NOUN

NATIONAL OPEN UNIVERSITY OF NIGERIA

BUS 428

Business Policy and Strategy

Module 1

BUS 428 Business Policy and Strategy Module 1

Course Developer/Writer
Pst. I. T. Oladele, National Open University of Nigeria

Course Editor
Associate Prof. F. Ayodele, National Open University of Nigeria

Course Coordinator
Mr. A.I.Ehiagwina, National Open University of Nigeria

Programme Leader
Dr. I. D. Idrisu, National Open University of Nigeria

Credits of cover-photo: Henry Ude, National Open University of Nigeria

National Open University of Nigeria - 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi, Abuja, Nigeria

www.nou.edu.ng centralinfo@nou.edu.ng
oer.nou.edu.ng oerunit@noun.edu.ng OER repository

Published in 2021 by the National Open University of Nigeria

Module 1

Unit 1 Conceptual Meaning of Business Policy and Strategy

1.0 Introduction

The field of business policy/strategic management has offered a variety of frameworks and concepts during the last half century, many aimed at "taking business and its management seriously." During the last two decade in particular, there has developed a substantial body of literature in the fields of strategic management strategic planning, corporate and business policy and related topics. The term strategic management is of relatively recent origin and is currently the accepted term for the fields of business policy and planning. However, as a separate field of study, it is still at a fairly young and relatively evolutionary stage. As a result, many definitions of strategy abound, and the terms "strategic planning," "policy," and "strategic management" often mean precisely the same thing to different authors. But for the purpose of this course material, the terms business policy and strategic management shall be used interchangeably.

This course material explores how organisations can grow and prosper through successful execution of the strategic management process. Business policy and strategy is a process through which organisations analyse and learn from their internal and external environments, establish strategic direction, create strategies that are intended to move the organisation in that direction, and implement those strategies, all in an effort to satisfy key stakeholders. Stakeholders are groups or individuals who can significantly affect or are significantly affected by an organisation's activities. An organisation defines who its key stakeholders are, but they typically include customers, employees, and shareholders or owners, among others. Although larger companies tend to use the strategic management process, this process is also a vital part of decision making in smaller companies.

Firms practicing strategic planning processes tend to outperform their counterparts that do not. In fact, executives have reported higher levels of satisfaction with strategic management tools and ideas than with most other management tools.

Business policy as a course is commonly regarded as a capstone course (a capstone is the finishing stone used in the construction of an arch). The reason was that the subject of strategic management is often taught as a core topic at some stage (usually the final year) during a business related degree programme. Strategic management also acts as a key feature of postgraduate business degree programmes. The topic consolidates what the student has learnt in the preceding years of their degree and applies this knowledge at a strategic level to business contexts.

In order words, the course is better appreciated from the perspective that the course is only possible if one has a fairly good understanding of the functional areas of a business such as marketing, finance, product, personnel and so on. Similarly, it is a fact that most people starts their career life in a functional area - finance, manufacturing, personnel, marketing –

and gradually work their way up to top management. At the top management level, the primary work becomes that of formulation and implementation of strategy. The strategy guides the organisation and the work of all the people in it hence, the course (variously called long-range planning, top management planning, corporate strategic planning, strategic management etc.) covers as its subject matter, the work of top management of the organisation (FAB 303/01-03COS).

2.0 Objectives

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

- define the nature of policy and the issues involved in the establishment of policy
- write differentiate between the tripartite concepts of policy, objectives and procedure on the one hand and between informal and formal policies on the other hand
- define business policy and highlight its features
- comment on the intricacies of business policy decision
- write a clear distinction between policy and strategy.

3.0 Main Content

3.1 The Nature of Policy

Top management of organisations is concerned with organisational activities devoted to:

- Planning company's future
- Setting goals and objectives; and

Generally concentrating of the survival and progress of their organisations and if they are members of the organisation's board of directors; they are responsible for formulating policies and making the final decision on corporate planning and strategy.

The top management is primarily concerned with the working of the whole organisation-and not only about anyone particular function or another. All problems within the organisation (or outside that will affect the organisation in any major and significant ways) will be of interest to the top management. However, such areas / issues that are likely to significantly affect the operations of the company will receive primary concentration. There is always therefore a tendency to prioritise the problem that a company faces at any point in time. Those matters of the highest priority are commonly referred to as "strategic" issues or issues of a "policy" nature. These are the problems and issues that are attended to by the top management.

