture, corporate politics and use of power, personal values and business ethics, and social responsibility. The functional aspects relate to the policies to be formulated in different functional areas. The operational implementation deals with the productivity, processes, people, and pace of implementing the strategies. The emphasis in the implementation phase of strategic management is on action. The last phase of strategic evaluation appraises the implementation of strategies and measures organisational performance. The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategies may be reformulated, if necessary.

In all the above, strategists play various roles in strategic management. These roles are discussed in the next section.

Self-Assessment exercise 1

What are the benefits of the concept of strategy? What are its pitfalls?
How are SBU-level strategies linked to corporate-level strategies?

3.6 Strategists and their Role in Strategic Management

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

3.6.1 Role of Board of Directors

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

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

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

In strategic management, the role of the board is to guide the senior management in setting and accomplishing objectives, reviewing and evaluating organisational performance, and appointing senior executives. The function of the board is usually seen in terms of setting the strategic direction, which involves establishing objectives and strategy, and subsequently monitoring and reviewing achieving. However, there is no clarity regarding the exact role that the board should play in managing the affairs of an organisation. Much depends on the relative strength, in terms of the power wielded by the board and the chief executive. Where there is a high level of clarity regarding their respective roles, the relationship between the board and the chief executive is

cordial and the functioning of the board is smooth. Where such clarity is low, problems do occur.

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

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

The next subsection deals with the role of chief executives in strategic management.

3.6.2 Role of Chief Executive Officer (CEO)

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

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

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

The role-modelling approaches attempt to describe the CEOs in terms of the different roles that they play in organisations. For instance, a CEO may be considered as: chief architect of

organisational purpose, strategist or planner, organisational leader, organizer or organization builder; chief administrator, implementor or coordinator; and communicator of organisational purpose, motivator, personal leader or mentor. Some of the authors and researchers who have adopted this approach are: Fayol (1949), Mintzberg (1973), Christensen (1982), Glueck (1984), and Bourgeois and Brodwin (1984).

The other approaches, directly or indirectly, attempt to describe the role of CEOs in terms of different parameters like: how time is spent; qualities and personalities; communication styles; demographic characteristic, such as, age, intelligence, education, functional background, experience, and so on; managerial values; managerial styles; and environment.

Some of the authors and researchers who have adopted these approaches are Mintzberg (1980), Drucker (1963), Sloan (1979), Levinson (1980), Miner (1973), England (1973), Peters and Waterman (1982), and Khandwalla (1977).

3.6.3 Role of Entrepreneurs

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

Profiles of three Successful CEOs

S/N	Factors	CEO A	CEO B	CEO C
1.	The company	Manages a well-established public sector monopoly using process technology, faces problems of stagnating production levels, technological obsolescence and low worker morale.	Manages a private sector company based on mass production technology; is market leader and operates in a competitive environment, worker productivity is high but organisational loyalty is low.	Manages a highly diversified multi-plant, multi-product, multinational company; has high research potential; good marketing network; emphasis on teamwork and maintaining good organisational culture, seen as a slow-moving, risk-averse company.
2.	The Person: (a) Personal traits	In the group of 60 – 65 years; has a technical background; has risen from the ranks; possesses qualities of intelligence and selflessness; is principled and a man of	In the age group of 50 -55 years; has technical and managerial background; comes from a business family; possesses qualities of foresight,	In the age group of 50 – 55 years; has a scientific background; comes from middle class family, simple and modest, family man; possesses qualities of honesty and fairness;

		convictions; has regular habits; spends leisure time reading; neglect family life.	determination, openness, honesty and fairness, has high aspirations, is principled, impatient, drives himself and others too hard, unforgiving, dedicated to family but finds little time for it.	travels frequently; keeps in touch with the environment; publicity-shy; has a deep sense of patriotism and a philosophical attitude towards life.
(b)	Managerial qualities	Could be described as a motivator, leader, communicator, visionary and institution builder, is able to create rapport with the government; successful in managing interface between his company and concerned bureaucrats and politicians.	Quick decision-maker; has high business acumen; is an effective and dedicated leader; does clear thinking and has an eye for detail; is influential in government circles.	Adopts a scientific-rational approach, professional; keeps in touch with market conditions; maintains good relations with peers and subordinates; believes in delegation; has good rapport with government.
(c)	Pre-dominant management style	Motivational style; effectively manages change; believes in open communication and environment; adopts a systematic planned approach to strategic business thinking.	Believes in centralized decision-making; does strategic planning personally; closely supervises operational areas.	Professional style; believes in people and has faith in subordinates; maintains close touch with company; believes in continuity; adopts stability approach in strategy formulation.

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

K. C. Raghunathan, managing director of SIP Resins Limited, and K C Sukumar, joint managing director are brothers who moved from their traditional family businesses of construction, transport, money lending, and so on to the manufacture of PVC resins. Quick to react to a business opportunity (they got the idea while on a visit to an exhibition), they set up a small-scale PVC resin compounding unit after winding up their family business. Overcoming many hurdles in production and marketing, these two entrepreneurs finally succeeded in creating a 25 percent share in a market dominated by a multinational, Hindustan Ciba-Giegy Limited by 1986 – 87. When the turnover crossed Rs 6 crores, they decided to go public in order to finance their future expansion plans.

K. V. Kamath, CEO of ICICI, who had earlier worked as a leasing specialist with the Asian Development Bank (ADB) was the head of a small team engaged in the formulation and implementation of a long-range strategic plan at the ICICI. As a part of the new directions provided by N. Vaghul, chairman and managing director of ICICI, Kamath played an active role by taking a number of strategic initiatives and identifying new businesses in his position as the Deputy General Manager for corporate planning and policy.

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

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

3.6.4 Role of Senior Management

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

Strategic planning at MRF Limited used senior management expertise by dividing them into five groups dealing with products and markets, environment, technology, resources, and manpower. Each group had a leader who helped to prepare position papers for presentation to the board. The executive directors in the company were actively involved in SWOT analysis through the help of managers and assistant managers.

At Voltas, the implementation of strategies and plans was done through a corporate executive committee headed by the president and consisting of senior vice-presidents and vice-presidents from different functional areas.

In family-owned concerns, the manner in which senior managers are involved in strategic management varies. Where these managers are family members, they constitute an informal family council, as in Lohia Machines of the Singhanian group. The professional managers at senior levels may be involved in the implementation of strategies as in the case of Arvind Mills of the Lalbhai group. Others like the Mahindra group have provided a great deal of autonomy to their senior executives in all aspects of strategic management.

In the early 1970s, under the chairmanship of R.K. Talwar, the State Bank of India (SBI) realized the importance of decentralized planning. The bank's central office at Bombay exercised strategic control and generated broad policy guidelines. The general managers of planning department at 13 local head offices had development managers in charge of different market segments. Lower down in the hierarchy, at the regional office levels, development officers were in charge of business planning for industry and agriculture.

3.6.5 Role of SBU-Level Executives

The rationale for organizing the structure according to SBUs is to be able to manage a diversified company as a portfolio of businesses, each business having a clearly defined product-market segment and a unique strategy. The role that the SBU-level executives play is, therefore, important in strategic management. SBU-level executives, also known as either profit-centre heads or divisional heads, are considered the chief executives of a defined business unit for the purpose of strategic management. In practice, however, the concept of an SBU is adapted to suit traditions, shared facilities and distribution channels, and manpower constraints. Therefore, an SBU-level executive wields considerable authority within the SBU while maintaining coordination with the other SBUs in the organisation.

With regard to strategic management, SBU-level strategy formulation and implementation are the primary responsibilities of the SBU-level executives. Many public and private sector companies have adopted the SBU concept in some form or the other. –There are several family-managed groups today who boast of their professionally-managed organisation structure. Each of their companies has a chief executive whohas total responsibility...and authority over the profit centre. There are even separate management boards to review the performance of each profit centre. There are even separate management boards to review the performance of each profit centre (Taneja, 1986). At Shriram Fibres, the strategic planning system covered the different businesses ranging from nylon yarn manufacture to the provision of financial services. Strategic plans were formulated at the level of each SBU as well as the corporate level. Each SBU had its own strategic planning cell.

3.6.6 Role of Corporate Planning Staff

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

3.6.7 Role of Consultants

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

relying more heavily on consultancy services than the multinationals. There are many consultancy organisations, large and small, that offer consultancy services in the area of strategic management in India. Instances of companies seeking the help of consultants in various strategic exercises such as diversification, restructuring, and so on, are legion.

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

3.6.8 Role of Middle-level Managers

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

3.6.9 Role of Executive Assistant

The emergence of executive assistants in the managerial hierarchy is a relatively recent phenomenon. An executive assistant is a person who assists the chief executive in the performance of his duties in various ways. These could be: to assist the chief executive in data collection and analysis, suggesting alternatives where decisions are required, preparing briefs of various proposals, projects and reports, helping in public relations and liaison functions, coordinating activities with the internal staff and outsiders, and acting as a filter for the information coming from different sources. But in companies where a corporate planning department exists, this function is not assigned to the executive assistants. Since executive assistants assist the chief executive they help to optimize their time utilization. In terms of skills and attitudes, the requirements for an executive assistant include a generalist’s orientation, a few years’ line experience, and exposure to different functional areas, excellent written and oral communication ability, and a pleasing personality. The position of an executive assistant offers a unique advantage to young managers as nowhere else can he or she gain a comprehensive view of the organisation, which can help in career planning and development, and rapid advancement to the senior levels of management.

Self-Assessment Exercise 2

What are the relevant person-related factors in strategic decision-making?
How do we interpret rationality in the context of strategic decision-making?

4.0 CONCLUSION

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

5.0 SUMMARY

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

The next unit would trace the Overview of strategic management.

6.0 TUTOR MARKED ASSIGNMENT

Draw the working model of strategic management and explain this.

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

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UNIT 4 OVERVIEW OF STRATEGIC MANAGEMENT

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1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

Strategic management is a field that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments. It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to

implement the policies and plans, projects and programs. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives. Recent studies and leading management theorists have advocated that strategy needs to start with stakeholders expectations and use a modified balanced scorecard which includes all stakeholders. Strategic management is a level of managerial activity under setting goals and over tactics. Strategic management provides overall direction to the enterprise and is closely related to the field of Organization Studies. In the field of business administration it is useful to talk about "strategic alignment" between the organization and its environment or "strategic consistency." According to Arieu (2007), "there is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context." Strategic management includes not only the management team but can also include the Board of Directors and other stakeholders of the organization. It depends on the organizational structure.

–Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment. (Lamb 1984: ix). Strategic Management can also be defined as "the identification of the purpose of the organisation and the plans and actions to achieve the purpose. It is that set of managerial decisions and actions that determine the long term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organisation and its environment to achieve organisational goals."

3.1 Concepts/Approaches of Strategic Management

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

A global/transnational organization may employ a more structured strategic management model, due to its size, scope of operations, and need to encompass stakeholder views and requirements.

An SME (Small and Medium Enterprise) may employ an entrepreneurial approach. This is due to its comparatively smaller size and scope of operations, as well as possessing fewer resources. An SME's CEO (or general top management) may simply outline a mission, and pursue all activities under that mission.

Whittington (2001) highlighted four approaches to strategic management, utilising different factors that organisations may face. These are the Classical, Procession, Evolutionary and Systemic approaches. Each paradigm is suited to specific environmental factors, of which global firms have faced over the past 4/5 decades.

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

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

3.2 Strategy Formation (Classical School)

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

Following the devising of a mission statement, a firm would then undertake an environmental scanning within the purview of the statement. Strategic formation is a combination of three main processes which are as follows:

Performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental.

Concurrent with this assessment, objectives are set. These objectives should be parallel to a time-line; some are in the short-term and others on the long-term. This involves crafting vision statements (long term view of a possible future), mission statements (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.

3.3 Strategy Evaluation and Choice

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

The basis of competition

The basis of competition is the competitive advantage used or established by the strategy. This advantage may derive from how an organization produces its products, how it acts within a

market relative to its competitors, or other aspects of the business. Specific approaches may include:

Differentiation, in which a multitude of market segments are served on a mass scale. An example will include the array of products produced by Unilever, or Procter and Gamble, as both forge many of the world's noted consumer brands serving a variety of market segments.

Cost-based, which often concerns economy pricing. An example would be dollar stores in the United States.

Market segmentation (or niche), in which products are tailored for the unique needs of a niche market, as opposed to a mass market. An example is Aston Martin cars.

Mode of action

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

In corporate strategy, Johnson, Scholes and Whittington present a model in which strategic options are evaluated against three key success criteria: Suitability; would it work? Feasibility; can it be made to work? Acceptability; will they work it?

Suitability

Suitability deals with the overall rationale of the strategy. The key point to consider is whether the strategy would address the key strategic issues underlined by the organisation's strategic position. Does it make economic sense? Would the organization obtain economies of scale or economies of scope? Would it be suitable in terms of environment and capabilities? Tools that can be used to evaluate suitability include: Ranking strategic options and Decision trees

Feasibility

Feasibility is concerned with whether the resources required to implement the strategy are available, can be developed or obtained. Resources include **funding, people, time, and information** or cash flow in the market. Tools that can be used to evaluate feasibility include: cash flow analysis and forecasting; break-even analysis and resource deployment analysis

Acceptability

Acceptability is concerned with the expectations of the identified stakeholders (mainly shareholders, employees and customers) with the expected performance outcomes, which can be return, risk and stakeholder/stakeholders reactions.

Return deals with the benefits expected by the stakeholders (financial and non-financial).

For example, shareholders would expect the increase of their wealth, employees would expect improvement in their careers and customers would expect better value for money.

Risk deals with the probability and consequences of failure of a strategy (financial and non-financial).

Stakeholder reactions deal with anticipating the likely reaction of stakeholders.

Shareholders could oppose the issuing of new shares, employees and unions could oppose outsourcing for fear of losing their jobs, customers could have concerns over a merger with regards to quality and support.

Tools that can be used to evaluate acceptability include: what-if analysis and stakeholder mapping

The direction of action

Strategic options may span a number of options, including: Growth-based (inspired by Igor Ansoff's matrix – market development, product development, market penetration, diversification), Consolidation, Divestment and Harvesting

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

Additionally, the exact means of implementing a strategy needs to be considered. These points range from: Strategic alliances, Capital Expenditures (CAPEX), Internal development (i.e. utilising one's own strategic capability in a given course of action) and Mergers and Acquisitions)

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

3.4 Strategic Implementation and Control

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

Organizing

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

Resourcing

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

Change management

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

The appointment of a change agent, as an individual who would champion the changes and seek to reassure and allay any fears arising.

Ascertaining the causes of the resistance to organizational change (whether from employees, perceived loss of job security, etc.)

Via change agency, slowly limiting the negative effects that a change may uncover.

3.5 Testing the Strategic Alignment of the Organization

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

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

3.5.1 Whittington's Perspectives

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

Processual

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

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

Evolutionary

In the 1980s, business environments became more dynamic. It thus became key to "sink or swim", and adapt to the needs challenges and rigors of one's business landscape. In this sense, evolutionary strategic management is essentially Darwinist, and follows a classical Darwinian path. Organisations must develop or nurture traits that will help them survive and prosper within their given markets. If they do not, they will perish. A major facet of evolutionary strategic management is a population ecology model, in which firms in an industry are seen akin to a population of animals. Evolutionary strategy stems from an inability to track properly complex environments. If an industry has continuously changing factors, rational planning (as per the Classical school) is futile. An organisation holds no choice but to "adapt or die".

Systemic

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

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

Drivers

The end goal of Classical planning is a deliberate need for profit maximisation. Deliberate in this instance means that it is consciously designed by top management as such. Conversely, evolutionary strategy is emergent, and not consciously planned or executed. Processual strategy is typically seen as deliberate and pluralistic, as a firm in the model cannot always seek to maximise profits. Systemic strategy is emergent and pluralistic, due to the continuous determining of social needs.

3.5.2 General Approaches

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

The Industrial Organizational Approach

- based on economic theory — deals with issues like competitive rivalry, resource allocation, economies of scale;
- assumptions — rationality, self discipline behaviour, profit maximization.

The Sociological Approach

- deals primarily with human interactions

assumptions – bounded rationality, satisficing behaviour, profit sub-optimality. An example of a company that currently operates this way is Google. The stakeholder focused approach is an example of this modern approach to strategy.

Strategic management techniques can be viewed as bottom-up, top-down, or collaborative processes. In the bottom-up approach, employees submit proposals to their managers who, in turn, funnel the best ideas further up the organization. This is often accomplished by a capital budgeting process. Proposals are assessed using financial criteria such as return on investment or cost-benefit analysis. Cost underestimation and benefit overestimation are major sources of error. The proposals that are approved form the substance of a new strategy, all of which is done without a grand strategic design or a strategic architect. The top-down approach is the most common by far. In it, the CEO, possibly with the assistance of a strategic planning team, decides on the overall direction the company should take. Some organizations are starting to experiment with collaborative strategic planning techniques that recognize the emergent nature of strategic decisions.

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

Simulation strategies are also used by managers in an industry. The purpose of simulation gaming is to prepare managers make well rounded decisions. There are two main focuses of the different simulation games, generalized games and functional games. Generalized games are those that are designed to provide participants with new forms of how to adapt to an unfamiliar environment and make business decisions when in doubt. On the other hand, functional games are designed to make participants more aware of being able to deal with situations that bring about one or more problems that are encountered in a corporate function within an industry.^[4]

3.6 The Strategy Hierarchy

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

Corporate strategy refers to the over-arching strategy of the diversified firm. Such a corporate strategy answers the questions of "which businesses should we be in?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the corporation as a whole?" **Business strategy** refers to the aggregated strategies of single business firm or a

strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates either cost leadership, differentiation, or focus to achieve a sustainable competitive advantage and long-term success. These three rules are also known as Porter's three generic Strategies; this concept can be applied to any size or form of business. Porter considered this concept as tradeoff strategy and argued that a person or company must only choose ONE strategy or risk having no strategy at all. Alternatively, according to W. Chan Kim and Renée Mauborgne, an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the previous value-cost trade off by simultaneously pursuing both differentiation and low cost.

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

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

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

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

This work builds on that of Brown and Eisenhart as well as Christensen and portrays firm strategy, both business and corporate, as necessarily embracing ongoing strategic change, and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets.

4.0 CONCLUSION

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

We note from the discussions in the unit that strategic management is a field that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments. We also noted that strategic management entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. We further noted that a balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives.

5 SUMMARY

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

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

6.0 TUTOR-MARKED ASSIGNMENT

What is strategic hierarchy?

What do you understand by strategic implementation and control? Briefly discuss this.

List the options involved in strategic evaluation and choice.

7.0 REFERENCES/FURTHER READINGS

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UNIT 5 HISTORICAL DEVELOPMENT OF STRATEGIC MANAGEMENT

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1.0 INTRODUCTION

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

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

2.0 OBJECTIVES

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

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

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

3.1 Birth of Strategic Management

The Strategic management discipline is originated in the 1950s and 60s. Although there were numerous early contributors to the literature, the most influential pioneers were Alfred D. Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years.

Alfred Chandler recognized the importance of coordinating the various aspects of management under one all- encompassing strategy. Prior to this time the various functions of management were separate with little overall coordination or strategy. Interactions between functions or between departments were typically handled by a boundary position, that is, there were one or two managers that relayed information back and forth between two departments. Chandler also stressed the importance of taking a long term perspective when looking to the future. Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. He says it concisely, –structure follows strategy.¶

Igor Ansoff built on Chandler's work by adding a range of strategic concepts and inventing a whole new vocabulary. He developed a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal and vertical integration and diversification strategies. He felt that management could use these strategies to systematically prepare for future opportunities and challenges. In his 1965 classic *Corporate Strategy*, he developed the gap analysis still used today in which we must understand the gap between where we are currently and where we would like to be, then develop what he called –gap reducing actions¶.

Peter Drucker was a prolific strategy theorist, author of dozens of management books, with a career spanning five decades. His contributions to strategic management were many but two are most important. Firstly, he stressed the importance of objectives. An organization without clear objectives is like a ship without a rudder. As early as 1954 he was developing a theory of management based on objectives.^[8] This evolved into his theory of **management by objectives** (MBO). According to Drucker, the procedure of setting objectives and monitoring your progress towards them should permeate the entire organization, top to bottom. His other seminal contribution was in predicting the importance of what today we would call intellectual capital. He predicted the rise of what he called the –knowledge worker¶ and explained the consequences of this for management. He said that knowledge work is non-hierarchical. Work would be carried out in teams with the person most knowledgeable in the task at hand being the temporary leader.

In 1985, Ellen-Earle Chaffee summarized what she thought were the main elements of strategic management theory by the 1970s:

Strategic management involves adapting the organization to its business environment.

Strategic management is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses.

Strategic management affects the entire organization by providing direction.

Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process).

Strategic management is partially planned and partially unplanned.

Strategic management is done at several levels: overall corporate strategy, and individual business strategies.

Strategic management involves both conceptual and analytical thought processes.

3.2 Growth and Portfolio Theory

In the 1970s much of strategic management dealt with size, growth, and portfolio theory. The PIMS study was a long term study, started in the 1960s and lasted for 19 years, that attempted to understand the Profit Impact of Marketing Strategies (PIMS), particularly the effect of market share. Started at General Electric, moved to Harvard in the early 1970s, and then moved to the Strategic Planning Institute in the late 1970s, it now contains decades of information on the relationship between profitability and strategy. Their initial conclusion was unambiguous: The greater a company's market share, the greater will be their rate of profit. The high market share provides volume and economies of scale. It also provides experience and learning curve advantages. The benefits of high market share naturally lead to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, franchises, mergers and acquisitions, joint ventures, and organic growth were discussed. The most appropriate market dominance strategies were assessed given the competitive and regulatory environment.

By the early 1980s the paradoxical conclusion was that high market share and low market share companies were often very profitable but most of the companies in between were not. This was sometimes called the -hole in the middle problem. This anomaly would be explained by Michael Porter in the 1980s.

The management of diversified organizations required new techniques and new ways of thinking. The first CEO to address the problem of a multi-divisional company was Alfred Sloan at General Motors. GM was decentralized into semi-autonomous -strategic business units (SBU's), but with centralized support functions.

One of the most valuable concepts in the strategic management of multi-divisional companies was **portfolio theory**. In the previous decade Harry Markowitz and other financial theorists developed the theory of portfolio analysis. It was concluded that a broad portfolio of financial assets could reduce specific risk. In the 1970s marketers extended the theory to product portfolio decisions and managerial strategists extended it to operating division portfolios. Each of a company's operating divisions were seen as an element in the corporate portfolio. Each operating

division (also called strategic business units) was treated as a semi-independent profit center with its own revenues, costs, objectives, and strategies. Several techniques were developed to analyze the relationships between elements in a portfolio. B.C.G. Analysis, for example, was developed by the Boston Consulting Group in the early 1970s.

3.3 The Marketing Revolution

The 1970s also saw the rise of the marketing oriented firm. From the beginnings of capitalism it was assumed that the key requirement of business success was a product of high technical quality. If you produced a product that worked well and was durable, it was assumed you would have no difficulty selling them at a profit. This was called the production orientation and it was generally true that good products could be sold without effort, encapsulated in the saying "Build a better mousetrap and the world will beat a path to your door." This was largely due to the growing numbers of affluent and middle class people that capitalism had created. But after the untapped demand caused by the second world war was saturated in the 1950s it became obvious that products were not selling as easily as they had been. The answer was to concentrate on selling. The 1950s and 1960s is known as the sales era and the guiding philosophy of business of the time is today called the sales orientation. In the early 1970s Theodore Levitt and others at Harvard argued that the sales orientation had things backward. They claimed that instead of producing products then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them. The customer became the driving force behind all strategic business decisions. This marketing orientation, in the decades since its introduction, has been reformulated and repackaged under numerous names including customer orientation, marketing philosophy, customer intimacy, customer focus, customer driven, and market focused.

The Japanese Challenge

In 2009, industry consultants Mark Blaxill and Ralph Eckardt suggested that much of the Japanese business dominance that began in the mid 1970s was the direct result of competition enforcement efforts by the Federal Trade Commission (FTC) and U.S. Department of Justice (DOJ). In 1975 the FTC reached a settlement with Xerox Corporation in its anti-trust lawsuit. (At the time, the FTC was under the direction of Frederic M. Scherer). The 1975 Xerox consent decree forced the licensing of the company's entire patent portfolio, mainly to Japanese competitors. (See "compulsory license.") This action marked the start of an activist approach to managing competition by the FTC and DOJ, which resulted in the compulsory licensing of tens of thousands of patent from some of America's leading companies, including IBM, AT&T, DuPont, Bausch & Lomb, and Eastman Kodak.^[original research?]

Within four years of the consent decree, Xerox's share of the U.S. copier market dropped from nearly 100% to less than 14%. Between 1950 and 1980 Japanese companies consummated more than 35,000 foreign licensing agreements, mostly with U.S. companies, for free or low-cost licenses made possible by the FTC and DOJ. The post-1975 era of anti-trust initiatives by Washington D.C. economists at the FTC corresponded directly with the rapid, unprecedented rise in Japanese competitiveness and a simultaneous stalling of the U.S. manufacturing economy.

Competitive Advantage

The Japanese challenge shook the confidence of the western business elite, but detailed comparisons of the two management styles and examinations of successful businesses convinced westerners that they could overcome the challenge. The 1980s and early 1990s saw a plethora of theories explaining exactly how this could be done. They cannot all be detailed here, but some of the more important strategic advances of the decade are explained below.

Gary Hamel and C. K. Prahalad declared that strategy needs to be more active and interactive; less –arm-chair planning‖ was needed. They introduced terms like **strategic intent** and **strategic architecture**. Their most well known advance was the idea of core competency. They showed how important it was to know the one or two key things that your company does better than the competition. Probably the most influential strategist of the decade was Michael Porter. He introduced many new concepts including; 5 forces analysis, generic strategies, the value chain, strategic groups, and clusters. In 5 forces analysis he identifies the forces that shape a firm's strategic environment. It is like a SWOT analysis with structure and purpose. It shows how a firm can use these forces to obtain a sustainable competitive advantage. Porter modifies Chandler's dictum about structure following strategy by introducing a second level of structure: Organizational structure follows strategy, which in turn follows industry structure. Porter's generic strategies detail the interaction between **cost minimization strategies**, **product differentiation strategies**, and **market focus strategies**. Although he did not introduce these terms, he showed the importance of choosing one of them rather than trying to position your company between them. He also challenged managers to see their industry in terms of a value chain. A firm will be successful only to the extent that it contributes to the industry's value chain. This forced management to look at its operations from the customer's point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer.

In 1993, John Kay took the idea of the value chain to a financial level claiming — Adding value is the central purpose of business activity‖, where adding value is defined as the difference between the market value of outputs and the cost of inputs including capital, all divided by the firm's net output. Borrowing from Gary Hamel and Michael Porter, Kay claims that the role of strategic management is to identify your core competencies, and then assemble a collection of assets that will increase value added and provide a competitive advantage. He claims that there are 3 types of capabilities that can do this; innovation, reputation, and organizational structure.

The 1980s also saw the widespread acceptance of positioning theory. Although the theory originated with Jack Trout in 1969, it didn't gain wide acceptance until Al Ries and Jack Trout wrote their classic book –Positioning: The Battle For Your Mind‖ (1979). The basic premise is that a strategy should not be judged by internal company factors but by the way customers see it relative to the competition. Crafting and implementing a strategy involves creating a position in the mind of the collective consumer. Several techniques were applied to positioning theory, some newly invented but most borrowed from other disciplines. Perceptual mapping for example, creates visual displays of the relationships between positions. Multidimensional scaling, discriminant analysis, factor analysis, and conjoint analysis are mathematical techniques used to determine the most relevant characteristics (called dimensions or factors) upon which positions should be based. Preference regression can be used to determine vectors of ideal positions and cluster analysis can identify clusters of positions.

Others felt that internal company resources were the key. In 1992, Jay Barney, for example, saw strategy as assembling the optimum mix of resources, including human, technology, and suppliers, and then configure them in unique and sustainable ways.^[20]

Michael Hammer and James Champy felt that these resources needed to be restructured.^[21] This process, that they labeled reengineering, involved organizing a firm's assets around whole processes rather than tasks. In this way a team of people saw a project through, from inception to completion. This avoided functional silos where isolated departments seldom talked to each other. It also eliminated waste due to functional overlap and interdepartmental communications. In 1989 Richard Lester and the researchers at the MIT Industrial Performance Center identified seven **best practices** and concluded that firms must accelerate the shift away from the mass production of low cost standardized products. The seven areas of best practice were.^[22]

- Simultaneous continuous improvement in cost, quality, service, and product innovation
- Breaking down organizational barriers between departments
- Eliminating layers of management creating flatter organizational hierarchies. Closer relationships with customers and suppliers
- Intelligent use of new technology
- Global focus

Improving human resource skills

The search for –best practices‖ is also called benchmarking.^[23] This involves determining where you need to improve, finding an organization that is exceptional in this area, then studying the company and applying its best practices in your firm.

Process management uses some of the techniques from product quality management and some of the techniques from customer service management. It looks at an activity as a sequential process. The objective is to find inefficiencies and make the process more effective. Although the procedures have a long history, dating back to Taylorism, the scope of their applicability has been greatly widened, leaving no aspect of the firm free from potential process improvements. Because of the broad applicability of process management techniques, they can be used as a basis for competitive advantage. A significant movement started that attempted to recast selling and marketing techniques into a long term endeavor that created a sustained relationship with customers (called relationship selling, relationship marketing, and customer relationship management). Customer relationship management (CRM) software (and its many variants) became an integral tool that sustained this trend.

James Gilmore and Joseph Pine found competitive advantage in mass customization. Flexible manufacturing techniques allowed businesses to individualize products for each customer without losing economies of scale. This effectively turned the product into a service. They also realized that if a service is mass customized by creating a –performancell for each individual client, that service would be transformed into an –experientcell. Their book, *The Experience Economy*,^[39] along with the work of Bernd Schmitt convinced many to see service provision as a form of theatre. This school of thought is sometimes referred to as customer experience management (CEM).

Like Peters and Waterman a decade earlier, James Collins and Jerry Porras spent years conducting empirical research on what makes great companies. Six years of research uncovered a key underlying principle behind the 19 successful companies that they studied: They all encourage and preserve a **core ideology** that nurtures the company. Even though strategy and tactics change daily, the companies, nevertheless, were able to maintain a core set of values. These core values encourage employees to build an organization that lasts. In *Built To Last* (1994) they claim that short term profit goals, cost cutting, and restructuring will not stimulate dedicated employees to build a great company that will endure. Arie de Geus (1997) undertook a similar study and obtained similar results. He identified four key traits of companies that had prospered for 50 years or more. They are:

Sensitivity to the business environment — the ability to learn and adjust

Cohesion and identity — the ability to build a community with personality, vision, and purpose

Tolerance and decentralization — the ability to build relationships

Conservative financing

A company with these key characteristics he called a **living company** because it is able to perpetuate itself. If a company emphasizes knowledge rather than finance, and sees itself as an ongoing community of human beings, it has the potential to become great and endure for decades. Such an organization is an organic entity capable of learning (he called it a -learning organization) and capable of creating its own processes, goals, and persona.

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

"Will the proposed competitive advantage create something that is different from the competition?"

"Will the difference add value in the eyes of potential customers?" – This question will entail a discussion of the combined effects of price, product features and consumer perceptions.

"Will the product add value for the firm?" – Answering this question will require an examination of cost effectiveness and the pricing strategy.

The Military Theorists

In the 1980s some business strategists realized that there was a vast knowledge base stretching back thousands of years that they had barely examined. They turned to military strategy for guidance. Military strategy books such as *The Art of War* by Sun Tzu, *On War* by von Clausewitz, and *The Red Book* by Mao Zedong became instant business classics. From Sun Tzu, they learned the tactical side of military strategy and specific tactical prescriptions. From Von Clausewitz, they learned the dynamic and unpredictable nature of military strategy. From Mao Zedong, they learned the principles of guerrilla warfare. The main marketing warfare book were:

Business War Games by Barrie James, 1984

Marketing Warfare by Al Ries and Jack Trout, 1986

Leadership Secrets of Attila the Hun by Wess Roberts, 1987

Philip Kotler was a well-known proponent of marketing warfare strategy.

There were generally thought to be four types of business warfare theories. They are:

- Offensive marketing warfare strategies

- Defensive marketing warfare strategies

- Flanking marketing warfare strategies

- Guerrilla marketing warfare strategies

The marketing warfare literature also examined leadership and motivation, intelligence gathering, types of marketing weapons, logistics, and communications.

By the turn of the century marketing warfare strategies had gone out of favour. It was felt that they were limiting. There were many situations in which non-confrontational approaches were more appropriate. In 1989, Dudley Lynch and Paul L. Kordis published *Strategy of the Dolphin: Scoring a Win in a Chaotic World*. "The Strategy of the Dolphin" was developed to give guidance as to when to use aggressive strategies and when to use passive strategies. A variety of aggressiveness strategies were developed.

In 1993, J. Moore used a similar metaphor.^[42] Instead of using military terms, he created an ecological theory of predators and prey (see ecological model of competition), a sort of Darwinian management strategy in which market interactions mimic long term ecological stability.

Strategic Change

In 1968, Peter Drucker (1969) coined the phrase **Age of Discontinuity** to describe the way change forces disruptions into the continuity of our lives.^[43] In an age of continuity attempts to predict the future by extrapolating from the past can be somewhat accurate. But according to Drucker, we are now in an age of discontinuity and extrapolating from the past is hopelessly ineffective. We cannot assume that trends that exist today will continue into the future. He identifies four sources of discontinuity: new technologies, globalization, cultural pluralism, and knowledge capital.

In 1970, Alvin Toffler in *Future Shock* described a trend towards accelerating rates of change.^[44] He illustrated how social and technological norms had shorter life-spans with each generation, and he questioned society's ability to cope with the resulting turmoil and anxiety. In past generations periods of change were always punctuated with times of stability. This allowed society to assimilate the change and deal with it before the next change arrived. But these periods of stability are getting shorter and by the late 20th century had all but disappeared. In 1980 in *The Third Wave*, Toffler characterized this shift to relentless change as the defining feature of the third phase of civilization (the first two phases being the agricultural and industrial waves).^[45] He claimed that the dawn of this new phase will cause great anxiety for those that grew up in the

previous phases, and will cause much conflict and opportunity in the business world. Hundreds of authors, particularly since the early 1990s, have attempted to explain what this means for business strategy.

In 2000, Gary Hamel discussed **strategic decay**, the notion that the value of all strategies, no matter how brilliant, decays over time.

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

In 1989, Charles Handy identified two types of change. **Strategic drift** is a gradual change that occurs so subtly that it is not noticed until it is too late. By contrast, **transformational change** is sudden and radical. It is typically caused by discontinuities (or exogenous shocks) in the business environment. The point where a new trend is initiated is called a **strategic inflection point** by Andy Grove. Inflection points can be subtle or radical.

In 2000, Malcolm Gladwell discussed the importance of the **tipping point**, that point where a trend or fad acquires critical mass and takes off.

In 1983, Noel Tichy wrote that because we are all beings of habit we tend to repeat what we are comfortable with. He wrote that this is a trap that constrains our creativity, prevents us from exploring new ideas, and hampers our dealing with the full complexity of new issues. He developed a systematic method of dealing with change that involved looking at any new issue from three angles: technical and production, political and resource allocation, and corporate culture.

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

Peters and Austin (1985) stressed the importance of nurturing champions and heroes. They said we have a tendency to dismiss new ideas, so to overcome this, we should support those few people in the organization that have the courage to put their career and reputation on the line for an unproven idea.

In 1996, Adrian Slywotzky showed how changes in the business environment are reflected in value migrations between industries, between companies, and within companies. He claimed that recognizing the patterns behind these value migrations is necessary if we wish to understand the world of chaotic change. In –Profit Patterns|| (1999) he described businesses as being in a state of **strategic anticipation** as they try to spot emerging patterns. Slywotsky and his team identified 30 patterns that have transformed industry after industry.

In 1997, Clayton Christensen (1997) took the position that great companies can fail precisely because they do everything right since the capabilities of the organization also defines its disabilities. Christensen's thesis is that outstanding companies lose their market leadership when confronted with **disruptive technology**. He called the approach to discovering the emerging markets for disruptive technologies **agnostic marketing**, i.e., marketing under the implicit assumption that no one – not the company, not the customers – can know how or in what quantities a disruptive product can or will be used before they have experience using it.

A number of strategists use scenario planning techniques to deal with change. The way Peter Schwartz put it in 1991 is that strategic outcomes cannot be known in advance so the sources of competitive advantage cannot be predetermined. The fast changing business environment is too uncertain for us to find sustainable value in formulas of excellence or competitive advantage. Instead, scenario planning is a technique in which multiple outcomes can be developed, their implications assessed, and their likeliness of occurrence evaluated. According to Pierre Wack, scenario planning is about insight, complexity, and subtlety, not about formal analysis and numbers.

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

- Strategy as plan – a direction, guide, course of action – intention rather than actual

- Strategy as ploy – a maneuver intended to outwit a competitor

- Strategy as pattern – a consistent pattern of past behaviour – realized rather than intended

- Strategy as position – locating of brands, products, or companies within the conceptual framework of consumers or other stakeholders – strategy determined primarily by factors outside the firm

- Strategy as perspective – strategy determined primarily by a master strategist

In 1998, Mintzberg developed these five types of management strategy into 10 –schools of thought. These 10 schools are grouped into three categories. The first group is prescriptive or normative. It consists of the informal design and conception school, the formal planning school, and the analytical positioning school. The second group, consisting of six schools, is more concerned with how strategic management is actually done, rather than prescribing optimal plans or positions. The six schools are the entrepreneurial, visionary, or great leader school, the cognitive or mental process school, the learning, adaptive, or emergent process school, the power or negotiation school, the corporate culture or collective process school, and the business environment or reactive school. The third and final group consists of one school, the configuration or transformation school, and hybrid of the other schools organized into stages, organizational life cycles, or –episodes.¶

In 1999, Constantinos Markides also wanted to reexamine the nature of strategic planning itself. He describes strategy formation and implementation as an on-going, never-ending, integrated

process requiring continuous reassessment and reformation. Strategic management is planned and emergent, dynamic, and interactive. J. Moncrieff (1999) also stresses strategy dynamics. He recognized that strategy is partially deliberate and partially unplanned. The unplanned element comes from two sources: **emergent strategies** (result from the emergence of opportunities and threats in the environment) and **Strategies in action** (ad hoc actions by many people from all parts of the organization).

Some business planners are starting to use a complexity theory approach to strategy. Complexity can be thought of as chaos with a dash of order. Chaos theory deals with turbulent systems that rapidly become disordered. Complexity is not quite so unpredictable. It involves multiple agents interacting in such a way that a glimpse of structure may appear.

Information- and Technology-driven Strategy

Peter Drucker had theorized the rise of the –knowledge worker‖ back in the 1950s. He described how fewer workers would be doing physical labor, and more would be applying their minds. In 1984, John Naisbitt theorized that the future would be driven largely by information: companies that managed information well could obtain an advantage, however the profitability of what he calls the –information float‖ (information that the company had and others desired) would all but disappear as inexpensive computers made information more accessible.

Daniel Bell (1985) examined the sociological consequences of information technology, while Gloria Schuck and Shoshana Zuboff looked at psychological factors. Zuboff, in her five year study of eight pioneering corporations made the important distinction between –automating technologies‖ and –infomating technologies‖. She studied the effect that both had on individual workers, managers, and organizational structures. She largely confirmed Peter Drucker's predictions three decades earlier, about the importance of flexible decentralized structure, work teams, knowledge sharing, and the central role of the knowledge worker. Zuboff also detected a new basis for managerial authority, based not on position or hierarchy, but on knowledge (also predicted by Drucker) which she called –participative management‖.

In 1990, Peter Senge, who had collaborated with Arie de Geus at Dutch Shell, borrowed de Geus' notion of the **learning organization**, expanded it, and popularized it. The underlying theory is that a company's ability to gather, analyze, and use information is a necessary requirement for business success in the information age. (See organizational learning.) To do this, Senge claimed that an organization would need to be structured such that:^[64]

People can continuously expand their capacity to learn and be
productive, New patterns of thinking are nurtured,
Collective aspirations are encouraged, and
People are encouraged to see the –whole picture‖ together.

Senge identified five disciplines of a learning organization. They are:

Personal responsibility, self reliance, and mastery – We accept that we are the masters of our own destiny. We make decisions and live with the consequences of them. When a problem

needs to be fixed, or an opportunity exploited, we take the initiative to learn the required skills to get it done.

Mental models – We need to explore our personal mental models to understand the subtle effect they have on our behaviour.

Shared vision – The vision of where we want to be in the future is discussed and communicated to all. It provides guidance and energy for the journey ahead.

Team learning – We learn together in teams. This involves a shift from —a spirit of advocacy to a spirit of enquiry.

Systems thinking – We look at the whole rather than the parts. This is what Senge calls the –Fifth discipline. It is the glue that integrates the other four into a coherent strategy. For an alternative approach to the –learning organization, see Garratt, B. (1987).

The technology sector has provided some strategies directly. For example, from the software development industry agile software development provides a model for shared development processes.

Access to information systems have allowed senior managers to take a much more comprehensive view of strategic management than ever before. The most notable of the comprehensive systems is the balanced scorecard approach developed in the early 1990s by Drs. Robert S. Kaplan (Harvard Business School) and David Norton (Kaplan, R. and Norton, D. 1992). It measures several factors financial, marketing, production, organizational development, and new product development to achieve a 'balanced' perspective.

Knowledge Adaptive Strategy

Most current approaches to business "strategy" focus on the mechanics of management—e.g., Drucker's operational "strategies" – and as such are not true business strategy. In a post-industrial world these operationally focused business strategies hinge on conventional sources of advantage have essentially been eliminated:

Scale used to be very important. But now, with access to capital and a global marketplace, scale is achievable by multiple organizations simultaneously. In many cases, it can literally be rented.

Process improvement or –best practices were once a favored source of advantage, but they were at best temporary, as they could be copied and adapted by competitors.

Owning the customer had always been thought of as an important form of competitive advantage. Now, however, customer loyalty is far less important and difficult to maintain as new brands and products emerge all the time.

In such a world, differentiation, as elucidated by Michael Porter, Botten and McManus is the only way to maintain economic or market superiority (i.e., comparative advantage) over

competitors. A company must OWN the thing that differentiates it from competitors. Without IP ownership and protection, any product, process or scale advantage can be compromised or entirely lost. Competitors can copy them without fear of economic or legal consequences, thereby eliminating the advantage.

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

Strategic Decision-making Processes

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

The Psychology of Strategic Management

Several psychologists have conducted studies to determine the psychological patterns involved in strategic management. Typically senior managers have been asked how they go about making strategic decisions. A 1938 treatise by Chester Barnard, that was based on his own experience as a business executive, sees the process as informal, intuitive, non-routinized, and involving primarily oral, 2-way communications. Barnard says –The process is the sensing of the organization as a whole and the total situation relevant to it. It transcends the capacity of merely intellectual methods, and the techniques of discriminating the factors of the situation. The terms pertinent to it are –feeling, –judgement, –sense, –proportion, –balance, –appropriateness. It is a matter of art rather than science.^[77]

In 1973, Henry Mintzberg found that senior managers typically deal with unpredictable situations so they strategize in *ad hoc*, flexible, dynamic, and implicit ways. . He says, –The job breeds adaptive information -manipulators who prefer the live concrete situation. The manager works in an environment of stimulus-response, and he develops in his work a clear preference for live action.

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

Limitations of Strategic Management

Although a sense of direction is important, it can also stifle creativity, especially if it is rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia.