The term policy has several meanings. It is often used to indicate an ethical connotation, such as "honesty is the best policy." in its business sense policy means an oral or written statement that serves as a guide for management decisions. The policy of a business undertaken has been specifically defined as: “a statement of its primary objective, accompanied by a directive indicating the general pattern to be followed to secure its implementation.” (Musselman, 19). A broader definition of the term policy viewed it as “a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that the employees throughout the firm make decisions and take actions that support the corporation’s mission, its objectives and its strategies”.

Policy sets forth guidelines to daily decision making throughout the organisation so that decisions do not have to rise higher in the organisation for resolution. Policy statements are therefore made to indicate to those concerned just what the organisation will, and will not do in pursuance of its overall purpose.

They usually do not require action but are intended to guide managers in their commitment to decisions they ultimately make. But policies are not the same as objectives or plans, even though they are frequently confused with them.

A policy is a standing plan; it is used over and over to guide specific actions. For example, if a company adopts a policy to sell only for cash, all employees give a consistent answer to any customer asking for credit. Every company needs policy covering many aspects of its operations in order to simplify decision-making and to give predictability and consistency to actions taken at different times by different people.

In addition, policy serves a key role in spelling out, clarifying, and testing strategy. Frequently strategy is stated in such general terms that its interpretation can be varied. A carefully selected policy sharpens the meaning of the strategy and guides specific decisions in a direction that supports the strategy.

In a sense, no strategy has really been though until its implications for policy (and programmes) have been explored. Sometimes as our planning follows through from a tentative strategy to more specific policy we encounter a stumbling block that causes us to go back and revise the strategy. In the end, each should support the other. To be sure, some policy is adopted for administrative convenience and is not affected one way or the other by a change in strategy; our focus here, however, is no policy that does directly help implement strategy.

Objectives state aim or goal that is, they are ends. Plan provides a framework within which action can take place of attain objectives i.e. they are means; policies on the other hand, are neither ends nor means, they are statements of conduct. Policies cause managers to take actions in a certain way but they are not actions in themselves. (Cole 117). As a guide to action, policies anticipate that many recurring decision making situation can be dealt with in advance. Decisions at all levels are aided by policy, and one of the fundamental skills of the manager is to create policy and to use it.

Policies are vital to decisions making in at least two main ways:

1. They provide a basis for relating actions to objectives, and

2. Helps to assure that decision results in coordinated and successful endeavors.

The work of planning and determination of company objective becomes effective when expressed in policy form.

It is the function of the board of directors and top management to formulate and approve the overall corporate policy for the organisation as recommended by the chief executive. This does not mean that lower management as policy interpreter and implementers do not contribute to policy been formulated.

In reality, the lower manager do effect initiate, formulate and recommend policies as they affect their various functional departments. This is however done within the overall framework of the organisation and passed though the CEO to the board for consideration and approval. Policies therefore ordinary exist at all levels of the organisation and range from corporate company policies through major department policies to minor policies applicable to the smallest segment of the organisation.

Policies are said to be official if they tell members of an organisation how to meet specific situation that occur frequently and affect a substantial number of people. Specific policies anticipate that many problems requiring decisions occur repeatedly and need to be treated consistently. General policies are also needed to guide decision making in situation that are non-recurring or infrequent but that needed to be made consistently with the broad, corporate objectives and strategies.

Since policies are guides to decision making, it follows they must allow for some discretion. Otherwise, they would be rules. for example, a policy of buying from the lowest of three qualified bidders leaves to discretion only the question of which bidders are qualified, but a requirement that materials be bought from a certain supplier, regardless of price or service, would, however, be a rule. Rules spell out specific required actions of non-actions, allowing no discretion. In summary, the essence of policy is discretion.

3.1.1 Establishing Policy

Science and technology have placed many new and sophisticated tools at management's disposal. A basic management problem, however, is still the age-old one of human relations-helping people work effectively toward organisational goals. The large capital investment required for equipment has encouraged the development of larger plants and corporations which, in turn, involve much larger groupings of people than in the earlier stages of our industrial society. Effective direction of the activities of larger organisation requires sound guidelines or basic reference information for decision making. Most successful companies provide this direction through soundly conceived and developed policies.

3.1.2 Policy, Objective and Procedure Defined

Establishing policy may be described as "formalising organisational attitudes towards specific types of repetitive problems as guides to decision making". The need for clearly defined and understood polices increases as an organisation grows in size. Even a small owner-operated business, however, must have a framework of policies, written or understood, if it is to continue to function satisfactorily when the owner is absent.

It is important to differentiate between a policy, an objective, and a procedure. Policies form the basic framework of principles and rules to be used as reference information for decision making. They guide an organisation's managers in a continuing and consistent pattern of decisions and direction of thought. Policies supplement each other. Over a period of years, policies form "a body of law" which expedites managerial decision making. Most importantly, they sharply diminish the hazard of conflicting verdicts and incompatible, ill-assorted ventures which result from inadequate information and guidance.

In contrast to a policy, an objective is a more or less specific goal or aim. The dictionary describes an objective as "that which any person of group is seeking ardently to achieve." An objective is something to achieve; a policy is a guide to its achievement.

A procedure is "the manner or way of performing anything, a process, method, or tactics." Well-defined procedures are important in any organisation to direct employees in the performance of their duties. Because they tend to overlap, procedure is often confused with policy. A procedure essentially describes how to do something, whereas a policy is part of a framework of general principles, that is, the why behind decision making. Frequently a written policy will include procedure information which describes how to implement a police will written procedure will sometimes include information on why certain procedures are necessary.

3.1.3 Types of Policies

Policies come into being in any organisation in different ways. Koontz and O'Donnell have classified policies on the basis of their source under the following categories:

Original Policy: The top management formulates policies for the important functional areas of business such as production, finance, marketing etc. The objective is to help the concerned functional managers in decision making in their respective areas. Thus originated policies are the result of top management initiative. These policies are formulated in the light of the enterprises objectives. They may be broad or specific depending on the degree of centralisation of authority. If they are broad, they allow the manager some operational freedom. On the other hand, if they are specific they are implemented as they are.

Appealed Policies: Managers often confront with particular situations as to whether they have the authority to take a decision on a particular issue or problem. The policies regarding some issues may be unclear or may be totally absent. In such case, he appeals the matter to his superiors for thinking. Appeals are taken upwards till they reach the appropriate level in the hierarchy. After thorough examination of the issues involved, policy decision would be taken at the appropriate level.

Implied Policies: In some cases there may not be specific policies. Managers draw meaning from the actions and behaviour of their superiors. Though there is no explicit policy, managers may assume it in a particular way and go about in their day-to-day operations.

Externally Imposed Policies: These are the policies which are not deliberately conceived by the managements. They are rather, imposed as the organisations by the agencies in the external environment like government trade unions, industry association, consumer councils etc. These agencies to protect the interest of the respective groups may lay down certain policies to be followed by the business.

As the interaction of the business with external environment is increasing, one can find many policies thus coming into being in any modern business. For instance, the recruitment policy of the organisation is influenced by the government's policy towards reservation to weaker sections measures, concern for the quality of the product, customer care and service etc. come under this category.

3.1.4 Policies-Informal versus Formal

In many companies, clear policies exist even though they are not written. Through on-the-job training and supervisory practice and precedent, an employee learns the guideposts which channel his efforts toward desired ends. These guideposts may be called "informal policies". In fact, many firms do not get around to writing their policies and some that do, fail to keep them revised and up to date.

Many companies purposely do not write out many of their established policies. In some cases, such as certain confidential matters, unwritten policies may be more advisable. Some companies feel that policies in some areas are too difficult to state, or that they limit the complete freedom of the subordinate, or that the nature of the enterprise is too dynamic to set policies in certain areas, that is, they may become outmoded too soon.

A major problem with so-called informal policies is that control is lost too easily. Unwritten policies take on a folklore quality and area easily subject to reinterpretation to meet expediencies. In addition, the fast pace of today's world required new members of a company to assimilate quickly the basic organisational values and philosophy. But there are only two ways to acquire knowledge of informal policies:

1. Spend a long time in an organisation and gradually learn them or
2. Spend a shorter but very intensive period of training with a knowledgeable member of the organisation and hope that he covers every eventuality and that you can retain the knowledge thus imparted.