Many theories of strategic management tend to undergo only brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias (itself an area of research in strategic management). Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism or faddishness can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances. See business philosophies and popular management theories for a more critical view of management theories.

In 2000, Gary Hamel coined the term **strategic convergence** to explain the limited scope of the strategies being used by rivals in greatly differing circumstances. He lamented that strategies converge more than they should, because the more successful ones are imitated by firms that do not understand that the strategic process involves designing a custom strategy for the specifics of each situation. Ram Charan, aligning with a popular marketing tagline, believes that strategic planning must not dominate action. "Just do it!" while not quite what he meant, is a phrase that nevertheless comes to mind when combatting analysis paralysis.

The Linearity Trap

It is tempting to think that the elements of strategic management – (i) reaching consensus on corporate objectives; (ii) developing a plan for achieving the objectives; and (iii) marshalling and allocating the resources required to implement the plan – can be approached sequentially. It would be convenient, in other words, if one could deal first with the noble question of ends, and then address the mundane question of means. But in the world where strategies must be implemented, the three elements are interdependent. Means are as likely to determine ends as ends are to determine means.^[87] The objectives that an organization might wish to pursue are limited by the range of feasible approaches to implementation. (There will usually be only a small number of approaches that will not only be technically and administratively possible, but also satisfactory to the full range of organizational stakeholders.) In turn, the range of feasible implementation approaches is determined by the availability of resources.

And so, although participants in a typical –strategy session‖ may be asked to do –blue sky‖ thinking where they pretend that the usual constraints – resources, acceptability to stakeholders, administrative feasibility – have been lifted, the fact is that it rarely makes sense to divorce oneself from the environment in which a strategy will have to be implemented. It's probably impossible to think in any meaningful way about strategy in an unconstrained environment. Our

brains can't process –boundless possibilities, and the very idea of strategy only has meaning in the context of challenges or obstacles to be overcome. It's at least as plausible to argue that acute awareness of constraints is the very thing that stimulates creativity by forcing us to constantly reassess both means and ends in light of circumstances.

The key question, then, is, "How can individuals, organizations and societies cope as well as possible with ... issues too complex to be fully understood, given the fact that actions initiated on the basis of inadequate understanding may lead to significant regret?"^[88]

The answer is that the process of developing organizational strategy must be iterative. Such an approach has been called the Strategic Incrementalisation Perspective.^[89] It involves toggling back and forth between questions about objectives, implementation planning and resources. An initial idea about corporate objectives may have to be altered if there is no feasible implementation plan that will meet with a sufficient level of acceptance among the full range of stakeholders, or because the necessary resources are not available, or both.

Even the most talented manager would no doubt agree that "comprehensive analysis is impossible" for complex problems. Formulation and implementation of strategy must thus occur side-by-side rather than sequentially, because strategies are built on assumptions that, in the absence of perfect knowledge, are never perfectly correct. Strategic management is necessarily a "...repetitive learning cycle [rather than] a linear progression towards a clearly defined final destination." While assumptions can and should be tested in advance, the ultimate test is implementation. You will inevitably need to adjust corporate objectives and/or your approach to pursuing outcomes and/or assumptions about required resources. Thus a strategy will get remade during implementation because "humans rarely can proceed satisfactorily except by learning from experience; and modest probes, serially modified on the basis of feedback, usually are the best method for such learning."

It serves little purpose (other than to provide a false aura of certainty sometimes demanded by corporate strategists and planners) to pretend to anticipate every possible consequence of a corporate decision, every possible constraining or enabling factor, and every possible point of view. At the end of the day, what matters for the purposes of strategic management is having a clear view – based on the best available evidence and on defensible assumptions – of what it seems possible to accomplish within the constraints of a given set of circumstances. As the situation changes, some opportunities for pursuing objectives will disappear and others arise. Some implementation approaches will become impossible, while others, previously impossible or unimagined, will become viable.

The essence of being –strategic thus lies in a capacity for "intelligent trial-and error" rather than linear adherence to finally honed and detailed strategic plans. Strategic management will add little value—indeed, it may well do harm—if organizational strategies are designed to be used as a detailed blueprints for managers. Strategy should be seen, rather, as laying out the general path—but not the precise steps—an organization will follow to create value. Strategic management is a question of interpreting, and continuously reinterpreting, the possibilities presented by shifting circumstances for advancing an organization's objectives. Doing so requires strategists to think *simultaneously* about desired objectives, the best approach for

achieving them, and the resources implied by the chosen approach. It requires a frame of mind that admits of no boundary between means and ends.

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

Putting Creativity and Innovation into Strategy

Given that companies of all sizes are competing on the global stage, and the pace of change and level of complexity have skyrocketed in the last decade, creative strategy development is needed more than ever. In 2010, IBM released a study summarizing three conclusions of 1500 CEOs around the world: 1) complexity is escalating, 2) enterprises are not equipped to cope with this complexity, and 3) creativity is now the single most important leadership competency. IBM said that it is needed in all aspects of leadership, including strategic thinking and planning. James Bandrowski declared in 1990 that strategy development should no longer be just an analytical exercise, but should be highly creative with an aim to conceiving and executing an innovative strategy that creates competitive distinction and elates customers. He introduced a sine wave approach that amplifies the strategic thinking of all participants in the development and execution of strategy. It can be used at the corporate level, for every function in the organization, as well as in mergers, acquisitions, divestitures, and turnarounds. He states, the bigger the amplitude (measure of the height and depth of a sine wave) of one's thinking and feeling, the greater the chance of value-added breakthrough thinking and achieving stretch goals. In 2009, he declared that a small amplitude both positively and negatively in one's thinking is the metaphorical —box in thinking outside the box.

4.0 CONCLUSION

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

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

5.0 SUMMARY

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

6.0 TUTOR-MARKED ASSIGNMENT

What is psychology of strategic management?

3. What are the limitations to strategic management? List and briefly explain them.

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UNIT 6: HIERARCHY OF STRATEGIC INTENT

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1.0 INTRODUCTION

In the last unit, we discussed the historical development of Strategic Management.

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

2.0 OBJECTIVES

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

- explain the concepts of strategic intent, stretch, leverage and fit;
- describe and exemplify the concept of vision and mission;
- explain the three dimension of business definition;
- evaluate quality of vision, mission statements and business definitions;
- describe business model and their relationship with strategy;
- describe the role and characteristics of objectives;
- explain the process of objective setting;
- distinguish between well-formulated and badly-formulated objectives;
- Discuss the role of critical success factors in setting objectives.

3.0 MAIN CONTENT

Strategic intent is a high-level statement of the means by which your organization will achieve its vision. It is a statement of design for creating a desirable future (stated in present terms). Putting it simple, a strategic intent is your company's vision of what it wants to achieve in the

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

3.1 Definition of Strategic Intent

By strategic intent, we refer to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. Broadly stated, these could be in the form of a vision and mission statement for the organisation as a corporate whole. At the business level of a firm these could be expressed as the business definition. When stated in precise terms, as an expression of the aims to be achieved operationally, these may be the goals and objectives. Here, we take the position that strategic intent lays down the framework within which firms would operate, adopt a predetermined direction, and attempt to achieve their goals. But the term 'strategic intent' has a definite meaning in strategic management. Let's first see the meaning and some associated concepts before we learn about the hierarchy of strategic intent.

3.1.1 Understanding Strategic Intent

Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession with an organisation – an obsession with having ambitious that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation while sustaining that obsession in the quest for global leadership. They explain the term 'strategic intent' like this. On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress.... At the same time, strategic intent is more than simply unfettered ambition.... The concept also encompasses an active management process that includes: focusing the organisation's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations.

Hamel and Prahalad quote several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intent – as evident from their path-breaking article, published in 1989 in the Harvard Business Review – seems to have been proposed by them to explain the lead taken by Japanese firms over their American and European counterparts. Yet, strategic intent has wider implications and carries a lot of meaning for the strategic management of firms. There is merit in their view as business groups and companies, which have aspired for global leadership can be found in the Indian context too (Azhar, 2002).

Overall, strategic intent points to what a firm should set out to achieve. The understanding of strategic intent is aided by two more important concepts that we shall see next.

3.1.2 Concepts of Stretch, Leverage and Fit

Subsequent to the idea of strategic intent, Hamel and Prahalad had added the dual concepts of 'stretch' and 'leverage'. Stretch is –a misfit between resources and aspirations (Hamel and Prahalad, 1989). Leverage refers to concentrating, accumulating, complementing, conserving, and recovering resources in such a manner that a meagre resource base can be stretched to meet the aspirations that an organisation dares to have. The idea of stretch is diametrically opposite to the idea of 'fit' that means positioning the firm by matching its organisational resources to its environment.

The strategic fit is central to the strategy school of positioning where techniques such as SWOT analysis are used to assess organisational capabilities and environmental opportunities. Strategy then becomes a compromise between what the environment has got to offer in terms of opportunities and the counteroffer that the organisation makes in the form of its capabilities. The ideas of stretch and leverage belong appropriately to the learning school of strategy where the capabilities are not seen as constraints to achieving, and the environment is perceived not as something which is considered as given but as something which can be created and moulded. You would appreciate that the idea of strategic intent could work in both cases though it might be perceptively different in terms of the levels at which aspirations are set. Under fit, the strategic intent would seem to be more realistic; under stretch and leverage it could be idealistic. Yet, in both cases, it is essentially a desired aim to be achieved. We can therefore define strategic intent as the hierarchy of intentions ranging from a broad vision through mission and business definition down to specific objectives and goals. Vision is at the top level of the hierarchy of strategic intent and that is what we try to understand in the next section.

3.2 Vision

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

Witness what Tata Steel says about its vision: –Tata Steel enters the new millennium with the confidence of learning, knowledge-based and happy organisation. We will establish ourselves as a supplier of choice by delighting our customers with our service and our products. In the coming decade, we will become the most cost competitive steel plant and so serve the community and the nation. A vision, therefore, articulates the position that a firm would like to attain in the distant future. Seen from this perspective, the vision encapsulates the basic strategic intent.

3.2.1 Understanding Vision

A vision is more dreamt of than it is articulated. This is the reason why it is difficult to say what vision an organisation has. Sometimes it is not even evident to the entrepreneur who usually

thinks of the vision. By its nature, it could be as hazy and vague as a dream that one experienced the previous night and is not able to recall perfectly in broad daylight. Yet it is a powerful motivator to action. And it is from the actions that a vision could often be derived (Azhar, 2002). Henry Ford wished to democratize the automobile when he visualized that an affordable vehicle could be available for the masses. Walt Disney probably wanted to make people happy.

3.2.2 Defining Vision

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

The common strand of thought evident in these definitions and several others available in strategic management literature relates to ‘vision’ being future aspirations that lead to an inspiration to be the best in one’s field of activity.

3.2.3 Benefits of Having a Vision

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

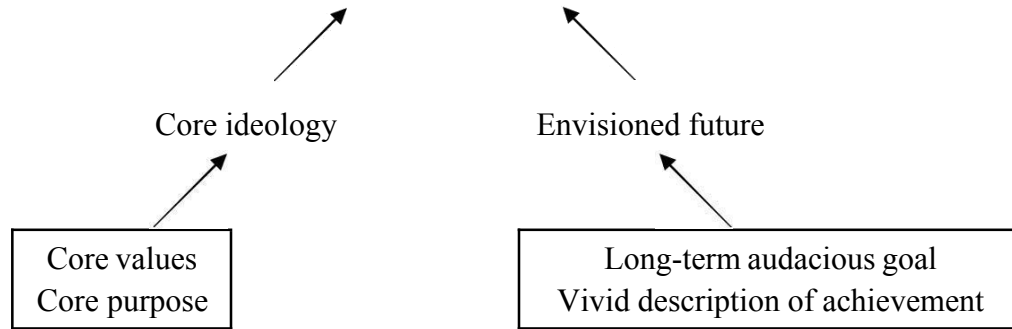
- are inspiring and exhilarating;
- represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be;
- help in the creation of a common identity and a shared sense of purpose;
- are competitive, original and unique. They make sense in the marketplace as they are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

3.2.4 The Process of Envisioning

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

Figure showing the Process of envisioning

Well-conceived vision



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

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

mission. **Self Assessment Exercise 1**

What is meant by 'strategic intent'?

What is your vision as an individual?

3.3 Mission

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

3.3.1 Understanding Mission

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

3.3.2 Defining Mission

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organisation. Thompson (1997) defines mission as the 'essential purpose of the organisation, concerning particularly why it is in existence, the nature of the business(es) it is in, and the customers it seeks to serve and satisfy' (). Hunger and Wheelen (1999) say that mission is the 'purpose or reason for the organisation's existence' ().

Now there is not much difference of opinion about the definition of mission. Yet, one finds instances of organisations confusing mission with vision or objectives. In strategic management literature, mission occupies a definite place as a part of strategic intent.

3.3.3 How are Mission Statements Formulated?

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

Major strategists could also contribute to the development of a mission statement. They do this informally by lending a hand in the creation of a particular corporate identity or formally through discussions and the writing down of a mission statement. Chief executives play a major role in formulating a mission statement both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management. Consultants may also be called upon to make an in-depth analysis of the organisation to suggest an appropriate mission statement. B.N. Sinha, (managing director of the Scientific Instrument Company Limited) who took the help of a management consultant in deciding his company's mission and purpose, describes the process of formulating a mission: —...as a starting point, we (i.e., the company managers, consultant and the chief executive) spent quite a bit of time on identifying our 'mission' of business... After a lot of discussion, we identified our mission as follows: to be a vibrant organisation set on contributing to the scientific and technical progress of the country; keeping its customers and employees satisfied in terms of service and work reward; giving adequate return on investment to the shareholders.

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

3.3.4 Characteristics of a Mission Statement

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

It should be feasible. A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable – its followers must find it to be credible. But feasibility depends on the resources available to work towards a mission.

It should be precise. A mission statement should not be so narrow as to restrict the organisation's activities nor should it be too broad to make itself meaningless. For instance, 'Manufacturing bicycles' is a narrow mission statement since it severely limits the organisation's activities, while 'mobility business' is too broad a term as it does not define the reasonable contour within which the organisation could operate.

It should be clear. A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organisations do adopt such statements but probably they do so for emphasizing their identity and character. To be useful, a mission statement should be clear enough to lead to action.

It should be motivating. A mission statement should be motivating for members of the organisation and of society, and they should feel it worthwhile working for such an organisation or being its customers. A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients. Customer service, therefore, is an important purpose for a banking institution.

It should be distinctive. A mission statement which is indiscriminate is likely to have little impact. If all textile manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But if one defines it as providing textiles that would provide 'value for money, for years' it will create an important distinction in the public mind.

It should indicate major components of strategy. A mission statement, along with the organisational purpose should indicate the major components of the strategy to be adopted. The mission statement should indicate a combination of stability, growth and diversification strategies in the future.

It should indicate how objectives are to be accomplished. Besides indicating the broad strategies to be adopted, a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished. The mission statement should deal with the objectives to be achieved within a given time period.

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

Self Assessment Exercise 2

What are the possible pitfalls of not having a vision for an organisation?

Define ‘mission’ in your own words.

Mention the characteristics of a good mission statement.

3.4 Business Definition

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

3.4.1 Defining Business

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

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

Wristwatches could be of different types, for example, ladies’, men’s, children’s, and sports watches. Ladies’ wristwatches could be either utility or ornamental watches.

Other types of watches could be timepieces, wall clocks, and pocket watches.

Other products could be an hourglass or a sundial.

Specialty watches could be video-timers, calculator watches, and car clocks.

Consumer non-durables could be time-punching machines and stopwatches.

Services could be telephone or teletext time services.

Other organisations which roughly meet the timekeeping needs could be, for instance, a church bell chiming at appointed hours, or a call to the faithful from mosques.

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

The functions which watches can perform, such as, providing the time, day, date, and direction.

Customer needs satisfied by actions like finding time, recording time, using watches as fashionable accessories, and presenting them as gift items.

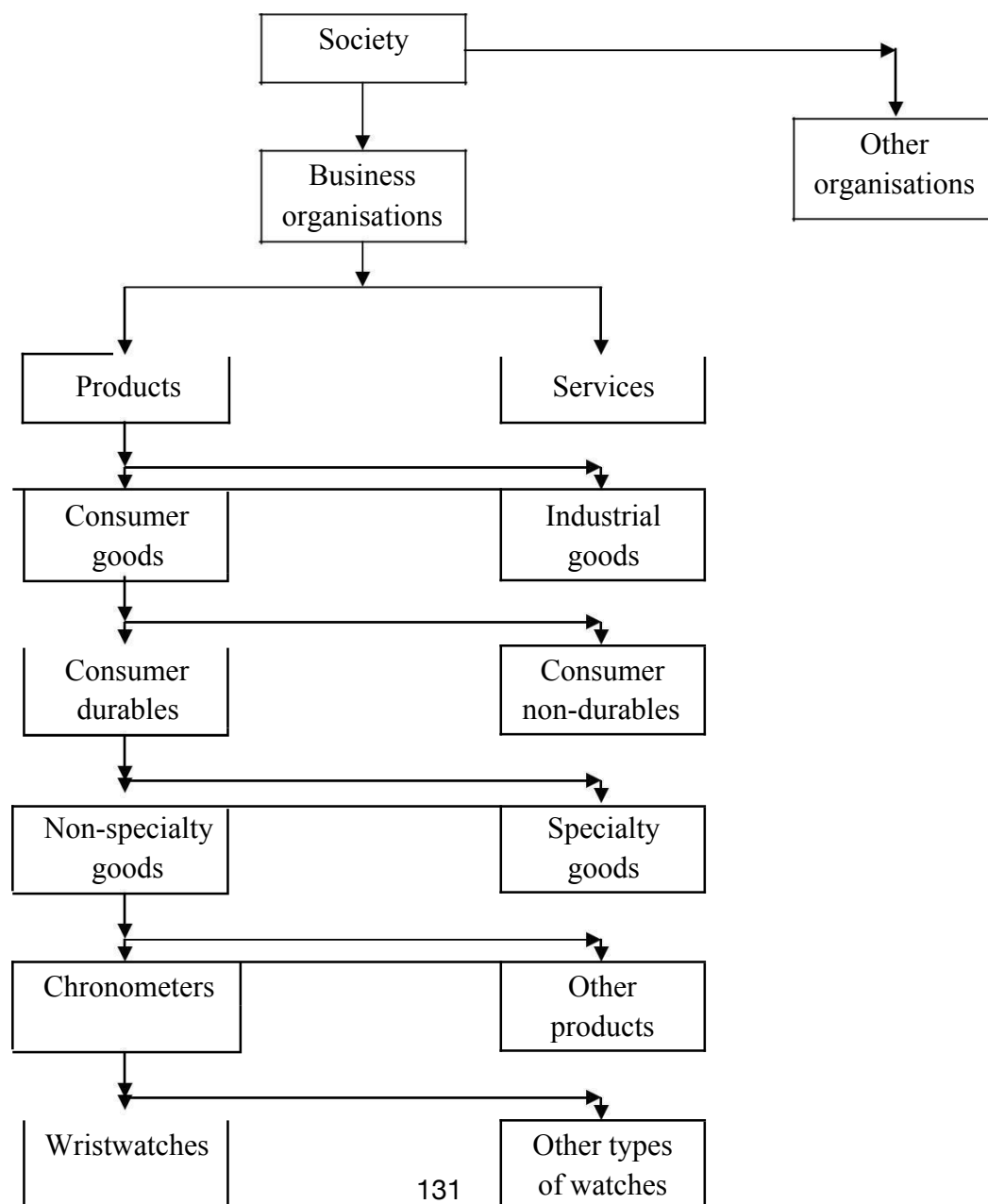
End usages, like, direct use by customers, and indirect use, as subassemblies in the form of watch and clock movements, by industry.

The technology used, based on mechanical, quartz digital or quartz analog manufacturing.

All the above options and variables are, however, relevant to the current ‘state of the art’. The timekeeping business could change radically if a breakthrough occurs any time in the future. For

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

Graphical Picture

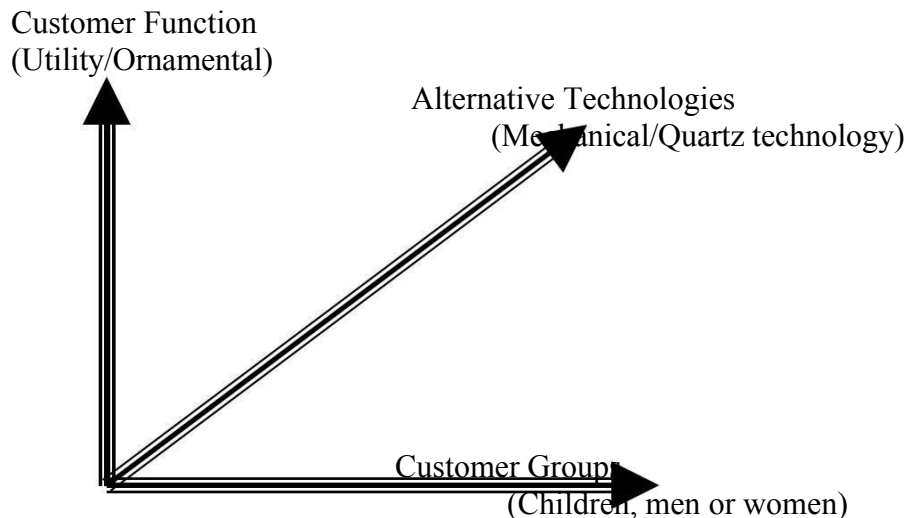


Drawing an example from the above graphical picture, it can be said that a particular company providing only ladies wristwatches of utility and ornamental types using the quartz analogue technology could define its business in one way. Another company, a government supplier, may choose to make mechanical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

3.4.2 Dimensions of Business Definition

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

Figure: Abell’s Three Dimensions for Defining a Business



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

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

Customers groups are individual customers and industrial users.

Customer functions are of finding time, recording time, using watches as a fashionable accessory, and as a gift item.

Alternative technologies are of the mechanical, quartz digital, and quartz analogue types.

Such a clarification helps in defining a business explicitly. A clear business definition is helpful for strategic management in many ways. For instance, a business definition can indicate the

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

3.4.3 Levels at which Business could be Defined

Like strategy, business could either be defined at the corporate-or SBU-levels. A single-business firm is active in just one area so its business definition is simple. A large conglomerate operating in several businesses would have a separate business definition for each of its businesses. Rather, as Hill and Jones (1998) suggest, a diversified company's business is to manage a collection of businesses. The important question here is how a corporate business adds value to the constituent businesses of that company.

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

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

The significance of Abell's approach to defining business lies in it being a marketing-and customer-oriented approach rather than a product-oriented approach. Thus, business definition offers unique insights to companies operating in a competitive market where the customer is an

important external stakeholder of the firm. Yet, product-orientation is also important as we shall see next.

Self Assessment Exercise 3

Explain the three dimensions of a business definition.

State the issues that are of importance to objective-setting.

Mention the characteristics of objectives.

3.4.4 Business Model

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

Colloquially, business models are often expressed in the form of a question: how does the organisation make money? E-newspapers are able to offer free Internet editions on account of the online advertisement revenues they earn from the advertisers. A *kirana dukan* (provision store) owner buys commodities and products at a price and then, applying a mark-up, sells them at retail prices thus earning revenue and profit. Budget airlines share certain features such as e-ticketing, no-frills service and uniformity in the types of planes used. Each of these organisations is using a particular business model.

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

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

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

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

3.5 The Product/Service Concept

Like the business definition, an explicit product/service concept could have far-reaching implications for strategic management. A product/service concept is the manner in which a company perceives its product or service. Such a perception is based on how the product or service provides functions that satisfy customer needs. A product/service concept, when defined carefully and innovatively, can prove to be of significant worth to strategists in different phases of strategic management. An explicit business definition and product/service concept are powerful tools for strategic management.

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

Self Assessment Exercise 4

What problems can an imprecise and unclear mission create for an organisation?
Identify the roles that objectives play in strategic management.

3.6 Goals and Objectives

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

Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals which are generalised. In this manner, objectives make the goals operational. While goals may be qualitative, objectives tend to be mainly quantitative in specification. In this way they are measurable and comparable.

In strategic management literature, there has been confusion with regard to the usage of these terms: goals and objectives. The meaning assigned to these terms is sometimes in contrast to what we have adopted here. Also, often they are used interchangeably. Goals connote the broader sense of the term objectives. However, we would prefer to use only the term objective to denote both. After all, it must be remembered that objectives are the manifestations of goals, whether quantified and specifically stated or not. Besides, it is more convenient to use one term rather than both every time one refers to a future state or the outcome of an effort.

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

3.6.1 Roles of Objectives

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

Objectives define the organisation's relationship with its environment. By stating its objectives, an organisation commits itself to what it has to achieve for its employees, customers and society at large.

Objectives help an organisation to pursue its vision and mission. By defining the long-term position that an organisation wishes to attain and the short-term targets to be achieved, objectives help an organisation in pursuing its vision and mission.

Objectives provide the basis for strategic decision-making. By directing the attention of strategists to those areas where strategic decisions need to be taken, objectives lead to desirable standards of behaviour and, in this manner, help to coordinate strategic decision-making.

Objectives provide the standard for performance appraisal. By stating the targets to be achieved in a given time period and the measures to be adopted to achieve them, objectives lay down the standards against which organisational as well as individual performance could be judged. In the absence of objectives, an organisation would have no clear and definite basis for evaluating its performance.

Managers who set objectives for themselves and their organisations are most likely to achieve them than those who do not specify their performance targets. The importance of the role that objectives play in strategic management could be aptly summed up in the truism: if one does not know where one has to go, any path will take one there.

3.6.2 Characteristics of Objectives

Objectives, as measures of organisational behaviour and performance, should possess certain desirable characteristics in order to be effective. Given below are seven such characteristics.

Objectives should be understandable. Because objectives play an important role in strategic management and are put to use in a variety of ways, they should be understandable to those who have to achieve them. A chief executive who says that 'something ought to be done to set things right' is not likely to be understood by his managers. Subsequently, no action will be taken, or even a wrong action might be taken.

Objectives should be concrete and specific. To say that our company plans to achieve a 12 percent increase its sales' is certainly better than stating that our company seeks to increase its sales'. The first statement implies a concrete and specific objective and is more likely to lead and motivate the managers.

Objectives should be related to a timeframe. If the first statement given above restated as our company plans to increase its sales by 12 percent by the end of two years', it enhances the specificity of the objective. If objectives are related to a timeframe, then managers know the duration within which they have to be achieved.

Objectives should be measurable and controllable. Many organisations perceive themselves as companies which are attractive to work for. If measures like the number and quality of job applications received, average emoluments offered, or staff turnover per year could be devised, it would be possible to measure and control the achievement of this objective with respect to comparable companies in a particular industry, and in general.

Objectives should be challenging. Objectives that are too high or too low are both demotivating and, therefore, should be set at challenging but not unrealistic levels. To set high sales targets in a declining market does not lead to success. Conversely a low sales target in a burgeoning market is easily achievable and, therefore, leads to a suboptimal performance.

Different objectives should correlate with each other. Organisations set many objectives in different areas. If objectives are set in one area disregarding the other areas such an action is likely to lead to problems. A classic dilemma in organisations, and a source of interdepartmental conflicts, is setting sales and production objectives. Marketing departments typically insist on a wider variety of products to cater to a variety of market segments while production departments generally prefer to have greater product uniformity in order to have economies of scale. Obviously, tradeoffs are required to be made so that different objectives correlate with each other, are mutually supportive, and result in synergistic advantages. This is especially true for organisations which are organised on a profit-centre basis.

Objectives should be set within constraints. There are many constraints – internal as well as external – which have to be considered in objective-setting. For example, resource availability is an internal constraint which affects objective-setting. Different objectives compete for scarce resources and tradeoffs are necessary for optimum resource utilisation. Organisations face many external constraints like legal requirements, consumer activism and environmental protection. All these limit the organisation's ability to set and achieve objectives.

In sum, objective-setting is a complex process. We will further examine a few issues relevant to objectives, in order to understand this complex process.

3.6.3 Issues in Objective-Setting

There are many issues which have a bearing on different aspects of objective-setting. Here we shall deal with six such issues (Azhar, 2002).

Specificity. Objectives may be stated at different levels of specificity. At one extreme, they might be very broadly stated as goals while at the other they might be specifically stated as targets. Many organisations state corporate as well as general, specific, functional, and operational objectives. Note that specificity is related to the organisational levels for which a set of objectives has been stated. The issue of specificity is resolved through stating objectives at different levels, and prefixing terms, such as, corporate, general and particular so that they serve the needs for performance and its evaluation.

Multiplicity. Since objectives deal with a number of performance areas, a variety of them have to be formulated to cover all aspects of the functioning of an organisation. No organisation operates on the basis of single or a few objectives. The issue of multiplicity deals with different types of objectives with respect to organisational levels (e.g. higher or lower levels), importance (e.g. primary or secondary), ends (e.g. survival or growth), functions (e.g. marketing or finance), and nature (e.g. organisational or personal). Another issue, related to multiplicity, is the number and type of objectives to be set. Too few or too many objectives are both unrealistic. Organisations need to set adequate and appropriate objectives so as to cover all the major performance areas.

Periodicity. Objectives are formulated for different time periods. It is possible to set long-term, medium-term and short-term objectives. Generally, organisations determine objectives for the long-and short-term. Whenever this is done, objectives for different time periods have to be integrated with each other. Long-term objectives are, by nature, less certain, and are therefore stated in general terms. Short-term objectives, on the other hand, are relatively more certain, specific, and comprehensive. One long-term objective may result in several short-term objectives; many short-term objectives converge to form a long-term objective. For example, a long-term objective may be continual profitability. Short-term objectives which support continual profitability may be the return on investment, profit margin, return on net worth, and so on, computed on an annual basis.

Verifiability. Each objective has to be tested on the basis of its verifiability. In other words, it should be possible for a manager to state the basis on which to decide whether an objective has been met or not. Only verifiable objectives can be meaningfully used in strategic management. Related to verifiability is the question of quantification. A definite way to measure any objective is to quantify it. But it may be neither possible nor desirable to quantify each and every objective. In such cases, qualitative objectives have to be set. These objectives could also be verified but not to the degree of accuracy possible for quantitative objectives. For example, a qualitative objective may be stated as – to create a congenial working environment within the factory. In order to make such an objective verifiable; the value judgement of informed experts – both insiders and outsiders – could be used. A few quantitative measures could also be devised which can serve as indicators of a congenial working environment. Some of these could be staff turnover, absenteeism, accident rates, productivity figures, and so forth. In general, it can be said that the issue of verifiability could be resolved through a judicious use of a combination of quantitative and qualitative objectives.

Reality. It is a common observation that organisations tend to have to sets of objectives – official and operative. Official objectives are those which organisations profess to attain while operative objectives are those which they seek to attain in reality. Probably no one would be in a better position to appreciate the difference between these two objectives than a harried client of a public sector bank who, on being maltreated by an arrogant bank employee, looks up to find a poster of a smiling and beautiful girl with folded hands looking down at him. The poster carries the caption: Customer service with a smile! Many organisations state one of their official objectives as the development of human resource.

But whether it is also an operative objective depends on the amount of resources allocated to human resource development.

Quality. Objectives may be both good and bad. The quality of an objective can be judged on the basis of its capability to provide a specific direction and a tangible basis for evaluating performance. An example of a bad objective is: 'To be the market leader in our industry'. It is insufficient with respect to its measurability. To restate the same objective as: 'To increase market share to a minimum of 40 percent of the total with respect to Product A over the period of the next two years and to maintain it thereafter' turns it into a good objective since it is specific, relates to performance, is measurable, and provides a definite direction.

Recapitulating what we have said in this and the previous subsection, it can be stated that objectives have a number of characteristics and a variety of issues are involved in setting those. The determination of objectives is, therefore, a complex task. Further, two important questions need to be asked: what objectives are to be chosen for achievement and how are they to be determined. We attempt to answer the first question in the following subsection and the second in the next.

3.6.4 What Objectives are Set?

To put it straight, objectives have to be set in all those performance areas which are of strategic importance to an organisation. In general, according to Drucker, objectives need to be set in the eight vital areas of *market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility*. A prescriptive approach, such as the one suggested by Drucker, is based on those strategic factors which are supposedly vital for all types of organisations. But in practice organisations differ widely with regard to the objectives that they choose to set.

Research studies, based on a survey of a large number of companies, too lead to a set of objectives that the companies determine for themselves. But even here, the list of objectives is more of a least common denominator rather than a true reflection of the objectives that the companies actually set for themselves. To illustrate this point, we shall consider one such study in the Indian context. B.R. Singh, who has studied 28 large companies, each having a turnover of more than Rs 50 crore at the time of the study, reports that the objectives were set in areas like:

- profit (return on investment, return on shareholder's capital, net profits as a percentage of sales);
- marketing (increase in sales volume, market development for existing products, new product development, reduction in marketing cost, improving customer service);
- growth (output, sales turnover, investment);
- employees (industrial relations, welfare and development);
- social responsibility (community service, rural development, auxiliary industry development, family welfare).

Consider the following examples of objective-setting by different types of organisations. We are not including the usual financial parameters used to judge performance to provide you with an idea of how the context could dictate the criteria for objective-setting.

Two wheeler companies can use measures of performance such as the number of vehicles manufactured per annum, market share in percent, level of indigenization achieved in percent, average cost per vehicle and fuel efficiency achieved in kilometers per litre. Advertising agencies set objectives in terms of billings achieved in rupees per year.

For steel manufacturing companies, a basic measure is the quantity of saleable steel, both in terms of installed capacity and actual production leading to capacity utilization in percent. Another operational measure is energy consumed per tonne of saleable steel.

Insurance companies may set objectives in terms of the number of policies executed, sum assured, and expense-income ratio. Social objectives could be measured in terms of the percentage of insurable population covered and an investment mix consisting of government securities, social schemes, and corporate securities.

Railways are basically concerned with objectives in the area of passenger traffic and freight handling. Passenger traffic is indicated by the volume of traffic handled in terms of the number of passengers and the number of seats and berths available. Freight traffic is in terms of the volume of traffic handled, expressed in weight and utilization percent of wagons and locomotives.

Hotels may set objectives in terms of the number of rooms available, occupancy rate, and cost per room. Subjective measures are maintaining the quality of hotel properties and the quality of customer service provided.

The question that now remains to be addressed is how are the objectives to be formulated. The next subsection takes up this issue.

3.6.5 How are Objectives Formulated?

From the foregoing discussion, it is clear that organisations need to set objectives at different levels, of various types and for different time periods, and that such objectives should possess certain desirable characteristics and should resolve certain issues before being used. The question that we now face is: how are objectives formulated? For an answer, we shall consider the factors that have to be taken into account for the formulation of objectives.

Glueck identifies four factors that should be considered for objective-setting. These factors are: *the forces in the environment, realities of an enterprise's resources and internal power relationships, the value system of top executives, and awareness by management of the past objectives of the firm*. Here is a description of each of these factors.

The forces in the environment. These take into account all the interests – sometimes coinciding but often conflicting – of the different stakeholders in an organisation. Each group of stakeholders, whether they are company employees, customers, or the government, put forward a set of claims or have expectations that have to be considered in setting

objectives. It is important to note that the interests of various stakeholders may change from time to time, necessitating a corresponding shift in the importance attached to different objectives.

Realities of enterprise's resources and internal power relationships. This means that objective are dependent on the resource capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resources, both material and human, place restrictions on the objective-achieving capability of the organisation and these have to be considered in order to set realistic objectives. Internal power relationships have an impact on objectives in different ways. A dominant group of strategists such as the board of directors, or an individual strategist, such as, a chief executive, may wield considerable power to set objectives in consonance with their respective views. Again, since power configurations within a firm are continually changing, the relative importance attached to different objectives may also vary over a period of time.

The value system of the top executives. This has an impact on the corporate philosophy that organisations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or undesirable. This applies to the choice of objectives too. for example, entrepreneurial values may result in prominence being given to profit objectives while a philanthropic attitude and values of social responsibility may lead to the setting of socially-oriented objectives.

Awareness by management. Awareness of the past objectives and development of a firm leads to a choice of objectives that had been emphasized in the past due to different reasons. For instance, a dominant chief executive lays down a set of objectives and the organisation continues to follow it, or deviates marginally from it in the future. This happens because organisations do not depart radically from the paths that they had been following in the recent past. Whatever changes occur in their choice of objectives take place incrementally in an adaptive manner.

Keeping in view the four factors described above, we observe that objective-setting is a complex task which is based on consensus- building and has no precise beginning or end. Vision and mission provide a 'common thread' to bind together the different aspects of the objective-setting process by providing a specific direction along which an organisation can move.

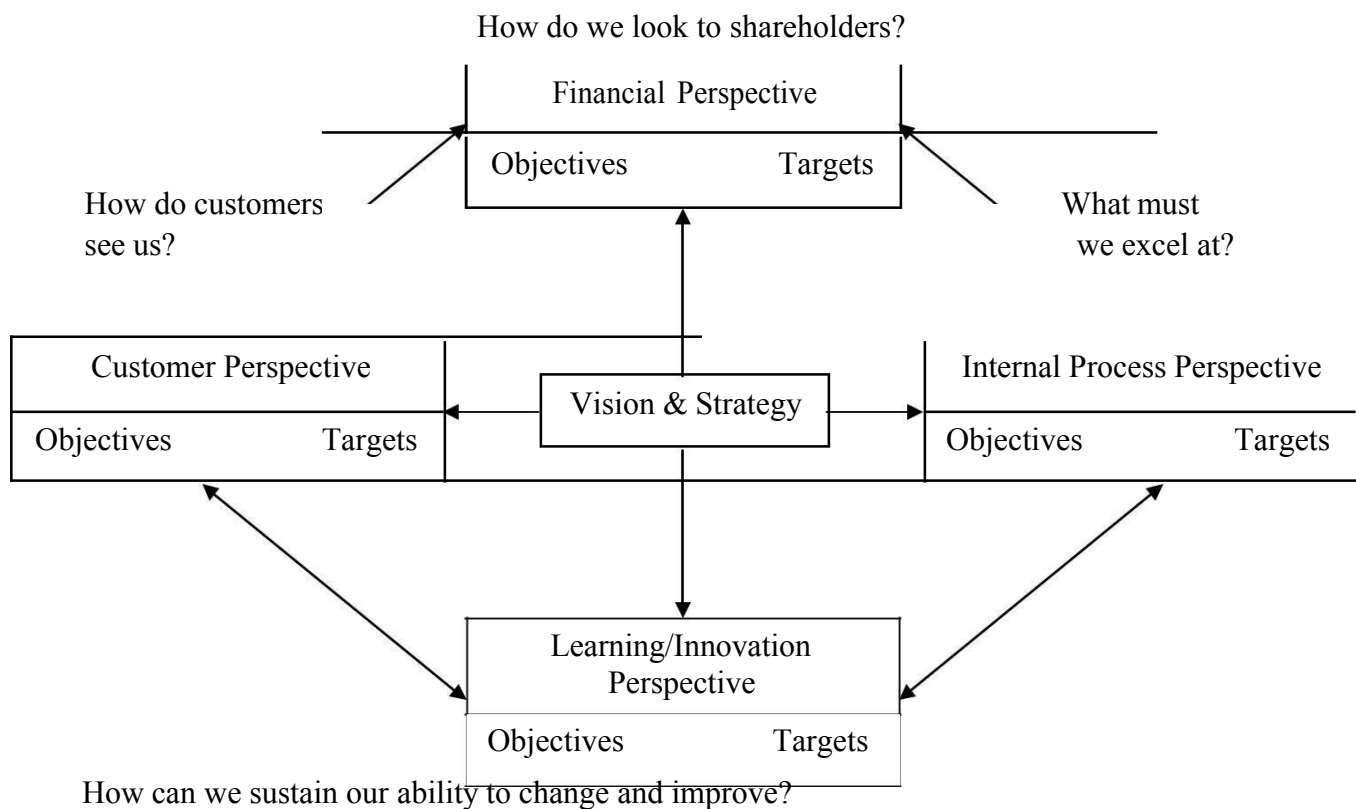
There is enough practical evidence to suggest that strategists do not, in reality, follow a well-balanced, integrated, and comprehensive approach to objective -setting. In fact, they might start with asking the question: what do we have to achieve in order to be successful in our business? The next subsection takes up this question for discussion.

3.6.6 Balanced Scorecard Approach to Objectives-setting

The performance management system called balanced scorecard, developed by Robert S. Kaplan and David Norton of Harvard Business School, seeks to do away with the undue emphasis on short-term financial objectives and seeks to improve organizational performance by focusing

attention on measuring and managing a wide range of non-financial, operational objectives. Later, the system application was enlarged to include its usage as a comprehensive strategic planning technique. In doing so, the balance scorecard approach advocates a top-down approach to performance management, starting with strategic intent being expressed through the organisation, down to operationally relevant targets ().

Figure shows the Balance Scorecard Model.



Source: Based on R.S. Kaplan and D.P. Norton, *The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment*, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan and D.P. Norton, *The Balanced Scorecard: Translating Strategies into Action*, Boston, Harvard Business School Press, 1996.

The balance scorecard model requires an evaluation of organizational performance from four different perspectives.

Financial Perspective. This perspective considers the financial measures arising from the strategic intent of the organisation. Examples of such measures are revenues, earnings, return on capital and cash flow.

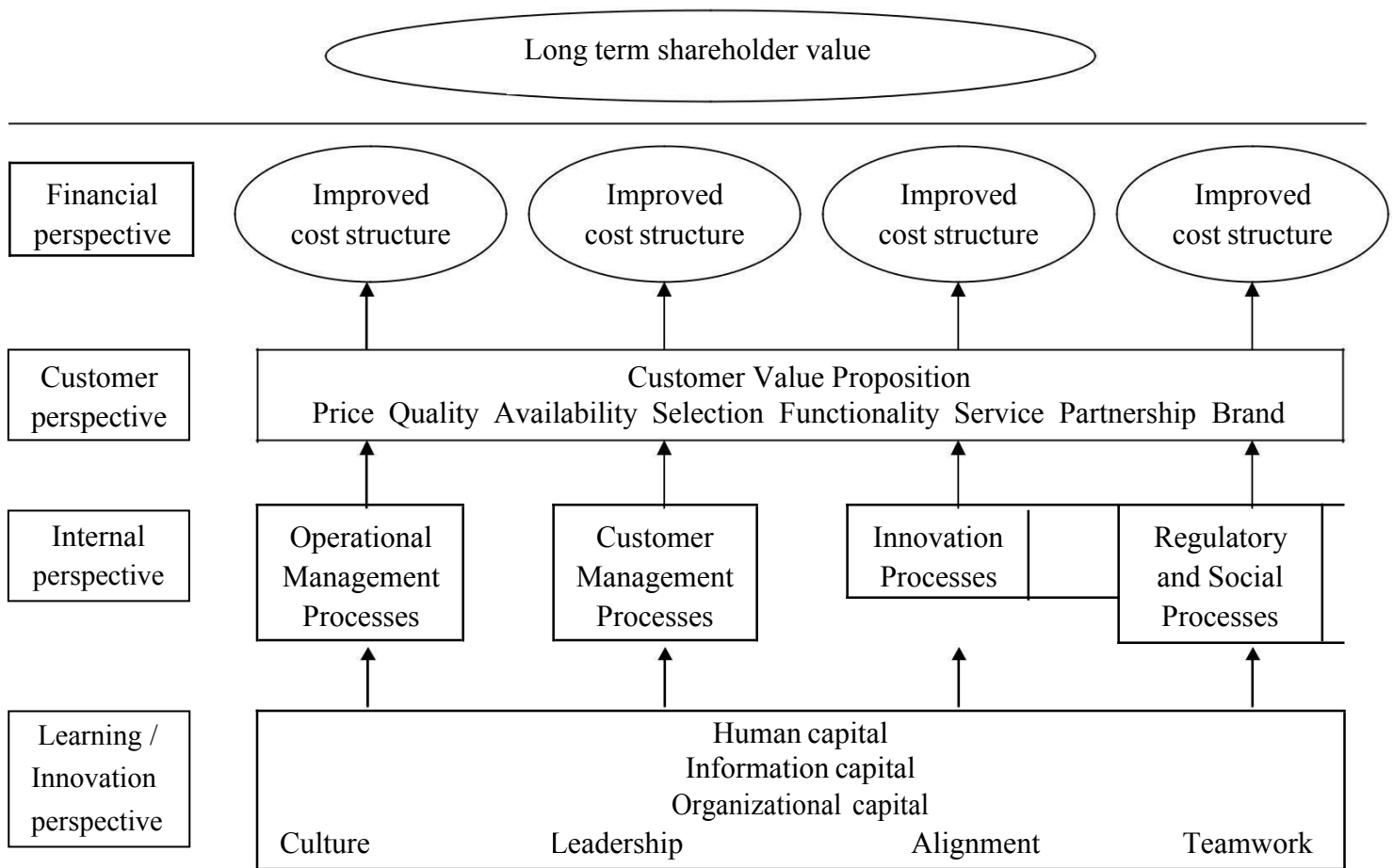
Customer Perspective. This perspective measures the ability of the organisation to provide quality goods and services, effective delivery and overall customer satisfaction. Examples of such measures are market share, customer satisfaction measures and customer loyalty.