Basically, policies are issued in response to the request, "Please tell us what you want us to do." It is evident from the foregoing remarks that there are distinct advantages to written "formal" policies.

1. Those participating in the development and writing of a formal policy are forced to consider all factors, relevant and irrelevant, clearly concisely.
2. Discrepancies, conflicting points of view, overlapping responsibilities, and inconsistent practices will be uncovered.
3. Written policies are not as subject to change by simple word of mouth.
4. Subordinates and new employees and appointees can review expectations with care.

This is a real help for men assuming new responsibilities in management.

5. In the case of both informal and formal policies, however, application must be tempered with a liberal dose of judgment. In fact, although supervisors should be guided by company policies, the reason for any action should be explainable on its own merits. The trite expression, "Sorry that's company policy," must be avoided as an explanation in its own right.

It must be remembered that policies are broad guides-and only guides-who exist to channel the thinking of personnel charged with decision making, flexibility in decision making is consciously implied in these guides. A subordinate manager must, however, intelligently apply policies to given circumstances in a consistent manner. Policies then, are not a set of inflexible rules; instead, they are the living precepts which guide an organisation in a continuing and consistent pattern of behaviour.

3.1.5 Principles of Policy Making

Setting policies is a primary function of administration. As such, it should be accomplished with due regards to the following principles:

1. The statement of any policy should be definite, positive, clear, and understandable to everyone in the organisation.

2. Policies should be translatable into the practices, terms, and peculiarities of every department or division of the enterprise.

3. Policies, regardless of how fundamental, should not be inflexible. They should, however, posses a high degree of permanency.

4. Stability of policies is essential; constantly changing policies are fatal to business success.

5. There should be as many policies as necessary to cover conditions that can be anticipated, but not so many policies as to become confusing or meaningless.

6. Policies should be predicated on organisational fact and sound judgment; they should not constitute merely personal reflections.

7. Policies should not prescribe detailed procedure except in rare instances.

8. Policies should recognise economic principles, be in conformity with Federal and other laws, and be compatible with the public interest.

3.1.6 Influence of Policies on Organisational Effectiveness

It is widely recognised in management that to achieve maximum success we must "out-manage" our competition. Comparatively speaking money and first-class equipment are readily and broadly available. Therefore, management skill in "getting results through people" has increasingly become the key to a successful enterprise.

A group of people will function effectively as a team, however, only if they are properly organised, directed, and motivated. The team becomes a dynamic organisation when authority for decision making is intelligently decentralised and delegated to the lowest appropriate supervisory level in the organisation.

The proper level should be that point where all the relevant and necessary information for the making of the decision comes together. Or, restated, every decision must be made at the lowest possible level where that particular decision can be made intelligently. Responsibility must be transferred when authority is delegated, the man next up the ladder in the organisational structure must avoid making decisions for his subordinate. The subordinate must make and live with his decisions; he must work his way through the results, be they good or bad.

An industrial organisation may be described as an integrated and coordinated collection of small teams. Each "small team" consists of a group of workers and their leaders. The leaders may be a foreman, a section head, a corporal, a straw boss, or anyone else at the first level or management. He, in turn, is part of another "team" person at the same level of authority who is responsible to the next level of management-supervisor, department head, shift boss, sergeant, or whatever. If persons appointed to the supervisory levels command the respect of their associates and subordinates, the organisation can achieve maximum effectiveness. The relationships within each team must be those of mutual confidence and respect; there should be a freedom to discuss any member's problem based on the will to work together.

Organisational effectiveness largely depends on coordinated effort. Coordination will be achieved through well-defined and clearly understood policies, for policies play a central role in ensuring that the organisation will make steady and consistent progress towards its goals.

A policy is essentially a "general decision," in the nature of an operating principle of standing rule, formulated by executives to enable them to delegate authority. At the same time, the executives retain control by reason of having established, through the statement of policy, the normal pattern for dealing with recurrent events.