Internal Businesses Perspective. Internal business processes are the mechanisms through which performance expectations are achieved. The internal business perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organizational objectives and customers expectations, organisations must identify the key business processes at which they must excel. Examples of such measures are productivity indices, quality measures and efficiency.

Learning and Growth Perspective. This perspective focuses on the ability of the organisation to manage its businesses and adapt to change. In order to face the challenges of changes in the environment and customer expectations, organisations take on new responsibilities that require its employees to develop new skills and capabilities. Examples of such measures are morale, knowledge, employee turnover, usage of best practices, share of revenue from new products and employee suggestions.

Kaplan and Norton used the technique of strategy maps that provide a visual representation of the organisation's strategy. In such maps, the four perspectives were connected to each other in a _cause and effect' fashion, thus making clear the relationship of all the strategic objectives to the strategic intent of the organisation. A typical strategic map is shown in the figure below.

Figure showing a typical strategy map



Source: Based on R.S. Kaplan and D.P. Norton. The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan and D.P. Norton, The Balanced Scorecard: Translating Strategies into Action, Boston, Harvard Business School Press, 1996.

The purpose here is to note that objective-setting can use the balanced scorecard approach. The four perspectives above can help an organisation to set objectives. The utility of the balanced scorecard approach lies in the prioritisation of key strategic objectives that can be allocated to each of these four perspectives and the identification of associated measures that can be used to evaluate organizational progress in meeting the objectives.

In practice, the balanced scorecard approach works something like this:

The development of the scorecard begins with the establishment of the organisation's strategic intent, including the vision and mission.

Next, the design of the balanced scorecard is determined by identifying the specific measures related to the four perspectives.

The following step involves mapping the strategy through the identification of organizational activities that are derived from the strategies. For example, achieving financial growth may be expressed in terms of sales growth and revenue growth.

In the final stage, metrics that can be used to accurately measure the performance of the organisation in the specific areas are established. In the example above, metrics for revenue growth may be expressed in terms of sales to new customers, sales of new services or products or entry into new markets.

There is enough practical evidence to suggest that strategists do not, in reality, follow a well-balanced, integrated and comprehensive approach to objective-setting. In fact, they might start with asking the question: what do we have to achieve in order to be successful in our business? The next subsection takes up this question for discussion.

3.7 Critical Success Factors

Many of us occasionally ask ourselves questions like: What do we need to do in order to be successful in our studies? our career? our profession? our marriage? Similarly, managers too are concerned about identifying those critical factors which will lead to success for their organisations. Critical success factors (CSFs), sometimes referred to as strategic factors or key factors for success, are those which are crucial for organisational success. When strategists consciously look for such factors and take them into consideration for strategic management, they are likely to be more successful, while putting in relatively lesser effort.

Some of the important points that can be used in objective-setting as well as for exercising a strategic choice relative to critical success factors are:

A set of CSFs results from asking the question: what do we need to do in order to be successful in a particular context?

CSFs are based on practical logic, heuristic, or a rule of thumb rather than an elaborate procedure or an esoteric theoretical model.

CSFs are the result of long years of managerial experience, which leads to the development of intuition, judgement and a hunch that can be used in strategic decision-making.

An analysis of what relevant CSFs operate in a particular context could be based on the manager's statements, expert opinions and organisational success stories.

CSFs could also be generated internally through creative techniques such as brainstorming.

The use of CSFs in objective-setting and strategic choice distinguishes the successful organisations from the unsuccessful ones.

CSFs are used to pinpoint the key result areas, determining objectives in those areas, and devising measures of performance for judging the objective-achieving capability of any organisation.

Having seen what CSFs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. This is the subject matter of the last subsection in this unit. The binding together of the different levels of the hierarchy of strategic intent is facilitated by techniques such as the balanced scorecard that we would discuss next. CSFs need key performance indicators in order to be measured.

3.8 Key Performance Indicators (KPIs)

Performance indicators are well understood as being metrics or measures in terms of which performance is measured, evaluated or compared. Key performance indicators (KPIs) are the metrics or measures in terms of which the critical success factors are evaluated. What makes the KPIs ‘key’ is their relationship to the CSFs and ultimately, to the vision of the organisation. An organisation might have the vision ‘to be the most profitable company in our industry’. For making this vision operational, it needs to determine KPIs such as pre-tax profit or shareholder equity that measure profitability. In the case of this organisation, the percent of profit contributed to community causes will not be a relevant KPI. For an organisation, that states its vision ‘to be a responsible corporate citizen’ the KPI of percent of profit contributed to community causes is appropriate.

Identification of which KPIs to use is important. A shoe manufacturing company that considers high manufacturing quality or cost efficiency as its critical success factors, has to think of metrics in terms of which it will measure these parameters. High manufacturing quality will have to be expressed in terms of an indicator such as recall rate after delivery, product reject rate, on-time delivery or number of complaints. The company has to determine which combination of metrics it would use to determine whether it is successful. KPIs thus help to quantify the critical success factors.

Selecting the right measures is vital for effectiveness. Even more importantly, the metrics must be built into a performance measurement system that allows individuals and groups to understand how their behaviours and activities are fulfilling the overall corporate goals. If a KPI is going to be of any value, there must be a way to accurately define and measure it. ‘To Generate More Repeat Customers’ may apparently seem to be impressive as an objective, but it could be inappropriate as a KPI without some way to distinguish between new and repeat customers. ‘To Be The Most Popular Company’ may not work if there is no way to measure the company’s popularity or compare it to its competitors. If a company wishes to be ‘an employer of choice’ then a relevant KPI might be ‘the number of voluntary resignations divided by the total number of employees at the beginning of the measurement period’. To make this KPI practical, the human resource management information system should be able to provide information required to measure on the basis of this metrics, otherwise the KPI itself becomes redundant.

3.8.1 Benefits of KPIs

KPIs have gained importance as well as popularity in the corporate world as they have several benefits. The major benefit in using KPIs is to help an organisation define and measure progress toward its objectives. KPIs give everyone in the organisation a clear picture of what is important and what they need to do to accomplish objectives. They are a helpful tool for organisations to motivate their employees towards achievement of its objectives. KPIs are applied in business intelligence to gauge business trends. Developments in the areas of business intelligence and business performance management are enabling the development of sophisticated information technology based tools such as dashboards that show organizational performance at a glance, in the form of visual charts and videos. KPIs can also be used for benchmarking the performance of an organisation over time and to compare its performance with rivals in the same industry.

Having seen what CSFs and KPIs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. An explicit structuring of the hierarchy of a strategic intent has important implications for strategic management. First, it serves as a charter of aims the organisation plans to achieve. Second, it is helpful in laying down the aims of different subsystems within an organisation. Third, it is a powerful means of communicating the organizational intent down the line. And, lastly, it ensures the creation of a result-oriented organizational system set to attain the mission and realise the vision of the organization. With the hierarchy of strategic intent, the organisation knows the answer to the question: What is to be achieved? The next important question is: What are the means to be adopted in order to realise the intent? The next part of this course will answer this question.

Summary – business models are often expressed in the form of a question: how does the organisation make money? Strategic result in choices; a business model can be used to help analyse and communicate these strategic choices. Business models are down-to-earth prescriptions to implement the strategies.

Self Assessment Exercise 5

Propose the factors that should be taken into account while setting objectives.

Why are critical success factors ‘critical’?

Point out the similarity, if any, between the critical factors (CSF) approach and the management by exception technique.

To what different uses can CSFs be put in strategic management?

Self Assessment Exercise 6

Formulate a mission statement for your business, school or for the organisation you work for. Only verifiable objectives can be used meaningfully in strategic management. Why?

Self Assessment Exercise 7

State any two objectives, which, in your opinion are of bad quality. Now alter them in such a way that their quality improves.

In what terms can a power corporation set its objectives? a business school? a graduate aspiring for admission to an MBA programme?

Why can parameters such as shareholder value, economic value-added or market value-added be better for objective setting?

4.0 CONCLUSION

Organisational performance is judged on the basis of key result areas which depend on an analysis of critical success factors for any organisation. The various components of strategic intent, as we know, are set at different levels. When placed at different levels and linked to each other, strategic intent takes the shape of a hi

5.0 SUMMARY

In this unit, we have defined the concept strategic intent; differentiated between vision, mission statement and business definition; explained product/service concept; distinguished between goals and objectives; discussed critical success factors and explained the concept key performance indicators (KPIs).

6.0 TUTOR-MARKED ASSIGNMENT

1.0 Discuss the manner in which these concepts aid our understanding of strategic management.

2.0 A vision is too abstract to be of any practical value'. Do you agree with this statement? Why?

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MODULE 3 STRATEGY FORMULATION

Unit 1	Basic Models of Strategic Management
Unit 2	Environmental Appraisal
Unit 3	Organizational Appraisal
Unit 4	Hierarchical Levels of Strategy

UNIT 1 BASIC MODEL OF STRATEGIC MANAGEMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Strategic Management
 - 3.1.1 Environmental Scanning
 - 3.1.2 Strategy Formulation
 - 3.1.3 Strategy Implementation
 - 3.1.4 Evaluation and Control
 - 3.1.5 Initiation of Strategy: Triggering Events
 - 3.1.5 Strategic Decision Making
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last module, we introduced you to corporate strategy, strategic decision-making, strategic management and its process and hierarchy of strategic intent.

In this unit, you will learn about the basic model of strategic management. These basic elements are: environmental scanning, strategy formulation, strategy implementation, evaluation and control, initiation of strategy and strategic decision making.

2.0 OBJECTIVES

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

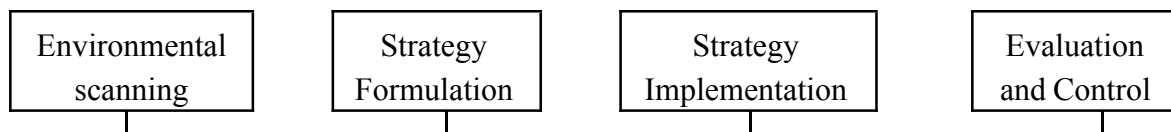
- discuss environmental scanning;
- define and explain strategy formulation and implementation;
- explain the terms evaluation and control;
- distinguish between initiation of strategy and strategic decision making.

3.0 MAIN CONTENT

3.1 Strategic management has now evolved to the point that its primary value is in helping the organisation operate successfully in a dynamic, complex environment (Gebelein, 1993). Managers at all levels are expected to continually analyze the industry in order to create or modify strategic plans throughout the year.

To be competitive in dynamic environments, corporations have to become less bureaucratic and more flexible. In stable environments such as have existed in years past, a competitive strategy simply involved defining a competitive position and then defending it. As it takes less and less time for one product or technology to replace another, companies are finding that there is no such thing as a permanent competitive advantage.

Figure 1: Basic Elements of the Strategic Management Process



Source: Basic Concepts of Strategic Management (Gebelein, 1993), p. 9

3.1.1 Environmental Scanning

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors – those external and internal elements that will determine the future of the corporation. The simplest way to conduct environmental scanning is through SWOT Analysis. SWOT is an acronym used to describe those particular strengths, weaknesses, opportunities and threats that are strategic factors for a specific company. The external environment consists of variables (Opportunities and Threats) that are outside the organisation and not typically within the short-run control of top management. These variables form the context within which the corporation exists. The figures below depict key environmental variables. They may be general forces and trends within the overall societal environment or specific factors that operate within an organisation's specific task environment – often called its industry. The **internal environment** of a corporation consists of variables (Strengths and Weaknesses) that are within the organisation itself and are not usually within the short-run control of top management. These variables form the context in which work is done. They include the corporation's *structure*, *culture* and *resources*. Key strengths form a set of *core competencies* which the corporation can use to gain competitive advantage.

Self Assessment Exercise

What do you understand by environmental scanning in strategic management?

3.1.2 Strategy Formulation

Strategy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in the light of corporate strengths and weaknesses. It includes defining the corporate *mission*, specifying achievable *objectives*, developing *strategies*, and setting *policy* guidelines.

Mission – An organisation's mission is the purpose or reason for the organisation's existence. It tells what the company is providing to the society – either a service like house cleaning or a product like automobiles. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served. It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but what it wants to become – management's strategic vision of the firm's future. The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company's task environment. It *tells who we are and what we do as well as what we would like to become*. One example of a mission statement is that given by the National Open University of Nigeria. It specifies that:

Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation's mission.

The term –goal is often used interchangeably with the term –objective. There is need to differentiate the two terms. In contrast to an objective, a goal is considered as an open-ended statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion. For example, a simple statement of –increased profitability is thus a goal, not an objective, because it does not state how much profit the firm wants to make in the next trading year. Some of the areas in which a corporation might establish its goals and objectives are:

- Profitability (net profits)
- Efficiency (low costs, etc.)
- Growth (increase in total assets, sales, etc.)
 - Shareholder wealth (dividends plus stock price appreciation)
- Utilisation of resources (ROE or ROI)
- Reputation (being considered a –top firm)
- Contributions to employees (employment security, wages, diversity)
 - Contributions to society (taxes paid, participation in charities, providing a needed product or service)
- Market leadership (market share)
 - Technological leadership (innovations, creativity)
- Survival (avoiding bankruptcy)
- Personal needs of top management (using the firm for personal purposes, such as providing jobs for relatives).

Strategies – A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximises competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business, and functional.

Corporate strategy describes a company's overall direction in terms of its general attitude toward growth and the management of its various businesses and product lines. Corporate strategies typically fit within the three main categories of stability, growth and retrenchment.

Business strategy usually occurs at the business unit or product level, and it emphasises improvement of the competitive position of a corporation's products or services in the specific industry or market segment served by that business unit. Business strategies may fit within the two overall categories of competitive or cooperative strategies.

Functional strategy is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximising resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

The figure below shows a typical hierarchy of strategy.



A hierarchy of strategy is the grouping of strategy types by level in the organisation. This hierarchy of strategy is a nesting of one strategy within another so that they complement and support one another. Functional strategies support business strategies, which, in turn, support the corporate strategy (ies).

Policies – A policy is a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives, and strategies.

Self Assessment Exercise

Briefly state the differences between business, corporate and functional strategies.

3.1.3 Strategy Implementation

Strategy implementation is the process by which strategies and policies are put into action through the development of programs, budgets and procedures. This process might involve changes within the overall culture, structure, and/or management system of the entire organisation. Except when such drastic corporate-wide changes are needed, however, the implementation of strategy is typically conducted by middle and lower level managers with review by top management. Sometimes referred to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation.

Programs – A program is a statement of the activities or steps needed to accomplish a single-use plan. It makes the strategy action-oriented. It may involve restructuring the corporation, changing the company's internal culture, or beginning a new research effort.

Budgets – A budget is a statement of a corporation's programs in terms of Naira. Used in planning and control, a budget lists the detailed cost of each program. Many corporations demand a certain percentage return on investment, often called a –hurdle rate, before management will approve a new program. This ensures that the new program will significantly add to the corporation's profit performance and thus build shareholder value. The budget thus not only serves as a detailed plan of the new strategy in action, it also specifies through pro forma financial statements the expected impact on the firm's financial future.

Procedures – Procedures, sometimes termed Standard Operating Procedures (SOP), are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete the corporation's program.

Self Assessment Exercise

What are the processes through which strategies are implemented in a business organisation?

3.1.4 Evaluation and Control

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

For evaluation and control to be effective, managers must obtain clear, prompt, and unbiased information from the people below them in the corporation's hierarchy. Using this information, managers compare what is actually happening with what was originally planned in the formulation stage. The evaluation and control of performance completes the strategic management model. Based on performance results, management may need to make adjustment in its strategy formulation, in implementation, or in both.

3.1.5 Initiation of Strategy: Triggering Events

Mintzberg (1976), after much research, discovered that strategy formulation is typically not a regular, continuous process. According to him, –it is most often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of grouping, of piecemeal change, and of global change. This view of strategy formulation as an irregular process can be explained by the very human tendency to continue on a particular course of action until something goes wrong or a person is forced to question his or her actions. This period of –strategy drift may simply result from inertia on the part of the organisation or may simply reflect management's belief that the current strategy is still appropriate and needs only some –fine-tuning.

A triggered event is something that acts as a stimulus for a change in strategy. Some possible triggering events are:

New CEO – By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation's existence.

External intervention – The firm's bank suddenly refuses to approve a new loan or suddenly demands payment in full on an old one.

Threat of a change in ownership – Another firm may initiate a takeover by buying the company's common stock.

Performance gap – A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.

3.2 Strategic Decision Making

The distinguishing characteristic of strategic management is its emphasis on strategic decision making. As organisations grow larger and more complex with more uncertain environments, decisions become increasingly complicated and difficult to make. Unlike many other decisions, strategic decisions deal with the long-run future of the entire organisation and have three characteristics, namely:

Rare – strategic decisions are unusual and typically have no precedent to follow.

Consequential – strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.

Directive – strategic decisions set precedents for lesser decisions and future actions throughout the organisation.

Some strategic decisions are made in a flash by one person (often an entrepreneur or a powerful chief executive officer) who has a brilliant insight and is quickly able to convince others to adopt his or her idea. Other strategic decisions seem to develop out of a series of small incremental choices that over time push the organisation more in one direction than another. Mintzberg's (1976) states that the most typical approaches, or modes, of strategic decision making are:

Entrepreneurial mode: Strategy is made by one powerful individual. The focus is on opportunities; problems are secondary. Strategy is guided by the founder's own vision of direction and is exemplified by large, bold decisions. The dominant goal is growth of the corporation.

Adaptive mode: Sometimes referred to as —muddling through, this decision making mode is characterised by reactive solutions to existing problems, rather than a proactive search for new opportunities. Much bargaining goes on concerning priorities of objectives. Strategy is fragmented and is developed to move the corporation forward incrementally. This mode is typical of most universities, many large hospitals, a large number of governmental agencies, and a surprising number of large corporations.

Planning mode: This decision making mode involves the systematic gathering of appropriate information for situation analysis, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy. It includes both the proactive search for new opportunities and the reactive solution of existing problems.

Logical incrementalism: In some instances, a corporation might follow this approach, which is a synthesis of the planning, adaptive, and, to a lesser extent, the entrepreneurial modes of strategic decision making. For example, the top management might have a clear idea of the corporation's mission and objectives, but, in its development of strategies, it chooses to use –an interactive process in which the organisation probes the future, experiments and learns from a series of partial (incremental) commitments rather than through global formulations of total strategies. This approach appears to be useful when the environment is changing rapidly and when it is important to build consensus and develop needed resources before committing the entire corporation to a specific strategy.

The following steps could be taken to improve the making of strategic decisions:

Evaluate current performance results in terms of (a) return on investment, profitability, and so forth, and (b) the current mission, objectives, strategies, and policies.

Review corporate governance, that is, the performance of the firm's board of directors and top management.

Scan and assess the external environment to determine the strategic factors that pose opportunities and threats.

Scan and assess the internal corporate environment to determine the strategic factors that are strengths (especially core competencies) and weaknesses.

Analyse strategic (SWOT) factors to (a) pinpoint problem areas, and (b) review and revise the corporate mission and objectives as necessary.

Generate, evaluate, and select the best alternative strategy in the light of the analysis conducted in (5) above.

Implement selected strategies via programs, budgets and procedures.

Evaluate implemented strategies via feedback systems, and the control of activities to ensure their minimum deviation from plans

4.0 CONCLUSION

The discussion in this unit dwelt extensively on the basic models of strategic management which included environmental scanning, strategy formulation, strategy implementation and evaluation and control. We also discussed initiation of strategy, modes to strategic decision making and strategic decision making process.

5.0 SUMMARY

In this unit, we have discussed environmental scanning; defined and explained strategy formulation and implementation; explained the terms evaluation and control; distinguished between initiation of strategy and strategic decision making. .

6.0 TUTOR-MARKED ASSIGNMENT

Why are strategic decisions different from other kinds of decisions?

When is the planning mode of strategic decision making superior to the entrepreneurial and adaptive modes?

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UNIT 2 ENVIRONMENTAL APPRAISAL

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1.0 INTRODUCTION

In this unit, we discussed environmental scanning; defined and explained strategy formulation and implementation; explained the terms evaluation and control; and distinguished between initiation of strategy and strategic decision making.

In this unit, we shall examine environmental appraisal and this study will take us through to the concept of environment, classification of environment, SWOT analysis, environmental sectors and scanning as well as appraisal of the environment.

2.0 OBJECTIVES

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

- define the concept environment as it relates to business organisation;
- distinguish between external and internal environment;
- discuss SWOT analysis;
- differentiate between general and relevant environment;
- define and explain the concept environment sectors;
- Discuss environmental scanning and appraisal of the environment.

3.0 MAIN CONTENT

The environment in which an organization exists could be broadly divided into two parts: the external and the internal environment. In this unit, we shall deal with the appraisal of the external environment. We shall start with attaining an understanding of the concept of environment. This will be done through: a description of four important characteristics of the

environment, dividing the environment into its external and internal parts, observing how systematic approach like SWOT analysis can help in environmental appraisal, and classifying the external environment into two parts – the general and the relevant environment.

Next, we see how the external environment – especially that part which is more relevant to an organization – can be divided into different components. For the purpose of understanding and analysis, we have discussed eight components of the external environment: the market, technological, supplier, economic, regulatory, political, socio-cultural, and international environment. In the third section of this unit, we dealt with environmental scanning – the process through which strategists monitor the external environment and collect information for strategy formulation, and the methods and techniques for environmental scanning. Lastly, we describe the manner in which environmental appraisal takes place. We have pointed out the various factors that affect environmental scanning, how environmental issues can be identified, and the way in which environmental appraisal can be structured.

3.1 Concept of Environment

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is –the aggregate of all conditions, events and influences that surround and affect itll (). Since the environment influences an organization in multitudinous ways, it is of crucial importance to understand it. The concept of environment can be understood by looking at some of its characteristics.

3.1.1 Characteristics of Environment

Business environment (or simply environment) exhibits many characteristics. Some of the important, and obvious, characteristics are briefly described here.

Environment is complex. The environment consists of a number of factors, events, conditions, and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex phenomenon relatively easier to understand in parts but difficult to grasp in its totality.

Environment is dynamic. The environment is constantly changing in nature. Due to the many and varied influences operating; there is dynamism in the environment, causing it to change its shape and character continuously.

Environment is multi-faceted. What shape and character an environment will assume depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is seen frequently when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

Environment has a far-reaching impact. The environment has a far-reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization in several different ways.

Since the environment is complex, dynamic, multi-faceted, and has a far-reaching impact, dividing it into external and internal components enables us to understand it better. But before we do that it is important to understand that strategic management is becoming increasingly conscious of the nature that affects organisations and environment.

The traditional approach to strategic management has led to an emphasis on control, order, and predictability. But these are antithetical to the concept of organisations and environment as we now realize. The organisation and the environment are, in reality, more unpredictable, uncertain, and non-linear. The exhibit below presents an overview of the chaos theory and its application to strategic management.

Exhibit Chaos Theory in Strategic Management

Chaos theory, as proposed by Edward Lorenz and Mitchel Feigenbaum, postulates that at the root of all complex systems – whether they are organisations or the environment – lies a set of rules that provide a dynamic order to the surface complexity. These systems cannot be considered as linear systems where a simple cause- and-effect model can explain the behaviour of these systems. Rather, these systems are non-linear and dynamic in nature. Any change that takes place in the non-linear systems is chaotic. Chaos theory uses mathematical models, known as chaotic models, to interpret the process of non-linear and dynamic systems. The phenomenon of chaos is observed in a wide variety of processes – biological, sociological, economic, and meteorological. The applications of chaos theory in management may range from predicting market behaviour, financial forecasting, and anticipating competitive strategies. Organisations and environments, as these are also dynamic, ever-changing systems, display some of the characteristics of the living ecosystems making it possible to apply the tenets of chaos theory to them.

While suggesting the use of chaos theory to strategic management, D. Levy gives the following reasons:

- Long-term planning is difficult;
- Industries do not reach a stable equilibrium;
- Dramatic changes can occur unexpectedly;
- Short-term forecasts and predictions of patterns can be made;
- Guidelines are needed to cope with complexity and uncertainty.

The lesson that students of strategic management need to learn is that, in a dynamic environment, it is suicidal for organisations to remain static. They have to forego keeping an internal orientation and attempt to change dynamically as the environment changes.

Source: D. Levy, —Chaos theory and strategy: Theory, application and managerial implications, Strategic Management Journal, Vol. 13, 1992, pp. 111-125; D.N. Chorafas: Chaos Theory in the Financial Markets, Irwin, Chicago, 1994, and R.T. Pascale, M. Millemann and L. Gioja, Surfing the Edge of Chaos: The Laws of Nature and the New Laws of Business, Crown Business, 2000.

Let us go ahead to grapple with the complexity of the environment by dividing it into external and internal environments.

3.2 External and Internal Environment

The external environment includes all the factors outside the organisation which provide opportunities or pose threats to the organisation. The internal environment refers to all the factors within an organisation which impart strengths or cause weaknesses of a strategic nature.

The environment in which an organisation exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The four environmental influences could be described as follows:

An opportunity is a favourable condition in the organisation's environment which enables it to consolidate and strengthen its position. An example of an opportunity is a growing demand for the products or services that a company provides.

A threat is an unfavourable condition in the organisation's environment which creates a risk for, or causing damage to the organisation. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.

A strength is an inherent capacity which an organisation can use to gain strategic advantage. An example of a strength is superior research and development skills which can be used for new product development so that the company can gain a strategic advantage.

A weakness is an inherent limitation or constraint which creates strategic disadvantages. An example of a weakness is overdependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of opportunities and threats, and the internal environment, in terms of strengths and weaknesses, is crucial for the existence, growth, and profitability of any organisation. A systematic approach to understanding the environment is the SWOT analysis.

3.3 SWOT Analysis

SWOT analysis, evolved during the 1960s at Stanford Research Institute, is a very popular strategic planning technique having applications in many areas including management. Organisations perform a SWOT analysis to understand their internal and external environments.

Business firms undertake SWOT analysis to understand their external and internal environments. SWOT, which is the acronym for strengths, weaknesses, opportunities and threats, is also known as WOTS-UP or TOWS analysis. Through such an analysis, the strengths and weaknesses existing within an organisation can be matched with the opportunities and threats operating in the environment so that an effective strategic can be formulated. An effective organizational strategy, therefore, is one that capitalizes on the opportunities through the use of strengths and

neutralizes the threats by minimizing the impact on weaknesses, to achieve predetermined objectives.

A simple application of the SWOT analysis technique involves these steps:

Setting the objectives of the organisation or its unit;

Identifying its strengths, weaknesses, opportunities and threats;

Asking four questions:

How do we maximize our strengths?

How do we minimize our weaknesses?

How do we capitalize on the opportunities in our external environment?

How do we protect ourselves from threats in our external environment?

Recommending strategies that will optimize the answers from the four questions.

The SWOT analysis is usually done with the help of a template in the form of a four-cell matrix, each cell of the matrix representing the strengths, weaknesses, opportunities and threats. The analysis for preparing the SWOT matrix could be done by a group of managers in a workshop session. The session could use the brainstorming technique for generating ideas about the SWOT factors. A typical SWOT analysis matrix for a hypothetical organisation is shown in the figure below.

Figure showing a typical SWOT matrix

STRENGTHS <ul style="list-style-type: none">- Favourable location- Excellent distribution network- ISO 9000 quality certification- Established R & D Centre- Good management reputation	WEAKNESSES <ul style="list-style-type: none">- Uncertain cash flow- Weak management information system- Absence of strong USP for major product lines- Low worker commitment
OPPORTUNITIES <ul style="list-style-type: none">- Favourable industry trends- Low technology options available- Possibility of niche target market- Availability of reliable business partners	THREATS <ul style="list-style-type: none">- Unfavourable political environment- Weak management information system- Uncertain competitors' intentions- Lack of sustainable financial backing

SWOT analysis has several benefits, among the major being:

Simple to use;

Flexible and can be adapted to varying

situations; Leads to clarification of issues;

Development of goal-oriented alternatives;

Useful as a starting point for strategic analysis.

The following could be the pitfalls of using the SWOT analysis indiscriminately:

Simplicity of use may turn to be simplistic by trivializing the reality that may be more complex than represented in the SWOT matrices.

May result in just compiling lists rather than think about what is really important for achieving objectives.

Usually reflects an evaluator's position and viewpoint that can be misinterpreted to justify a previously decided course of action, rather than be used as a means to open new possibilities.

Chances exist where strengths may be confused with opportunities or weaknesses with threats.

May encourage organisations to take a lazy course of action of looking for strengths that match opportunities rather than developing new strengths that could match the emerging opportunities.

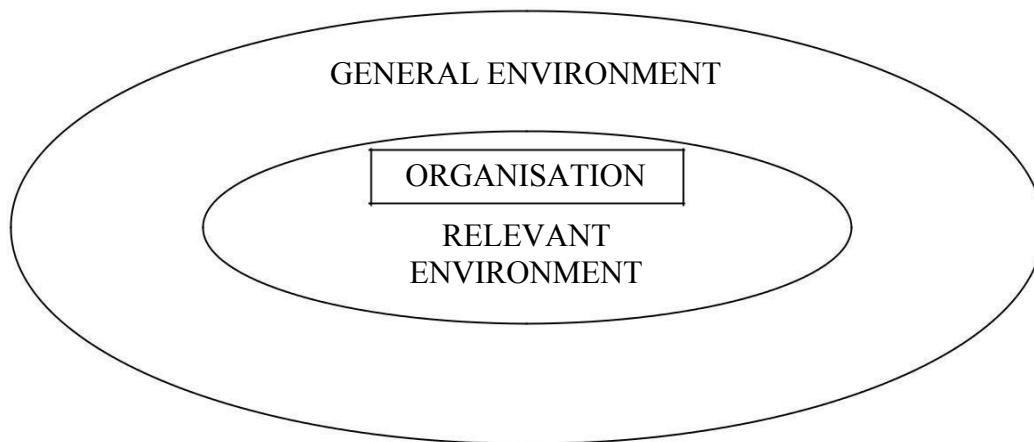
The process of strategy formulation starts with, and critically depends on the appraisal of the external and internal environment of an organisation. In this unit, we will attempt to understand the external environment and, in the next unit, we will take up the internal environment for discussion.

3.4 General and Relevant Environment

As we said earlier, the external environment consists of all those factors which provide opportunities or pose threats to an organisation. In a wider sense, the external environment encompasses a variety of factors, like: international, national and local economy; social changes; demographic variables; political systems; technology; attitude towards business; energy sources; raw materials and other resources; and many other macro-level factors. We could designate such a wider perception of the environment as the general environment.

All organisations, in some way or the other, are concerned about the general environment. But the immediate concerns of any organisation are confined to just a part of the general environment which is of high strategic relevance to the organisation. This part of the environment could be termed as the immediately relevant environment, or simply, the relevant environment. The conception of the business environment of an organisation is presented in the diagram below.

Diagram showing the business environment of an organisation



A conscious identification of the relevant environment enables an organisation to focus its attention on those factors which are intimately related to its mission, purpose, objectives, and strategies. Depending on its perception of the relevant environment, an organisation takes into account those influences in its surrounding which have an immediate impact on its strategic management process. Having identified its relevant environment, an organisation can systematically appraise it and incorporate the results of such an appraisal in strategic planning. In order to cope with the complexity of the environment, it is feasible to divide it into different components or sectors.

3.4.1 Classification of Environmental Sectors

Aguilar evolved a categorisation scheme for grouping different kinds of information related to the environment into sectors such as customers, competitors, suppliers, technology; social, political, economic conditions, etc (). Keegan suggests that the sector categorisation should be such that these sectors must be exhaustive, i.e., each item of information should find a place in one of the sectors; the sectors must be mutually exclusive so that any given item of information must belong to one of the category; and the classification must be functional and relate to actual scanning practices ().

There are several sectors into which the external/general environment could be divided into. But, in a given context, there are certain sectors that merit greater attention than the others.

3.5 Environmental Sectors

The classification of the general environment into sectors helps an organisation to cope with its complexity, to comprehend the difference influences operating in the environment, and to relate the environmental changes to its strategic management process. Different bases for classification have been adopted by different authors but the basis itself is not as important as the fact that all the relevant factors in the environment have to be considered. Depending on a variety of factors, such as, the size of the organisation, the level and scope of activities, the geographical spread of markets, the nature of the product, the type of technology used, and managerial philosophy, an organisation may divide its environment into sectors capable of being analysed conveniently.

In this unit we are using an eight -category classification of the environment. These eight sectors of the environment are: market, technological, supplier, economic, regulatory, political, socio-cultural, and international sectors of environment. We will now take up each of these sectors for discussion.

3.5.1 Market Environment

The market environment consists of the factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business. Some of the important factors and influences operating in the market environment are as follows:

Customer or client factors, such as, the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.

Product factors, such as the demand, image, features, utility, function, design, lifecycle, price, promotion, distribution, differentiation, and the availability of substitutes of products or services.

Marketing intermediary factors, such as, levels and quality of customer service, middlemen, distribution channels, logistics, costs, delivery systems, and financial intermediaries.

Competitor-related factors, such as, the different types of competitors, entry and exit of major competitors, nature of competition, and the relative strategic position of major competitors.

The market environment depends largely on the type of the industrial structure. In monopolies and oligopolies, the concern for the market environment is lesser than what it is in the face of pure competition. In a controlled economy, like that of India, public utilities like electricity boards and most public sector companies such as petrol and cooking gas companies operated in a protected environment.

Here are several examples to show how the market environment affects, and is taken into consideration by the companies.

Growing international trade, massive investment in infrastructure, increasing levels of disposable income and strong manufacturing and retail sectors have combined to produced a dynamic market environment. Customers and their needs have been featuring more prominently in the business strategies in several industries. Other marketing-related actions include investments in retail networks, increasing opportunities for customer interactions, improving customer service, customer-focused advertising, demonstrating a more visible presence and improving the overall customer experience.

There is a distinct trend of growing preference for natural products around the world and this trend is also prevalent in Nigeria. Eco-friendly products whether in agriculture, clothing, cosmetics or healthcare are seen as better substitutes for synthetic products.

Nigerians are paying increasingly greater attention to personal grooming. Changing lifestyles, increasing disposable incomes, availability of local and internal brands, and influence of satellite television and better awareness of global brands are some of the major factors that have led to an increasing demand for cosmetics. The cosmetics and personal care industry has been growing at a high rate during the last few years. With the demand for cosmetics on the rise and opening of the market to foreign companies, there is increasing competition offering greater product choice and availability to the fashion-conscious Nigerian women and men in urban as well as rural areas.

Sales promotion, advertising, and market research, all of which had not occupied an important position in the marketing policies of companies have now assumed a greater significance. Distribution has been strengthened so that customers are not put to inconvenience. After-sales services, especially for consumer durables, have become a significant component of the marketing strategies of many companies.

The market environment is one of the most dynamic sectors of the environment. Nigerian marketers are facing a daunting challenge in coming to terms with the dynamism and the ever-changing nature of the Nigerian markets.

3.5.2 Technological Environment

The technological environment consists of those factors that are related to the knowledge applied and the materials and machines used in the production of goods and services which have an impact on the business of an organisation. Some of the important factors and influences operating in the technological environment are as follows:

Sources of technology, like company sources, external sources, and foreign sources; cost of technology acquisition; collaboration in and transfer of technology.

Technology development, stages of development, change and rate of change of technology, and research and development.

Impact of technology on human beings, the man-machine system, and the environmental effects of technology.

Communication and infrastructural technology in environment.

Strategists can ill afford to ignore the technological environment, as technology, besides customer groups and customer functions, defines the business of their organisations. According to Boris Petrov, there are three strategic implications of technological change: it can change relative competitive cost position within a business, it can create new markets and new business segments, and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.

3.5.3 Supplier Environment

The supplier environment consists of factors related to the cost, reliability, and availability of the factors of production or service that have an impact on the business of

an organisation. Some of the important factors and influences operating in the supplier environment are as follows:

Cost, availability and continuity of supply of raw materials, subassemblies, parts and components.

Cost and availability of finance for implementing plans and projects.

Cost, reliability and availability of energy used in production.

Cost, availability and dependability of human resources.

Cost, availability and existence of sources and means for the supply of plants and machinery, spare parts and after-sales service.

Infrastructural support and ease of availability of the different factors of production, the bargaining power of suppliers, and the existence of substitutes.

The supplier environment occupies a dominant position in strategy formulation because of the fact that Nigeria is a developing country with problems of scarcity of capital. Unlike some of the western nations and Japan, the reliability of supply is very low causing companies to devote a lot of attention and energy to maintain the continuity of supply. Almost all annual company reports lament the shortage of power and cite the high costs of petroleum products as the reason for low profitability.

3.5.4 Economic Environment

The economic environment consists of macro-level factors related to the means of production and distribution of wealth which have an impact on the business of an organisation. Some of the important factors and influences operating in the economic environment are:

The economic stage at which a country exists at a given point of time.

The economic structure adopted, such as, a capitalistic, socialistic or mixed economy.

Economic policies, such as, industrial, monetary and fiscal policies.

Economic planning, such as, five-year plans, annual budgets, and so on.

Economic indices like national income, distribution of income, rate and growth of gross national product (GNP), per capita income, disposable personal income, rate of savings and investments, value of exports and imports, the balance of payments, etc. and so on.

Infrastructural factors, such as, financial institutions, banks, modes of transportation, communication facilities, and so on.

Strategists are acutely aware of the importance and impact of the economic environment on their organisations. Almost all annual company reports presented by the chairman devote attention to the general economic environment prevailing in the country and an assessment of its impact on their companies.

3.5.5 Regulatory Environment

The regulatory environment consists of factors related to planning, promotion, and regulation of economic activities by the government that have an impact on the business of an organisation. Some of the important factors and influences operating in the regulatory environment are as follows:

The constitutional framework, directive principles, fundamental rights, and division of legislative powers between central and state governments;

Policies related to licensing, monopolies, foreign investment, and financing of industries;
Policies related to distribution and pricing, and their control;

Policies related to imports and exports;

Other policies related to the public sector, small-scale industries, sick industries, development of backward areas, control of environmental pollution, and consumer protection.

3.5.6 Political Environment

The political environment consists of factors related to the management of public affairs and their impact on the business of an organisation. Some of the important factors and influences operating in the political environment:

The political system and its features, like the nature of the political system, ideological forces, political parties and centres of power;

The political structure, its goals and stability;

Political processes, like the operation of the party system, elections, funding of elections, and legislation with respect to economic and industrial promotion, and regulation;

Political philosophy, government's role in business, and its policies and interventions in economic and business development.

3.5.7 Socio-cultural Environment

The socio-cultural environment consists of factors related to human relationships within a society; the development, forms and functions of such a relationship; and the learnt and shared behaviour of groups of human beings which have a bearing on the business of an organisation. Some of the important factors and influences operating in the social environment are:

Demographic characteristics, such as, population, its density and distribution, changes in population and age composition, inter-state migration and rural-urban mobility, and income distribution;

Socio-cultural concerns such as environmental pollution, corruption, use of mass media, the role of business in society, and consumerism;

Socio-cultural attitudes and values, such as, expectation of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism;

Family structure and changes in it, attitude towards and within the family, and family values;

The role and position of men, women, children, adolescents, and the aged in family and society;

Educational levels, awareness and consciousness of rights, the work ethic of the members of society, and the attitude towards minority and disadvantaged groups.

The socio-cultural environment primarily affects the strategic management process within the organisation in the areas of mission and objective-setting, and decisions related to products and markets. Strategists do not seem to be fully aware of the impact of the socio-cultural environment on business or they are so preoccupied with other environment influences that they do not give a high priority to socio-cultural factors. One reason for such a lack of interest could be the nature of socio-cultural influences. Socio -cultural changes take place very slowly and do not seem to have an immediate and direct impact on short-term strategic decisions.

3.5.8 International Environment

The international (or global) environment consists of all those factors that operate at the transnational, cross-cultural, and across-the-border level which have an impact on the business of an organisation. Some of the important factors and influences operating in the international environment are as below:

Globalisation, its process, content, and direction;

Global economic forces, organisations, blocs, and forums;

Global trade and commerce, its process and trends;

Global financial system, sources of financing, and accounting standards;

Geopolitical situation, equations, alliances, and strategic interests of nations;

Global demographic patterns and shifts;

Global human resource – institutions, availability, nature and quality of skills and expertise, mobility of labour and other skilled personnel;

Global information systems, communication networks, and media;

Global technological and quality systems and standards;

Global markets and competitiveness;

Global legal system, adjudication and arbitration mechanisms;

Globalisation of management and allied disciplines, and the diffusion of management techniques in industry.

The international environment constitutes a special class of the environmental sector. While the preceding seven sectors are largely limited and exclusive in nature, the international environment encompasses all the sectors, albeit in the global context. What we mean to say is that while for instance, the political environment within a country could consist of certain factors related to national politics; the international environment would also have a geopolitical component including the political factors and influences at the global level.

This section of the unit has been devoted to a discussion of eight different sectors constituting the environment of an organisation. By no means is it claimed that our coverage of environmental sectors is all-encompassing. There are other sectors too which are worthy of consideration. For instance, the natural, physical or geographical environment, to which a passing reference has been made while discussing regulatory environment, is also of great concern to companies. Environmental protection is of paramount importance in a world where the issues of sustainable development have assumed great significance. The corporate sector is now required to adhere to a plethora of regulations for environmental protection and control of pollution. This is especially relevant for polluting industries, like, processing plants and refineries.

It should be noted that any classification of the environment into sectors is artificial and is meant solely to gain an understanding of the different environmental factors. In reality, the dividing line between the different sectors of the environment is hazy and there is a high level of interaction between variables belonging to various environmental sectors. For example, market demand, which is a part of the market environment, does not exist in isolation but is dependent on other factors, such as, the general state of the economy, buyer motivation or technical quality of the products.

Apart from the inter-sectoral interaction, there are complex inter-linkages existing among the factors in the same sector of the environment. To consider an example of such an inter-linkage, the technological environment has a number of factors and influences. Among these, collaboration in and transfer of technology affect the development of technology in a particular company and also in the industry as a whole. When the technological level is raised, it has repercussions on human beings and the man-machine system. There are also implications for the environmental effects of technology.

The intersectoral and intrasectoral nature of the environmental factors have to be considered while understanding the different environmental sectors. Strategists have to constantly monitor the environment and its different sectors for opportunities and threats that have, or are likely to have, an impact on their organisations. Such a monitoring is done through environmental scanning.

3.6 Environmental Scanning

In the two preceding sections, we have seen how organisation exists consists of a bewildering variety of factors. These factors (may also be termed as influences) are events, trends, issues, and expectations of different interested groups. These factors are explained below.

Events are important and specific occurrences taking place in different environmental sectors;

Trends are the general tendencies or the courses of action along which events take place;

Issues are the current concerns that arise in response to events and trends;

Expectations are the demands made by interested groups in the light of their concern for issues.

Environmental influences are a complex amalgam of the events, trends, issues and expectations that continually shape the business environment of an organisation. By monitoring the environment through environmental scanning, an organisation can consider the impact of the different events, trends, issues and expectations on its strategic management process. Since the environment facing any organisation is complex and scanning it is absolutely essential, strategists have to deal cautiously with the process of environmental scanning. It has to be done in a manner that unnecessary time and effort is not expended, while important factors are not ignored. For this to take place, it is important to devise an approach, or a combination of different approaches, to environmental scanning.

3.6.1 Approaches to Environmental Scanning

Kubr has suggested three approaches which could be adopted for sorting out information for environmental scanning. We could call these approaches as systematic, ad-hoc and processed-form approaches.

Systematic Approach. Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organisation's activities, government policy statements pertaining to the organisation's business and industry, etc. could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

Ad-hoc Approach. For adopting this approach, the organisation uses information in a processed form, available from different sources both inside and outside the organisation. When an organisation uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form. Since environmental scanning is absolutely necessary for strategy formulation, organisations use different practical combinations or approaches to monitor their relevant environments. These approaches may range from an informal assessment of the environmental factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and ad-hoc studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure in anticipation of changes in environmental factors and structured data collection and processing system may be used continuously.

Processed-form Approach. Between the two extremes of the informal and formal approaches, different stances adopted by organisations might exist, depending on varying degrees of concern for the environment. Such stances are situational. For example, when an issue-

related decision has to be taken, a periodic monitoring of the environment may be done. Systematic and ad-hoc approaches can be used for the relevant environment of the organisation while the processed-form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning, data collection is necessary for deriving information about environmental factors.

3.6.2 Sources of Information for Environmental Scanning

The various sources of information tapped for collecting data for environmental scanning could be classified in different ways. There could be formal and informal sources. Then there could be written as well as verbal sources. In terms of origin, data sources could be external and internal.

Given below are some of the important types of sources of information.

Documentary or secondary sources of information like different types of publications. These could be newspapers, magazines, journals, books, trade and industry association newsletters, government publications, annual reports of competitor companies, commercial databases, etc.

Mass media such as radio, television and Internet.

Internal sources like company files and documents, internal reports and memoranda, management information system, databases, company employees, sales staff, etc.

External agencies like customers, marketing intermediaries, suppliers, trade associations, government agencies, etc.

Formal studies done by employees, market research agencies, consultants and educational institutions

Spying and surveillance through ex-employees of competitors, industrial espionage agencies, or by planting ‘moles’ in rival companies. The ethicality of these sources is doubtful but nevertheless, these are used and so need a mention.

Strategists use different information sources depending on their needs for environmental scanning. Government publications – though a rich and comprehensive source of information – usually are available after a considerable time lag. Private sources, though relevant and timely, are quite expensive to tap. Therefore, whenever a particular information source is used, it should be checked for its reliability, timeframe, methods of data collection and analysis used, form of presentation, etc.

3.6.3 Methods and Techniques Used for Environmental Scanning

The range of methods and techniques available for environmental scanning is wide. There are formal and systematic techniques as well as intuitive methods available. Strategists may choose from among these methods and techniques, those which suit their needs in terms of the quantity, quality, availability, timeliness, relevance and cost of environmental information.

Various authors have mentioned the methods and techniques used for environmental scanning. LeBell and Krasner outline nine groups of techniques: single -variable extrapolation, theoretical limit environments, dynamic modes, mapping, multivariable interaction analysis, unstructured expert opinion, structured expert opinion, structured inexperienced opinion and unstructured inexperienced speculation.

Fahey, King and Narayanan have included ten techniques in their survey of environmental scanning and forecasting in strategic planning. These are: scenario-writing, simulation, morphological analysis, project-program-budget system (PPBS), game theory, cross-impact analysis, field anomaly-relation, multi-echelon coordination and other forecasting techniques. Of particular interest is the emerging set of techniques based on the complexity theory that is a group of mathematical techniques designed to deal with the dynamic nature of real-world problems. Among the techniques are the applications of the mathematical concepts of fractals, fuzzy logic, genetic algorithms, swarm stimulation, Monte Carlo method and the more popular of them, the chaos theory.

Owing to the increasing complexity of the external environment, inevitably there have been attempts to utilise the emerging information technologies in assisting strategic planners in environmental scanning. Techniques based on artificial intelligence, neural networks, data mining and a knowledge-based system have been proposed. An example is that of a software agent-based system for continuous environmental surveillance. Another is Futurus, a business solutions-software by Satyam Computer Services, for designing and simulating future scenarios.

While many of the environmental techniques are based on statistical methods and increasingly, the use of sophisticated software in computer- assisted environmental scanning and forecasting, some of them, like scenario-writing, may not use statistical information but employ informed judgement and intuition to predict what the future is most likely to be, expressed in the form of a descriptive statement or report.

Process based techniques for environmental scanning have been proposed from time to time. For instance, a four-step technique called QUEST (quick environmental scanning technique), proposed by B. Nanus uses scenario writing by a team of strategists. Day and Schoemaker have proposed a seven-step process for developing peripheral vision that vigilant organisations should develop, based on the assumption that opportunities and threats often begin as weak signals from the periphery of the external environment.

Strategists have to be aware of the pitfalls of the environmental scanning process so as to use it judiciously.

3.6.4 Pitfalls in Environmental Scanning

Just like any other strategic planning technique, environmental scanning has its soft underbelly. We could enumerate at least five pitfalls faced while using environmental scanning.

Sometimes, strategic planners may focus excessively on the influences in the relevant environment that they miss out on the trends and issues in the general environment that really matter.

There is a danger of ‘paralysis by analysis’, meaning that environmental scanning can create such an overload of information that it may prevent timely action. Environmental scanning should not become a number-crunching routine.

The purpose of environmental scanning is to uncover influences that matter for the future of the organisational strategic decision-making. This purpose should not be lost and environmental scanning should not be used for purposes other than this. For instance, scanning results cannot be used for political manoeuvring by strategists to favour their own viewpoint, functional interests or departmental aims.

The environmental scanning function should not be integrated too closely with the operational and functional activities of the organisation. This means that it should not become a line function, thus aligning it too closely with the interests of those activities.

Similarly, environmental scanning should not be too far from the realities of the organisation, making it an impersonal, staff function.

After environmental scanning process is complete, the strategists are faced with the question of how to structure the mass of information available to them. The problem boils down to sifting the information in such a manner that a clear picture emerge of what opportunities and threats operating in different sectors of the environment facing the organisation.

3.7 Appraising the Environment

In order to draw a clear picture of what opportunities and threats are faced by the organisation at a given time, it is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal, identifying the environmental factors and structuring the results of this environmental appraisal.

3.7.1 Factors affecting Environmental Appraisal

Given the same environmental conditions, no two strategists or two organisations would appraise the environment in a similar fashion. This is due to the many factors that affect the process of environmental appraisal. We could identify these factors by classifying them into three categories: the strategist-related, organisation-related and environment-related factors.

Strategist-related factors. There are many factors related to the strategist, which affect the process of environmental appraisal. Since strategists play a central role in the formulation of strategies, their characteristics such as age, education, experience, motivation level, cognitive styles, ability to withstand time pressures and strain of responsibility have an impact on the extent to which they are able to appraise their organisation’s environment and how well they are able to do it. Apart from these factors that are related to the strategists as individuals, group characteristics could be the interpersonal relations between the different strategists

involved in appraisal, team spirit and the power equations operating between them. Information consciousness is yet another variable denoting the attitude of top managers towards environmental scanning and the communication patterns established among managers with the organisation ().

Organisation-related factors. Like those of strategists, many characteristics of the organisation also have an impact on the environmental appraisal process. These characteristics are the nature of business the organisation is in, its age, size and complexity, the nature of its markets and the product or services that it provides. Another variable identified is of information climate, which as assessed through the information infrastructure implemented, i.e. the processes, technologies and people used in information acquisition and handling ().

Environment-related factors. The nature of environment facing an organisation determines how its appraisal could be done. The nature of the environment depends on its complexity, volatility or turbulence, hostility and diversity. Information processing perspectives suggest that scanning activity will increase in response to increasing environmental uncertainty. Social cognition perspectives suggest that scanning decreases at high and low levels of uncertainty since useful information is either unattainable or is already known ().

In sum, how well environmental appraisal is done depends on the strategists, their organisations and their environment in which their organisations exist. Before strategists can structure the environmental appraisal, it is necessary to identify the environmental factors.

3.7.2 Identifying the Environmental Factors

Environmental scanning results in a mass of information related to different sectors of the environment. Without a technique to deal with this information, a strategist would be at a loss to comprehend and analyse the environmental influences. These influences, as we have seen, are the events, trends, issues and expectations of different interested groups. A feasible approach to identifying the important environmental factors is to test each factor with regard to its impact on the business of the organisation and the probability of such an impact. The figure below provides a matrix which can help a strategist to identify the high priority environmental factors (termed as issues by Boulton).

Figure identifying high priority environmental issues

Probability of impact	High	Medium	Low
High	Critical	High priority	Low priority
Medium	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

Source: Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, New York, Macmillan Publishing Co., 1984, p. 120.

Environmental scanning leads to the identification of many issues that affect the organisation. These issues could be judged on the basis of the intensity of their impact on the business of the organisation and the relative probability of such an impact. In such a manner, environmental issues (and all the factors) could be distributed among the nine cells of the matrix. The issues which are most likely to have a high level of impact on the organisations are the critical issues

and need immediate attention of the strategists. High priority issues are those which have a medium to a high probability of impact, while those currently having a high level of impact but a low probability of occurrence need to be kept under watch. All other issues could be considered as being of low priority but still requiring continuous monitoring as conditions may change later. In this way, strategists could narrow the range of environmental issues they have to focus their attention upon. These issues help in structuring of the environmental appraisal, when divided into opportunities and threats and allocated to different sectors of the environment.

3.7.3 Structuring Environmental Appraisal

The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. Structuring the environmental appraisal is a difficult process as environmental issues do not lend themselves to a straightforward classification into neat categories. An issue may arise simultaneously from more than one sector of the environment. Strategists have to use their experience and judgement to place the different environmental issues where they mainly belong, so that clarity emerges.

There are many techniques available to structure the environmental appraisal. One such technique, suggested by Glueck, is that of preparing an environmental threat and opportunity profile (ETOP) for an organisation.

The preparation of an ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. A comprehensive ETOP requires subdividing each environmental sector into subfactors and then the impact of each subfactor on the organisation is described in the form of a statement. A summary ETOP may only show the major factors for the sake of simplicity.

The table below shows an example of an ETOP prepared for an established company which is in the bicycle industry. The main business of the company is in sports cycle manufacturing for the domestic and exports market. This example relates to a hypothetical company but the illustration is realistic and based on the current Indian business environment.

Table Environment threat and opportunity profile (ETOP) for a bicycle company

Environmental Sectors	Nature of impact	Impact of each sector
Economic	↑	Growing affluence among urban consumers; rising disposable incomes and living standards.
Market	→	Organised sector a virtual oligopoly with four major manufacturers, buyers critical and better informed; Overall industry growth rate not encouraging; Growth rate for niche segments like sports, trekking, racing and fancy city cycles is high; largely unsaturated demand in niche segments; slender margins; traditional distribution systems.
International	↓	Global imports growing but India's share shrinking; India second globally as manufacturer; consumer and

		exporter after China; major importers are the US and EU but India exports mainly to Africa; threat of cheap Chinese imports.
Political	→	Bicycle principal mode of transport for low and lower-middle income; industry too small for any major political attention.
Regulatory	→	Parts and components reserved for small-scale industry, bicycle industry a thrust area for exports; regulatory restrictions heavy; duty drawback rates lowered.
Social	↑	Environment- and health-friendly transport option; wide usage like commuting to work or school and as recreation and physical fitness equipment; easier negotiating traffic congestions; customer preference for sports cycles which are easy to ride and durable.
Supplier	→	Mostly ancillaries and associated companies in small-scale sector supply parts and components; rising steel prices; increasing use of aluminium; industrial concentration in Punjab and Tamilnadu.
Technological	↑	Technological up-gradation of industry in progress; import of machinery simple; product innovations ongoing such as battery-operated and lightweight foldable cycles.

Source: Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, New York, Macmillan Publishing Co., 1984, p. 120.

Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

As observed from the above table, sports cycle manufacturing is an attractive proposition due to the many opportunities operating in the environment. Prospects in the economic, social and technological sectors are bright. Market environment can throw up opportunities in the niche segment that the company operates in. The company can capitalise on the burgeoning demand by taking advantage of the various government policies and concessions that still exist despite the low attention value of the industry. It can also take advantage of the high exports potential that already exists and has not been adequately capitalized upon. Since the company is an established manufacturer of bicycles, it has a favourable supplier environment with traditional ties binding it to its vendors. But contrast the implications of this ETOP for a new manufacturer, who is planning to enter this industry. Though the economic, social and technological environment sectors would still be favourable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, have access to the latest technology have the facilities to use it.

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favourable impact on the organisation. By the means of an ETOP, the organisation knows where it stands with respect to its environment. Obviously, such an understanding can be of great help to an organisation in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment.

Before the formulation of strategies can be undertaken, strategists have to assess whether the organisation has the required strengths or whether it has weaknesses which can affect its capability of taking advantage of the opportunities. This assessment is done through an analysis of the strengths and weaknesses of the organisation and forms a part of the SWOT analysis. The strengths and weaknesses can be analysed through an organisational appraisal, which is the subject matter of the next unit.

4.0 CONCLUSION

The subject matter of the unit is environmental appraisal, which is the process of identifying opportunities and threats facing an organisation, for the purpose of strategy formulation.

Having considered the external environment now is the time to focus on the internal environment. The next unit deals with organisational appraisal.

5.0 SUMMARY

In this unit, we have defined the concept environment as it relates to business organisation; distinguished between external and internal environment; discussed SWOT analysis; differentiated between general and relevant environment; defined and explained the concept environment sectors; discussed environmental scanning, listed the methods and techniques for environmental scanning and drew and analysed the structuring of environmental appraisal and its impact on each sector of the organisation.

In the next unit, our focus will be on appraisal of the internal organisation or simply put, organisational appraisal.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss some of the important characteristics of environment and demonstrate how a strategist can understand it better by dividing it into external and internal components and general and relevant environment.

A small scale industrialist recently attended a seminar on strategic management. She is quite enthusiastic but does not understand exactly how to use the SWOT analysis for her company. Act as a consultant and advise her on how to use the SWOT analysis.

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UNIT 3: ORGANISATIONAL APPRAISAL

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1.0 INTRODUCTION

In the last unit, we defined the concept environment as it relates to business organisation; distinguished between external and internal environment; discussed SWOT analysis; differentiated between general and relevant environment; defined and explained the concept environment sectors; discussed environmental scanning, listed the methods and techniques for environmental scanning and drew and analysed the structuring of environmental appraisal and its impact on each sector of the organisation.

In this next unit, we shall discuss appraisal of the internal organisation or in another way, organisational appraisal.

2.0 OBJECTIVES

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

- Explain the manner in which strategic and competitive advantage is developed. Describe and exemplify six factors of organisational capability.
- Explain the process of conducting organisational appraisal.
- Describe the major methods and techniques used for organisational appraisal.
- Prepare strategic advantages profile (SAP) for an organisation.

3.0 MAIN CONTENT

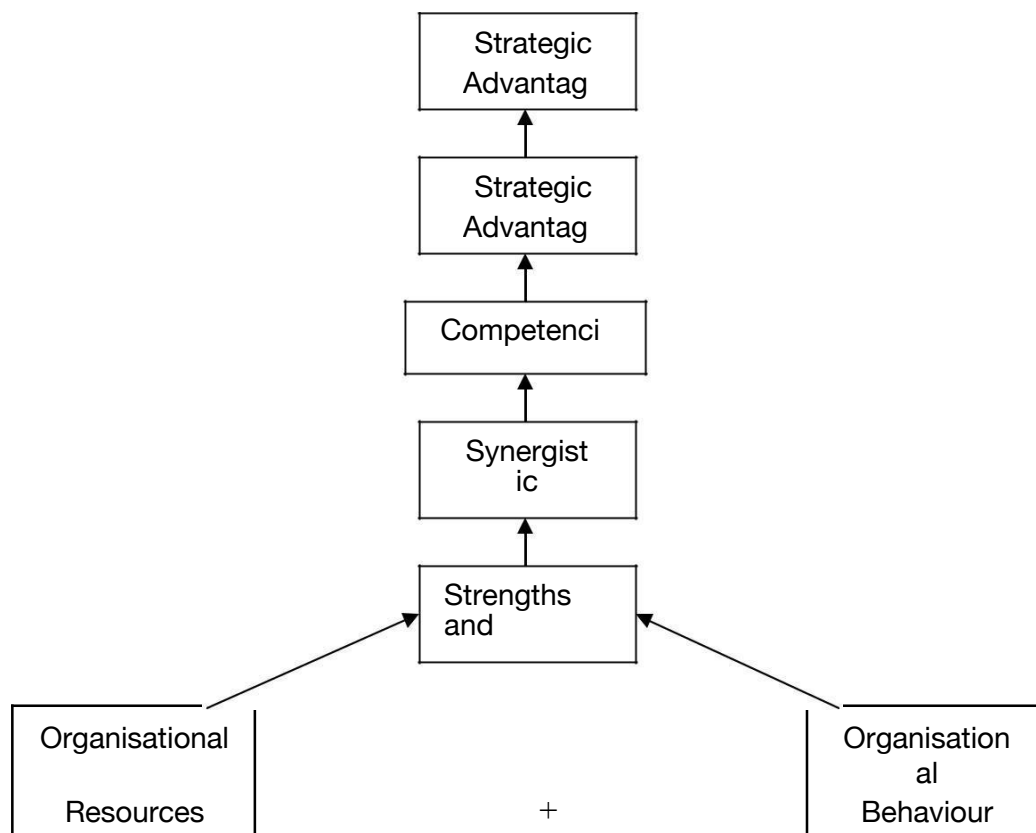
Like individuals, all organisations have strengths and weaknesses that lead to their having capabilities. These capabilities stand the organisations in good stead when they compete for resources, customers and market share. In strategic management, we give a lot of importance to an organisation's capabilities as these are central to their achieving strategic advantage for gaining long-term success.

The appraisal of the external environment of a firm helps it to think of what it might choose to do. The appraisal of the internal environment, on the other hand, enables a firm to decide about what it can do. We attempt to understand the internal environment of an organisation in terms of the organisational resources and behaviour, strengths and weaknesses, synergistic effects and the competencies that create strategic advantage.

3.1 Dynamics of Internal Environment

An organisation uses different types of resources and exhibits a certain type of behaviour. The interplay of these different resources along with the prevalent behaviour produces synergy or dysergy within an organisation, which leads to the development of strengths or weaknesses over a period of time. Some of these strengths make an organisation especially competent in a particular area of its activity causing it to develop competencies. Organisational capability rests on an organisation's capacity and the ability to use its competencies to excel in a particular field, thereby giving it strategic advantage. The resources, behaviour, strengths and weaknesses, synergistic effects and competencies of an organisation determine the nature of its internal environment. The diagram below shows the framework that we adopt for an explanation of the process of development of strategic advantage by an organisation. It is expected that students should be aware of these terms in general. However, we explain each of these terms here to place them in the specific context of strategic management and business policy.

Diagram showing the framework for the development of strategic advantage by an organisation



Source: C.K. Prahalad and Gary Hamel, -The Core Competence of the Corporation, Harvard Business Review, Vol. 68, No. 3, May-June, 1990, pp. 79-91.

3.1.1 Organisational Resources

The dynamics of the internal environment of an organisation can be best understood in the context of the resource-based view of firms or the resource-based theory of strategy. According to Barney (1991), who is credited with developing this view of strategy as a theory, a firm is a bundle of resources – tangible and intangible – that include all assets, capabilities, organisational processes, information, knowledge, etc. These resources could be classified as physical, human and organisational resources. The physical resources are the technology, plant and equipment, geographic location, access to raw materials, etc. The human resources are the training, experience, judgement, intelligence, relationships, etc. present in an organisation. We observe here that the resource-based theory is concerned with the efficiency of resource utilization. It clearly focuses on the internal environment of the firm and postulates that the strategic advantage would flow from the efficiency with which the resources would be utilised. When firms possess superior resources, they enable them to produce more efficiently and better satisfy customer needs, delivering better value for a given cost and yielding a superior strategic advantage to them.

Very few organisations, like individuals, are born with a silver spoon in the mouth; most organisations have to acquire resources the hard way. The cost and availability of resources are the most important factors on which the success of an organisation depends. If an organisation is favourably placed with respect to the cost and availability of a particular type of resource, it possesses an enduring strength which may be used as a strategic weapon by it against its competitors. Conversely, the high cost and scarce availability of a resource are a handicap which causes a persistent strategic weakness in an organisation.

3.1.2 Organisational Behaviour

Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability for, or place constraints on, the usage of resources. Organisational behaviour is unique in the sense that it leads to the development of a special identity and character of an organisation. Some of the important forces and influences that affect organisational behaviour are: the quality of leadership, management philosophy, shared values and culture, quality of work environment and organisational climate, organisational politics, use of power, etc.

3.1.3 Strengths and Weaknesses

Organisational resources and behaviour do not exist in isolation. They combine in a complex fashion to create strengths and weaknesses within the internal environment of an organisation. Strengths is an inherent capability which an organisation can use to gain strategic advantage. A weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organisation. Financial strength, for example, is a result of the availability of sources of finances, low cost of capital, efficient use of funds, etc. Another example is of a weakness in the operation area which results due to inappropriate plant location and layout, obsolete plants and machinery, uneconomical operations, etc. In the following sections, we will take up a comprehensive discussion of possible strengths and weaknesses in different functional areas within an organisation. Strengths and weaknesses do not exist in isolation but combine within a functional area, and also across different functional areas, to create synergistic effects.

3.1.4 Synergistic Effects

It is the inherent nature of organisations that strengths and weaknesses, like resources and behaviour, do not exist individually, but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where attributes do not add mathematically, but combine to produce an enhanced or a reduced impact. Such a phenomenon is known as the synergistic effect. Synergy is an idea that the whole is greater or lesser than the sum of its parts. It is also expressed as ‘the two plus two is equal to five or three effect’.

Within an organisation, synergistic effects occur in a number of ways. For example, within a functional area, say of marketing, the synergistic effect may occur when the product, pricing, distribution and promotion aspects support each other, resulting in a high level of marketing synergy. At a higher level, the marketing and production areas may support each other leading to operating synergy. On the other hand, a marketing inefficiency reduces production efficiency, the overall impact being negative, in which case dysynergy (or negative synergy) occurs. In this manner, synergistic effects are an important determinant of the quality and type of the internal environment existing within an organisation and may lead to the development of competencies.

3.1.5 Competencies

On the basis of its resources and behaviour, an organisation develops certain strengths and weaknesses which when combined lead to synergistic effects. Such effects manifest themselves in terms of organisational competencies. Competencies are special qualities possessed by an organisation that make them withstand the pressures of competition in the marketplace. In other words, the net results of the strategic advantages and disadvantages that exist for an organisation determines its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core capabilities, invisible assets, embedded knowledge, etc.

When an organisation develops its competencies over a period of time and hones them into a fine art of competing with its rivals, it tends to use these competencies exceedingly well. The capability to use the competencies exceedingly well turns them into core competencies. When a specific ability is possessed by a particular organisation exclusively or relatively in large measure, it is called a distinctive competence. Many organisations achieve strategic success by building distinctive competencies around the critical success factors. Recall that critical success factors are those which are crucial for organisational success. It is not necessary, of course, for all organisations to possess a distinctive competence. Neither do all organisations, which possess certain distinctive competencies, use them for strategic purposes. Nevertheless, the concept of distinctive competence is useful for the purpose of strategy formulation. You may think that a hairline distinction is being made between the three terms: competencies, core competencies and distinctive competencies. The difference, as you must have noted, lies in the degree of uniqueness associated with the net synergistic effects occurring within an organisation. You could think of them as being synonymous so long as you are able to make a distinction among them when necessary. Among the three, it is the term ‘core competence’ that has gained greater currency and popularity. The term ‘core competence’ has been popularised by Prahalad and Hamel as an idea around which strategies could be formulated by an organisation.

3.1.6 Understanding the idea of „Core Competence“

C.K. Prahalad and Gary Hamel are mainly credited for the dynamic capabilities approach that consider strategic management as a collective learning process aimed at developing and then exploiting distinctive competencies by an organisation that are difficult to replicate by their rivals. This idea rests on the thinking that strategy depends on learning, and learning depends on the capabilities of an organization. According to them, the competitive (or strategic, as we call it here) advantage can be traced to the core competencies of an organisation. They take the analog of a tree in describing core competence. ‘The diversified corporation is a large tree. The trunk and major limbs is core products, the smaller branches are business units; the leaves, flowers, and fruit are end products. The root system that provides nourishment, sustenance, and stability is the core competence’. To identify a core competence, they prescribe three tests:

It should be able to provide potential access to a wide variety of markets;

It should make a significant contribution to the perceived customer benefits of the end products; and

It should be difficult for the competitors to imitate.

The idea of core competence, presented above, seems to be a brilliant way to focus upon the latent strength of an organisation. Yet there are pitfalls of which an organisation has to be aware of. Core competencies can be developed but so also, lost. They cannot be taken for granted. The ability of a core competence to provide strategic advantage can diminish over time as they do not exist perpetually. External environment is responsible for this sad turn of events. New competitors may figure out a way to serve customers better or new technologies may emerge, causing the existing company to lose its strategic advantage. Over-reliance on core competencies to the extent of becoming prisoners of one’s own excellence may result in strategic myopia.

The idea of a single core competence as the bedrock for strategy formulation has not gone unchallenged. Critics feel that a core competence, narrowly defined, may restrict an organisation’s freedom to act when fresh opportunities in the business environment lure it towards a new direction. In a situation where organised retail is just taking off, the country still remains under-insured, agriculture has not yet been exploited as an organised industry and the infrastructure sector needs overhauling, it would be imprudent for organisations to stick to a single core competence and deprive itself of taking advantage of the opportunities. There might be several different core competencies required. Core or distinctive competencies serve a useful purpose if they are used to develop a sustained strategic advantage through building up of organisational capability, which is the subject of the next subsection.

3.2 Organisational Capability

Organisational capability is the inherent capacity or potential of an organisation to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources – even though valuable and unique – may be worthless. Since organisational capability is the capacity or potential of an organisation, it

means that it is a measurable attribute. As an attribute, it is the sum total of resources and behaviour, strengths and weaknesses, synergistic effects occurring in and the competencies of any organisation.

Several thinkers in the field of strategy favour the line that capabilities are the outcomes of an organisation's knowledge base, i.e., the skill and knowledge of its employees. There is a growing body of opinion that considers organisations as reservoirs of knowledge, in which case they are all learning organisations. In fact, the concept of organisational learning has spawned a whole school of strategy thought. Students are advised to refer to the subsection below which provides some basic understanding of the learning organisation. It is to be noted that while the concept of a learning organisation is applicable to strategic management in a wider sense at several places, here we are referring to it in the specific context of a capability that is seen as an outcome of organisational learning.

Strategies are primarily interested in organisational capability because of two reasons. First, they wish to know what capacity exists within the organisation to exploit opportunities or face threats in its environment. Secondly, they are interested in knowing what potential should be developed within the organisation so that opportunities could be exploited and threats could be faced in future.

3.2.1 Understanding Organisational Learning

Crossan, Lane and White (1997) define organisational learning as 'the process of change in individual and shared thought and action, which is effected by and embedded in the institutions of the organisation'. Four basic processes of organisational learning are: intuiting (subconscious process of learning that occurs at the individual level); interpreting (sharing learning at the group level); integrating (collective understanding at the group level and taking it to the level of organisation); and institutionalizing (incorporating learning across the organisation by embedding it in systems, structures, routines and practices).

Nonaka and Takeuchi (1995) place value on knowledge creation within organisations through focusing on insight, intuition and hunch that are gained through experience. Chris Argyris (1977) earlier and later Garratt (1987), differentiated single-loop learning that questions the existing framework in which decisions take place. Organisations that engage in double-loop learning are able to discover new things and act in novel ways that enable them to adapt to changes and sustain and improve their capability and competitiveness.

Peter Senge (1990) popularised the concept of a learning organisation which could be explained as an organisation skilled at creating, acquiring and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights. From the classic term of Peter Drucker: the knowledge worker down to the emerging discipline of knowledge management – which is considered as gathering and managing intellectual capital that can be leveraged for generating internal responsiveness of organisation – the focus is clearly on the capability of an organisation for developing and sustaining strategic advantage.

Organisational capability is measured and compared through the process of organisational appraisal which is the subject matter of this unit. A feasible approach to appraising the

organisation is to start with the factors and influences operating within the organisation. These could be called the organisational capability factors. But before we move on to a substantive description of the capability factors, the last component of organisational appraisal, strategic advantage, has to be understood. This we do in the next subsection.

3.2.2 Strategic and Competitive Advantage

Strategic advantages are the outcomes of organisational capabilities. They are the results of organisational activities leading to rewards in terms of financial parameters, such as profit or shareholder value and/or non-financial parameters, such as market share or reputation. In contrast, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly, such advantages or disadvantages are the outcomes of the presence or absence of organisational capabilities. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage: the higher the profitability, the better is the strategic advantage. They are comparable in terms of the historical performance of an organisation over a period of time or its current performance with respect to its competitors in the industry.

Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measured. So, outperforming rivals in profitability or market standing could be a competitive advantage for an organisation. Competitive advantage is relative rather than absolute and it is to be measured and compared with respect to other rivals in an industry.

With rising competitiveness in industry, mainly owing to the liberalisation and reform process, the usage of the term ‘competitive advantage’ has become more pronounced. The term ‘competitive advantage’ is more popular since it has been used as an important concept by the proponents of the positioning school of thought in strategy. For instance, Michael Porter uses competitive advantage as one of the important concepts in his seminal contributions to the area of competitive strategy. Here, we take the position as described above. Strategic advantage is a broader concept while competitive advantage is one of its subset. The obvious purpose of gaining strategic advantage is to empower organisations to realise their strategic intent.

3.2.3 Organisational Capability Factors

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas. Thus, a company could be considered as inherently strong in marketing owing to a competence in distribution skills. Or a company could be competitive in operations owing to superior research and development infrastructure.

Organisational capability factors (or, simply, capability factors) are the strategic strengths and weaknesses existing in different functional areas within an organisation, which are of crucial importance to strategy formulation and implementation. Other terms synonymous to organisational capability factors are: strategic factors, strategic advantage factors, corporate competence factors, etc.

Different types of capability factors exist within the internal environment of an organisation. For the purpose of explanation, authors divided them into different functional areas. In this course, we follow an approach of dividing the organisation into six largely accepted and commonly understood functional areas. These are: finance, marketing, operations, personnel, information and general management areas.

You will note that we are designating information and general management as functional areas within the organisation though these are not per se considered as such. These are rather overarching functions, concerned with the interaction and coordination of activities, covering the other four functional areas. But here we consider them as functional areas to draw attention to the fact that these two areas too merit consideration and possess embedded capabilities that have the potential to provide strategic advantage to organisations. It should be remembered, however, that a segregation of an organisation into four functional areas is arbitrary and organisations need to choose a basis for classification that would be the most relevant to their structure, functions and activities. You would need to keep a particular scheme of segregation of the organisation into functional areas when you do a case analysis. For instance, a service organisation like a corporate hospital may have, besides different specialties, functions such as a laboratory, radiology unit, therapy, purchase and stores, personnel, housekeeping and accounting. The organisation of such a type would have functional areas based on its typical activities.

The six functional areas are finance, marketing, operations, personnel, information and general management. For each capability factor, we first define that factor, point out some of the important elements that support capability in an area, give a few illustrations of typical strengths to help enhance your understanding.

Financial Capability

Financial capability factors relate to the availability, usages and management of funds and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the financial capability of any organisation are as follows:

Factors related to sources of funds. Capital structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus and relationship with lenders, banks and financial institutions.

Factors related to usage of funds. Capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution and relationship with shareholders.

Factors related to management of funds. Financial, accounting and budgeting systems; management control system, state of financial health, cash, inflation, credit, return and risk management; cost reduction and control and tax planning and advantages.

Based on the above factors, a number of strengths and weaknesses can be found that affect the financial capability of an organisation. The below provides a few illustrations of strengths that support financial capability. The absence or unavailability of these factors leads to the occurrence of weaknesses. For instance, access to financial resources is strength, while inaccessibility to them is a weakness. Typical strengths that support financial capability are:

Access to financial resources;
Amicable relationship with financial institutions; High level of credit-worthiness;
Efficient capital budgeting system;
Low cost of capital as compared to competitors;
High level of shareholder's confidence;
Effective management control system;
Tax benefits due to various government policies.

Marketing Capability

Marketing capability factors relate to the pricing, promotion and distribution of products or services, and all the allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Personnel Capability

Some of the important factors which influence the personnel capability of an organisation are as follows:

Factors related to the personnel system. Systems for manpower planning, selection, development, compensation, communication and appraisal, position of the personnel department within the organisation, procedures and standards, etc.

Factors related to organisational and employee characteristics. Corporate image, quality of managers, staff and workers perception about and image of the organisation as an employer, availability of developmental opportunities for employees, working conditions, etc.

Factors related to industrial relations. Union-management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, etc.

Some of the typical strengths supporting the development of personnel capability are provided below: Genuine concern for human resources management and development; Efficient and effective personnel systems; The organisation perceived as a fair and model employer; Excellent training opportunities and facilities; Congenial working environment; Highly satisfied and motivated workforce; High level of organisational loyalty; Low level of absenteeism; and Safe and salutary working conditions.

4.0 CONCLUSION

We read from this unit that all organisations have strengths and weaknesses that lead to their having capabilities. These capabilities stand the organisations in good stead when they compete for resources, customers and market share. Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development.

5.0 SUMMARY

In this unit, we explained the manner in which strategic and competitive advantage is developed; described and exemplify six factors of organisational capability; explained the process of conducting organisational appraisal; described the major methods and techniques used for organisational appraisal and prepared strategic advantages profile (SAP) for an organisation.

In the next unit, you will learn about hierarchical levels of management.

6.0 TUTOR MARKED ASSIGNMENT

With the aid of a diagram, explain what is meant by the dynamics of internal environment.

What do you understand by the term organisational capability?

7.0 REFERENCES/FURTHER READING

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UNIT 4 HIERARCHICAL LEVELS OF STRATEGY

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3.1	Corporate Level Strategy
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3.5	Decisions in Corporate Level Strategy
3.6	Corporate Level Strategic Questions
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1 INTRODUCTION

In the last unit, we explained the manner in which strategic and competitive advantage is developed; described and exemplify six factors of organisational capability; explained the process of conducting organisational appraisal; described the major methods and techniques used for organisational appraisal; prepared strategic advantages profile (SAP) for an organisation.

In the next unit, you will learn about hierarchical levels of management.

2.0 OBJECTIVES

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

- define and explain corporate level strategy;
- list the functions of corporate level strategy;
- Discuss strategy levels;
- describe the relationship between corporate level strategy and other levels of planning;
- explain decisions in corporate level strategy and corporate level strategic questions.

3.0 MAIN CONTENT

Strategy can be formulated on three different levels: corporate level, business unit level, functional or departmental level. While strategy may be about competing and surviving as a firm, one can argue that products, not corporations compete, and products are developed by business units. The role of the corporation then is to manage its business units and products so that each is competitive and so that each contributes to corporate purposes.

Corporate Level Strategy

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses. Corporate level strategy is concerned with:

Reach - defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.

Competitive Contact - defining where in the corporation competition is to be localized. Take the case of insurance: In the mid-1990's, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products. The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level, through its subsidiary, Paul Revere. (Textron divested itself of The Paul Revere Corporation in 1997.)

Managing Activities and Business Inter-relationships - Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.

Management Practices - Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

Business Unit Level Strategy

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm.

At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with:

- positioning the business against rivals
- anticipating changes in demand and technologies and adjusting the strategy to accommodate them
- influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies (*cost leadership*, *differentiation*, and *focus*) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

Functional Level Strategy

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively. Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be based. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

Function of Corporate Level Strategy

Corporate level strategy covers the strategic scope of the organization as a whole. For most organizations the corporate strategic plan is the only strategic plan required. Often strategy at the corporate level is simply referred to as corporate strategy, or in unified companies the corporate business strategy. The process that produces it is called corporate strategic planning, or sometimes simply corporate planning. In a few situations however, it may be justified to speak of corporate level strategy to distinguish it from other kinds of planning.

Strategy Levels

In the first case the organisation may be multidivisional in nature to the extent that in principle or even in law, separate parts of the enterprise could operate as viable entities in their own right.

These ‘group structures’ may undertake strategic planning as group exercise where under the corporate level strategy, each separate subsidiary or division has its own strategic planning process and strategic plan. In these cases however, one of the most significant inputs to each divisions’ strategic planning is the output of the corporate strategic planning. These outputs from corporate level strategy; usually in the form of performance targets for the divisions cannot be ignored by the subsidiary unit.

The corporate business strategy may also set down a small number of other factors that the divisions, or strategic business units as they may sometimes be called. These might include guidance on market definition, including geographic scope. For example the subsidiaries of a multinational bank may be defined by the country they operate in. In this case the corporate business strategy would set profit targets for each country bank. The corporate strategy would yield to the country banks as to the strategies they pursue in generating these profits. The country level banks would have their own business unit level strategies.

Strategic planning is a systematic, formally documented process for deciding the handful of key decisions that an organisation, viewed as a corporate whole, must get right in order to thrive over the next few years.

However, because of this wide spread usage in a variety of contexts we also use the description ‘corporate level strategy’ or ‘corporate strategy’, and refer sometimes to ‘corporate strategic planning’ to make it clear we are not talking about all these other partial or ‘non corporate’ forms

and because the successful implementation of corporate level strategy relies on cooperation and alignment across the organization as a whole, it is useful to distinguish the various levels of strategy.

Corporate level strategy and other levels of planning

Let us illustrate the place of strategic planning in the overall set of plans involved with corporate strategic planning, according to this sequence –

Responsibility Level →	Strategic Result Area →	Performance Indicators
Corporate level strategy	Corporate performance	Overall profitability
Corporate level strategy	Market definition	Market geographic scope
Business unit level strategy	Business performance	Business unit profits
Business unit level strategy	Market development	New product sales
Function level strategy	Corporate support	Service cost savings

Note when we say business unit, it may also, among other designations, be known as strategic business unit strategy or divisional strategy. And functional strategy may also apply to cross divisional or cross functional processes, or major projects. Confusing isn't it!

Decisions in corporate level strategy

Remember that at the beginning we said that corporate-level strategies address the entire strategic scope of the enterprise. This is the "big picture" view of the organization and may include deciding in which product or service markets to compete and the geographic boundaries of the organizations' operations.

For multi -divisional organizations or enterprises, how capital, staffing, and other resources are allocated is usually established at the corporate level. Additionally, because market definition is usually the domain of corporate-level strategy, the responsibility for diversification, or the addition of new products or services to the existing offerings, also mostly comes within the responsibility of corporate-level strategy. Also, whether to compete head on with other companies or to selectively establish cooperative partnering arrangements, or _strategic alliances' is a decision for corporate-level strategy, while requiring ongoing input from business unit or divisional level managers.

Corporate level strategic questions

So crucial questions addressed by corporate-level strategy, among other possibilities may include:

What should be the scope of operations; i.e.; what businesses should the firm be in? And where should it be in business?

How should the organization allocate its resources its various existing lines of business or business units?

What level of diversity should exist in the business as it moves into the future? Are there other activities the enterprise should be in or are there current activities that should be targeted for stopped or sold off to others?

What should be the nature of this diversity or how diversified should the organization be? Should it diversify in similar product or service markets, or into completely different areas; becoming a more conglomerate entity.

How should the firm be organized? What will be the boundaries of the enterprise? How will these boundaries impact relationships among parts of the business, with suppliers, customers and other interest groups? How will the organizational functions such as product development, production, distribution finance, marketing, sales customer service, etc. fit together? Are the responsibilities for each business unit clearly identified and is accountability established? Which will be carried out in-house, and which will be contracted out?

Should the firm enter into cooperative, mutually-beneficial relationships or alliances with others? If so, on what basis? If not, what impact might this have on future organizational performance?

As these questions show, corporate strategies address the long-term direction for the organization as a whole. Corporate strategies deal with plans for the entire organization and change as the capabilities of the organization develop and as the environment of the organization changes. Top management has primary decision making responsibility in developing corporate strategies and these managers are directly responsible to providers of capital to the organization, whether shareholders, donors, members, and so on depending on the type of organization . The role of the governing board of is to ensure that top managers actually act to address these owner or primary beneficiary interests.

Business-Level Strategies

Business-level strategies are similar to corporate-strategies in that they focus on overall performance. As distinct from corporate- level strategy, however, they focus on just one instead of a range of businesses. The corporate level strategy of a multi division operation is like a strategy for managing an investment portfolio.

Business units are usually individual enterprise-like entities oriented toward a particular industry, product or service type, and or market. Business-level strategies are thus primarily concerned with:

Managing unit activities so they conform to organizational corporate level strategies, sometimes including cooperation with other business units to achieve ‘strategic synergy’.

Developing distinctive capabilities, resources and competitive advantage in each unit.

Identifying product or service-market opportunities and developing strategies for succeeding in each.

4. Monitoring the business industry environment so that strategies conform to the needs of the markets at the current stage of development.

In a single-product company, corporate-level and business-level strategies are the same. Business-level strategies look at the business unit strengths, weaknesses, opportunities and threats; much like corporate-level strategies, except the emphasis in business-level strategies is on the specific product or service, not on the corporate level investment portfolio. Business-level strategies thus contribute to corporate-level strategies. Corporate-level strategies attempt to deliver benefits to the primary beneficiaries, such as increasing the wealth of shareholders through profitability of the overall corporate portfolio, and business-level strategies are concerned with:

matching their operations with the overall objectives of corporate-level strategy while simultaneously

navigating the environment in which they are active in such a way that they are among the better performers in their industry.

Functional-Level Strategies

Functional-level strategies are concerned with managing the functional areas of the organization, such as product or service development and design, marketing and sales, finance, human resources, production, research and development, etc., so that each function upholds contributes to individual business unit strategies and the overall corporate-level strategy.

Functional strategies are primarily concerned with:

Efficiently deploying specialists within the functional area.

Integrating activities within the functional area

Making sure that functional strategies link effectively and efficiently with business strategies and the overall corporate-level strategy.

4.0 CONCLUSION

Strategies for an organization may be classified by the level of the organization responsible for the strategy. Corporate -level strategies concern top management and address strategic issues of facing the organization as a corporate whole.

SUMMARY

In this unit, we defined and explained corporate level strategy; listed the functions of corporate level strategy; discussed strategy levels; described the relationship between corporate level strategy and other levels of planning; and explained decisions in corporate level strategy and corporate level strategic questions.

With this, we have come to the conclusion of the course. Please read through your material again and assimilate it.