Policies should be development by thorough discussion so that all managers involved in related areas of responsibility are personally committed to the policies. Developed in this manner, policies will stand the test of fire; they will hold under stress. A set of policies may be compared to the rope holding mountain climbers together: being tied together, no climber can be lost; but they must coordinate their activities, or the rope will get in the way.

A gradually developed and thoroughly understood framework of policies can greatly simplify decision making throughout an organisation. The pattern or framework of policies, as well as the policies themselves, help form guidelines for each member of the management team. Many repetitive problems can be resolved by the application of principles laid down in previously developed policies. This releases much management time and effort for new challenges and opportunities.

Each level of management, working within its own framework of well-developed, understood, and accepted policies, will make necessary day-to-day decisions more effectively. Higher levels of authority in the organisation will be more able to make the broader, long-range decisions which help ensure the success of the enterprise.

This is really an extension of the principle of "job breakdown" enunciated by Frederick W. Taylor and applied to the function of management.

3.2 Business Policy Conceptual Framework

According to William F Glueck, development in business policy arose from the developments in the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasis the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management, a term that is currently used to describe the process of strategic decision making.

Business policy defines the scope or spheres within which decisions can be taken by the subordinates in an organisation. 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 organisation to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organisational goals can be achieved. Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organisational success and the decisions affecting organisation in long-run.

Business policy tends to emphasis on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities.

Christensen, Andrews and Bowers (1973) have defined business policy as the duties, functions, roles and responsibilities of the general management level of the organisation. It includes the identification of problems that affect and influence the character and success of the whole organisation. The major problems which business policy address include:

1. The determination and choice of an organisation's goals and objectives

2. The shaping of the character of the organisation

3. Identification of the functions to be performed and

4. The mobilisation and efficient allocation of resources to achieve the stated goals and objectives in the light of the competitive environment.

These problems by nature are top-management responsibilities, who in their position can view in the light of the total organisation of corporately. The overall major problem of an organisation is how to "configure (arrange) and direct the resource – conversion process in such a way as to optimise the attainment of the objectives" (Ansoft, 1984).

The solution of these problems lies solely with the top management. This is because the success or failure of any corporate entity begins in the board room. Hence, the functions of board of directors in its collective capacity are to determine, direct and control the general policies of the organisation. Therefore, business policy deals with organisational problems from the top management point of view and not from the standpoint of the specialists, e.g. departmental managers or functional managers.

3.2.1 Elements and Processes of Business Policy

After understanding the concept of business policy, following features can be identified:

General Statement of Principles: Policies are general statement of principles followed by business for the attainment of organisational objectives. These principles provide a guide to action for the executives at different levels.

Long Term Perspective: Business policies have a long life and are formulated with a long term perspective. They provide stability to the organisation.

Achievement of Objectives: Business policy is aimed at the fulfillment of organisational objectives. They provide a framework for action and thus help the executives to work towards the set goals.

Qualitative Conditional and General Statements: Business policy statements are qualitative in nature. They are conditional and defined in general manner. These statements use words as to maintain, to follow, to provide etc. They call be specific at times but most of the times, a business policy tends to be general.

Guide for Repetitive Operations: Business policies are formulated to act as a guide for repetitive day to day operations. They are best as a guide for the activities that occur frequently or repeatedly.

Hierarchy: Business policies have a hierarchy i.e. for each set of objectives at each level of management there is a set of policies. The top management determines the basic overall policy, then the divisional and/or departmental policies is determined by the middle level management and lower level policies are more specific and have a shorter time horizon than policies at higher levels.

Decision Making Process: Business policy is a decision making process. In formulating Business policy one has to make choices and the choice is influenced by the interests and attitudes of managers engaged ill making the policies.

Mutual Application: Business policies are meant for Mutual application by subordinates. They are made for some specific situation and have to be applied by the members of the organisation.

Unified Structure: Business policies tend to provide predetermined issues and thus avoid repeated analysis. They provide a unified structure to other types of plans and help mangers in delegating authority and having control over the activities.

Positive Declaration: Business policy is a positive declaration and a command to its followers. It acts as a motivator for the people following it and thus they work towards the attainment of the objectives efficiently and effectively. The Business policy lays down the values which dominate organisation's actions.

3.2.2 Features of Business Policy

An effective business policy must have following features

1. will become difficult.