TUTOR MARKED ASSIGNMENT

Define and explain the concept corporate level strategy.

What is the relationship between corporate level strategy and other levels of planning?

7.0 REFERENCES/FURTHER READINGS

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MODULE 4 CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Unit 1	Corporate Governance: Role of the Board of Directors
Unit 2	Corporate Governance: Role of the Top Management
Unit 3	Social Responsibilities of Strategic Decision Makers
Unit 4	Ethical Decision Making

UNIT 1 CORPORATE GOVERNANCE: ROLE OF THE BOARD OF DIRECTORS

CONTENTS

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3.2	Definition of Corporate Governance
3.3	Responsibilities of the Board
3.3.1	Role of the Board in Strategic Management
3.3.2	Board of Directors Continuum
3.4	Members of a Board of Directors
3.5	Nomination and Election of Board Members
3.6	Organisation of the Board
3.7	Trends in Corporate Governance
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1.0 INTRODUCTION

In this module, you will discuss extensively on corporate governance and social responsibilities.

This is the first unit in this module and it will be devoted to the role of the board of directors in corporate governance.

2.0 OBJECTIVES

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

- define a corporation;
- define corporate governance;
- list members of a board of directors;
 - discuss nomination and election of board members;
- describe the organization of the board;
- Discuss the trends in corporate governance.

3.0 MAIN CONTENT

3.1 Definition of a Corporation

A corporation is a mechanism established to allow different parties to contribute capital, expertise, and labour, for their mutual benefit. The investor/shareholder participates in the profits of the enterprise without taking responsibility for the operations. Management runs the company without being responsible for personally providing the funds. To make this possible, laws have been passed so that shareholders have limited liability and, correspondingly, limited involvement in a corporation's activities. That involvement does include, however, the right to elect directors who have a legal duty to represent the shareholders and protect their interests. As representatives of the shareholders, directors have both the authority and the responsibility to establish basic corporate policies and to ensure that they are followed (Monks and Minow, (1995).

The board of directors has, therefore, an obligation to approve all decisions that might affect the long-run performance of the corporation. This means that the corporation is fundamentally governed by the board of directors overseeing top management, with the concurrence of the shareholder.

3.2 Definition of Corporate Governance

The term corporate governance refers to the relationship among these three groups in determining the direction and performance of the corporation.

Dobrzynski (1992) reports that for the past decade, shareholders have questioned the role of board of directors in corporations and they are concerned that outside board members often lack of sufficient knowledge, involvement, and enthusiasm to do an adequate job of providing guidance to top management. The general public has not only become more aware and more critical of many boards' apparent lack of responsibility of corporate activities, it has begun to push government to demand accountability. As a result, the board as a rubber stamp of the chief executive officer or as a bastion of the –old-boyll selection system is being replaced by more active, more professional boards.

3.3 Responsibilities of the Board

Laws and standards defining the responsibilities of boards of directors vary from country to country. For example, the United States has no clear national standards or federal laws. Specific requirements of directors vary, depending on the state in which the corporate charter is issued. There is, nevertheless, a developing worldwide consensus concerning the major responsibilities of a board. In Nigeria, the corporate affairs commission (CAC) has spelt out the guidelines for the responsibilities of the board of directors in corporate organisations. The following a list of five board of director responsibilities listed in order of importance:

- setting corporate strategy, overall direction, mission or vision;
- hiring and firing the chief executive officer and top management;

controlling, monitoring, or supervising top management;
reviewing and approving the use of resources;
caring for shareholder interests (Demb and Neubauer, 1992).

Directors must make certain, in addition to the duties just listed above, ensure management's adherence to laws and regulations, such as those dealing with the issuance of securities, insider trading, and other conflict-of-interest situations. They must also be aware of the needs and demands of constituent groups so that they can achieve a judicious balance among the interests of these diverse groups while ensuring the continued functioning of the corporation.

In a legal sense, the board is required to direct the affairs of the corporation but not to manage them. It is charged by law to act with due care, or due diligence. If a director or the board as a whole fails to act with due care and, as a result, the corporation is in some way harmed, the careless director or directors can be held personally liable for the harm done (Light, 1996).

3.3.1 Role of the Board in Strategic Management

The role of the board of directors in strategic management is to carry out three basic tasks:

Monitor: By acting through its committees, a board can keep abreast of developments inside and outside the corporation, bringing to management's attention developments it might have overlooked. A board should at least carry out this task.

Evaluate and influence: A board can examine management's proposals, decisions, and actions; agree or disagree with them; give advice and offer suggestions; outline alternatives. More active boards perform this task in addition to the monitoring one.

Initiate and determine: A board can delineate a corporation's mission and specify strategic options to its management. Only the most active boards take on this task in addition to the two previous ones.

3.3.2 Board of Directors Continuum

A board of directors is involved in strategic management to the extent that it carries out the three tasks of monitoring, evaluating and influencing, and initiating and determining. The board of directors' continuum shown in the figure below shows the possible degree of involvement (from low to high) in the strategic management process. Judge and Zeithaml (1992) state that as types, boards can range from phantom boards with no real involvement to catalyst boards with a very high degree of involvement. Highly involved boards tend to be very active. They take their tasks of monitoring, evaluating, and influencing, plus initiating and determining very seriously; they provide when necessary and keep management at alert. As a board becomes less involved in the affairs of the corporation, it moves farther to the left of the continuum. On the far left are passive phantom or rubber stamp boards that typically never initiative or determine strategy unless a crisis occurs. In these situations, the chief executive officer also serves as chairman of the board, personally nominates all directors, and works to keep board members under his or her control by giving them the –mushroom treatment – throw manure on them and keep them in the dark!

Table showing Board of Directors Continuum

Low ← Degree of Involvement in Strategic Management → High					
Phantom	Rubber stamp	Minimal review	Nominal participation	Active participation	Catalyst
Never knows what to do, if anything; no degree of involvement	Permits officers to make all decisions. It votes as the officers recommend on action issues	Formally reviews selected issues that officers bring to its attention	Involved to a limited degree in the performance or review of selected key decisions, indicators, or programs of management	Approves, questions, and makes final decisions on mission, strategy, policies, and objectives. Has active board committees. Performs fiscal and management audits	Takes the leading role in establishing and modifying the mission, objectives, strategy, and policies. It has a very active strategy committee.

Source: Wheelen, T.L. and Hunger, J.D. (1994). –Board of Directors Continuumll.

Generally, the smaller the corporation, the less active is its board of directors. In an entrepreneurial venture, for example, the privately-held corporation may be 100 percent owned by the founders – who also manage the company. In this case, there is no need for an active board to protect the interests of the owner-manager shareholders – the interests of the owners and the managers are identical. In this instance, a board is really unnecessary and only meets to satisfy legal requirements. If stock is sold to outsiders to finance growth, however, the board becomes more active. Key investors want seats on the board so they can oversee their investment. To the extent that they still control most of the stock, however, the founders dominate the board. Friends and family members, and key shareholders usually become members, but the board acts primarily as a rubber stamp for any proposals put forward by the owner-managers. This cozy relationship between the board and management should change, however, when the corporation goes public and stock is more widely dispersed. The founders, who are still acting as management, may sometimes make decisions that conflict with the needs of the other shareholders (especially if the founders own less than 50 percent of the common stock). In this instance, problems could occur if the board fails to become more active in terms of its roles and responsibilities. Most large, publicly-owned corporations probably have boards that operate at some point between nominal and active participation.

3.4 Members of a Board of Directors

Finkelstein and Hambrick (1996) assert that the boards of most publicly owned corporations are composed of both inside and outside directors. Inside directors (sometimes called management directors) are typically officers or executives employed by the corporation. Outside directors may be executives of other firms but are not employees of the board's corporation.

People who favour a high proportion of outsiders state that outside directors are less biased and more likely to evaluate management's performance objectively than are inside directors. This view is in agreement with agency theory which states that problems arise in corporations because the agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation. The theory suggests that a majority of a board needs to be from outside the firm so that top management is prevented from acting selfishly to the detriment of the shareholders.

In contrast, those who prefer inside over outside directors contend that outside directors are less effective than are insiders because the outsiders are less likely to have the necessary interest, availability, or competency. Directors may sometimes serve on so many boards that they spread their time and interest too thin to actively fulfill their responsibilities. They could also point out that the term –outsider‖ is too simplistic – some outsiders are not truly objective and should be considered more as insiders than as outsiders. For example there can be:

Affiliated directors who, though not really employed by the corporation, handle the legal or insurance work for the company (thus dependent on the current management for a key part of their business);

Retired directors who used to work for the company, such as the past chief executive officer (partly responsible for much of the corporation’s current strategy and probably groomed the current CEO as his or her replacement);

Family directors who are descendants of the founder and own significant blocks of stock (with personal agendas based on a family relationship with the current CEO).

3.5 Interlocking Directorates

There is need for you to understand the concept interlocking directorate. Sometimes CEOs often nominate chief executives (as well as board members) from other firms to membership on their own boards in order to create an interlocking directorate. A direct interlocking directorate occurs when two firms share a director or when an executive director of one firm sits on the board of a second firm. An indirect interlock occurs when two corporations have directors who also serve on the board of a third firm, such as a bank.

Interlocking occurs because large firms have a large impact on other corporations; and these other corporations, in turn, have some control over the firm’s inputs and marketplace. Interlocking directorates are also a useful method for gaining inside information about an uncertain environment and objective expertise about potential strategies and tactics. Family-owned corporations, however, are less likely to have interlocking directorates than are corporations with highly dispersed stock ownership, probably because family-owned corporations do not like to dilute their corporate control by adding outsiders to boardroom discussions. Nevertheless some evidence indicates that well-interlocked corporations are better able to survive in a highly competitive environment.

3.6 Nomination and Election of Board Members

O’Neal and Thomas (1996) state that traditionally, the chief executive officer of the corporation decided whom to invite to board membership and merely asked the shareholders for approval in the annual proxy statement. All nominees were usually elected. There are some dangers, however, in allowing the CEO free reign in nominating directors. The CEO might select only board members who, in the CEO’s opinion, will not disturb the company’s policies and functioning. The directors selected by the CEO often feel that they should along with any

propose the CEO makes. Thus, board members find themselves accountable to the very management they are charged to oversee.

An argument in favour of this practice are that it provides continuity by reducing the chance of an abrupt turnover in its membership and that it reduces the likelihood of electing people unfriendly to management (who might be interested in a hostile takeover) through cumulative voting. An argument against staggered boards is that they make it more difficult for concerned shareholders to curb a CEO's power – especially when that CEO is the chairman of the board.

3.7 Organisation of the Board

The size of the board is determined by the corporation's charter and its bye-laws in compliance with state laws. Although some states require a minimum number of board members, most corporations have quite a bit of discretion in determining board size. The average large, publicly-held firm has around 11 directors. The average small/medium size privately-held company has approximately seven to eight members.

In the US, the positions of chairman and chief executive officer are combined in one person in many of the corporations in the U.S. However, the combined chair/chief executive officer position is being increasingly criticised because of the potential for conflict of interest. The CEO is supposed to concentrate on strategy, planning, external relations, and responsibility to the board. The chairman's responsibility is to ensure that the board and its committees perform their functions as stated in the board's charter. Further, the chairman schedules board meetings and presides over the annual shareholder's meeting. Critics of combining the two officers in one person ask how the board can properly oversee top management if the chairman is also top management. For this reason, the chairman and CEO roles are separated by the law in Germany, the Netherlands, and Finland. A similar law is being considered in Britain and Australia.

However, many of those who prefer that the chairman and CE positions be combined do agree that the outside directors should elect a lead director. This person would be consulted by the Chair/CEO regarding board affairs and would coordinate the annual evaluation of the CEO. The lead director position is very popular in the UK where it originated.

The most effective boards accomplish much of their work through committees. Although they do not usually have legal duties, most committees are granted full powers to act with the authority of the board between board meetings. Typical standing committees are the executive, audit, compensation, finance, and nominating committees. The executive committee is formed from local directors who can meet between board meetings to attend to matters that must be settled quickly. This committee acts as an extension of the board and, consequently, may have almost unrestricted authority in certain areas.

3.8 Trends in Corporate Governance

The role of the board of directors in the strategic management of the corporation is likely to be more active in the future. The change will probably be more evolutionary, however, rather than

radical or revolutionary. Different boards are at different levels of maturity and will not be changing in the same direction or at the same speed.

Some of today's trends in governance that are likely to continue include:

Institutional investors, such as pension funds, mutual funds, and insurance companies, are becoming active on boards and are putting increasing pressure on top management to improve corporate performance.

As corporations become more global, they will increasingly add international directors to their boards.

Shareholders are demanding that directors and top managers own more than token amounts of stock in the corporation. Stock is increasingly being used as part of a director's compensation.

Outside or non-management directors are increasing their numbers and power in publicly-held corporations as CEOs loosen their grip on boards. Outsiders are now taking charge of annual CEO evaluations.

Boards will continue to take more control of board functions by either splitting the combined Chair/CEO into two separate positions or establishing a lead outside director position.

Society, in the form of special interest groups, increasingly expects boards of directors to balance the economic goal of profitability with the social needs of society. Issues of dealing with workforce diversity and the environment are now reaching the board level.

4.0 CONCLUSION

This unit discussed extensively the responsibilities of the board of directors in corporate governance and social responsibilities.

5.0 SUMMARY

In this unit, we have defined a corporation; defined corporate governance; listed members of a board of directors; discussed nomination and election of board members; described the organization of the board and discussed the trends in corporate governance.

6.0 TUTOR-MARKED ASSIGNMENT

Does a corporation really need a board of directors?

What recommendations would you make to improve the effectiveness of today's board of directors?

What is the relationship between corporate governance and social responsibility?

7.0 REFERENCES/FURTHER READINGS

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UNIT 2 CORPORATE GOVERNANCE: ROLE OF THE TOP MANAGEMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Responsibilities of Top Management
 - 3.2 Executive Leadership and Strategic Vision
 - 3.3 Manage the Strategic Planning Process
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

The top management function is usually conducted by the chief executive officer (CEO) of the corporation in coordination with the chief operating officer (COO) or president, executive vice president, and vice presidents of divisions and functional areas. Even though strategic management involves everyone in the organisation, the board of directors holds top management primarily responsible for the strategic management of the firm (Finkelstein and Hambrick, 1996).

In this unit, we shall discuss the roles and responsibilities of top management in corporate governance. This discussion will lead to executive leadership and strategic vision, management of strategic planning process and the duties of strategic planning staff.

2.0 OBJECTIVES

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

- discuss the responsibilities of top management in corporate governance;
- explain the work of the top management in relation to strategic planning process
- Describe top management duty in respect of executive leadership and strategic vision.

3.0 MAIN CONTENT

3.1 Responsibilities of Top Management

Top management responsibilities, especially those of the chief executive officer, involve getting things accomplished through and with others in order to meet the corporate objectives. Top management's job is thus multidimensional and is oriented toward the welfare of the total organisation.

Specific top management tasks vary from firm to firm and are developed from an analysis of the mission, objectives, strategies, and key activities of the corporation. The chief executive officer,

in particular, must successfully handle two responsibilities crucial to the effective strategic management of the corporation. They are:

provide executive leadership and a strategic vision, and
manage the strategic planning process.

3.2 Executive Leadership and Strategic Vision

Executive leadership is the directing of activities toward the accomplishment of corporate objectives. Executive leadership is important because it sets the tone for the entire corporation. A strategic vision is a description of what the company is capable of becoming. It is often communicated in the business statement. People in an organisation want to have a sense of mission, but only top management is in the position to specify and communicate this strategic vision to the general workforce. Top management's enthusiasm (or lack of) about the corporation tends to be contagious. The importance of executive leadership is illustrated by John Welch, Jr., the successful Chairman and CEO of General Electric Company (GE) quoted in Tichy and Charan (1989) as follows:

–Good business leaders create a vision, articulate the vision, passionately own the vision and relentless drive it to completion.

Chief executive officers with a clear strategic vision are often perceived as dynamic and charismatic leaders. For instance, the positive attitude characterising many well-known industrial leaders – such as Bill Gates at Microsoft, Anita Roddick at the Body Shop, Ted Turner at CNN, Herb Kelleher at Southwest Airlines, and Andy Grove at Intel – has energized their respective corporations. They are able to command respect and to influence strategy formulation and implementation because they tend to have three key characteristics:

The CEO articulates a strategic vision for the corporation. The CEO envisions the company not as it currently is, but as it can become. The new perspective that the CEO's vision brings to activities and conflicts gives renewed meaning to everyone's work and enables employees to see beyond the details of their own jobs to the functioning of the total corporation.

The CEO presents a role for others to identify with and to follow. The leader sets an example in terms of behaviour and dress. The CEO's attitudes and values concerning the corporation's purpose and activities are clear-cut and constantly communicated in words and deeds.

The CEO communicates high performance standards but also shows confidence in the followers' abilities to meet these standards. No leader ever improved performance by setting easily attainable goals that provided no challenge. The CEO must be willing to follow through by coaching people.

3.3 Manage the Strategic Planning Process

As business corporations adopt more of the characteristics of the learning organisation, strategic planning initiatives can now come from any part of an organisation. However, unless top management encourages and supports the planning process, strategic management is not likely to result. In most corporations, top management must initiate and manage the strategic planning process. It may do so by first asking business units and functional areas to propose strategic plans for themselves, or it may begin by drafting an overall corporate plan within which the units can then build their own plans. Other organisations engage in concurrent strategic planning in which all the organisation's units draft plans for themselves after they have been provided with the organisation's overall mission and objectives.

Regardless of the approach taken, the typical board of directors expects top management to manage the overall strategic planning process so that the plans of all the units and functional areas fit together into an overall corporate plan. Top management's job therefore includes the tasks of evaluating unit plans and providing feedback. To do this, it may require each unit to justify its proposed objectives, strategies, and programs in terms of how well they satisfy the organisation's overall objectives in the light of available resources (Fogg, 1994).

Many large organisations have a strategic planning staff charged with supporting both top management and the business units in the strategic planning process. This planning staff typically consists of just fewer than ten people, headed by a senior vice president or director of corporate planning. The staff's major responsibilities are to:

- Identify and analyze companywide strategic issues, and suggest corporate strategic alternatives to top management;

- Work as facilitators with business units to guide them through the strategic planning process.

To fulfill these responsibilities, the planning staff must have an in-depth knowledge of the principal techniques used in the strategic planning process.

4.0 CONCLUSION

We have discussed the roles and responsibilities of top management in corporate governance.

5.0 SUMMARY

In this unit, we have discussed the responsibilities of top management in relation corporate governance; explained the work of the top management in relation to strategic planning process; and described the work of the top management in respect of executive leadership and strategic vision.

6.0 TUTOR-MARKED ASSIGNMENT

–Good business leaders create a vision, articulate the vision, and passionately own the vision and relentless drive it to completion. Discuss this statement in relation to executive leadership and strategic vision.

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UNIT 3 SOCIAL RESPONSIBILITIES OF STRATEGIC DECISION MAKERS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Responsibilities of a Business Firm
 - 3.1.1 Friedman's Traditional View of Business Responsibility
 - 3.1.2 Carroll's Four Responsibilities of Business
 - 3.2 Social Responsibility
 - 3.3 Corporate Stakeholders
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

The concept social responsibility proposes that a private corporation has responsibilities to society that extend beyond making a profit. Strategic decisions often affect more than just the corporation. A decision to retrench by closing some plants and discontinuing product lines, for example, affects not only the firm's workforce, but also the communities where the plants are located and the customers with no other source of the discontinued product. Such situations raise questions of the appropriateness of certain missions, objectives, and strategies of business corporations. Managers must be able to deal with these conflicting interests in an ethical manner to formulate a viable strategic plan.

In this unit, we shall be discussing the responsibilities of a business firm, social responsibility and corporate stakeholders.

2.0 OBJECTIVES

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

- highlight the responsibilities of a business firm;
- state how much of them must be fulfilled;
- state Friedman's traditional view of business responsibility, and
- State Carroll's four responsibilities of business.

3.0 MAIN CONTENT

3.1 Responsibilities of a Business Firm

This topic will be discussed under the following sub-topics:

Friedman's Traditional view of Business Responsibility

Carroll's four responsibilities of Business

3.1.1 Friedman's Traditional View of Business Responsibility

Urging a return to a laissez-faire worldwide economy with a minimum of government regulation, Milton Friedman argues against the concept of social responsibility. A business person who acts –responsibly by cutting the price of the firm's product to prevent inflation, or by making expenditures to reduce pollution, or by hiring the hard-core unemployed, according to Friedman, is spending the shareholder's money for a general social interest. Even if the business person has shareholder permission or encouragement to do so, he or she is still acting from motives other than economic and may, in the long run, harm the very society the firm is trying to help. By taking on the burden of these social costs, the business becomes less efficient – either price goes up to pay for the increased costs or investment in new activities and research is postponed. These results negatively affect – perhaps fatally – the long -term efficiency of a business. Friedman thus referred to the social responsibility of business as a –fundamentally subversive doctrine and stated that:

–There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud (Friedman, 1970).

3.1.2 Carroll's Four Responsibilities of Business

As shown in the figure below, Archie Carroll proposes that the managers of business organisations have four responsibilities: economic, legal, ethical, and discretionary (Carroll, 1979):

Social Responsibilities			
Economic	Legal	Ethical	Discretionary
(Must Do)	(Have to Do)	(Should Do)	(Might Do)

Source: Adapted from Carroll, A.B. (1979). –Dimensional Conceptual Model of Corporate Performance, Academy of Management Review (October) p. 499.

Economic responsibilities of a business organisation's management are to produce goods and services of value to society so that the firm may repay its creditors and shareholders.

Legal responsibilities are defined by governments in laws that management is expected to obey. For example, U.S. business firms are required to hire and promote people based on their credentials rather than to discriminate on non-job-related characteristics such as race, gender, or religion.

Ethical responsibilities of an organisation's management are to follow the generally held beliefs about behaviour in a society. For example, society generally expects firms to work with the employees and the community in planning for layoffs, even though no law may require this. The affected people can get very upset if an organisation's management fails to act according to generally prevailing ethical values.

Discretionary responsibilities are the purely voluntary obligations a corporate assumes. Examples are philanthropic contributions, training the hard-core unemployed, and providing day-care centres. The difference between ethical and discretionary responsibilities is that few people expect an organisation to fulfill discretionary responsibilities whereas many expect an organisation to fulfill ethical ones (Carroll, 1991).

Carroll lists these four responsibilities in order of priority. A business must first make a profit to satisfy its economic responsibilities. To continue in existence, the firm must follow the laws – thus fulfilling its legal responsibilities. To this point, Carroll and Friedman are in agreement. Carroll, however, goes further by arguing that business managers have responsibilities beyond the economic and legal ones.

Having satisfied the two basic responsibilities, according to Carroll, the firm should look to fulfilling its social responsibilities.

3.2 Social Responsibility

Social responsibility, therefore, includes both ethical and discretionary, but not economic and legal responsibilities. A firm can fulfill its ethical responsibilities by taking actions that society tends to value but has not yet put into law. When ethical responsibilities are satisfied, a firm can focus on discretionary responsibilities – purely voluntary actions that society has not yet decided are important.

The discretionary responsibilities of today may become the ethical responsibilities of tomorrow. The provision of day-care facilities is, for example, moving rapidly from a discretionary to an ethical responsibility. Carroll suggests that to the extent that business corporations fail to acknowledge discretionary or ethical responsibilities, society through government, will act, making them legal responsibilities. Government may do this, moreover, without regard to an organisation's economic responsibilities. As a result, the organisation may have greater difficulty in earning a profit than it would have had if it had voluntarily assumed some ethical and discretionary responsibilities.

Both Friedman and Carroll argue their positions based on the impact of socially responsible actions on a firm's profits. Friedman says that socially responsible actions hurt a firm's efficiency. Carroll proposes that a lack of social responsibility results in increased government regulations, which reduce a firm's efficiency. Research has failed, unfortunately, to consistently support either position. There is no clear relationship between social responsibility and financial performance (Rechner and Roth, 1990).

In contrast, firms that are known to be ethical and socially responsible often enjoy some benefits that may even provide them a competitive advantage. Some examples of these benefits are:

Their environmental concerns may enable them to charge premium prices and gain brand loyalty.

Their trustworthiness may help them generate enduring relationships with suppliers and distributors without needing to spend a lot of time and money policing contracts.

They can attract outstanding employees at less than the market rate.

They are more likely to be welcomed into a foreign country.

They can utilize the goodwill of public officials for support in difficulty times.

They are more likely to attract capital infusions from investors who view reputable companies as desirable long-term investments (Preece et. al., 1995).

3.3 Corporate Stakeholders

The concept that business must be socially responsible sounds appealing until we ask, –Responsible to whom?‖ A corporation’s task environment includes a large number of groups with interest in a business organisation’s activities. These groups are referred to as corporate stakeholders because they affect or are affected by the achievement of the firm’s objectives (Freeman and Gilbert, 1988). Should a corporation be responsible only to some of these groups, or does business have an equal responsibility to all of them?

In any one strategic decision, the interests of one stakeholder group can conflict with another. For example, a business firm’s decision to use only recycled materials in its manufacturing process may have a positive effect on environmental groups but a negative effect on shareholder dividends. Given the wide range of interests and concerns present in any organisation’s task environment, one or more groups, at any one time, probably will be dissatisfied with an organisation’s activities – even if management is trying to be socially responsible.

4.0 CONCLUSION

The discussion shows that it is not possible for a corporate business to satisfy all stakeholders in order to be socially responsible. In this type of situation, the concept of social responsibility proposes that a private corporation has responsibilities to society that extend beyond making a profit.

5.0 SUMMARY

In this unit, we have highlighted the responsibilities of a business firm; stated how much of them must be fulfilled; stated Friedman’s traditional view of business responsibility, and stated Carroll’s four responsibilities of business.

6.0 TUTOR-MARKED ASSIGNMENT

What do you see as the perception of Milton Friedman about the concept social responsibility?

How would compare this view with that of Archie Carroll.

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UNIT 4 ETHICAL DECISION MAKING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Reasons for Unethical Behaviour
 - 3.2 Moral Relativism
 - 3.3 Encouraging Ethical Behaviour
 - 3.4 Codes of Ethics
 - 3.5 Guidelines for Ethical Behaviour
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

This unit will introduce to you the ethics in business. It will enumerate the reasons for unethical behaviour, discuss moral relativism, suggest encouraging ethical behaviour, list the code of ethics and suggest the guidelines for ethical behaviour.

2.0 OBJECTIVES

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

- enumerate the reasons for unethical behaviour in business;
- discuss moral relativism;
- suggest encouraging ethical behaviour;
- list the code of ethics, and
- suggest the guidelines for ethical behaviour.

3.0 MAIN CONTENT

3.1 Reasons for Unethical Behaviour

You may want to ask: –Why are many business people perceived to be acting unethically? It may be that the involved people are not even aware that they are doing something questionable. There is no worldwide standard of conduct for business people. Cultural norms and values vary between countries and even between different geographic regions and ethnic groups within a country. For example, what is considered in one country to be a bribe to expedite service is sometimes considered in another country to be normal business practice. Another possible reason for what is often perceived to be unethical behaviour lies in differences in values between business people and key stakeholders. Some business people may believe profit maximization is

the key goal of their firm, whereas concerned interest groups may have other priorities, such as the hiring of minorities and women or the safety of their neighborhoods (Kumar, 1995).

This difference in values can make it difficult for one group of people to understand another's actions. For example, even though some people feel that the advertising of cigarettes (especially to the youth) is unethical, the people managing these companies respond that they are simply offering a product – "Let the buyer beware" is a traditional saying in free market capitalism. They argue that customers in a free market democracy have the right to choose how they spend their money and live their lives. Social progressives may contend that business people working in tobacco, alcoholic beverages, and gambling industries are acting unethically by making and advertising products with potentially dangerous and expensive side effects, such as cancer, alcoholism, and addiction. People working in these industries could respond by asking if it is ethical for people who don't smoke, drink, or gamble to reject another person's right to do so.

3.2 Moral Relativism

Some people justify their seeming unethical positions by arguing that there is no one absolute code of ethics and that morality is relative. Simply put, moral relativism claims that morality is relative to some personal, social, or cultural standard and that there is no method for deciding whether one decision is better than another.

Adherents of moral relativism may believe that all moral decisions are deeply personal and that individuals have the right to run their own lives; each person should be allowed to interpret situations and act on his or her own moral values. They may also argue that social roles carry with them certain obligations to those roles only. A manager in charge of a department, for example, must put aside his or her personal beliefs and do instead what the role requires, that is, act in the best interests of the department. They could also argue that a decision is legitimate if it is common practice regardless of other considerations ("Everyone's doing it"). Some propose that morality itself is relative to a particular culture, society, or community. People should therefore "understand" the practices of other countries, but not judge them. If the citizens of another country share certain norms and customs, what right does an outsider have to criticize them?

Although these arguments make sense, moral relativism could enable a person to justify almost any sort of decision or action, so long as it is not declared illegal.

3.3 Encouraging Ethical Behaviour

Another reason why some business people might be seen as unethical is that they may have no well-developed personal sense of ethics. A person's ethical behaviour will be affected by his or her level of moral development, certain personality variables, and such situational factors as the job itself, the supervisor, and the organisational culture (Trevino, 1986). Kohlberg (1976) proposes that a person progresses through three levels of moral development. Similar in some ways to Maslow's hierarchy of needs the individual's moves from total self-centredness to a concern for universal values. Kohlberg's three levels are as follows:

The preconventional level is characterised by a concern for self. Small children and others who have not progressed beyond this stage evaluate behaviours on the basis of personal interest – avoiding punishment or quid pro quo.

The conventional level is characterised by considerations of society's laws and norms. Actions are justified by an external code of conduct.

The principled level is characterised by a person's adherence to an internal moral code. The individual at this level looks beyond norms or laws to find universal values or principles.

Following Carroll's work on encouraging ethical behaviour, if business people do not act ethically, government will be forced to pass laws regulating their actions – and usually increasing their costs. For self interest, if for no other reason, managers should be more ethical in their decision making. One way to do that is by encouraging codes of ethics. Another is by providing guidelines for ethical behaviour.

3.4 Codes of Ethics

Codes of ethics specify how an organisation expects its employees to behave while on the job. Developing codes of ethics can be a useful way to promote ethical behaviour, especially for people who are operating at Kohlberg's conventional level of moral development. The importance of this code is that it:

- clarifies company expectations of employee conduct in various situations, and

- makes clear that the company expects its people to recognise the ethical dimensions in decisions and actions (Keogh, 1988).

Various studies do indicate that an increasing number of companies are developing codes of ethics and implementing ethics training workshops and seminars. However, research also indicates that when faced with a question of ethics, managers tend to ignore codes of ethics and try to solve dilemmas on their own (Kohut and Corriher, 1994). To combat this tendency, the management of a company that wants to improve its employees' ethical behaviour should not only develop a comprehensive code of ethics, but also communicate the code in its training programs, performance appraisal system, in policies and procedures, and through its own actions. It may also want to do the same for those companies with which it does business.

3.5 Guidelines for Ethical Behaviour

According to Von der Embse and Wagley (1988), ethics is defined as the consensually accepted standards of behaviour for an occupation, trade or profession. Morality, in contrast, is the precepts of personal behaviour based on religious or philosophical grounds. Law refers to formal codes that permit or forbid certain behaviours and may or may not enforce ethics or morality. Given these definitions, how do we arrive at a comprehensive statement of ethics to use in

making decisions in a specific occupation, trade, or profession? A starting point for such a code of ethics is to consider the three basic approaches to ethical behaviour (Cavanagh, 1990):

Utilitarian approach: This approach proposes that actions and plans should be judged by their consequences. People should therefore behave in such a way that will produce the greatest benefit to society and produce the least harm or the lowest cost. A problem with this approach is the difficulty in recognising all the benefits and the costs of any particular decision. It is likely that only the most obvious stakeholders may be considered, and others may be –conveniently‖ forgotten.

Individual rights approach: This approach proposes that human beings have certain fundamental rights that should be respected in all decisions. A particular decision or behaviour should be avoided if it interferes with the rights of others. A problem with this approach is in defining –fundamental rights‖. The approach can also encourage selfish behaviour when a person defines a personal need or want as a –right‖.

Justice approach: This approach proposes that decision makers be equitable, fair, and impartial in the distribution of costs and benefits to individuals and groups. It follows the principles of distributive justice (people who are similar on relevant dimensions such as job seniority should be treated in the same way) and fairness (liberty should be equal for all persons). The justice approach can also include the concept of retributive justice (punishment should be proportional to the –crime‖) and compensatory justice (wrongs should be compensated in proportion to the offence). Affirmative action issues such as reverse discrimination are examples of conflicts between distributive and compensatory justice.

Cavanagh proposes that we solve ethical problems by asking the following three questions regarding an act or decision:

- Utility: does it optimise the satisfactions of all stakeholders?
- Rights: does it respect the rights of the individuals involved?
- Justice: is it consistent with the canons of justice?

For example, is padding an expense account ethical or not? Using the utility criterion, this action increases the company's costs and thus does not optimise benefits for the shareholders or customers. Using the rights approach, a person has no right to the money (otherwise we wouldn't call it –padding‖). Using the justice criterion, salary and commissions constitute ordinary compensation, but expense accounts only compensate a person for expenses incurred in doing his or her job – expenses that the person would not normally incur except in doing this job.

Another approach in resolving ethical dilemmas is by applying the logic of the philosopher Immanuel Kant. Kant (1995) presents two principles (called categorical imperatives) to guide our actions:

- A person's action is ethical only if that person is willing for that same action to be taken by everyone who is in a similar situation. This is same as the Golden Rule: Treat others

as you would like them to treat you. For example, padding an expense account would be considered ethical if the person were also willing for everyone to do the same if he or she were the boss. Because it is very doubtful that any manager would be pleased with expense account padding, the action must be considered unethical.

A person should never treat another human being simply as a means, but always as an end. This means that an action is morally wrong for a person if that person uses others merely as means for advancing his or her own interests. To be moral, the act should not restrict another people's actions so that they are left disadvantaged in some way.

4.0 CONCLUSION

We have learnt in this unit that ethics is the consensually accepted standards of behaviour for an occupation, trade or profession. We have also discussed the approach to resolving ethical dilemmas.

5.0 SUMMARY

In this unit, we have enumerated the reasons for unethical behaviour in business; discussed moral relativism; suggested encouraging ethical behaviour; listed the code of ethics, and suggested the guidelines for ethical behaviour.

6.0 TUTOR-MARKED ASSIGNMENT

Define moral relativism.

What reasons can you canvases for unethical decisions/actions?

What do you understand by code of ethics?

Enumerate some of the guidelines for ethical behaviour.

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MODULE 5 INTRODUCTION TO CASE STUDIES/ANALYSIS

Unit 1	Methodologies for Case Studies
Unit 2	Case Studies

UNIT 1 METHODOLOGIES FOR CASE STUDIES

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Definition of Case Study
3.2	Development of Skills in Case Study
3.3	Case Analysis
3.3.1	Recommended Steps in Case Analysis
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further References

1.0 INTRODUCTION

In this unit of Module 5, we shall discuss the methodology for case studies. This discussion will centre on the definition of case study, development of skills, case analysis including the recommended steps for carrying out case analysis.

2.0 OBJECTIVES

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

- define the term ‘_case study’;
- enumerate the skills to be developed in case analysis;
- discuss case analysis;
- list and explain the steps in case analysis.

3.0 MAIN CONTENT

3.1 Definition of Case Study

Omotola (2004) defined case study as a collection of facts, opinions and judgements relating to an actual business situation in which a problem exists and a decision must be made or taken. It is a study of the exact (or hypothetical) situation in a particular business. According to him, the case study method is one which encourages learning by doing.

3.2 Development of Skills in Case Study

The case study method of learning is used to develop in the manager or potential manager the following skills:

- analyzing business situations;
- diagnosing problems;
- developing alternative solutions;
- developing analytical ability and judgement.

Analyzing Business Situations

Hornby (2006) defined analysis as the detailed study or examination of something in order to understand more about it. Analysis is a derivative of the word analyse which means to examine the nature or structure of something, especially by separating it into its parts in order to understand or explain it.

Analysing business situations means examining or studying the situation, condition or ecosystem of a business in order to explain the rationale behind different events or developments arising from the business. Before developing any given marketing strategy it is important to conduct some form of analysis. This should form an essential part of any business or marketing plan and should be reviewed over time to ensure that it is kept current.

The primary purpose for the situation analysis section of a marketing plan is to describe what is happening in the markets, in which the company competes, and the company's product and distribution trends.

The elements worth considering include:

Product Situation

What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs. Feel free to also discuss here which of your client's needs your product is meeting.

Competitive situation

Analyze your main competitors – who are they what are they up to – how do they compare – feature/ benefit analysis. What are their competitive advantages?

Distribution Situation

Review your distribution Situation – how are you getting your product to market? Do you need to go through distributors or other intermediaries?

Environmental Factors

What external and internal environmental factors are there which need to be taken into account. This can include economic or sociological factors that impact on your performance.

Diagnosing Problems

This is the act of discovering, assessing or identifying something, especially an illness or problem. Diagnosing is a derivative of the word ‘diagnose’ which Hornby (2006) defined as —saying exactly what an illness or the cause of a problem is.

To diagnose is to discover the cause of or nature of a problem. It is to recognize the signs, the symptoms, or the presence of something. To diagnose is to recognize something undesirable. For instance, to diagnose in sales, is to recognize a gap between a prospect’s or client’s desired performance and actual performance. It is to understand the causes and nature of the problems and challenges. The ability to diagnose problems and challenges is the first step in closing the performance gap. Great salespeople have the ability to ask questions that uncover their client’s problems and challenges, allowing them to utilize their business acumen to diagnose the problem. They are naturally curious, and they use every sales encounter to gain an understanding of their client’s business. This curiosity results in an education and body of situational knowledge that allows them to recognize and identify not only their client’s problems, but also the underlying root causes of the problems and challenges.

Developing Alternative Solutions

Hornby (2006) defined development which is a derivative word from develop as –thinking or producing an idea, product, service, etc. and make it successful. It could also mean to make an idea, a story, etc. clearer by explaining it further. Relating this to a business, it means thinking or producing an idea that would serve as a solution or solutions to existing problems in a business.

The evaluation of potential solutions requires that you have defined each alternative in sufficient detail to recognize pros and cons. You also have to know what constitutes acceptable solutions to the problems you are trying to solve. When these two conditions are met, you can select the solution that best meets your needs. Cost/Benefit analysis compares the estimated cost of delivering a specific solution to the estimated value of the expected **tangible and intangible benefits**. Present the alternatives with estimated costs, expected tangible and intangible benefits to the decision makers. Document the decision, qualifying statements, concerns and all assumptions.

This clearly suggests that decision-making is necessary in planning, organising, directing, controlling and staffing. For example, in planning alternative plans are prepared to meet different possible situations. Out of such alternative plans, the best one (i.e., plan which most appropriate under the available business environment) is to be selected. Here, the planner has to take correct decision. This suggests that decision-making is the core of planning function. In the same way, decisions are required to be taken while performing

other functions of management such as organising, directing, staffing, etc. This suggests the importance of decision-making in the whole process of management.

Decision-making is an essential aspect of modern management. It is a primary function of management. A manager's major job is sound/rational decision-making. He takes hundreds of decisions consciously and subconsciously. Decision-making is the key part of manager's activities. Decisions are important as they determine both managerial and organizational actions. A decision may be defined as "a course of action which is consciously chosen from among a set of alternatives to achieve a desired result." It represents a well-balanced judgment and a commitment to action.

It is rightly said that the first important function of management is to take decisions on problems and situations. Decision-making pervades all managerial actions. It is a continuous process. Decision-making is an indispensable component of the management process itself.

Developing Analytical Ability and Judgement

Hornby (2006) defined analytical which is a derivative word from 'analytic' as using scientific analysis in order to find out about something i.e. business problems. This means using a logical method of thinking about something in order to understand it, especially by looking at all the parts separately. Through this method, it is possible to proffer solutions to problems in a business.

A managerial problem can be described as the gap between a given current state of affairs and a future desired state. Problem solving may then be thought of as the process of analyzing the situation and developing a solution to bridge the gap. While it is widely recognized that different diagnostic techniques are appropriate in different situations, problem solving as a formal analytical framework applies to all but the simplest managerial problems.

Smith (1998) identified the following problem-solving framework as: problem identification, problem verification, problem definition, root-cause analysis, alternative generation, evaluation of alternatives, implementation, post-implementation review as well as institutionalisation and control.

3.3 Case Analysis

Cases are 'business problems where business, facts, opinions, principles and judgements are in conflict' (Brown et. al., 1961 quoted in Omotola, 2004). When there is a conflict in a business environment, action must be taken by responsible executive. In analyzing any case, the analyst must have a thorough knowledge and understanding of the problem. He must be able to express his reasoning logically to convince his evaluator of the decision he has taken.

Wikipedia (2011) defined Situation analysis is a [marketing term](#), and involves evaluating the situation and trends in a particular company's [market](#). Situation analysis is often called the "three c's", which refers to the three major elements that must be studied: [Customers](#), [companies](#) and [competitors](#)

A situation analysis is the foundation of the strategic planning process for any marketing plan. It includes an examination of both the internal factors (to identify strengths and weaknesses) and external factors (to identify opportunities and threats). A useful tool in performing a Situation Analysis is what we might call The C's of Marketing. The C's of marketing help companies focus on key elements that apply directly to marketing. Understanding these principles is essential in developing a successful marketing plan.

The 5 C's of Marketing can be summarized as (Milne, 2010):

Company,

Collaborators (or Partners) – Distributors, suppliers, and alliances are any companies that you work with on a day to day basis to help your company run.

Customers – This is your market. Ask yourself what benefits they are looking for. What motivates them in the purchase process? Where the customer does actually purchases your product? How the product is purchased (impulse buys, internet, etc)? Understand the quantity a customer will purchase and even trends in consumer tastes.

Competitors - Both your actual and potential competitors and those that directly or indirectly compete with you. Understand their products, positioning, market shares, strengths and weaknesses.

Climate (or Environment) - These are governmental policies and regulations that affect the market. It is also the economic environment around your company; which is the business cycle, inflation rate, interest rates, and other macroeconomic issues. Society's trends and fashions are found in the "climate." The technological environment is creating new ways of satisfying needs (i.e. using technology to enhance the demand for existing products).

Evaluating the company, collaborators, customers, competitors, and climate is a simple way to get a leg up on your competitors.

3.3.1 Recommended Steps in Case Analysis

Omotola (2004) enumerated the recommended steps in case analysis as:

- The Problems or Questions;
- The Facts;
- The Alternative Course of Action;
- The Decision and Reasoning; and
- Implementation of Decision

Step 1: The Problems or Questions

Omotola (2004) advised learners to read the case study assigned to them carefully enough to remember many of the details presented in it. Every case analysis requires the **identification** of the **principal question** or **problem**. It is imperative that you determine the **basic problems** or **questions**.

Step 2: The Facts

It is vital that learners must **sift** and **sort** the **facts** of the case, even if there are a very large number of them. A time-consuming but generally productive technique is to **list the facts in order of importance** – the most **important facts first** and the **least important last**. Fill in the various facts in descending order of importance for posing this question to yourself: “**Just what do I need to know in order to answer the question?**” It should be noted that some facts may be irrelevant, but care should be taken when discarding any fact. It may fit together with another seemingly relevant fact to make one highly relevant fact.

When they have been completely arranged in order of priority and importance, you should **review** and **revise** your **list** ad again, basing it on **logic** and even your **intuition**. It is also necessary to separate **objective fact** from **subjective opinions**, **assumptions**, or **conjectures**. Moreover, try to **identify** your own **speculations** and **opinions**, since they are **not** the facts of the case.

Enough facts should have been presented in each case for you to arrive at intelligent solutions. However, if you feel it is imperative that you make an assumption in the absence of some extremely important fact, **go ahead** and **make a reasonable assumption**. Be sure to **state** that assumption **clearly** in your **write-up**.

Step 3: The Alternative Course of Action

What can be done to resolve the problems? Stated in a formal manner, what are the alternative courses of action?

Often, you may come up with many alternative courses of action. However, you may need to dismiss some of these alternatives as impractical. For example, some courses may clearly violate the **long-term objectives** of the **organisation** or some **short-term goals** of the **operating period**. These objectives and goals are sometimes stated but more often must be inferred capital constraints may rule out some alternatives; and behavioural factors may rule out others. You should then reduce your list of alternative courses of action to the barest minimum consistent with the **issues** to be addressed within the content of the case study.

These selected alternatives must be **formally evaluated**. You should list the **merits** and **demerits** of each. Think in terms of the **advantages** of each alternative and the **risk** it entails. This procedure requires great care, but if it is done thoroughly, it puts you in a good position for Step 4 below.

Step 4: The Decision and Reasoning

You should now select the action that provides the **best answer** to the **problem** . In doing so, compare and contrast the **merits** and **demerits developed** in **Step 3**. Make your **selection**. **Be sure** that you **state clearly** the **main reasons why you select** one **alternative** over the others. **For each rejected alternative**, state why **your chosen alternative is better**.

Your process of reaching a **decision** throws up your **analytical** and **diagnostic ability** – and you must do everything you can to improve that process. Trying to communicate it orally and in writing to colleagues or subordinates or other course participants is excellent practice for developing this vital managerial ability.

Step 5: Implementation of Decision

Your decision is not complete until you prepare at least **draft operational plan** for its **implementation**. Draw up a **statement** of:

What must be done to carry out your decision?
What person must be assigned to do it?
When should the action be carried out?
How much roughly will it cost to do it?

You are dealing with **actions, existing or new personnel, timetable, and a rough budget**. In most cases, you cannot give highly detailed or precise answers to the questions in **Step 5**.

However, rough estimates are infinitely better than no estimates at all; for they force you to bring to a **logical conclusion** or to a **logical process of thinking**.

4.0 CONCLUSION

From the unit, you learnt that a case study is a collection of facts, opinions and judgements relating to an actual business situation in which a problem exists and a decision must be made or taken. You also learnt that a case study method of learning is used to develop in the manager or potential manager the following skills: analyzing business situations; diagnosing problems; developing alternative solutions and developing analytical ability and judgement.

5.0 SUMMARY

In this unit, you learnt the definition of case study, enumerated the skills to be developed in case analysis, explained case analysis and listed/discussed the steps in case analysis.

In the next unit, you will come across and treat case studies to enable you put into practice what you have learnt in this unit.

6.0 TUTOR-MARKED ASSIGNMENT

Define in your own words what you know as case study.
Enumerate and briefly explain the skills to be developed in case analysis.
Define case analysis. What are the steps in case analysis? List and briefly discuss them.

7.0 REFERENCES/FURTHER REFERENCES

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UNIT 2 CASE STUDIES

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1.0 INTRODUCTION

In this unit, you will come face to face with practical problems situations for your analysis and then judgement or decision-making.

With this unit, you have come to the end of this course. Congratulations.

2.0 OBJECTIVES

At the end of this unit, you must have developed and possessed the skills and abilities to analysis business problems and cases with a view to taking appropriate judgement or decision aimed at resolving those problems.

3.0 MAIN CONTENT

3.1 Microsoft Corporation (A)

In 1994, Bill Gates stood at the pinnacle of American success. He had become the youngest billionaire in US history, with a net worth of more than \$4 billion. In appearance, he was a most unlikely captain of industry. He looked as if he were 25 or younger, with an engaging boyish charm combined with the large round eyeglasses and energetic but highly focused look of the computer hacker reporters had once described as a nerd.

In 1994, with among the highest market values on the stock exchange, Microsoft was both a distinguished success – and an increasing competitive and antitrust target. How had this phenomenon grown? What problems did it face? Where would it go from here?

The Early Years

From the beginning, Bill Gates was a phenomenon, reading the encyclopedia from beginning to end when he was only 7 or 8 years old. He once memorized a 3-page monologue for a school play after a few seconds' glance at the material. From an early age, he worked all hours of the day and forced himself beyond anyone's expectations. When his grammar school teachers asked for a 4 – 5 page paper, Bill would respond with a 30-page treatise. Enrolled in Seattle's exclusive Lakeside School, Gates' competitive spirit was egged on by some of the finest young minds in the region. In the classroom, Gates became legendary for solving mathematics and physics problems faster than anyone else – and a capacity to see uniquely efficient mathematics solutions.

However, it was Lakeside's early acquisition of computers that changed his life. Gates and his friend, Bob Allen, became night and day users of a teletype machine that played into a PDP – 10 DEC Computer General Electric operated from a nearby Computer Centre Corporation (CCC). Fortuitously, BASIC was the time sharing language the system used. Gates' group would wrestle with the computer all night to debug programs for CCC, surviving on Coca Cola and pizza – a style which Gates continued for years. Soon Gates and Allen formed other money making projects: Traf-O-Data to develop traffic statistics, payroll programs for local companies, and debugging systems for TRW. Before he left Lakeside and went to Harvard, Gates commented matter-of-factly, –I'm going to make my first million by the time I'm 25||.

The Beginnings of Microsoft

Gates never graduated from Harvard, leaving in his junior year. He worked hard and did well in courses he cared about, but slouched through the rest. He spent many nights in the Aiken Computer Centre working 36-hour stretches, collapsing for a few hours, and then with pizza and Coca Cola returning to work again. He also played lots of poker. His roommate said, –Bill had a monomaniacal quality. He would focus on something and really stick with it. He had a determination to master whatever he was doing ... (He sort of decided) where he was going to put his energy and to hell with what anyone else thought.||

Then on a cold winter day in December, 1974, Gates and Allen came across an announcement in Popular Electronics for the Altair 8080, stated to be the –word's first microcomputer kit to rival commercial models||. The company making Altair was MITS operated by Ed Roberts, an enormous bear of a man, out of an abandoned restaurant in Albuquerque. In a prophetic event, Roberts had shipped his only working model of the Altair for Popular Electronics to test. It never arrived. The world's first home computer was lost in transit. The picture in Popular Electronics was of a metal shell with eye-catching lights and switches on the front, shipped empty to New York.

One week after reading the article on the Altair, Allen and Gates called MITS and claimed to have written a program that would allow the Altair to be programmed in BASIC. When Roberts expressed interest, Gates and Allen, lacking an Altair, wrote the BASIC program using a simulation based upon a manual about the 8080 chip it contained. They completed the project in eight weeks of night and day activity. But they had forgotten the –bootstrap program to load BASIC on to the Altair. They wrote that on the plane to Albuquerque for a demonstration. Miraculously, the whole thing worked on the first demonstration for Roberts. The first software program ever run on what would become known as Microsoft BASIC was a –lunar landing program Gates wrote on the spot, similar to one he had earlier programmed at Lakeside School. In July 1975, Gates and Allen formed a partnership called Microsoft (short for Microcomputer Software) with the intent of developing computer languages for the Altair and other microcomputers they were sure would follow. The Altair was inherently limited by the Intel 8080 chip, on which it was based.

Licensing

Their very first agreement (with MITS) gave Gates and Allen royalties from the licensing of their BASIC, with or without the accompanying sale of MITS hardware. Under the terms of the contract, they could earn only a maximum of \$180,000 in royalties. They were willing to do this to obtain the distribution MITS had to offer. But from the beginning, Gates' mission in life was –to provide all the software for microcomputers. Later, Gates wrote – in five days – what would become known as DISKBASIC for the Altair. Then Microsoft encountered an early and important crisis. Computer hackers and clubs were making copies of BASIC and shipping it out to all their friends. Piracy was spreading like a virus, and no one was paying for the BASIC software. In frustration, Gates offered to sell Roberts all rights to BASIC for about \$6,500. Fortunately, Roberts declined. However, Microsoft's BASIC had become the de facto standard for microcomputers when they appeared in force.

In 1976, as National Cash Register, Citicorp, and GE signed lucrative contracts for Microsoft's BASIC, Gates assembled his famous –Micro Kids—high I.Q. insomniacs who wanted to join the personal computer crusade, kids with a passion for computers who would drive themselves to the limits of their ability and endurance, pushing the outside of the software envelop. Gates himself would take only two vacations of a few days each over the next five years. But the energetic and talented group could make no real money from BASIC until it could crack the arrangement Gates and Allen had with MITS. At first ignored and scoffed at by his opponents, Gates personally masterminded and negotiated the strategy that beat the more expensive big company legal teams. In a complex out of court proceeding, Microsoft was determined the owner of BASIC and could market the product as it saw fit. This was the first of many transactions in which people underestimated Gates, –the skinny kid with the dandruff and uncombed mop haircut.

Interactions with IBM

In 1980, when IBM covertly decided to enter the burgeoning microcomputer industry with a machine based on Intel's new, more powerful 8086 chip, it inquired whether Microsoft could write a BASIC program for its 8-bit resident memory. IBM also asked Microsoft to furnish other

languages for the machine, including FORTRAN, Pascal and COBOL. To do this, Microsoft had to gain access to the operating system software on which they were based – Digital Research's CP/M. Both Gates and IBM representatives approached Digital Research about supplying CP/M, then the dominant operating system in the industry, to power the IBM machines. But in two classic miscalculations, Digital's President went on vacation when IBM's team arrived and Digital's balked at IBM's restrictive contract provisions. With access, Microsoft would have continuously adapted its languages to Digital's emergent operating system and its Intel 8086 platform. Without access, Microsoft had to develop its own operating system.

Until this point, Digital Research had developed operating systems, and Microsoft had focused on programming languages; each had respected the other's domain. Frustrated, Bill Gates decided on a bold move. He told IBM that Microsoft could not only supply the languages for the IBM machine, but also the operating system. In August, IBM, miffed over the snubs and inflexibility of Digital Research accepted. In September, 1980, Tim Patterson showed Microsoft his 86 DOS operating system written for the Intel 8086 chip. For \$ 50,000, Gates bought the rights to 86 DOS, then known as —dirty old systemll, which became the basis for Microsoft's MS-DOS.

Many proponents of CP/M argued that, as an industry standard, CP/M would have been best for linking existing languages, applications software, and hardware. Nonetheless, within less than a year after the announcement of the IBM PC, numerous microcomputer manufacturers signed contracts with Microsoft to make MS-DOS (Microsoft's operating system) their hardware's resident system. When IBM introduced the PC in 1981, Microsoft made short shrift of Digital Research in the MS-DOS-CP/M battle. CP/M was, by all standards, an excellent operating system, nearly all software and hardware systems had been tuned to it. But the quick and powerful emergence of the IBM PC as the industry standard catapulted MS-DOS and Microsoft to success. A whopping 99 percent of IBM compatibles carried MS-DOS as their operating system, although IBM later released a CP/M-86 operating system for PCs. Now holding a commanding position in operating systems software, Microsoft turned its attention to applications software.

The Electronic Spreadsheet

In the early 1980s, many computer companies did not believe that microcomputers held significant potential for business applications. However, the appearance of the first electronic spreadsheet, Visicalc, fulfilled a specific and important business need. VisiCalc enabled managers – previously confined to time consuming hand calculations or writing a specific program for the company's mainframe – to define their own models and to run countless alternative solutions. Initially, the program could be run only on an Apple II. This became a primary determinant of the Apple II's success. It was later adapted to run on the IBM PC. Sorcim developed another spreadsheet program, SuperCalc, to run on CP/M systems. The advent of spreadsheets created an unprecedented boom in both hardware and software sales to businesses.

Spreading with the Spreadsheet

When Gates and Allen decided to enter the application software market in 1980, the spreadsheet was a logical starting point. Because there was no hardware standard at the time, Gates decided to develop a spreadsheet that could be ported to all the operating systems on the market – including CP/M. The two dominant spreadsheet programs were limited in their portability. While Microsoft was developing its spreadsheet, dubbed Multiplan, IBM brought great pressure to assure that the new spreadsheet could run on its limited 64K PC models. Gates acquiesced to the computer giant, sacrificing many design attributes in order to stay in the good graces of Microsoft primary customer.

When released in late 1982, Multiplan met with some initial success but this was quickly eclipsed when Lotus offered 1-2-3 in 1983. Unlike Multiplan, 1-2-3 was aimed at 256K machines and reflected the richness of capability that increased RAM storage the top-selling applications software system, a position it held for the following six years. Fortunately, Lotus 1-2-3 operated only on MS-DOS. Largely due to the phenomenal demand for 1-2-3, over 80 percent of all users became familiar with MS-DOS in 1984. With the extraordinary success of 1-2-3, Lotus became the largest independent software company – with annual sales of \$157 million compared to \$125 million for Microsoft's 64K Multiplan languished, but IBM's sales of 256K PCs skyrocketed that year. Lotus 1-2-3 did for the IBM PC what VisiCalc had done for the Apple II and MS-DOS benefited.

The Move to Europe

However, the Multiplan project was not a complete loss. Microsoft had adeptly repositioned Multiplan in Europe. As early as 1982, Microsoft had begun to adapt Multiplan to each of the European languages. In addition, Gates decided to open up subsidiaries in each of Microsoft's three major European markets, England, France and Germany. There, Multiplan's ability to run on many different systems proved to be a decided advantage. Unlike the U.S. market, Apple controlled 50 percent of the European market and Commodore 30 percent and when IBM's PC arrived in Europe in 1984, it included Multiplan rather than Lotus 1-2-3. By the time Lotus brought 1-2-3 to Europe in 1984, it was too late. In 1987, while Lotus held 80 percent of the American spreadsheet market to Multiplan's 6 percent, Multiplan dominated the European market, accounting for 60 percent in Germany and 90 percent in France. Because Multiplan was so successful overseas, Microsoft continued to distribute it. But Bill Gates would not forget why his package had failed in the United States while 1-2-3 had succeeded.

Word Processing

In 1983, Microsoft launched an offensive on a new front, word processing. At that time, WordStar, developed by MicroPro, was the most popular word processing software. Microsoft designers believed they could best WordStar by including in their program of additional features. Microsoft Word would be the first word processing software that displayed bold type, underlining, italics, subscripts, and superscripts on the screen. In addition, it would divide the screen into windows, allowing the user to work with more than one section of a text at a time. Instead of requiring the user to format each document individually, Word would offer style sheets that stored formats created by the user for repeated use. Importantly, Word would print in any of the fonts available in the new state-of-the-art laser printers.

Microsoft introduced Word to the U.S. in a novel way. At great expense, it sent out demonstration copies (which would do everything but save or print files) to the 100,000 subscribers of PC World in its November, 1983 special edition. Many newspapers lauded the unique and imaginative marketing technique employed by Microsoft, but Word initially met with marginal response. Although extremely powerful, Word proved to be too complex for the average user. Improved versions in 1984 and 1985 steadily increased sales; however, another small software publisher called Word Perfect again beat Microsoft in the marketplace.

Word versus WordPerfect

Jointly founded by a computer science professor and one of his students in 1979, WordPerfect's only employees were a group of students who helped with distribution tasks. Yet the fledgling enterprise was able to differentiate its program through a heavy emphasis on service. WordPerfect provided free telephone support to customers and followed up every inquiry until the customer was satisfied.

While Microsoft spent millions promoting Word, WordPerfect avoided sophisticated promotional campaigns, building a loyal following by word of mouth. Microsoft was at a loss as to how to respond to WordPerfect's ingenious grassroots campaign. WordPerfect's sales grew steadily and it quickly became the top-selling word processing software, outselling 5th place Word (31 percent to Word's 11 percent) in 1986.

Just as Multiplan had succeeded by turning to the European market, so too would Word. When Word arrived in France in 1984 with mixed reviews, WordStar and Textor, produced by a French company, were already well positioned. Gates and his European staff decided on a three-prong penetration strategy. First, to encourage distributors to sell Word, Microsoft France provided distributors with free training and free copy of Word. Second, Microsoft arranged to have all retailer demonstrations of Hewlett Packard's new laserjet printer use Word. Microsoft France also convinced many printer manufacturers to promote Word because of its ability to be used in sophisticated, high end multifont printers.

First France, then the World

As a result of its aggressive marketing effort, Word began making inroads into the French market in 1985. After a much refined Word 3.0 was released in April 1986, sales of Word rose rapidly. In 1987, it was the highest-selling word processing software in France with sales of 28,700 copies compared to 10,300 for IBM Vision, 7,000 for Textor, 3,800 for WordPerfect, and 3,300 for WordStar.

The great improvements made in the 3.0 version of Word were also critical in increasing its U.S. market share. In this version, the previous problems experienced by users in learning Word were resolved by what was then an ingenious solution. Included with all 3.0 version of Word was a step-by-step, on-line tutorial that replaced the traditional user's manual. U.S. sales of Word climbed substantially. By 1989, Word's sales had reached 650,000 compared to 937,000 of WordPerfect. Although Word was by many standards a superior product, WordPerfect had earlier on established itself as the word processing software of choice for PC users. Once

customers learned and grew comfortable with program, it was often difficult and orders of magnitude more costly for them to switch.

While Word was having problems in 1984 and 1985, Microsoft worked feverishly on a Word program for the Apple Macintosh computer, the only substantial challenger to IBM's standard. When Macintosh Word was released in 1985, there were no other word processing programs available for the Macintosh except Apple's own software (MacWrite), which was included with the sale of each machine. Although Word for the Mac had some bugs, it quickly gathered a following among Macintosh users. When the 3.0 version was released in 1986, it was a tremendous success. By 1988, with annual sales of 250,000 copies, it was second only to the PC versions of WordPerfect and Word. WordPerfect released a version of its product for the Macintosh in 1988, but it was too late. As WordPerfect had beaten Microsoft to the U.S. PC market, so had Microsoft preempted WordPerfect in the Macintosh market. When Microsoft released Word 4.0 version in 1989, it sold 100,000 copies immediately, establishing Word's preeminence through the Macintosh.

Graphical User Interfaces

As IBM's PC became the bestselling microcomputer in the industry, it was soon copied by other manufacturers. But due to its unique graphical user interfaces, Apple's Macintosh surpassed all other computers in user friendliness. While users of IBM PCs and compatibles had to interact with their machines using learned text commands such as erase, the Macintosh user could use a mouse to point to a file icon and pull it into a trash can icon. Both Gates and Apple's cofounder, Steve Jobs, believed that the future of microcomputers lay in graphical interface technologies because they opened up the world of computers to even the most unsophisticated users.

The Apple Core

In 1981, Apple asked Microsoft to write applications programs for the Macintosh, realizing that the availability of high-demand software could determine the success of the Macintosh – just as the popularity of VisiCalc had launched the Apple II. Microsoft and Apple began a close collaboration aimed at designing an optimum match between the Macintosh configuration and Microsoft's applications programs. The agreement specified that Microsoft versions of Multiplan, Chart and file would be shipped with each Macintosh machine and that Microsoft could not publish software with a graphical user interface until one year after the Macintosh was released or December 1983 at the latest.

Under this arrangement, Microsoft enjoyed tremendous successes with its various application programs. In addition to Word for the Macintosh, Microsoft's new spreadsheet program, Excel, sold at a rapid rate in 1985, beating out Lotus's new integrated software for the Macintosh called Jazz. In 1986, Microsoft sold 160,000 copies of Excel to Macintosh users compared to 10,000 copies of Lotus's Jazz. By 1989, Lotus had decided to stay away from the Macintosh users and made it the number one developer of applications software for the first time. And many thought virtually all of the PC market would inevitably move to graphical interfaces.

Windows

Windows was Microsoft's attempt to convert MS-DOS into a graphical user interface. Although IBM had been successful in establishing its hardware and operating system software (MS-DOS) as industry standards, no such standardization applied to PC applications software. Each applications program written for the PC required its own unique methods to modify or print a file. In addition, different printers demanded different intermediary programs called drivers to enable printers to receive data from applications. In order to address this problem, Microsoft decided in 1981, to develop Windows as a layer between the operating system and applications software, interpreting the particular communications requirements of the printer and monitor being used. The second purpose of this program would be to place over MS-DOS a graphical interface that would standardize the appearance of applications and provide common commands for such actions as modifying texts or printing files.

Opening New Windows

While Microsoft was developing its –Windows graphical interface system, other companies began to release their own versions. VisiCorp, for example, released Vision in 1983. More perturbing to Microsoft was that some industry analysts foresaw IBM developing its own version of a graphical interface. In the past, IBM had largely looked to Microsoft to develop its PC software. Gates suspected that Big Blue was intent on expanding its control to include standardization of the entire computer configuration – not just hardware, but software too. When IBM announced in 1983 that it was releasing TopView, a graphical interface to rest on top of DOS, it was clear signal that IBM was no longer content to remain in the hardware domain. Recognizing that IBM was attempting to squeeze Microsoft out of future software sales, Gates acted quickly. He contacted the manufacturers of IBM-compatible computers and tried to persuade them to follow Microsoft's lead with Windows, and thus isolate IBM. When Windows was announced in November 1983, twenty-three hardware manufacturers supported it.

Many did not want IBM to wait for Microsoft's version of Windows; rather they wanted them to follow IBM's lead by including Top View with their machines. Although direct competitors to Microsoft, many software companies also pledged their support to Microsoft Windows. The support of Lotus was particularly important since it was a primary supplier of applications software for the PC and compatibles. Like others, Lotus did not relish the thought of a stronger, more influential IBM and was willing to accept Microsoft's lead to prevent it. The software producers were confident that Microsoft would create an interface environment into which they could easily port their applications programs. IBM, on the other hand, had released a version of TopView configured in such a way that, if successful, it would give Big Blue a significant advantage in the development of future applications.

Unfortunately, the Windows project was characterized by lengthy and embarrassing delays. Although Gates repeatedly announced the imminent release of Windows, it did not actually hit the market until November 1985. Over 20 software publishers had to put their Windows-ported applications software on hold. Even then, Windows encountered constant problems in use, but Gates held on doggedly. It wasn't until Windows 3.0 introduction in 1990 that these were overcome. Nevertheless, its earlier Windows 2.0 had offered an interface system approaching the user friendliness of the Mackintosh. When Microsoft released its successful PC version of

Excel along with 2.0 Windows' credibility increased, and many PC manufacturers began positioning their machines against Apple's Mackintosh.

Apple and IBM

On March 17, 1988, Apple announced that it was suing Microsoft over Windows 2.03 and Hewlett Packard over New Wave, the latter's graphical interface environment. Apple announced the suit to the press before notifying Microsoft. Apple argued that it had spent millions creating a distinctive visual interface which had become the Mackintosh's distinguishing feature and that Microsoft had illegally copied the -look and feel of the Mackintosh. Microsoft countered that its 1985 contract with Apple granted it license to use the visual interface already included in six Microsoft programs and that the license implicitly covered the 1987 version, Windows 2.03. In July 1989, Judge Schwarzer dropped 179 of the 1989 items that Apple had argued were copyright violations. The 10 remaining items were related to the use of certain icons and the -overlapping windows feature in Windows 2.03. In 1990, Judge Walker of the federal district court of San Francisco took over the case, having previously ruled against Xerox in its suit against Apple over the same copyrights. In March 1990, Walker ruled that the portions of 2.03 under debate were not covered by the 1985 agreement between Apple and Microsoft. The stakes were enormous. If Apple were to lose the case on appeal, it would also lose a major competitive advantage in terms of its distinctive visual interface. If Microsoft should lose, it might have to take all current versions of Windows off the market and pay royalties on past sales to Apple.

As this war was going on, Microsoft started collaboration again with IBM in 1987 on the development of a new multi-tasking operating system called OS/2 and a new, more powerful graphical interface named Presentation Manager for PCs and PS/2 workstations designed around the new 80286 and 80386 chips. In late 1989, IBM released OS/2 version 1.2 for IBM PCs. Microsoft released OS/2 version 1.21 for IBM - compatible machines in mid-1990, but initial sales of OS/2 were far lower than had been hoped. Both IBM and Microsoft, as well as many industry observers, had assumed OS/2 would be the first logical replacement for DOS; but the introduction of OS/2 went poorly. The IBM team managing the project made decisions slowly and dictated compromises which Microsoft did not always support. Independent software houses were reluctant to write applications for OS/2 when MS-DOS was so dominant, and it took an extra \$2,000 in memory to make OS/2 run effectively on existing IBM machines. As these factors became apparent, Microsoft began to upgrade and push its MS-DOS and Windows programs ever harder. Many alleged that Microsoft moved key people to Windows at the expense of OS/2 and Presentation Manager to make sure its own products preempt the next generation of software. Finally, perhaps feeling double-crossed, IBM took over most of the OS/2 development project and began to distance itself from Microsoft. It began to license workstation software from Steve Job's NeXt Corp. and pen-based technology from tiny GO Corp.

In June 1991, IBM and Apple began a joint venture based around Motorola's powerful Power PC chip Talagent - to develop an entirely new PC standard in which they would control the rights to both the operating system and the microprocessor. If successful, this cooperation between the two largest microcomputer manufacturers would tremendously influence the balance of power among software and hardware companies in the industry. Announced in late 1993 and early

1994, Apple's Power Mac and IBM's Power PC were designed to break the stranglehold Intel's X86 and Pentium chips and Microsoft's DOS Windows had on the world. Because the Power Macs were Apple's first new architecture in a decade, they would require new software. IBM would use its new Workplace OS software which could run Windows and DOS applications at OS/2 co-processing flexibility and speeds. Apple would offer a WinSoft emulation program that allowed its users to run Windows and DOS on the Power Macs at 486 speeds. Microsoft had been the biggest supplier of Mackintosh applications.

The risks were high for both collaborating companies. John Sculley, then CEO of Apple, had said, "This is something only Apple and IBM would pull off. Still, it's a big gamble, and we're betting our whole company on it." In 1994, nearly all PC applications programs were being ported through Microsoft's MS-DOS or Windows environment. Bill Gates said, "Our position is being attacked on all sides, but that's not new. Customers will decide on all of this, and I think ours will thank us for preserving their current investment in PCs, while improving that technology. That has always been our strategy."

In the mid-1990s, the industry was changing radically along other dimensions. Desktop computers were becoming so powerful that they were indistinguishable from what used to be mainframes. In any event, for mainframes and desktop computers to be effective, the increasingly had to be linked across both all of a company's own offices and into the external linkages, databases, and systems popularly called the Information Superhighway. The network with all its nodes was becoming the computer itself. Desktop computers and applications – with 21 percent of operating system software sales and 62 percent of applications sales – were only a minor portion of all systems. Recognizing this, Gates had expanded his stated vision for Microsoft. "Our software will be used everywhere, in business, in the home, in the pocket, and in the car."

Microsoft had a powerful base for its onslaught. It had almost 90 percent of the personal computer operation systems marketplace (55 million Windows customers) and thousands of independents writing software to support its systems. But its recent upgrades of Windows (called 4.0 or Chicago) and NT (server operations) had been months late and lacked key intended components. Microsoft's attempts to reach beyond desktops – notably its LAN Manager (network operating system) co-developed with 3 Com and NT – had made little headway against Unix or Novell's Net Ware. And its Winpad (operating system for handhelds) and its software for "set-top boxes" in cable applications had yet to make a major dent in smaller non-PC support markets. In databases, it had little experience on anything that did not run on desktops.

The Networked World

In networking, Novell was the clear leader – 67 percent of that \$2.9 billion market. In 1983, Novell had bought UNIX System Labs from AT&T to increase its lead. Lotus's Lotus Notes (\$100 million in sales) had grabbed a major share of the rapidly developing (\$1 billion, 50 percent growth rate) "groupware" market for interactive business communications and team decision-making. Microsoft's Windows for Workgroups had yet to catch on in this market. Oracle was the pacesetter for minicomputer and server software. Oracle was also heavily

engaged in software (in Cube) for supercomputers, which it saw playing an increasing role in large scale entertainment applications.

In the large scale network software market, Microsoft had worked on a three-way venture with TCI and Time Warner for interactive TV software. But this collapsed when Time Warner reportedly balked over the stiff terms Microsoft demanded. Others claimed that a major problem was combining the intense personalities of Gates and TCI's CEO Malone – like putting two scorpions in a bottle together. Indeed, the very tenacity, hard-nosed philosophy, and dominating technical competencies that had made Microsoft so successful (\$4.5 billion in 1993 revenues with 25 percent margins) in the past might be an Achilles heel in the future. For example, a week before GO's announcement of its innovative –pen software (for handwriting applications), Microsoft told the press it already had such software and a few weeks later announced that 21 computer makers were considering designing around its Pen Windows. The press claimed that Microsoft often announced new products before they were ready to scare off competition. There was little doubt it aggressively matched all applications competitors' price reductions in its markets. And if small companies were unwilling to license key concepts in emerging markets, Microsoft moved quickly with end users or OEMs to co-design competing software. Many of these practices were common complaints of defeated competitors.

Alliances and Rivalries

Some alliance partners – and many potential competitors – were becoming reluctant to risk their future by dealing with (or opposing) a party so powerful that it had repeatedly beaten world-class companies in their very heartland. Some companies (like HP and Sun Microsystems, or Lotus and Novell) had undertaken defensive alliances to counter Microsoft. And Microsoft's longtime ally, IBM, chose GO and Novell's NetWare as the pen-based and LAN technologies for its laptop and PC systems. Symbolic of the concern over Microsoft's growing power were a series of lawsuits – in addition to Apple's – alleging injury. In 1994, Star Electronics, a software company, won \$120 million and a restraining order against Microsoft on some versions of MS-DOS. When the FTC abandoned its two-year antitrust probe of Microsoft, the Justice Department quickly picked up the investigation. The key issue was whether Microsoft used its dominant (77 percent to 90 percent) market share in personal computer operating systems to gain unfair competitive advantage in other markets. There was little doubt that Microsoft currently enjoyed some significant advantages on the cost side. Once a program was widely accepted, it produced huge revenues with virtually no marginal costs – allowing its proprietary holder to invest or price with great flexibility.

But some rivals also claimed Microsoft's use of its licensing structure made it a monopolist. MS-DOS was currently standard on almost any PC; the manufacturer included it free, and paid Microsoft a royalty on each unit sold. Retailers who wanted to bundle Windows on one machine had to buy a copy for each machine offered in that series. Applications software producers and competitors like Sun Microsystems claimed that – despite the detailed maps of its operating systems Microsoft made available to assist others in writing applications – Microsoft always had more knowledge than others had about its operating systems and might (inadvertently or otherwise) fail to illuminate crucial details for others, giving Microsoft an unfair competitive advantage. Microsoft vehemently denied this allegation. In fact, it invited competitors to its

headquarters to work with is programmers and even tipped off developers about forthcoming operating system changes so they could adapt in time. The Justice suit was settled in July with little impact on Microsoft; most agreed that the marketplace, not lawyers, would determine the industry structure.

Like many others, Microsoft was deeply aware of the huge and rapidly advancing software necessary to support interactive devices (in homes or offices), to compress or multiplex signals (to or from various devices), to support large scale systems (like stock and bond trading), and to expand the bandwidth and general utility of wireless, fibre optic and other transmission systems. In 1994, there were over 180 million PCs worldwide, in the U.S. 7 million. Home computers accounted for \$9 billion, or 40 percent of all PCs sold in 1994. By 2000, they would claim the highest percentage of the market for home appliances and have become more important in the home than the television set, according to AST Research Inc. Much new software would be needed for the –multimedia systems‖ many envisioned operating on PCs for voice interactive systems, and for –object oriented‖ parallel processing systems supporting highly decentralized operations, as well as the infinite variety of gizmos called –hand gear‖ people would carry, wear, or travel with in the new electronics horizons for electronics in all kinds of appliances, vehicles, office devices, and home products and that software – rather than hardware – would be the limiting factor in their development. One key issue in the mid _90s was where should Microsoft focus and how?

Positioning the home market was very complex because of the large number of small software developers who suddenly appeared to fulfill any apparent need. In this marketplace, it would be difficult, if not impossible, for Microsoft to achieve much of a timing advantage. It would be equally difficult to create a software platform that would become a powerful standard, as Microsoft DOS or Windows had. For its part, Microsoft was working on virtually the entire product which connected into the microprocessor. The hardware companies were, of course, trying to generate hardware solutions to problems like interactiveness among various systems and databases. A key question was where could solutions be better defined in software than in hardware.

As all this was occurring, the very microcomputer itself was changing. Computers were increasingly defined by the networks they attached to. Hardware capabilities continued to grow exponentially, typically with bandwidth, storage and calculation capabilities doubling almost annually. Formerly dominant players like IBM, Apple or AT&T found it increasingly hard to control architectures which often took years to develop, but could provide a competitive edge for application and connecting programs for years. Selecting partners and implementing partnerships in ways that did not damage past relationships or inhibit future developments was particularly difficult. Such complexities compounded as Microsoft looked toward foreign markets. The issues of matching and pricing platforms versus application programs were profound, as were the issues of sharing benefits when Microsoft worked with selected hardware partners.

The Microsoft Style

Another issue was whether Bill Gates' unique management style could survive into the future. From its genesis in the early days of Microsoft – when Gates and Allen and a small coterie of programmers literally worked night and day for weeks at a time under incredible pressure – the Microsoft culture had gelled into a unique form. Its working atmosphere counterbalanced highly intensive activity with an offbeat emphasis on an unstructured and informal environment. Gates expected programmers to work as hard as he did – 60 to 80 hours a week. There was an unstated expectation that employees work evenings and weekends. No one wanted their car to be the first out of the parking lot. The Microsoft complex in Redmond, Washington, looked more like a college campus than the headquarters of a Fortune 500 company. At times, its environment could be almost surrealistic. Most of its 10,000 employees had individual offices with windows, but the courtyards adjoining the principal structures were often rife with the active of employees juggling, riding unicycles or playing various musical instruments. Working hours were extraordinarily flexible. Dress and appearance were extremely casual. Many programmers walked in bare feet. It was not unknown for a team of programmers working on an intense project to take a break at 3 a.m. and spend 30 minutes making considerable racket with their electric guitars and synthesizers. Pranks were common. Offices would be filled with –bouncy balls! when their occupants were away. There were bouncy ball hockey games in the hallway and a special room just for juggling in the early days.

The Gates Style

Gates' personal style was legendary. He would challenge his programmers constantly. He wanted them to argue with him. If a programmer completed something(s) he thought was clever, Gates would suddenly challenge why it wasn't ready earlier, or why it wasn't done a different way. He was very aggressive and vocal in arguing an issue, but he was not afraid to change his mind if someone had a convincing argument. Observers said Gates turned everything into some form of competition. He even compared with Allen in the early years to see who could drive across Albuquerque faster. Gates still drove his Porsche, pushed to the limit, but always in control. Over the years, he had registered many run-ins with local traffic police and an incredible string of speeding fines. A former Microsoft top executive said –Gates was competitive in all things. He was often so intense in negotiating sessions that he would push too hard and actually jeopardizes the deal. There was _almost viciousness' to the intensity Gates displayed to secure a deal.

Gates' personal style became the subject of myths. He wore down both competitors and his own people by his tenacity and his formidable intellect. He had a reputation as the only entrepreneur in the industry with enormous personal technical acumen. He knew more about the industry and where it was going than anyone else. Being at the centre of action was a vital attraction to good people. Technically, Gates had an uncanny ability to spot a weak link in the most logical argument or program, but he also could show a shocking lack of diplomacy. If angered, he could become –apologetic, even throwing things when he was angry. Some felt he disagreed just to see if someone was strong in their beliefs. To others, it just appeared a portion of his style, as were his habits of firing off email all at all hours of the day or night and of meeting visitors or making public announcements in work clothes that had been his companions for days. For many, a technical staff meeting with Gates was like going through an oral examination with a verbal executioner. Once a flaw was pinpointed, he would rip the person to shreds, hurling his

favour expletives, –stupidll, or –randomll. Rocking back and forth in his rocking chair, he would impose his own intellectual prowess and standards on all comers.

Gates constantly conveyed his determination to be the dominant player in the industry. He, not only wanted to beat his competitors, but to eliminate them. As one executive said, –Bill learned early on that killing the competition is the name of the game. There just aren't as many people later to take you onll, Gates' competitiveness had also led him to be a great salesperson. He often overcommitted Microsoft and set unrealistic deadlines. He tended to press for a major sale and worry about the consequences later. As a result, among servants, Microsoft's first programs in a series were known for being a bit behind schedule and bug prone. But Gate never gave up. He approached every transaction with a zealotry of a true believer; from day one he continued to articulate the Microsoft mantra –a computer on every desktop and Microsoft software in every computerll. Throughout Microsoft, employees were expected to display initiative, ambition, intelligence, expertise, and business judgement. Gate pushed his people hard because he wanted them to be better. Each day, he said, they should come to work thinking –I want to winll. Gates thought this was the only way to stay ahead in an industry where he predicted, within twenty years, the software race would be over. Computers would then be writing better software than people.

3.2 Microsoft Corporation (B)

The Microsoft Corporation (A) case presents the strategic situation facing Microsoft in 1994. The case deals with its organisation structure and management practice.

Past Management Style

In the mid-1980s, Microsoft's work environment for programmers had been described as –deliberately chaoticll. There was little corporate hierarchy. Individual product development teams were small, usually no more than three people. Software creation was under the direct, day-to-day control of CEO-founder, Bill Gates. His philosophy was chat with less structure; people could be more creative and introduce more innovative products. Software tools that were supposed to work together were built by totally independent units, with little cross communication. Groups did not use each other's code or share information. Within Microsoft, people were promoted because of their technical prowess, and not for their management skills. To compound things, Gates' hands- on style often meant he jumped the chain of command and made major changes in direction or even programs without bothering to tell everyone involved. As one would expect, there was a constant conflict between each group's desire to make the product continuously better and the need to get the product out of the door. Within Microsoft's very flat, unstructured organisation, the common crises of product development were often resolved by fierce confrontations and lots of yelling by all parties. Gates actively in contact with the entire process and clearly in control of the company, dismissed these sessions simply as –high band width communicationsll. His clearly expressed goal of –being the leading producer of software for personal computersll overrode all else. Many observers said he displayed –competitive paranoia ll that others might overtake, preempt, or destroy Microsoft and constantly sought not only to –winll but to destroy any such serious threats.

The PC World Changes

This style seemed to work well for early desktop operating and applications software, but became less effective as Microsoft developed major systems like Windows. However, Gates proved remarkably flexible in organisational matters. Between 1983 and 1994, recognizing his own limitations, Gates went through three COOs – with James Towne, Jon Shirley, and Michael Hallmann each contributing a new business discipline to the company – while reorganizing his own job. In a major step, in the middle of the \$100 million Windows project, he also reorganized Microsoft into separate Systems Software and Business Applications divisions, each headed by a corporate vice president. The theory was that – with MS-DOS thus internally separated – external application programming groups designing around MS -DOS could communicate directly with the Systems group, without disclosing possible competitive information to Microsoft Application groups. The upshot, ironically, was that Microsoft perhaps had even more knowledge of all its competitors' applications activities. Gates tried to counter outside' complaints insisting on a –Chinese wall between the two operations. But skeptics in the industry claimed this was probably more a sieve than a wall.

The Best and Hardest Working People

Microsoft's style had always been to hire the very best and hardest-working programmers from anywhere and then allow them wide discretion. Hundreds of people might be screened for a single hire. There was no headcount budget. Searchers were always free to hire that once-in-a-lifetime talent, once found. When hiring, Microsoft care little about a candidate's formal education or experience. After all, neither founder, Bill Gates nor Paul Allen, had ever graduated from college. No matter how lofty the individual applicants' credentials might be, they were not hired until they had been thoroughly grilled on their programming knowledge and skills. The interview process was ferocious, lasting 1 – 2 hours with each of 4 – 6 programmers and managers. Interviewers would rip people to pieces, ask them very difficult technical questions, and suddenly hand them a piece of paper and pen and say, –Solve this problem. The emphasis was on how people thought and their capacity to perform under pressure. Gates, for a long time, insisted on personally interviewing each programmer applicant, and in the 1990s, Gates would still travel anywhere to land a special talent.

Among the most famous organisational features at Microsoft had been its –architects, the seven software samurai who had advised Gates, explored new technologies, and done much of the most important systems structuring. Below them each programmer was rated at one of six levels, from ten to fifteen. If a programmer made it to fifteen and became an architect, it was like being made a senior partner in a law firm. Huge stock options accrued. Development teams were consciously kept small even as projects became complex. For example, Microsoft had only 18 developers working on its entire spreadsheet business, while Lotus had about 120 in the early 1990s. Gates explained, –It takes a small team to do it right. When we started Excel, we had five people working on it, including myself. We have seven people working on it today. The individual development groups writing new code operate in a Darwinian fashion – every six months developers were reviewed, and the bottom 5 percent were weeded out.

The Software Development Process

By 1994, the format for developing software at Microsoft had evolved into a somewhat less chaotic system. Mr. Robert Muglia, Director of Windows NT, said, –One of the things Microsoft has learned to do very well is to build products which meet the needs of customers, focus on what customers want, and at the same time do so in a way that is business savvy.¶ Microsoft had created two basic roles: product managers and program managers. Product managers controlled the overall relationship with specific sets of customers. They were responsible on a continuing basis for understanding their customers’ needs at a descriptive level and for handling most customer presentations, sales issues, advertising, pricing, sales force building, channels management issues, etc. Program managers worked with product people to understand customer needs thoroughly at a technical level, and then drove these into a set of detailed specifications for design purposes. Throughout the development process, program managers worked with development groups, test groups, and user education groups to make sure the product met defined needs.

Mr. Peter Neupert, Senior Director, International Product Development, noted: The original specs for program functionality – in terms of timing and the types of performance which are critical – are agreed to by Microsoft’s top management. The second level of specification is programmatic interface specifications to make operating systems perform compatibly. The next level is application program interfaces or APLs. By this point, there are a bunch of internal documents that describe the interactions between some of the components, memory management file systems, and things like that. Another critical interface is the programmatic interface in the hands of the end user. As we develop the product, we have to make sure that it is present or the programs will fail commercially. Keeping each person in a development team keyed to this during the programming process is a major challenge. These interfaces are so important that the small teams doing the program are often organized around them and the specific hand tools necessary to develop their subsystem, like a file system.

Mr. Muglia continued: Program managers own the specs and are responsible for ensuring that the product does what customers want at a very detailed level. They go to the level of saying precisely how the product should look to external customers. They do not go to the level of data structures that implement it. Instead, the development teams really own the code. This sets up a good relationship because most developers don’t want to be the ones making the decisions about what to do, but they want to be in absolute control of the code and the algorithms.

The Specification Process

At the project team level, we sketch out issues and for the more important elements we use detailed specifications as to what the products need to do – but these tend to be verbal documents. We use wire-boards to discuss technical implementation (targets) which then sometime get written into spaces. Probably nine out of ten times, however they don’t. We are not good about maintaining specifications on our products. There are so many things inside an 8 million line system like NT that to try to document all of them would probably double the size of our team, and inhibit our ability to do things in the future. Generally, our code becomes the specification, but the people who wrote it understand the detailed goals and the trade offs made. If we lost a whole division of people, we would have a great deal of trouble recreating the code

and its reasoning. But we have people who have been working on –word processors, for example, for eight years, and we are able to keep enough continuity there that a nucleus of people can maintain the needed knowledge levels. We operate this way because our technology changes so quickly.