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

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

4. Appropriate**-** Policy should be appropriate to the present organisational goal.

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

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

7. 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.

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

3.2.3 Major Functions of Policy

Ovuorie presents five major functions that policy performs:

1. Policy clarifies management viewpoints and philosophies within specified area of operation.

2. It provides a pattern within which delegation of authority may be expedited and controlled.

3. It anticipates future conditions and situations and resolve how they will be dealt with.

4. It fosters a feeling of confidence in making administrative decisions; it expedites decisions encourages executive self-reliance and improvement of executive performance.

5. It establishes latitudinal guide within which authorised person may make administrative decisions.

3.2.4 The Intricacies of Policy Decision

Since policy is a guide to action for the total organisation, it follows that its formulation, implementation and decision implications will tend to affect the total organisation internally and its external environment.

This is because every organisation is a system made up of subsystems called department, unit, or section. Each subsystem must be of necessity being in harmony with the others and with the total system to avoid friction and to prevent operational/functional managers from working at across purpose.

For example, the marketing department cannot decide to increase sales without finding out whether the production department has the capacity to produce more or the finance department has cash flow to finance the sales increase. Policy formulation and strategic planning must take account of the policy on all aspects of the organisation to ensure achievement of the corporate objectives.

Policy decisions must also be in harmony with the demands and constraints imposed by the external environmental order to be effective and beneficial to the organisation. The external environment, which is made up of the legal, political, economic, cultural and social sub-environments; is not only a recipient of the organisation's output, but also a provider of its raw materials, skilled and unskilled workers production capacity and others.

Although the external environment is largely uncontrollable, it is still manageable with the organisation's resources (i.e. this manageability calls for proactive strategy of the part of the management). The effective interaction between an organisation's internal controllable resource, objectives, policies and these uncontrollable (external) sub-environments, which have a direct impact on the functioning of the organisation, determine to a large extent the degree to which the organisation achieve its purpose.

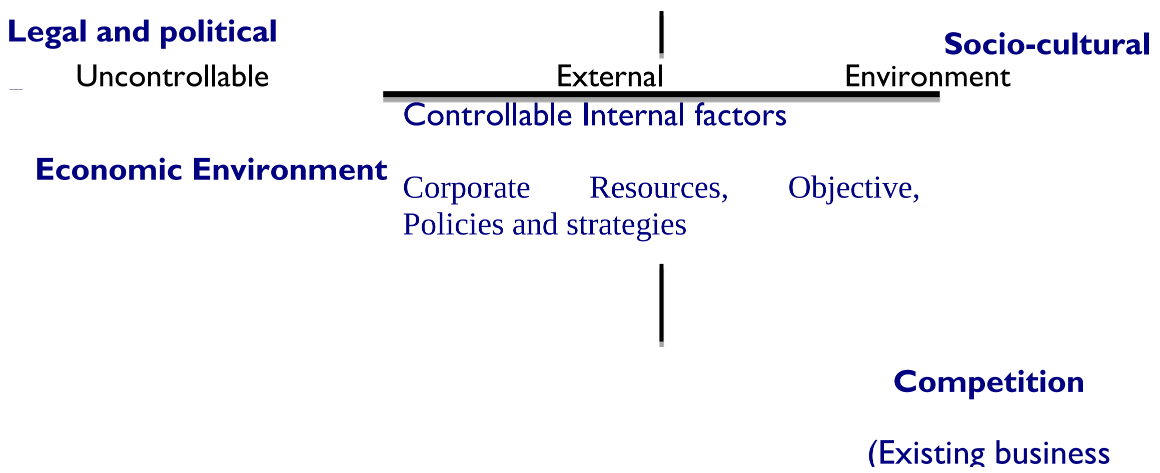

Fig. 1.1: Interaction between Internal and External Corporate Environments

3.2.5 Factors Determining Business Policy

The business policy of an organisation is influenced by various interrelated and interacting, factors. These factors can be classified as internal and external factors. The determinants which are internal to the firm/organisation and which influence the decisions directly are known as the internal factors. External factors include all those factors which act from outside the firm and influence the organisation externally. We discuss these determinants one by one below.

Internal Factors

The determinants include the business mission, business objectives, business resources and the management values which are all internal to the organisation and play a very important role in the formulation of business policy.