Mr. Muglia continued: We think of specs as a great starting point to document whatever agreement exists. Typically, the development of the spec is a team process. May be only 10 – 20 percent of the time is spent actually writing the spec. But each key person is interacting with five or six others, developing agreement that this is what we should do. However, by the time we have actually written down a spec, it is (usually) garbage anyway because we’ve learned fifty more things since we got the spec agreement. We don’t then go and update our written specs. Instead, every quarter, we take all the –bug fixes the customers have asked us to do and roll them into maintenance packs (which become the updated documentation for the program). The same developers fix the code which they originally wrote.

Competitive Targets

Mr. Neupert said of this process: We are incredibly focused on competition. If there is a single figure of merit for a program, it is to beat the competition. In the networking business, it is to be faster than Novell; in the spreadsheet business, it was beat Lotus. From that point, you can start defining the dimensions needed for the purpose. These targets certainly aren’t absolute, and they often are not totally quantifiable. We frequently need to make purely judgemental decisions. For example, one of the really tough calls in the OS business is what memory size do you want to fit in and what compatibilities do you need? These decisions get initiated on a very broad level between Bill (Gates) and Paul (Maritz), but the specifics get changed all the time as we find out what we can or cannot accomplish for one purpose and how it affects others. For instance, in the first version of NT, we wanted to make it work on eight megabytes. When that didn’t work, the target became a twelve, and ultimately, a sixteen megabyte system. These broad decisions seriously affect our market positioning. Another example is in our next version of Windows where we have to enable enough of the installed base of machines to make the program into a mass phenomenon. That means we set program criteria based on the hardware mix we think is important in the future. The point is that specs are where we think the competition will be and what we think the market expects.

Project Management

Mr. Muglia continued: Once a project is underway, we do project scheduling. One tool we absolutely use is Microsoft Project. The developers themselves set the schedule and they set the integration plans. They understand how all the pieces fit together at a real detailed level; they have a dependency tree and their project schedules to discipline sequences and dependencies. They hold at least monthly project reviews of everything. The development team goes off and presents exactly what each component group’s status is and what functions they’re working on. They all look ahead about a month for potential problems in functions or sequencing, as projects get into later stages to find and solve problems. People understand exactly what the bug count is, what needs to be fixed tomorrow and what the priorities are.

Paul Maritz, Vice President Operating Systems, amplified: Some companies use a design and implement cycle. We don't unless you think of how you will implement the code at the time you design it, you will not implement it successfully. You must think in terms of cost issues as you design. Are the levels of abstraction too high? And so on. The first step is to lay out a taxonomy, next we break this out into different functions and areas. Then we define the interfaces between these. We write these interface intentions down, then we break the process into even smaller functions. The users of each of these smaller functions can critique them in terms of their goals and interfaces. Much of this is done informally with the teams interfacing extensively. We try to lay out the criteria for each function and sub-function carefully at first. Everyone reads each other's code to have a common vocabulary. The whole process is inherently fraught with tradeoffs. Each group has a strong interest in its own functionalities, their purposes and time sequences.

We typically do not have teams purposely in competition with each other inside the company. You can certainly have strong dissenting opinions within a team as to what's the right approach or the right architecture. That is encouraged all the time. The challenge is to get the issue resolved one way or another. Even after an initial decision, you may have a loser go off and pursue his approach alone just to prove he's right. For example, there was conflict between Windows and OS/2. It was widely believed internally that Windows couldn't really take advantage of the new Intel architectures, to exploit protect-mode memory and things like that. However, one guy kept on working on it despite the fact that ninety percent of our resources were bet on OS/2 at that stage. Nobody thought he could do it; but when he ultimately figured out a way to make Windows work, his solution had lots of better characteristics and seemed to fit the market better than OS/2. That's how we went from betting our future on OS/2 toward supporting Windows.

No Magic Formula

Paul Maritz continued: With 1500 people in Operating Systems, and typical programs that involve 2 million lines of code, the process is enormously complex. We don't have any magic in how we write our code. Our programs must run on multiple hardware platforms and be extendable as those platforms change. There is no single body of procedures we can follow. The basis of everything is smart people, but teams can surpass the experience and capability of individually smart people. The biggest problem is handling the spatial interactions between subsystems. Thousands of things are happening in parallel. This vastly exceeds the complexity of any CASE tools; consequently, we do not use such tools. Nor do we use macro control programs like Anderson's Method 1 or Method 2. Instead, people document the program as they go along.

Senior developers are responsible for the overall design. However, most of the problems occur in implementation. You can never afford to lose control over your code base. You have to get constant feedback from all the elements. At early stages in the development cycle, the practice is generally to leave the gates relatively open so that everyone can see everything going on. However, later, with over 200 developers on a program like NT, if you just let developers check stuff into the system, it wouldn't even boot, it would just break.

To maintain coordination, the Microsoft Operating Systems group used a technique called taking the program for a –build test drive. At least every week, but more often 2 – 3 times per week, each group would recompile its software so that the entire team could build a consistent, coherent product with all the new features and functions in place. Frequently, the attempt to assemble the entire program or subsystem would breakdown. However, the –builds forced people to run down and fix what had gone wrong since the last build. If errors were not fixed at this stage, interactions quickly became so vast that it would be impossible to fit them all together, even though each subsystem might operate effectively on its own.

Said Paul Maritz, It is difficult to add performance later in any program. This means that in addition to the –builds, we break up the process into milestones, each of which is legitimate for a particular customer base. Although our –test designers set up formal test suites to discipline each stage of this process, we can't possibly guess all the things that people can or will do with the program. Consequently, at the milestones we try to prepare the program to be used for a particular real-world purpose. Then we can get feedback from the people using it and work from there. We broaden the program for each succeeding step. At each one of the milestones, we take the bug backlog down to zero for that constituency and test suite.

For each subsystem, there is a team of one to ten people. You really can't have the teams any bigger. People must be able to grasp the entire complexity of their subsystem and its interfaces. They must know each other intimately and be able to trust and judge each other's needs and solutions. Consequently, we develop a series of rituals that force everyone to get together around the builds.

Mr. Peter Neupert noted, –Each of our applications group used to have its own tools. Now we do have conventions and building some tools, but these are not used consistently across groups. Rather than forcing tools or interactions, our general attitude is: _Where people need to know something, they should go find out about it. But it's largely been on a personal basis. A person's length of time in the company is really useful in terms of knowing how to get around in the system, whom to ask, and whom to talk to.

A People-driven Business

Mr. Neupert continued: There's one thing no one is confused about from Bill on down. This is a people-driven business. You can dream all you want to have all the vision you want, but you can't deliver on it without the right people beneath you. Although we think our people have done extraordinary things, we still argue that we have a lot of weaknesses. We've never been able to keep up with the number of people we need, because the challenges we take on always expand faster than the infrastructure. For example, the current cable TV programming and multimedia programming needs are growing very rapidly. We drive very hard to find and keep the excellent people we need, but once here, it is awfully hard to get them to move between product groups. And the understanding of our people in one product group about the challenges in another is (very limited).

We don't have any formal mechanisms by which we move people through a progression of challenges in different groups. Because the demand for good people is so high, all the divisions

want to hoard their good people. And despite our policies, we are not as good as we need to be at weeding out people at the bottom. Because our challenges continue to grow so fast, some groups just plateau people. There have been some who have stayed on the same level working on the same for ten years. That's okay, if they're competent and there are no more pressing problems, and their assignments still add value to the company. But this doesn't solve our real headcount shortages.

Personnel Development

Mr. Michael Murray, Vice President of Human Resources, described Microsoft's development practices this way: Once recruited, people will be put directly on a small team with a set of deliverables where they are expected to write or test software code under very tight time schedules. This is not an apprenticeship. They are rubbing shoulders immediately with people who have been here one, two, five, or ten years and are very knowledgeable. We don't have a lot of seminars on how to work as teams on software development. A new developer or new employee in our product groups will only go through a couple of weeks of formalized indoctrination or introduction to the methodologies we use in development.

We have always emphasised three attributes: people who are smart, people who work hard, and people who know how to get things done. If you have those three things, you get a promotion first to a technical lead position on a small project, then to a group manager position managing several lead people. Wherever you are, the job is still very hands-on, action-oriented. It would be difficult to find a single executive (even at the VP level) who doesn't do some individual work on the actual content of programs.

We basically tell employees that the development of their career is their responsibility. We are only now developing our first formalized program where we may create a few development type positions-purposely moving somebody into a position for 6 – 8 months so they can gain varied experience in the company. We will certainly talk to people, and discuss different job opportunities. We also keep a database of our upcoming stars. We are beginning some formalized leadership programs to introduce these people to broader concepts of strategy planning, and leadership. But at the lowest level, we expect the normal informal, e-mail means of communications to take care of most opportunity identification. In the past, we'd say if the company grew, we could all grow together. Now, we are still hiring the same overachievers as then, but we have moved from a 3,000 – 4,000 person company to a 17,000 person company, and the opportunities to move to or interact with the top aren't as great as they used to be. Now I emphasise that if a person wants to advance faster, they should look laterally. And if they move, they will probably find a very different company in some other areas. This thing we all think of as Microsoft is really many different cultures in different places. These different cultures have different ways of communicating, being rewarded, etc.

The Microsoft Culture

Mr. Murray described the Microsoft culture as follows:

–Part of our culture is questioning everything. In a presentation, the style is not to sit there and be impressed with the presentation. Instead, the task is to figure out what’s wrong with the presentation, where is the flaw, where did they fail to do good analytical thinking. Sometimes, you walk out of a meeting feeling my gosh; this company is very cynical, bitter, or grumpy about everything. But I think it’s simply a very cautious way to look at business. Another common aspect of our culture is a great intolerance: intolerance for imprecision or for inaccuracy in analysis, description of problems, or understanding of root issues. All this is driven by Bill Gates more than anyone else. It’s a great learning tool to have him either take you apart or watch him take apart someone else’s presentation. This can sometimes be very tough on a person who is less articulate, but nevertheless, very bright.

Another part of our culture is our –to hour week. I find this very similar to my experience at Apple. These companies were started by people who were young, enthusiastic, and incredibly passionate about what they were doing. Each time you came up with a new idea, you could see an additional three new possibilities. So they ended to be an infinite amount of work and only a finite amount of time. Everyone became incredibly impatient because things were always moving so fast. The people who founded and joined these companies were single, highly competitive, highly intelligent, and chose to define their lives by their work. Suddenly, you found you’ve created a high velocity work culture. It wasn’t unconscious. The people themselves reinforced it: where you parked your car was the time you came in, whether your car was there last was an indicator of how long you had worked. Even when you transfer into more administrative tasks, you find that this work ethic stays. None of us feels we can ever get our jobs really done.

All these cultural things took care of themselves when everybody rubbed elbows with everyone else. I’m not sure any of us yet realizes what having 17,000 employees means in terms of maintaining some of these cultural factors. You’ll find that companies like Hewlett Packard or Intel spend a lot of time talking to their employees about the kind of company they are and want to be. I find that Bill Gates is quite passionate about what our corporate values are – or what we call our –success factors – but he’s not the kind of CEO who wants to talk frequently about them. He would rather talk about the new technology, the new product we’re developing, the new business strategy we have.

Bill has a very well defined vision of where the company should be and great confidence in that vision. But it is a technical vision of where the company is going. Does he share the kind of company he wants us to be? I think not. That’s not part of his script. But I think every employee would say, we are so glad Bill’s our CEO. We love hearing him talk. We love hearing him talk about the future. We believe. We salute that flag. But this company doesn’t tend to be introspective. Instead, we have a great big windshield that allow us to see this broad panorama in front of us, with a big fat gas pedal you can’t miss on the floor, and a small but functional brake. But if you look around to see where you’ve been, that’s not very interesting.

The Motivation System

Microsoft employees earned relatively modest salaries compared to the rest of the industry. But successful employees received large bonuses in the form of stock options. Even Bill Gates –

though an equity billionaire – had never earned more than \$195,000 in salary per year. Nevertheless, employee turnover was well below the industry standard. What attracted people to Microsoft with all its enormous personal demands and middling salaries? Paul Maritz, Vice President Operating Systems, said: –They come here because management understands software and is passionate about it. They have all been involved in software and like to interact with the project people. ...Our people tend to motivate themselves through peer pressure. A basic motivation is the fact that ‘it is done well’. We are driven by customers, competition, and success. We cannot overemphasize these facts. However, a major contributor has been the fact that we are a rapidly growing company; and this has given our stock option plans enormous leverage.

Bob Muglia amplified, –There has probably not been in modern times a company that has had the financial impact on as broad a set of people as Microsoft has. By being at Microsoft over time, people have been more successful financially than they perhaps could have been in starting their own businesses. A lot of the attractiveness comes from the reputation of the company’s products, its position in the industry, and the fact that, at Microsoft, you meet a lot of smart folks. A lot of people who come directly out of college are not primarily motivated by finance and don’t understand the real value of options. When they receive them, they kind of say, –oh great, but don’t think about it. There are many horror stories where people sold their stock options after the stock went up \$5 or so but could have made ten to twenty times that a year later. Over the years, people have often said Microsoft cannot continue growing exponentially forever. This is undoubtedly true, but where it will end, no one can yet define.

A Performance Focus

We don’t do a lot of the cheer leading here that other companies may do. However, in certain ways things are pretty easy for programmers. You want to get a new computer with special features; okay you get what you want. People also enjoy knowing what the next generation operating systems will be and having a chance to play with them before anyone else does. But it’s not all loose and unstructured. Every person has an annual performance review with mid-year –objectives checkups. The evaluation is pretty much by the objectives the people and their managers have set. Everybody has anywhere from five to ten objectives they are to accomplish within the next six months. Every six months each employee is given a blank review form. They take their previous six months’ objectives and evaluate themselves against them. On an annual basis, they also write what they think their strengths are, what their weaknesses are, and what they will do about them. Their managers then take that form and write their opinions on the employee’s strengths and weaknesses. Then, together they set in concrete terms the employee’s next six month objectives. It may be fun to work on other things, but these are the things you’re supposed to get done.

Peter Neupert said, –We have tried to set up metrics for measuring productivity, experimenting on smaller projects. How much effect does it have on productivity to improve procedures on the front end of the design process or to define functionality and quality better? How many bugs are tolerable per unit time? While we have some standards in our heads, it is hard to write these down or make them applicable across projects. It’s also hard to watch people and tell what they’re doing at the time. We purposely give our programmers private offices so they can have the time they need to work without interruption. We want them to unplug their phone and shut

the door when they need to. But we also expect them to be team members and work all night when the team requires it.

The interesting thing is that these guys are obsessive perfectionists. The hardest thing to do is to get them to stop work and get the product out the door. They're upset when they think you are going to ship something less than perfection because they consider their name associated with the product and its performance. Another problem is that as you get further and further in a product, programming innovators came up and say, –Hey, we could do X. Isn't that a great ideal, and regardless of what you say, they may try to do it. They may not think about how X fouled up 3 other people who assumed that function was going to be Y. Programmers always think things are going to be easier than they really are. Generally, they are more difficult by a factor of 4. As you add complexity, what you think is going to take one week ends up taking six and might not look like your original target. The obsessive perfectionists say you've got to have all this other functionality, so they try to shove 2T performance into the original time T. And of course you never know how complex 2T is until a user actually works with it. The biggest problem is: the more subsystems are added, the more people you need, and the more specialized people must become. Obviously, coordination problems increase.

–But in the end, Bob Muglia says, –What people know is that they have to meet their objectives. We have a 5-point rating scale which has increments of 5. Practically, however, we only use the scale from about 2.5 to 4.5. Above 4s are superstars and 2.5s are people having some problems. Everyone also has a compensation level. The levels for professionals go from 10 to 15 which is the architects. Level increases are what real promotions are. Titles don't really mean much. When people are ready for the next level, we formally promote them; give them a big bonus, and also a raise associated with the promotion. However, we do not give special project performance bonuses. We have given division-wide recognition for people in the past. There has always been a real concern about taking ten or twenty people out of a thousand person pool and saying, 'you have done an extra special job'. There's a very fine line between the twentieth and twenty-first person on a project, and you may make fifty or hundred people feel worse by the selective bonus while only a few feel better.

Mr. Murray noted, –There is management feedback as well. Employees have the opportunity to write feedback on their managers and what they've done right or wrong. We also do a yearly employee survey, which is anonymous, to understand what general trends are, issues, what people like and don't like, and so forth. We try to learn from our experience by a process called a post mortem. After you finish something, you gather together all the key people, talk to customers and to whoever can give you some good feedback about what worked, what didn't work, what we should do better next time, what we learned from this. Then we try to write it up in a brief report. The question is, do the other groups read it? Do they care about it?

Another thing that jumps forward is the immense personal development power of a company that runs itself on e-mail. Knowledge gets shared so rapidly and so openly to so many that it becomes a constant schooling and educational process. A person like Nathan Myhrvold, Senior Vice President of Advanced Technology, often sends out a ten-page e-mail message expounding upon his group's most current thoughts. A lot of us are included in that e-mail group. We may not do anything with the particular memo. But it plants ideas into our minds. Nathan may never

even know the impact he has or on what person. But many people go home at night thinking about new ideas and the possibility of applying them in some novel way to a project they're working on. It all happens organically. There is simply no structure, no rules to all this. There is no way someone could try to create a controlled system around e-mail, trying to exploit its value as an educational tool. There are no specific rewards for joining in this e-mail sharing. It's all organic in the way we do the job.

Looking at the Future

Microsoft's practices had clearly been very successful in the past and its organisation had modified over time. However, in 1994, there was great concern about how the company's increasing size, the changing nature of its marketplaces, and the vastly increased complexity and interactiveness of its programs would affect its management approaches. These factors had already caused Microsoft's product service and support groups, which handled calls from customers, to exceed 5 percent of revenues by 1994. Because Microsoft was so important to its large corporate customers, it had created Microsoft Consulting Services in 1990. Mike Hollmann, COO of Microsoft, noted, –We have not been well known for our customer support. By 1995, I want Microsoft to be as well known for its customer service and support as for its products. I want Microsoft to be the ‘Maytag repairman’ of software. This place increasing emphasis on the issue of controlling product quality before the product entered the marketplace, a problem Microsoft – because of its leadership – had often encountered. How to handle this in the highly decentralized style of Microsoft was a major issue. As Microsoft's customers, complexity, and channels proliferated, there was a deep concern that the basic nature of the company would shift away from software development to marketing and service activities.

To anticipate the nature of these changes, Microsoft had launched a \$200 million research program under Nathan Myhrvold, a physicist who had worked with Professor Stephen Hawking. Myhrvold was a very articulate, innovative, charismatic individual who enjoyed discussing imaginative and philosophical possibilities. He commented, –We must learn to think of the information highway taking personal computing from a desktop phenomenon to one that is woven into the fabric of our lives – our living rooms, our dashboards, our pockets, our kitchens – wherever there are people and information tasks for computers and software. Up to now, our primary market, personal computing, has been mostly local in nature. That's going away. And the same kinds of dramatic changes in price performance that microprocessors brought to the computer world are now coming from fibre optics, ATM (asynchronous transfer mode) switching, and satellite communications.

The really dramatic part of the computer and communications revolution will begin to occur in the next ten years. One reason Microsoft has been so successful in the past is that we have managed to maintain –cyber share. As computer capabilities have grown, we have maintained our share of the cycles-per-second consumed in the marketplace. Given the exponential growth of the market, we have been surfing on a wave. Basically, our business has grown at the same rate that memory price performance has grown. To keep this up, we will have to continue to expand exponentially. There are more personal computers than VCRs now and about the same number of personal computers as television sets in the world. But, while people don't replace

their TV sets for twenty years, they change their PCs every few years. This will drive the replacement cycle of all software.

Until now, computing has been about making tools for people to analyze, to create documents, to design. In many areas, computers have merely replaced pen, ink, physical models, and calculators. The next clear stage will be to read with them, obtain information with them, let the computer be our window on the world's information, and to communicate with them. E-mail will give way to true communications in short order. Once you get the fundamental capabilities of reading, interpreting, communicating, and distributing information, whole new worlds open. The technical challenge for us in the next five years is to really fill in all of what's necessary to make this effective. The present system is not going to gracefully allow you to do all the wonderful things you could postulate. And the software that supports those new communication networks is going to have to be figured out afresh.

Many people have postulated that, as equipment gets every cheaper, someone can come in and even obsolete the gigantic investments that all the RBOCs (Regional Bell Operation Companies) have. The value of the existing technologies is, almost by definition, evaporating at a rate of 50 percent per year. Just like the old mainframes, the switches and PBXs of the past will be under tremendous pressure. ATM may well be the new -microprocessor of the communications world. It will certainly allow lots of new companies, concepts, and solutions to come in. When will the voice call system become essentially free? Already, much of the local and residential stuff is unmetered. Much of it costs only 5 a minute. What happens when you can move 60 megabytes per second over the installed systems that formerly handled only 10 kilobytes? The pricing of everything will change.

We understand personal computers really well. And they are going to be one of the key nodes on the information highway – but by no means the only node. In the near future, PCs will be the most available platform for doing almost anything. The installed base of PCs is impressive. And there were as many 486 Window's based machines sold to American homes last year as there were Sega Genesis games machines. But nobody yet has a dominating or even deep expertise in the new systems that will emerge. Along the way, there will be numerous mistakes and deaths in both the hardware and businesses. People say with all this competition, it's may not be so. Restructuring that whole communications world is going to spawn a hunch of billion dollar companies, just like the microprocessor did. One of the stupidest things I hear is that IBM made a huge error in not keeping its PC operating systems proprietary. But look at the cast of thousands that did try to keep it proprietary. From DEC and Xerox to HP and Wang, almost all are dead or suffering. Whereas IBM created a whole industry and is the largest player in it.

The question is, how do you extract revenue from this rapidly changing software-oriented world? The key to that is managing these very bright people we have who create the software.

3.3 Joe Peterson

Joe Peterson, President of Investment Management Corporation (IMC), sat alone in his office, having inevitability of his decisions regarding David Johnson. Tomorrow, Joe would fire David, the company's Vice President of Portfolio Management. This decision had been a particularly

difficult one for Joe to make. Joe had hired David to work for IMC the summer between the two years David spent pursuing his MBA. He offered David a permanent position after he had been graduated, and had been instrumental in David's rapid rise through the organisation.

The situation, however, was more complex. David had performed competently in many ways, had developed a large and loyal group of portfolio managers; and David was the primary liaison between Investment Management Corp. and the Boston Mutual Fund, which accounted for roughly 30 percent of the assets that IMC currently managed. Joe's decision risked internal dissension and the destruction of relations with an important client. But it looked like there was no choice – David would have to be fired. He was the focus of very destructive internal conflict in the firm, and it looked as if the conflict would not subside as long as David was at IMC. Nevertheless, a nagging doubt remained in Joe's mind as he set about devising a step by step plan for implementing his decision.

Investment Management Corporation, Joe Peterson and David Johnson

The Investment Management Corporation, located in New York City, was described as being in the investment advisory business. In 1979, it employed about 120 people, 40 of whom were classified as professional. The company managed about \$5 billion of assets. From their management activities, the company generated approximately \$6 million in yearly revenues. IMC enjoyed profitable operations. The firm had been incorporated in 1960 by several local university professors whose work on econometric models for the evaluation of real estate investments had attracted the attention of brokerage houses and investment management firms. IMC's initial focus had been entirely upon consulting. By 1964, the pressure of an ever-increasing workload forced the founders to choose between their new business and academic life; they chose the former. The company continued to grow moderately until 1969, when the founders realized that they could expand the business dramatically by managing. So by 1973, the firm was managing approximately \$ 2.5 billion in pension funds. Another important change occurred in 1973 when the firm agreed to manage a mutual fund. This decision added another billion dollars of assets literally overnight.

Joe Peterson

Joe Peterson, himself an MBA, had been in IMC since early 1966. Prior to that, he had worked in the research department of a major brokerage firm. Joe commented on his reasons for changing jobs:

I was getting a little bored, and feeling a bit constrained by some of the bureaucratic aspects of the larger organisation. They really didn't seem to be doing anything exciting; they spent more time worrying about their monthly newsletters. When one of the principals (of IMC) asked me if I would be interested, I said yes. I took a chance by leaving a fairly high paying and cushy job to join Investment Management at a much lower salary. If things worked out and the company grew, there were a lot of possibilities. In fact, I had gone from being one of the research staff to actually running the research department at IMC. Joe Peterson was named president of Investment Management Corporation in 1969.

Sam Wilson

Sam Wilson, Vice President of the Investment Department had joined IMC in 1967. His prior work in econometric models made him sympathetic to the orientation of the founders of IMC. Sam's doctorate in economics and prior work in the research department of a major investment management firm had prepared him to have a major impact on the new research needs facing IMC during their period of rapid growth. Sam Wilson, like Joe Peterson, was a firm believer in the unique perspective which IMC offered to clients. One of the first management actions which Joe Peterson took when he became president was to promote Sam to the position of vice president of the Investment Department. This position was previously held by one of the founders who were only performing the management duties on an occasional basis. The founder preferred working on the research. Joe had convinced this particular founder the IMC needed a full-time manager of the Investment Research Department.

David Johnson

It was IMC's interest in bringing along bright young MBAs that led to David's employment during the summer between his two years in business school. His work in the research department resulted in IMC's offer of a full-time position upon graduation in 1968. Ever since, David's career progressed rapidly. One and half years after joining the firm he was given the position of assistant portfolio manager, and only eight months later he was promoted to portfolio manager. Two years later, in 1972, David was made vice president of Portfolio Management, with ten portfolio managers reporting to him.

Conflict over the Corporation's Strategic Orientation

Early in 1973, IMC's management group began to hold meetings which dealt with orienting the firm to take best advantage of the prevailing economic realization that critical resources were in short supply; and the economy had taken a turn towards recession. During one such session, David suggested that IMC should accept responsibility for a greater amount of mutual fund management, particularly from Boston Mutual Fund. Sam Wilson, Vice President of the Investment Department, raised some questions about David's proposed strategy. He noted that the company did not have the personnel necessary to manage the additional mutual funds, and therefore risked diluting its efforts. He also noted that the company's distinctive competence had been in the management of real estate investments, and it was those associated skills that had given the firm a sound track record and reputation. Sam's point was that during economically hard times, investment management companies rise or fall on their strategy. He felt strongly that the real estate specialty was a sound one for the years ahead.

Joe commented on that meeting and on some developments that occurred soon after:

We said that David's suggestion was interesting, but it seemed a little too abrupt for us at the time. We said that we would continue to look at it. What happened during the next few months was, that although the topic never came up again in any of our management meetings, more and more people were talking about it. It's hard to say where the idea got its force. Some people tell me that Berne Rogers (a portfolio manager), who managed most of the mutual funds we had at the time, began to gain prestige within the organisation, which may or may not have reflected his

competence. Some of the other portfolio managers then started to wonder whether they could be making a lot more money if they started picking up some of these other mutual funds.

Apparently, what happened at that time is that with David's support, Berne was able to get two more mutual funds from the Boston Mutual Fund. Obviously, our assets and revenues grew. A couple of the other portfolio managers were shifted onto the new funds, and some new people were brought on to take over some of the regular business. The rapid growth in revenues was very enjoyable to all of us, in particular to the principals. I had been a little reluctant about it. I turned to Sam Wilson and asked him whether or not he thought we were allowing David a little bit too much leeway. He somewhat agreed, but pointed out that we were still staying consistent with the basics. So, I said OK! Let's keep it going.

Some months later, the differences in orientation became clear. At a management meeting, it had been proposed that the corporation expand its real estate investment activities internationally; David objected, again stating his preference for expanding the mutual fund activity. Joe described this and subsequent meetings as hard sell sessions, led by David and backed very strongly by a group of portfolio managers and one or two people in the research department.

At that point in time, Joe made clear his commitment to the fundamental strength of the real estate investment strategy, and indicated that the company would not expand its mutual fund activities further. Joe described David's response:

In somewhat subdued anger, he had offered me the proposition that he might take a few of the portfolio managers and one or two of the people from the research group and just go off on their own and pursue that endeavour. I was somewhat taken aback. At the moment that it happened, I don't know if I said anything at all. About two weeks later after I sorted it out in my mind, I called David into my office and explained that in my opinion the firm had performed well, and David had been a major contributor to its success. I explained that one of the reasons why the firm had done well was that we had stayed within the track and that it was my strong feeling some of the things David was pushing for would not help. I also pointed out that a threat of taking some of the staff and forming their own company could not have a positive effect on the organisation. If he wanted to continue with the organisation he would have to understand that although he had the freedom to present new ideas, once we had decided not to pursue them, he would have to live with that decision. If he felt he couldn't, we would pursue a rational severing of relations.

Joe felt that this meeting had resolved their differences until a few months later when Sam Wilson rushed into his office after a meeting between the investment and portfolio management departments. Same was quite upset. He said that in contrast to the usual three-piece-suit decorum which we usually maintain at our meeting, he and David had gotten into a shouting match. Each of them was shouting at the other's subordinates.

A Pivotal Incident

The conflict between the portfolio management and investment departments failed to subside. In fact, Sam had been giving Joe a weekly rundown of minor crises. Joe described an incident which took place during the spring of 1974.

Sam came into my office very upset; he had just come from a meeting between his research staff, David Johnson, and a few of David's portfolio managers. He said that during the meeting, Bernie Rogers had accused him of trying to maintain his empire to the detriment of the organisation.

Several of the researchers had been working on certain projects when David came to them and asked them to drop what they were doing and run out an analysis that would take about a week. The researchers were reluctant at the time because it meant that they wouldn't meet a deadline. But David pushed it with the full weight of his office, and literally threatened that it wouldn't help their careers if they didn't go along. One of the group was sympathetic to David's efforts. Eventually they agreed.

Sam didn't find out about this until the following week when the report that he was waiting for didn't come in. When he talked to his staff, they told him that David had claimed that I had okayed the shift in priorities. Sam then had a meeting with David and some of the key staff involved. During that meeting, David said very little but Bernie, who often spoke for David, said that the researchers were mistaken. Not only had I not only had to do what they did was that I, as president, had not given this particular research a high enough priority. Clearly Bernie's main client, the Boston Fund, had requested it; in fact, demanded and expected it of their advisory service.

Sam pointed out that there were procedures for interdepartmental coordination. If there had been a compelling reason to interrupt the flow of things, it could have been done, but it should have been done through Sam. Sam asked David directly why he hadn't come to him and requested the change. At that point, David tossed the ball back to Bernie and said that at the time it didn't seem like such a big deal.

The Decision

Because David continued to question the strategic direction of the firm and stimulate internal dissension regarding the direction, it became clear to Joe that he would have to take action. The dilemma I'm facing is not only that I will lose someone who is a very valuable asset to the organisation and risk losing a number of the other portfolio managers and some of the people in the research group as well, but I also risk losing business. On the other hand, by not taking action I am assured of continued conflict and further disruption of IMC's operations.

The nature of the Boston Fund's relationship with David may have developed to the point where if he does go his own way, they might go with him. Our assets would drop considerably, and revenues as well. The dilemma had affected Joe rather dramatically: I haven't slept particularly well. I've gotten into a very odd pattern where I'll sleep for several hours, be awake for several hours, and then sleep for a few more. I've started smoking again and drinking more regularly. The biggest indicator is the fact that my family is showing signs of the tension. My wife and kids have started building a set of activities around me rather than with me. They've started spending the majority of their time doing things that don't include me.

I've obviously been worrying about the impact of all this on the organisation, on the business. But the second dominant worry is about the impact on the individual. David is someone I like, who's contributed significantly. I found profound pleasure and joy in the fact that we had been able to support him and move him into a high level of importance very rapidly. I also asked whether or not the events that have occurred are stimulating things in me – fears from the past, and to what extent those fears might have somehow confused or blurred my judgement as to which decision would harm IMC the least. The probable consequences to IMC of firing him.

3.4 Nintendo of America

Entering 1994, Nintendo Company Limited was clearly the world leader in video games. Although pundits repeatedly forecast saturation, the market and Nintendo continued to grow despite a worldwide recession and a 30 percent stronger yen. Nintendo had released a variety of new game concepts including its Mario Kart, a unique action-racing game, Mario Paint, allowing users to draw pictures and compose music with a –mouse and Star Fox, the first game using Nintendo's proprietary FX (16 bit) chip which generated very realistic 3D animation pictures at faster speeds than competitive machines. The supported Nintendo's new –Super NES export version of its Super Famicorn player in Europe and America. Unfortunately, games for the original NES did not work on the new machine.

Both technologies and markets continued to explode worldwide. An astonishing 34 percent of Nintendo users were adults, courted with addictive puzzle – like games such as Jeopardy and Tetris, developed surprisingly in Russia. Nintendo's 100 percent owned Nintendo of America (NOA) accounted for over 50 percent of its sales and profits on a \$100 million investment base, while its \$40 million (investment) Nintendo of Europe was poised for expansion. In 1993 alone, NOA and its direct licenses sold 28 million game cartridges. Signaling potential future moves into educational markets. Nintendo had invested \$3 million in MIT studies on how children learn. Given Nintendo's huge installed base of 40 million systems in the U.S; Apple Computer's President Michael Spindler, when asked which company Apple feared most, answered Nintendoll.

Largely because of Nintendo's success, a number of other competitors had entered the games market. Japanese giant Matsushita, Sony and NEC were poised to bring truly formidable scale, brand names, and distribution power to bear for the first time in Nintendo's markets. NEC had partnered with Hudson, largest of Hokkaido's rapidly growing software industry, to develop a 16 bit microprocessor, called PC Engine, to replace the jerky movements of on – screen characters by using a new –compression chipll. However, its system cost \$199 as opposed to Nintendo's \$70. Sony had developed its own system, while Matsushita's Panasonic Division was providing the hardware for 3 DOS revolutionary 32 bit entry many thought might soon be followed by a 64 bit system. The technologies supporting PCs and advanced games were rapidly converging, and 19 percent of PC users cited –gamesll as a significant use.

All of this posed some interesting problems for Nintendo and NOA. No one doubted Nintendo's marketing and distribution potentials, but Nintendo had traditionally kept its advertising to about 2 percent of sales, compared to the 17 – 18 percent of most –toyll companies. Instead, it developed a formidable array of methods to reach and get feedback from its young audience. Its

Nintendo Power magazine enjoyed the largest paid subscription circulation of any magazine to kids and teens. NOA also had 400 people answering about 150,000 calls a week, responding to questions about how to solve game problems, when and where games would be available, and so on. In 1990, this —800-line service had become so expensive that Nintendo converted it over to a regular tolls system. Even then, the service was so popular that – to avoid annoying parents – counselors were told to terminate a child's call after seven minutes.

In the early 1990s, NOA accounted for a massive 20 percent of most U.S. toy stores' sales and even more of their profits. And despite competition, Nintendo's international sales had been growing rapidly. Suddenly, however, market changes posed some interesting problems for both Nintendo Company Limited (NCL) and Nintendo of America (NOA) in both creating and distributing games.

NCL's Software Organisation

Mr. Yamauchi, Nintendo's entrepreneurial CEO, had centralized all internal software development in Japan. Earlier on, he saw that the real key to success in the games business was not hardware, with its limited market; but software which was unlimited. At that time, Yamauchi decided Nintendo should become a haven for video game artists. –An ordinary man cannot develop good games no matter how hard he tries. A handful of people in this world can develop games that everyone wants. Those are the people we want at Nintendo, he said. He wanted Nintendo to be the place where the –hottest game designers most wanted to be. Yet there had been a problem. In Japan, most employees stayed with one company for their entire career. Nintendo could not hope to pirate talent from competitors or other software companies. Consequently, by 1994, it had developed 377 third party game sources in Japan, plus 190 worldwide.

Yamauchi's style seemed ill-suited for attracting and nurturing software geniuses. He had a reputation for aloofness, self-assuredness, and authoritarianism that had grown along with Nintendo. There were legends about his squashing people or companies that crossed him. He had no engineering background. Nevertheless, Yamauchi made himself head of all (research and development) –the heart of this company. Yamauchi had never played a video game in his life, yet he alone was the judge and jury when it came to deciding which games Nintendo would release. He had hand-picked his three subordinates – Yokoi, Uemura, and Tekeda – to be heads of research and development (R & D) 1, 2 and 3. Within each R & D group were many teams pitted against each other. Miyamoto – the games genius who had created Donkey Kong, Legend of Zelda, and the Mario Bros – operated a separate small group on his own, using his own unique style of laying games out on huge paper spreadsheets across several tables in a chaotic setting.

The Yamauchi Style

Hiroshi Yamauchi was the highest paid (\$6.3 million income) CEO in Japan, yet that was a mere fraction of top U.S. CEOs. Yamauchi was soft spoken, but very intense, opinionated, and unpredictable. Although he was often criticized for being ruthless in his employee and business practices, no one questioned Yamauchi's genius at choosing successful games. Yamauchi insisted that R & D was sacrosanct. No one told his creative people what to create. The

marketing department saw games only when they were completed. Yamauchi thought marketing people could only pick what was popular now, not what would be new and fresh in the future. In his judgments, he was very final. –Months of work could be disposed of with a single scowl, said one engineer. His style created much frustration and anger at times. Some left; others exhausted or disappointed were sent on sabbatical and told. –Spend the time, relax. Come back fresh. Then, however, they seemed to come back for more, determined to have their game chosen the next time.

Unlike other Japanese companies, what Nintendo did not seem to seek was harmony in its operations. Yamauchi seemed to carefully parcel out his praise. If any one team had too much success, it could be slapped down. As a result, each team came to excel in different areas and at different moments. Yamauchi divided the R & D work among his three teams. Yokoi, the oldest and most traditional engineer, headed R & D1, a software game design group. His team of 30 engineers operated as a small, dedicated –band of samurai cranking out major successes like Game Boy and Meteoroid. Uemura’s team, R & D2, developed the hardware itself. This included peripherals like the communications adapter. Takeda, said to be –the sharpest designer of all, ran R & D3. Takeda’s 40-person staff consisted of computer backers and nerds. Takeda said, –There are no limitations, no boundaries, since we are on our own there is nothing we cannot do; when you start with nothing you can do everything. We have to have more talented people because we are given unthinkable tasks. becoming maniacs is the ideal.

Although it also designed successful games, R & D3 often came up with the technologies that allowed the other games to run, for example, the Nintendo Read Only Memory (NROM) chips onto which a game program was reproduced. The amount of information in a game was limited only by the size of the NROM. Takeda’s group expanded this enormously by creating a special cartridge called UNROM, a RAM (random access memory) which stored information until it was needed: for example, until the lead character entered a new room whose features and creatures the UNROM provided only while the hero was in that –room. The group created Memory Map Controllers (MMCs) that, through information compression and storage tricks, gave cartridges 32 times their original capacity and extended the life of Nintendo’s early systems substantially.

While the rest of Nintendo (reflecting Mr. Yamauchi’s preferences) was Spartan in the extreme, the R & D groups worked in spacious, private laboratories with significantly more staff and resources than many other laboratories allowed. In keeping with Japanese practice, software developers were paid a salary with a year- end bonus based on the company’s performance. Despite Yamauchi’s focus on software, 90 percent of Nintendo’s games were produced by outside suppliers in 1994. Yamauchi’s goal for each internally produced program was preeminence. Given the cost of each game, he believed that it was far better to put resources into the production of one or two hit games per year rather than several minor successes. When a game went into full production, it typically required a million dollars of engineering and development backup, plus several millions more for marketing introduction.

The NOA Style

In striking contrast to Nintendo’s tough disciplined Japanese image, NOA under its founder, Minora Arakawa, allowed much information and practical joking. There was a –no suits on

Friday dress code. –Managers were conspicuously young and everything and everybody was closely connected. Arakawa took out all the walls between managers and workers, and had weekly meetings with key elements of his staff to keep communications open. Offices were decorated with baseballs, windup toys, stuffed animals, basketball hoops, and other toys. Yet a Spartan Japanese atmosphere still existed. There were no corporate jets, all offices were a 10 x 10 square, and there were no executive suites. Employees often worked late, past midnight. Although NOA followed the Japanese model of controlling executive compensation relative to other workers, employees could earn up to a 50 percent bonus on their salary if the company's earnings and their individual performance warranted. Top managers spent a full weekend twice a year going through all employees' performance and salaries in detail and awarding bonuses based on evaluations made by their groups.

Arakawa was determined to avoid the elaborate, expensive bureaucracies and perquisites he thought had destroyed Atari and other game companies in the volatile and cut-throat toy business. Through 1993, Arakawa or his then COO, Howard Lincoln had to approve any hiring. Lower level executives could only approve expenditures up to \$5,000.00. Anything above \$50,000.00 had to have Arakawa's approval – an anomaly in a business where it cost millions to develop and manufacture a new product for introduction and tens of millions to go to full production and marketing.

The NOA Marketing Concept

NOA is operated as a wholly owned subsidiary of Nintendo Company Limited (NCL). Mr. George Harrison, Director of Marketing and Corporate Communications said:

In the last few years, we have moved from being an export-driven Japanese company in which NOA was essentially a sales office just receiving products from Japan. We are now a more international company where it is recognized that other large markets (the U.S. being one) have special needs, interests in other types of software and products, and special cultural characteristics. For example, the sports category of video games was not really very big at all in the U.S. and was the strategic edge that some competitors used very successfully in the last few years. Recently, we've been able to direct some product acquisitions from the U.S. and we've sent our people who are familiar with football, basketball and baseball to find products that were appropriate here.

Even today, we don't develop any products here in the U.S. We have a group of people who go out and scan contract developers to see what interesting products they may have available to acquire. To some extent, this places us in a competition with our own licenses as we seek to buy products we could publish ourselves. Now, suppliers who want to publish the same title can come out simultaneously on all. We've always taken great care to make sure that Nintendo's product is the best quality. That's the only thing that ultimately distinguishes our systems. Traditionally, developers had been paid on almost a flat fee basis as a contract group to produce something. Publishers (like us) then marketed the games and made the large variable revenues that go with that. Developers enjoyed relatively low risk under this system, but seeing the profits going elsewhere; they are now attempting to market their own products. This is changing the structure of the industry enormously.

With marketing and introduction costing as much as ten times what development does, all parties are seeking ways to decrease their risks. Unfortunately, like the movie industry, a few really large hits are where you make your money. To gain better control, many firms are trying to vertically integrate; and in response, we are trying to leverage our own unique position in the market. In the design area, you will find that our games have distinctive looks, for example, if you put our Mario character games up against SEG's Sonic games. Ultimately, we can only be as good as our creative product. The industry has been littered with people who have introduced interesting game titles, new techniques, or tricks, but many lacked original in their characters or stories. That is where our Mr. Miyamoto's great strength has been.

There are licenses who have introduced Barbie games and others they thought were specifically targeted for particular demographic group through market research, -What would you like? and then try to develop it. We tend to let our nose be our guide in the market place. Decreasing your risks (in the market place is very difficult). One means is locking up the best creative talents in the world with some form of exclusive development arrangement. However, this very act may also increase your costs and risks in some other ways. As the technology has become more sophisticated, the cost of development has gone up to a point where front end investment are very high and a video game developer can't really be more than some guys working in a garage anymore.

Technology or Content

A phenomenon like SEGA was probably inevitable, given our market share and strong Japanese base. However, when you have been successful for so long, you can't change your practices just because someone, in the last sixty days, has taken a major piece out of the business. Last year, consumers seemed to be just fascinated by technology jumping, jumping on CD players and 16 bit machines just because they were more advanced products. SEGA has kept up to a steady strategy of talking of things like virtual reality goggles, the SEGA channel, and claims that they were the wave of the future. The strategic question is, do they try to meet this currently or hunker down, conserve your resources then wait until you have a truly superior system to push back with? We have always held that it is more important to have an important entertainment piece to go with the new technology that really makes someone want to buy that technology.

Today, there is a lot of hoopla about CD- ROMs and the fact that millions of people have been installed PCs, but the percentage who use them for games in computers is small and those who go on to buy additional CD programs is extremely small. Our focus on staying with cartridges has not been a popular stance, but we feel that the electricity piercing through a micro chip is always going to be faster than a spinning disk that's being read by an optical reader. CDs are fine for some purposes (like recalling major stored programs) but not for others. On the other hand, CDs enjoy some advantages in terms of manufacturing and distribution costs.

Distribution is another key element. As the number of platforms and titles expand, the retailer has a large challenge on how to manage inventories so as not to get burned. As program costs increase, customers want to pretest a program either through in-store testing or rentals. These problems, and the capabilities of the information highway, will be changing channels

enormously. How we participate will be a critical strategy. About a year ago, NCL made an investment in a Japanese satellite company called St. Giga and after the first of the year will begin broadcasting five channels of entertainment by education, radio TV guide listings, other services, and video games. The small 18" satellite dishes are especially important in Japan because little cable TV exists there. This opens whole new market opportunities. When researchers ask consumers which of all the –information highway services‖ they would most want, entertainment always comes to the top. It is the Trojan horse to get the other services into the home.

To expand markets, we have to deliver sustained success, not just exploit fads or passing phenomena. Customers' service has always been a key strength of ours. Our goal is to have people most satisfied with our products. This has been the function of our Call Centre, our correspondence group, and our Nintendo Power magazine. We now have to push these concepts further using the capacities of the new technologies available. Another form of customer service is to respond to our retail customers quickly. We have built a very sophisticated warehouse outside of Seattle that allows us to ship product to arrive at the store level within three days, bypassing storage warehouses and distribution centres. Logistics may not sound like a sexy part of the business, but in a hit-driven business, it is very important.

The NOA Organisation

Nintendo of America had a very flat organisation and a series of policies to maintain informality. NOA had two subsidiaries, NES Merchandising, Inc. and Nintendo of Canada, Limited in Vancouver. Its basic organisation form was functional, but within that structure, it employed a large number of part-time and inexperienced people. About 400 were in its Consumer Service unit and 150 in Merchandising, NOA's largest units. The Consumer Service force was very important. It answered calls about games day in and day out. Inquiries typically focused on the availability of specific games in different areas and the details of how to get a game character through a particular problem. Answers had to be extremely polite, friendly, and knowledgeable. Operating from small carrels in the same floor area, telephone answers typically handled 50 – 100 calls a day. The pressure caused serious problems with burn-out and major challenges in creating opportunities for personal growth. In addition to 150,000 telephone inquiries per week, Consumer Service also handled about 5,000 – 10,000 letters. Although detailed technical questions about games dominated the inquiries, telephone answerers also had to field broad policy questions about Nintendo's position on violence in video games, what was happening currently in law suits etc.

Maintaining quality in all these contacts was a serious concern for NOA's management. Although each job in the Nintendo operations area carried a job description and job rating, employees were encouraged to feel that they were not confined by that description and were encouraged to initiate ideas and better work methods. Ms. Beverly Mitchell, Director of Personnel said:

We have a bonus program which is very unique. All employees participate in the same program and the bonuses, although discretionary – meaning the company may or may not pay any bonuses – range between 0 – 4 percent of compensation based on employee performance. All employees from officers to hourly workers are on the same program. In evaluating performance

for bonus purposes, one of the things employees are rewarded for are ideas they brought forward which have been implemented. In addition to this method of encouraging improved work methods and ideas, we have a very strong open door policy. It's not just a vehicle for airing complaints; it's the way we get things done. Everyone feels free to go to the source. We feel this is imperative because our fast-paced environment demands that we get things done now.

Corporate Controls

Like many Japanese companies, Nintendo's corporate control systems varied from those common in the U.S. As Bruce Holden, Director of Finance, said:

The primary thing about NCL looks at is how the company is doing vis-à-vis competitors, in terms of serving customers with a reasonable financial return. Headquarters recognizes the value of sacrificing short-term profits to preserve good relationships with retailers or to deal with an inventory situation; they deal with those decisions without a great deal of hand-wringing. To the best of my knowledge, there is no written strategic plan. NOA's offices do provide input to NCL in terms of the worldwide strategy: which products to develop, and so forth. But the final decisions are basically at NCL; NOA then does its best to adapt those products and marketing strategies to be successful in North America. In this very dynamic entertainment type of business, we have to be very flexible. The idea of a written five-year or three-year plan, I think, would just be laughed at here. Key people on the technology and marketing sides in Japan, I am sure, are thinking three years out. We tend to consider more what's going to happen next year, what products we will have to sell, and how we can bet do that job of selling. To the best of my knowledge, there are no ROI, ROR or ROE targets given to us by Japan.

No Budgets

One of our multiple features is that we don't have budgets. That goes right to Mr. Arakawa's belief that this is a very dynamic, fast-paced business and we could get too tied up in managing budgets. There are two basic risks: (1) we might not be responsive to the market either on the upside or the downside and (2) we could go ahead and spend money despite the fact that conditions have changed. He's afraid that a budget is a bit of a self-fulfilling prophecy, which people will manage to a set of plans that are several months old rather than managing to what's happening today in the marketplace. However, we provide cost centre reports to all the department managers and their supervisors, and those have details on what has been spent year to-date and versus last year.

(An interesting set of tools we use is) a process called action memos and an authority chart. The authority chart is about a twenty -page document with basically one page for each major function or department. It says that -the following decisions require approval by (person's name)'. For each level, the chart defines what we consider to be discretionary expenses. Basically, up to \$5,000.00, a director can authorize discretionary expenses with no further approval. From \$5,000.00 to \$50,000.00, the director needs to prepare an action memo and submit it to an NOA corporate office. That gets circulated, but that's the final sign off. Above \$50,000.00, Mr. Arakawa and Mr. Lincoln are required to sign and don't require approvals. Payroll and routine, recurring costs such as utilities are considered non-discretionary and not subject to approval, but

hiring additional people, position changes, marketing costs, etc. do need approval. A new building or piece of capital investment is discussed in a fair amount of detail concerning its location strategy fit, etc. But, in general, there are no hurdle rates imposed by NCL.

Action Memos

In addition, there are certain non-financial decisions that are important enough to require approvals in the authority chart. Examples might be the change in CPA firm, a change in advertising agency, the sign-off on a six-month merchandising department plan, and so forth. Messrs. Lincoln and Arakawa thought very carefully about what the key success and expense factors are in this business and said that –these are the things – whether there's a direct dollar impact or not – we want the opportunity to sign off on it. So the action memos were initiated to provide the full context for such decisions. We all look at them primarily as a communications tool. We are not just trying to control things we're trying to ensure that the officers and Mr. Lincoln and Mr. Arakawa, in particular, are aware of what's going on.

Some people who come here don't understand why they can approval only up to \$5,000.00, when at the same rank elsewhere; they could have approved \$1 million. The answer is, our system is designed to ensure that the officers know that's going on. For example, an action memo is written for the marketing launch titles that we'll spend \$ 10 million launching because they are really strategic or we have huge sales expectations. The officers have a full financial breakdown as well as a verbal rationale for these projects.

There is very close, frequent contact among the officers. There are regularly scheduled staff meetings for each division in which all the directors assemble and receive a report on what's going on in a particular area. The areas reporting are scheduled and rotated to ensure that each group reports at least once a month. In specific areas like the customers service group, we keep lots of statistics on the types of questions, comments, complaints and inquiries they get as well as the efficiency with which they answer these. This activity is monitored thoroughly for quality because it is an absolutely key communication with our customers. In the credit area, we have policies where we step back and ask whether certain controls are necessary for individual customers, what the cost of these controls is versus the probable credit or goodwill losses, etc. We try to eliminate those controls that are unnecessary. The old 80 – 20 rule is very important for us.

Servicing that last 20 percent of customer desires can be very expensive. Essentially, the Vice President of Operations sets of a total target cost, has that approved, and says, –I'm going to hold to this total cost and will achieve this level of service. At the retail level, we have a department (now three people) whose sole purpose is to monitor what is selling at retail, analyze that, and translate it into information executives can use for decision. We now basically meet with all major customers and get that data via EDI, following not just what is shipped to Toys _R Us, but what specific titles are selling where. This data is crucial for all aspects of our operations including the potentials of new product launches, where it helps calibrate the –gut feel of our officers concerning how well a product should do and do is performing.

Product Development

Mr. Donald W. James, Director of Product Analysis and Development said:

All final decisions on product direction are made by NCL in Japan. But in the last 2 – 3 years, we've been expanding the product development areas of NOA because we are now global company. Focus is given to the industrial design side, like the plastic housing, controllers, colours, graphics, human factor, and design elements for the American market. We look for new game concepts or ways to deliver entertainment. We also search for various technologies and are approached by non-Japanese companies from all over the world with new concepts or technologies we can possibly utilise.

We do not develop software internally at Nintendo of America. We may use thirds party developers in the U.S. or Western Europe to produce Nintendo published titles. But most often, we help other publishers develop their concepts for Nintendo hardware platforms. They take all the development and marketing risk, but we suggest ways to help make a better product, hardware concept, or game. This obviously helps Nintendo overall. One of the key differences between movie and interactive entertainment is that in an interactive environment, you have a lot of intangible than can only be evaluated through testing. In an interactive environment, you must keep going back and re-doing things so that it becomes more and more fun. You have to take into account all of the things a kind can think of while playing the game and what they can do to make the software fail.

Nintendo, though, will continue to work on a game for as long as necessary until it is fun as it can be, you can't really put a hard time schedule on this. The important thing is to get it right. Unfortunately, the public in any retail environment can be very tickle. Fighting games, which are hot now, may not be so next year. Yet, it often takes 20 months or more to make a really interesting new game. Every program is different and requires a certain expertise. If you're doing a baseball game, you need people to spend a lot of time researching baseball, doing stats, getting the situations right and so forth. Although most concepts that do well in Japan also do well here, there are notable exceptions due to the cultural differences. In making a game, you have a designer-creator who develops the concepts, characters, and entertainment features. But he generally isn't a program. You have someone also to design and direct the visuals and graphics. Artists create the backgrounds and character movements, and there is someone else who directs the music. Pulling this together worldwide is quite a challenge.

The Nature of Business

The 1994 video game business was peculiar. Big product hits came and went with the whims of millions of children. Both the market and the distribution system were dominated by a few large chains like Toys _R Us' which alone controlled over 20 percent of all toy sales in the U.S. About 60 percent of all toys had been sold during the month before Christmas in North America. Toy manufacturers normally had to carry credit for their retailers until Christmas season sales cleared. This was a risk Arakawa was determining to avoid. The questions were how?

Sales of hardware depended on the adequacy of the software available. Although virtually all Nintendo's product development and most cartridge production were still in Japan, foreign markets were difficult to gauge. Mr. Yamauchi said,

It is impossible for us to judge or investigate whether or not a game we will introduce two years will successfully sell in any market by utilizing polls or available questionable techniques. Only experienced engineers or designers can tell whether games should be financed and whether games will attract large audiences. We do have several groups inside the company who do the evaluation of the finished product. They are composed of some software science people and hardware engineers, and some people doing the administrative work here (in Kyoto). Adding to that, we hire some students who do moonlighting for Nintendo and are so-called "game bugs". They love to play games, so they play our games extensively and say anything freely to us as to whether they like it or don't like this or that feature. Games are given scores, but the fact that a game got an 80 to 90 score doesn't necessarily mean the game will sell extensively. We cannot tell unless we see the actual result in the market place, but when a game is marked only 50 to 60, we are quite sure it will not sell.

-If there are 100 games introduced to the market a week, the market will regard only about 10 percent interesting or fun. We continuously make about 100 games a year, but we concentrate on that 10 percent of interesting games. If others cannot produce very good software which will be appreciated by Japanese audiences, there is no way for them to be successful in this market.

An American with Nintendo system averaged 7 game cartridges, Japanese averaged 12. Average cartridges prices had been about \$40.00. Unfortunately, software was relatively easy to duplicate for most systems. Consequently, counterfeiting was a major problem. Another was glut of games with inferior quality.

To deal with these issues Nintendo of America had instituted the "lock and key" system (between game software and NES hardware) to prevent use of unauthorized software and had insisted on an exclusivity clause which (1) limited its licenses to producing only 5 Nintendo games per year, and (2) prevented their release for other video game systems. NOA approved games could not be sold outside the United States and Canada. Anyone who attempted to abuse its strict license terms was dealt with stringently by Nintendo, which also enforced its copyright and intellectual property with vigour throughout the world. In the early 1980s, Arakawa and his then legal counsels, Howard Lincoln, had masterminded several landmark cases – against MCA and Atari among others – defending Nintendo's positions. Many licenses complained about Nintendo's restrictions, but none had been able to have them set aside by the courts. Approved games obtained the Nintendo quality seal, an important item on retail shelves. NCL either self-manufactured or controlled the production of all cartridges at selected vendors. Licenses would mark-up the cartridge prices by 50 – 100 percent, and retailers would double it again. Licenses could show their wares in the Nintendo booth at important industry trade shows, distribute their products through Nintendo's channels, and have access to Nintendo's game counseling system. Despite the licenses' restriction, Nintendo's marketing power enabled licenses to sell at startling average of 75,000 – and sometimes millions of – copies of every game approved by Nintendo.

The New Competition

However, the new competition was impressive. In 1994, the most potent competition was SEGA. SEGA's new 16-bit –Genesis SystemII had accompanied its introduction of its popular Sonic The Hedgehog game. True to its strategy, SEGA cut its system price quickly from \$190 to \$150 and began to offer Sonic The Hedgehog as a promotion for new sales. Despite increasing its market share, SEGA's profits hovered around half those of Nintendo. Nintendo's and SEGA's success also stimulated a whole new software industry. In the US, companies like Acclaim, which had developed popular programs such as Aliens 3, Terminator 2, and WWF Super Wrestle – Mania Challenge found their stocks quadrupling in one year and trading at 27 – 30 times earnings. In Japan, software companies like Capeom had broken sharply from Japanese business practices. In these software houses, a new style prevailed. Individuality was prized, head-hunting was rife, compensation systems no longer depended on seniority, and entrepreneurship was praised. Traditional firms like Matsushita's JVC and giant NEC had formed alliances with young American software suppliers like Electronic Arts, while independent firms like Japan's Enix – developer of Dragon Quest – because financial phenomena, selling 3 – 10 million copies of games at \$80.00 each, almost overnight, through alliances or licensingII.

From Disney to 3DO

Disney had entered the marketplace with its game version of Aladdin. New combination a games – and – films companies introduced –adult- oriented interactive motivesII like Voyeur allowing players to solve sexy mysteries by seeking clues in different rooms viewed through a telescopic lens. Alliances with AT&T, Time-Warner, and Tele-Communications Inc – and the Paramount – Viacom (MTV) combination, one of the largest mergers in history – were changing the structure of the entire entertainment industry. A new company 3DO was introducing a 32-bit processor which promised high definition television (HDTV) quality pictures, hi -fi sound quality, fast response times and much more flexibility in game design. Headed by Trip Hawkins, 3DO became one of the hottest initial public offerings of 1993. It sought to combine the visual power of a Hollywood movie with the interactivity of a video game.

Time-Warner and Tele-Communications had agreed to create a special SEGA Channel for their cable TV systems, giving subscribers access to 50 games each month. ImigiNation Network allowed people to compete with each other in a –virtual amusement parkII covering many western communities in the U.S. Increasing numbers of video games based on best-selling movies like cliff Hanger, Last Action Hero, or Jurassic Park began to emerge. Virtually every major Hollywood studio either had a video game division or had bought a video game company. In Sony's Entertainment Division, its Sony Interactive Group screened every movie script for its game potentials, and could send a team out to videotape sequences simultaneously with the making of the movie. The creative potentials of many other possible combinations were still untested.

However, as kids became addicted to games (Americans averaged nearly 1.5 hours per day), parents became extremely concerned about the degree of violence in various games. Unlike the gentle whims of the Super Mario Bros, other games features graphic decapitations, monsters (and heroes) tearing the hearts out of victims, and vampires creating bloody havoc. In the U.S. these led to Congressional hearings, a major media outcry, and threats of protective legislation.

The Nintendo Position

In this complicated marketplace, both NOA and NCL had to review their strategic positions. Nintendo's Super NES System was the leading (15 million unit) 16-bit central processor, although it had only 128K of workable RAM. Through its advanced –mode 7 graphics capability, it offered spectacular 360 game play for titles like Super Mario Kart, NCAA Basketball, and NHL Stanley Cup. It could display 256 colours from a palette of 32,768 colours – compared to 16 – 64 colours displayed and a palette of only 512 on most competing systems. Through the technological magic of R&D3, Super NES offered very high resolution, full digital stereo sound, and a game library of over 200 titles as compared to the more limited offerings of other individual competitors. Nintendo's compact Game Boy led the market in portable game systems, while its –Gateway system offered interactive multimedia access in airplanes, hotels, and other venues. Its initial target was 20 million travelers. Game Boy contained the same computing power as the NES, yet fit in the palm of a person's hand. A Super Game Boy adapter allowed full colour play on a home screen. In advanced technology terms, Nintendo was looking beyond 3DO to a –Nintendo Ultra 64 (64 bit) system for planned introduction in late 1995 (planned price around \$250). In game software, Super Mario Bros 3 was the undisputed single game leader of the current era with more than 9.6 million copies sold in 1993 alone. And Super NES enjoyed a library of 600 titles. In terms of market penetration, in early 1994, Nintendo compared to other home systems in the U.S. (for other market and trend data, see Appendix A). Player demographics for Nintendo showed some interesting patterns as indicated in Table 2. Nintendo's U.S. Sales broke down as shown in Tables 1, 2 and 3.

The Unexpected Happens

In late 1993, the previously unimaginable happened. After over a decade of rapid, continuous growth, Nintendo announced in the fourth quarter that its worldwide profits had declined by 24 percent. Nintendo blamed the suddenly high exchange rates for the yen, which clearly affected its international profits. But SEGA, its most important competitor, reported a profit increase to ¥57 billion on sales of ¥380 billion. Nintendo's 16-bit games began to decline in demand as Atari launched its 32-bit –Jaguar System, Sony set up a joint venture to market its new 32-bit system, and SEG joined with Hitachi to develop a 32-bit successor for its new –Game Gear series. And 3DO announced its even more impressive 32-bit, movie-quality advanced game machine, which (with anticipated 64-bit quality) could ultimately provide highly articulated 3 dimensional movements. 3DO was also designed to accommodate voice activation, which was rapidly becoming a reality for computer systems.

In the U.S. Nintendo's total retail revenues grew by 22 percent during 1993. Nintendo still had a market share of 80 percent both in the U.S. and worldwide. The cumulative growth rate of Nintendo had been 43 percent in the U.S. for the 5 years as compared to the total video game industry's growth of 380 percent. No other system came close to the 60 million installed base of Nintendo worldwide, where its total sales had also increased by 13 percent during the fiscal 1993. However, the industry was expecting to sell 40 million more games over the next five years as new, more powerful chips poured out of Silicon Graphics, Matsushita and NEC. Chip speeds were doubling every 3 years toward 400 – 500 MHz levels by 2000. Storage capacity per

chip was reliably predicted to go from 1993's 15 megabits to between 500 and 1000 megabits by 2000. Totally new entertainment concepts seemed sure to develop as those capacities merged with the desires of a teenage population growing at 15 percent per year, from a base of over 75 million in America alone in 1994.

The Sonic Booms

SEGA, Nintendo's most successful competitor, had been started in Japan by two Americans and became an American company in 1984 when Gulf and Western acquired it. SEGA had been unable to entice Japanese software producers to abandon Nintendo, but had been very successful in lining up some U.S. producers, notably Electronics Arts, which had helped create its –Genesis System. SEGA's Sonic the Hedgehog was one of the most successful concepts to challenge Nintendo's Super Mario Brothers in the early 1990's and SEGA's 16-bit Genesis machine (using the chip that powered Apple's Macintosh) had beaten Nintendo to that market. It had also beaten Nintendo to the market with CD-ROM capabilities in its 1992 machines. It had used preemptive pricing to forestall Nintendo's responses. And to support its low price strategy, SEGA – unlike Nintendo – moved half its production to Southeast Asia.

In the three years from 1990 to 1993, SEGA increased its sales five times and profit six times, but in a bloody price war, SEGA's 1993 profits had plunged by 2/3 to \$100 million. SEGA was concentrating on its next generation –Saturn System operating on CD, while Nintendo stayed with its cartridge system. SEGA also began to plug money into virtual reality than parks, electronic toys and interactive systems for the electronic superhighway. It had worked out collaborations with Time-Warner and TCI, which had agreed to download SEGA games over their pay-channel systems. AT&T had developed a special modem to enable interactive games over a –SEGA Network using its phone lines. SEGA was also working on virtual reality –rides which would give the effects of roller coasters and spin rides while sitting in an enclosed room on a mobile chair.

By 1994, Panasonic's REAL multiplayer had been used to introduce 3DO 32-bit CD-ROM system. Based on the almost photographically realistic graphics of Amiga computers, 3DO's upgradable system (if successful) would allow much faster responses, high quality graphics, and a lower royalty payout (only \$3 versus \$20 for Nintendo) to game designers than did competing systems. 3DO did no manufacturing. Its CD-ROM systems and disks would be produced by others. Many say 3DO's system as the most promising bridge to realistic imaging for virtual reality, multimedia, and many new arcade concepts as well as for corporate training systems.

Looking Forward

Commenting on the late 1993 situation, Mr. Hiroshi Yamauchi had said:

In Japan, we occupy more than 90 percent of the video game entertainment market. However, in Europe and the U.S., there are substantial numbers of people competing with Nintendo. Some types of games called action games are loved by people around the world. Other types of games like –role-playing games are very popular in Japan but don't do well in the United States or Europe. A second difference is how people approach cost, or the retail prices of these games. In

Europe and America, people make much of retail prices, and our competitors try to bundle several different software packages or to cut prices to make them attractive. In the case of Japan, it is very different. As long as the game software is not interesting, people will not buy, however, cheap it is. I think this cost consciousness is the main reason why competitors like SEGA are becoming important against Nintendo in European and American markets. It's interesting that in Japan, Nintendo's prices are 50 to 60 percent higher than SEGA's but in Japan, SEGA is not selling at all. As 3DO, Atari and others try to enter these markets; those are the conditions they will have to meet.

Nintendo's continuing success remains based on our unique ability to create the thrill of great game play experiences and appealing characters to share them with....Nintendo's characters come to life because players can relate to them, experience adventures and excitement with characters you'd be proud to storm a castle with.... No one creates interaction better than Nintendo

Nintendo will be in the forefront of (both hardware and software) developments. We will develop these in a way appropriate to our players, by making them both affordable and fun. We remain committed to pursuing record financial performance in the coming years, while delivering over – more exciting and unique entertainment to people all around the world.

3.5 Intel Corporation

In 1968, Robert N. Noyce (age 40) and Gordon E. Moore (age 39) broke away from Fairchild Semiconductor to form Intel Corporation. They concentrated on semiconductor memory components for the computer industry. When Intel started, no market existed for its principal product. By the late 1970s, Intel's trailblazing technologies had irrevocably restructured the electronics, computer, and communications industries.

In the 1980s, semiconductors were affecting social changes many believed would be as profound as those of the industrial revolution. Not without cause did CEO Moore say, –We're in the business of revolutionizing society. Opportunities seemed boundless. In the early 1990s, continuing technological advances and Japan's massive competitive capabilities presented unprecedented strategic challenges for this unique company.

Budding Entrepreneurs

Noyce and Moore made an unusual team. Although the future of this revolutionary technology was unknown at that time, Noyce – an inveterate young tinkerer from a small Iowa town – headed for MIT to study about the new field only to find it had no courses on semiconductors. Taking his Ph.D. (in electronic physics) at the top of his class, Noyce had joined Philco's semiconductor division.

Two and a half years later, he got a call from William Shockley, the inventor of the transistor, who was starting a new semiconductor company in Palo Alto (California). Noyce and Moore, a Ph.D. chemist from Cal Tech, arrived there the same day. Thus, began one of the most successful technical partnerships of modern times.

Big Company Blues

The company, which started in a rented building in Mountain View, California, grew fast. By 1968, Noyce was supervising nearly 15,000 employees in the United States and abroad. Both he and Moore achieved major technical advances in semiconductor technology at Fairchild (including the first planar integrated circuit and the first stable MOS transistor). But both men had begun to find big – company life less and less satisfying.

When Fairchild Camera had exercised its option to buy out Fairchild Semiconductor in 1959 and make it into an operating division, the originators each got about \$250,000.00 worth of stock in Fairchild Camera. But Noyce and Moore began to feel that a company as big as Fairchild could not easily expand into new areas of semiconductor technology. Noyce said, –Fairchild was getting big and slummy. LSI had been talked about a good deal, but there was no commitment behind it. New ventures in such a complex field initially lose money – sometimes a lot of it – and it is often difficult to justify big losses to directors and stockbrokers. Moore and Noyce finally left Fairchild Semiconductor (in the summer of 1968); but not before they had built the company into a \$150 million enterprise, one of the Big Three in its field along with Texas Instruments and Motorola.

A New Company

–We figured LSI (Large Scale Integration) was the kind of business we'd be interested in. We both had started in technology, not in computers or finance. It would be fun for us, said Noyce. Noyce and Moore decided that their new company should try to establish itself as a specialist and leader in the computer memory field, a field where semiconductors had very little impact and no larger companies were present. As Moore explains, –It's very tempting for a little company to run in all directions. We went the other way. It was our objective to dominate any market in which we participated.

Venture Capital

The pair knew they would need quite a bit of money to start up. Fortunately, Noyce had already had considerable personal exposure to the investment community. Among his acquaintances was Arthur Rock, who had helped to arrange the original financing for Fairchild Semiconductor while he was at Hayden Stone.

–It was a very natural thing to go to Art and say, –Incidentally, Art, do you have an extra \$2.5 million you would like to put on the crap table? said Noyce. Rock had long before become convinced of Noyce's abilities as a manager, but he also knew that men who run big companies for others don't necessarily make good entrepreneurs.

So Rock, a cautious man, grilled Noyce on his goals and his emotional and financial commitment to the idea. –My way with people who want to start companies is to talk to them until they are exhausted – and then talk to them some more, said Rock. –Finally, I get an impression what their real objectives are, whether their goals are big enough. One of the things

I'm interested in is whether the management puts a limit on the company they want. If they do, I get fearful: Noyce wanted to grow to \$100 million in 10 years. Rock was pleased with Noyce's responses and by the fact that both Noyce and Moore were willing to invest substantial amounts of their own money, about \$250,000.00 each.

Intel (a contraction of –integrated electronics) started in the enviable position of having so many would-be investors that it could choose those it preferred. –People had known Bob and were kind of lined up to invest in the company, said Rock. Rock purchased \$300,000.00 worth of convertible debentures and brought in other investors who took an additional \$2.2 million. Later, Intel sold 154,000 shares of common stock in private placements for \$2.2 million. The common stock was immediately oversubscribed. Ultimately, paid-in capital for Intel amounted to about **\$ 17.5 million**. But after its initial debenture issues, Intel did not find it necessary to borrow or to use its line of bank credit. During this period, the company owned almost all its facilities.

Total sales growth of integrated circuits (I/Cs) in the 1970s would exceed 20 percent per year. I/Cs would have even more impact on electronics than transistors had, although no one knew then precisely when or how. It cost millions to develop initial technologies, to build facilities and to make the first successful chips. But production bugs made yields a miserable 1 – 5 percent of each run. Over 100 steps had to be performed perfectly in sequence. With tolerance of a few microns (millionths of a meter) required, a fleck of dust would cause a faulty device. And reliability testing of the circuits had to be meticulous, a million or more tests for each chip. Nevertheless, this miraculous technology, when mastered, would drive the cost of transistors down 10,000 – fold or more. Older vacuum tube companies couldn't cope with these uncertainties, and customers, so called –systems houses, were often afraid of trusting their design secrets to outside –I/C suppliers. This was the business Intel set its cap for.

A Complex Technology

–The 1103 was a brand – new circuit – design concept, it brought about a brand – new systems approach to computer memories, and its manufacturing required a brand – new technology, added Andy Grove, then Vice President, Operations. –Yet it became, over the short period of one year, a high-volume production item – high volume by any standards in this industry. Making the 1103 concept work at the technology level, at the device level, and at the systems level and successfully introducing it into high-volume manufacturing required a fair measure of orchestrated brilliance. Everybody from technologists to designers to reliability experts had to work to the same schedule toward a different aspect of the same goal, interfacing simultaneously at all levels over quite a long period of time Yet I would wake up at night, reliving some of the fights that took place during the day on how to accomplish various goals (2,155).

–The operating style that evolved at Intel was based on the recognition of our own identity, said Grove. –The semiconductor industry consisted of companies that typically fell into one of two extremes: technology leaders and manufacturing leaders. Neither of these types of leadership would accomplish what we wanted to do. We wanted to capitalize on new technology and we wanted to sell our technology and our engineering over and over again. This meant high volume. We regarded ourselves as essentially a manufacturer of high-technology jelly beans.

Early Organisation

–A manufacturer of high-technology jelly beans needs a different breed of people. The wild-eyed, bushy-haired, boy geniuses that dominate the think-tanks and the solely technology-oriented companies will never take their technology to the jelly-bean stage. Similarly, the other stereotype – the straight-laced, crew cut, and moustache-free manufacturing operators of conventional industry – will never generate the technology in the first place. A key question was how to find and mix the two talents. There weren't many experienced engineering or manufacturing people, and top young graduates were sought after by everyone. In engineering, we needed to orient toward market areas and specialized customer needs – such as computer mainframe memories, increasingly sophisticated peripheral capabilities, general purpose I/Cs, and timing circuits. –Engineering had to come through first with a workable design for what the customer would need most.

But in manufacturing, Intel needed to standardize as much as possible. In production, said Grove, –We actually borrowed from a very successful manufacturer of medium technology jelly beans – McDonald's hamburgers. When you thought about their standardized process and standardized module approach, it had much to offer in our technology. But there was also a sociological reason for what became known as the –McIntel approach. Noyce was convinced that the day of the huge production unit was gone, that modern workers performed better in smaller, more informal production units. And by 1975, Intel had such units in various Santa Clara towns as well as in Oregon, the Philippines, and Malaysia. In each area, Grove introduced perhaps the toughest quality control and monitoring systems in the industry and a system of rewards to match Intel's production philosophy.

Finally, Intel realized that reliable delivery was perhaps the most important single issue in marketing its chips. Intel quickly evolved its well known motto, –Intel Delivers. But these words had to be backed by careful practices and dramatic policies to be credible to a skeptical market place. For example, at one point early in its history, Intel convinced Honeywell to give it a contract for a custom memory device. Honeywell had already placed contracts with six semiconductor manufacturers including Texas Instruments and Fairchild. –We started about six months later than the others, recalls Grove, –and we were the only ones to deliver the device, about a year later. (2,158).

Living on the Brink of Disaster

–This business lived on the brink of disaster, explained Moore. –As soon as you could make a device with high yield, you calculate that you could decrease costs by trying to make something four times as complex, which brought your yield down again. Overeager technologists could easily miscalculate future yields and pledge deliveries they could not meet or set prices that turned out to be below their costs. Said Noyce, –If you look at our stuff and melt it down for silicon, that's a small fraction of cost – the rest is mistakes. Yet we chose to work on the verge of disaster because that meant doing the job with finesse, not brute strength. Early entry allowed Intel to quick recovery of development costs through high prices for unique products. It also meant —experience curve advantages in costs over those who entered later. Volumes were

growing so rapidly that future plant was a necessity, but the technology was moving so fast that one never knew two years ahead what products would be made in the plants. Still plant construction might easily take more than two years for planning and implementation.

The conflicting strategic requirements of production, engineering, marketing (plus international operations) required some unique policy and organisational solutions for the young Intel. Intel has an insatiable need for skilled personnel and tried some imaginative ways of meeting it. The company hired new employees for its wafer-processing facility at Livermore months before that plant went into operations and bused the employees 35 miles each way daily to Santa Clara to train them. To hang on to skilled people, Grove used a technique that he called –Peter Principle recycling. Instead of firing foremen and other managers who flopped when promoted to more demanding jobs, he split their tasks, giving them smaller responsibilities. Some of these –recycled people again advanced to higher positions, only a few left.

Middle managers at Intel were monitored carefully but had considerable operational freedom. –Lots of guys starting new companies are interested in keeping their fingers in every part of the pie and Moore and Bob think I was relatively willing to relinquish day-to-day details. For example, Intel had streamlined purchasing to the point where the engineer in charge of a project could buy a \$230,000 tester, or whatever he needed, by simply signing for it – provided it was in his budget..... (In a big company) you would need seven different signatures on a piece of paper to spend any money, said Moore. Noyce and Moore also tried to keep operations as informed as they could. Spaces in the huge Intel parking lot were not marked with officials' names –If Bob gets to work late, said Moore, –he parks way out in the corner of the lot. I think this will continue. Sometimes it's pain in the neck, but the other problem is, once you start marking parking spaces, where do you stop. The rule still held in the 1980s.

Practices attuned to the Times

The company had grown larger and more complex in the 1970s and '80s, but it worked hard to keep its management systems attuned to the times. A few key elements in its approach follow:

The Top Team

By 1982, Intel's –two-headed – Noyce and Moore – had become a three-headed –executive office. Chairman Moore – pensive and more reserved in his habits – was the company's long range thinker, charting overall product strategies. The more gregarious Noyce, now vice chairman, had become Intel's Mr. Outside and was increasingly recognized as one of the industry's major spokesmen. Andy Grove (then age 45) was president and chief operating officer. Although less visible than Noyce and Moore in the early years, Grove was increasingly recognized as the personality driving Intel's internal affairs. –Grove has to be the world's most organized guy, said and admiring Moore. –He sees problems developing much sooner than other people, and he's interested in the people and people interactions needed to solve them.

The three worked well together, respecting each other's technical abilities, and arguing openly and without rancor when they disagreed. To maintain a close touch with the organisation, each

man was in a separate area of Intel's Santa Clara complex. Their offices were distinguishable from all the other cubicles that secretaries and junior executives worked in. All offices were indistinguishable from all the other cubicles that secretaries and junior executives worked in. Only shoulder high partitions, there were no doors on any offices (including Moore's), no limousines, and no executive dining rooms. Any of the top three was likely to plop down at a table in their building's cafeteria and join in a lunch chat with whomever was there. Said one group of employees, "It's exciting to know you may see and talk to the very top guy at any time. You feel a real part of things."

Council and Confrontation

Intel had tried hard to avoid communications barriers and structural bureaucracies. While the company was decentralized into relatively small operating units, people might still have several bosses, depending on the problems at hand. Virtually all staff functions – purchasing, operating procedures, employee compensation, and so on – were handled by "councils" of line managers. There were usually several dozen – ninety were once counted – of such councils operating at one time. On the councils, all people participated as equals, with new members free to openly challenge top managers. The idea, said Grove, "is to remove authority from an artificial spot at the top and place it where the most knowledgeable people are.....I can't pretend to know the shape of the next generations of silicon or computer technology any more. People like me need information from those closer to the technology. We can't afford the hierarchical barriers to the exchange of ideas that so many corporations have. The technology is moving too fast."

This free exchange of ideas was reinforced by a policy of "constructive confrontation". Each member of a team was expected to challenge ideas openly and aggressively, but never to attack an individual's motives for presenting an idea. Employees said, "Things can get very rough in a meeting. You'd be surprised at the things people can say, but if you are seeking a solution, it's okay". Grove himself set the tone. "When he walks into the room, things can get electric I've seen him listen to a carefully prepared report for a while and shatter the room with 'I've never heard so much bullshit in my life'. The company has courses on "constructive confrontation" for all its rising executives and includes the concept in its training of people in Intel's philosophy.

The World of High Achievers

Like all other groups and individuals in Intel, the councils were required to set performance objectives and be measured against them. Assignments were set by the council and agreed to by each employee and his supervisor. Grove said, "This takes a lot of time, but everyone knows exactly whom they report to on each item – and so do their supervisors. We can't afford to leave anything to chance as we grow larger". Performance measurement pervaded everything. When Noyce had joined Shockley, he had said, "I had to test myself, to know if I could hold my own with the best". In 1982, the attitude persisted. "We are seeking high achievers, and high achievers love to be measured because otherwise they can't prove to themselves that they're achieving. Measuring them says that you care about them.....(But it must be an honest review). Many people have never had an honest review before. They've been passed along by

school systems and managements that don't want to tell people when they don't measure up. We tell them, —Here are the things you did poorly, and here are the things you did well.

Formal Organisation

There was no large corporate staff in the usual sense. Instead the top division managers formed the –executive staff whose job was to worry about the whole business, not just their individual portions of it. Expectedly, Intel was leery of formal organisation charts. Within its structure –flexibility dominated. Teams were formed for special problems, and planning was performed across all divisions toward a selected set of strategic business segments (SBUs), Intel's version of the strategic business units (SBUs) used in other companies Noyce said. –Strategic planning is imbedded into the organisation. It is one of the primary functions of line managers. They buy into the program. They carry it out. They determine their own future.

An interesting example of this was the bubble memory group established in a separate entrepreneurial division within Intel. In 1970, Bell Laboratories discovered that in certain materials, it was possible to create small densely packed magnetic bubbles whose location and polarity could be controlled to store enormous quantities of information in a very small space. Although greeted with enthusiasm at first, the technology at first was difficult to reduce to practice, and most larger companies gave up on it in the late 1970s. A few small entrepreneurial concerns persisted, however; and in 1978 one of these came to Intel with a promising approach ready for scale up and possible introduction. Intel brought the company in as a separate division with a very unusual incentive program to maintain its management's enthusiasm and entrepreneurial flair. In 1982, Intel bubble memories with one million bits per chip capacity were commercial and a 4 million bits chip was announced for release late in the year.

–Quality Circles, Total Quality Control and Quality Assurance programs had long been present in Intel, along with a monthly cash bonus system for quantity and quality of production output. The latter was announced at a monthly bonus meeting in which performance, suggestions, and solutions were discussed directly with the people doing the job on the production line. But noted Noyce, –In a larger organisation, to see the result of what you're doing, you push on one thing a year and see some movement. In a small organisation, you can turn on dime and change direction. With 10,000 people, you break the organisation into small manageable units, so you can change the direction of one unit at a time.....

–But in development, you can't afford that. You have to move fast, to be first, but you're in a realm where no one has done before what you're trying to do. You have to measure absolutely everything, so when something goes wrong, you have some idea of what went wrong. You don't change something unless you've proved it on a pilot basis first, so that it won't louse up something else.... Yet you have to compete against other people who may not know this – and get lucky. You also have to compete against the massive capacities of the large Japanese companies to change the whole market place if they make a right decision and you don't. None of us – no one – has managed a company in this kind of technology and this competition before. We have to write the book for the future. It's quite a challenge.

Moore had started the ultimate challenge in these terms. –We intend to be the outstandingly successful company in this industry. And we intend to continue to be a leader in the revolutionary technology that is changing the way the world is run. The question was how to do this in an era in which many saw the once almost mystically high technology chip business moving into a commodity era.

New Technology Drivers

Until 1985, Intel managers thought of DRAMs as the company's technology driver. Historically, DRAMs had always been the first products to employ new technology. Even though it never went into production, the 1-megabit DRAM was Intel's first attempt at 1-micron geometry. Sun Lin Chou, then the leader of the DRAM technology development group, said it was typical for DRAMs to precede logic products in line width reduction by at least one year.

In 1990, Sun Lin Chou expressed some skepticism in discussing the cumulative volume model for learning in the semiconductor industry. The traditional model of a technology driver says that the more you do, the more high – volume products you run, the more production you get. That means in order to stay on the leading edge; you need a product you can ramp into high-volume production rapidly. There is some truth to the model, but it can be carried to an extreme.

There are certain ways of learning that can be carried out at much lower volumes. Our recent experience suggests that you can learn without massive volumes. If so, that takes away the requirement or urgency to have a traditional technology drive. We think it is possible to achieve mature yields by processing only about 10,000 wafers versus the old model's predicted requirement of 1,000,000 wafers, but you have to use intelligence.

You don't learn quickly when you increase volume by brute force. You have to learn by examining wafers. Learning is based on the number of wafers looked at, analyzed, and the number of effective corrective actions taken. Even if you have processed 1,000 wafers, the technical learning probably only came from the 10 wafers you analyzed. Technical learning is time and engineering constrained, not number of wafers constrained.

There are also a great number of things you can do in an open loop system. For example, you can see or guess where particles are coming from and remove them without really knowing for sure whether they are yield limiter. You don't take the time to get the data to justify the fix; you don't do a detailed study; you just fix what seems broken. You have an intuition about what to do. The Japanese have really led the way on this. You don't undertake an ROI analysis to figure out the cost/benefit for every little improvement. You just fix everything you can think of. Everyone can participate. I think that the industry used the notion of technology driver as a crutch. We were late waking up to the fact that we did not need to run volume in order to learn. There are other ways to be intelligent. You don't have to depend on volume if you depend on good engineering.

A great deal of the know-how is now generated at the equipment supplies. We try to stay in the mainstream by purchasing the most advanced equipment, but then we optimize it to maximum advantage for our products. For example, I know that a certain stepper vendor is developing a

new tool that will accommodate a certain maximum chip size. It will not be able to process larger chips. The size is driven by the needs of Toshiba's next generation DRAM. They are building the equipment to satisfy the demands of their largest customer.

You can bet that all of Intel's next generation parts will be designed to capitalize on the DRAM toll. We will put that constraint on our designers. The equipment vendor will be ready to produce those steppers in volume and will be happy to supply us with a few machines. We could ask them to design a special tool for us, but it would be inferior because we wouldn't command the same level of attention that Toshiba gets.

Attitude is important and has led to the changes. The Japanese really have taught us something. They expect excellence from equipment vendors and make them develop the expertise to provide equipment vendors and make them develop the expertise to provide the best possible equipment. If a piece of equipment has a problem, the vendor is right there in the fabrication area fixing it, and he can make appropriate changes on the next generation.

In Japan, all the technicians set the machines to the exact settings that are specified by Applied Materials. If the process doesn't work, Applied Materials gets blamed. In the United States, we tend to be more inventive; each technician sets machine to an optimum that he had determined. When you operate like that, it becomes more difficult to blame the vendor when the yields are down.

As a result of this fundamental change in the equipment, suppliers' role learning now resides in the industry, not just in the company. That is a complete shift. Just to prove it, look at this example. A Japanese ball beating company, NMB, with no expertise in the semiconductor industry, had \$ 500 million in excess cash and decided to get into the DRAM business. They got vendors to sell them equipment and set it up, and they contracted with consultants to sell them a process and get it running. In a short time, they were the most automated semiconductor factory in the world. That could never have happened even five years ago... The latest equipment is essential to getting the highest yields. Equipment vendors allow Intel and even new start ups to keep up with the latest industry advances.

4.0 CONCLUSION

You have reviewed the case studies of four leading individuals/organisations namely.

5.0 SUMMARY

In this unit, you had from the reviewed case studies developed and possessed the skills and abilities to analyze problems there from with a view to taking appropriate judgement or decision aimed at resolving those problems.

With this, you have come to end of this course, and we congratulate you on the successful completion of this course.

6.0 TUTOR-MARKED ASSIGNMENT

Microsoft Corporation (A)

What were the critical factors in Microsoft's past success? Trace the crucial interactions with its customers, competitors and other outside parties.

What are the major differences in strategic management in a company like Microsoft versus IBM, or Sony?

Microsoft Corporation (B)

What are the most important organisational and structural reasons for Microsoft's success? What major problems do you see in their approach now? What issues do you see for the future?

What should the future macro structure of Microsoft look like? Why? How would you propose to resolve the specific issues and shortcomings you see in Microsoft's existing practices? How should it organize to exploit the emerging opportunities in software?

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