Business Mission: The policy maker has to understand the business mission, so that the policy is in tune with it. Business mission provides the company with the meaning for which it exists and operates. Because policy provides guidelines for managerial action, it has to be made in a manner that it accomplishes the business mission.

Business Objectives: Another internal determinant of business policy is the business objectives. All organisations frame organisational objectives and work towards their achievement. Policy makers must take into account the economic, financial and other objectives of the company.

The Resources: The organisation has to carry out its activities keeping in mind the resources it has. The business policy has to identify the various resources available and then only call it be made sound. The size of plants, capital structure, liquidity position, competitive position, nature of product etc. all help in the formulation of business policy.

Management Values: Business policy reflects the values imbibed in the organisation. The personal values of the managers forming business policy influence its formulation. Management values differ from organisation to organisation. It is an important determinant of business policy.

External Factors

These include the forces external to the firm. The external determinants of business policy are industry structure, economic environment and political environment.

Industry Structure: The formulation of business policy is influenced by the industry ill which the firm exists. The structure of industry comprises of size of firms, the entry barriers, number of competitors etc. the business policy is formulated keeping in mind competitors, strategies, policies, etc.

Economic Environment: Economic environment comprises of the demand, supply, price trends, the national income, availability of inputs, the various institutions etc. it includes all these factors which influence the policies of the firm. Therefore, it becomes one of the most important determinants of business policy.

Political Environment: The firm has to carry out its activities in accordance with the government regulations and policies. If these are not complied with the firm would not be able to meet its objectives in ail efficient manner. The various policies like monetary policy, fiscal policy, credit policy influence the business policy of the firm.

Social Environment: The firm affects various sections of the society. The various sections ill turn influence the activities of the firm. The social beliefs of the managers influence policies. The religious, cultural and ethnic dimensions have to be dealt with while formulation policies of an organisation.

Technology: Every now and then, new technologies are entering the market. An organisation has to change with the changes in the environment. It has to remain up to date with respect to technology it uses. Thus technology also plays an important role in formulation of business policy.

3.2.6 Scope of Business Policy

Business policies are statements of guidelines for Business thinking and action. They lay down the approach before the management to deal with the challenges in the environment. They cover the following broad areas that affect the decisions of the organisation.

1. Business policy consists of a variety of subject that affects various interest groups in the organisation and outside it.

2. Business policy is concerned with the various functional areas like production, human resources, marketing and finance.

3. We call understand business policy areas in two broad categories: Major and minor policies. The overall objectives, procedures and control are covered in major policies. these policies are concerned with each and every aspect of the organisation, its structure, its financial status, its production stature, its human resources and all those issues which require attention like mergers, research, expansion, etc. basically, the top management is involved in the framing of such major policies. Further, the operations and activities are also carried out by executives so that the organisational objectives are met.

The minor policies are concerned with each segment of the organisation with emphasis oil details and procedures. These policies are part of the major policies. The operational control call is made possible only if the minor policies are implemented efficiently.

The minor policies are concerned with the day to day operations and are decided at the departmental levels. The minor policies may cover relations with dealers, discount rates, terms of credit etc. thus, business policies cover wide range of subjects ranging from operational level policies to the top level policies.

4.0 Conclusion

The field of business policy/strategic management has offered a variety of frameworks and concepts during the last half century, many aimed at taking business and its management seriously. Substantial body of literature in the fields of strategic management, strategic planning, corporate and business policy, and related topics have been developed.

This literature owes much to the prior writings of Alfred Chandler and the decades of case writing and research undertaken at Harvard business school by many learned professors. Indeed, Harvard's tradition of leadership in this field dates from 1914 when it first introduced a course requirement for business policy into the business school programme. The term strategic management is of relatively recent origin and is currently the accepted term for the fields of business policy and planning.

However, as a separate field of study, it is still at a fairly young and relatively evolutionary stage. As a result, many definitions of strategy abound, and the terms "strategic planning," "policy," and "strategic management" often mean precisely the same thing to different authors. It seems that two elements, namely, potential alternative courses of action and the existence of a preference ordering on outcomes, define the structure of policy making or strategy. Making policy or corporate strategy consists of choosing among alternative courses of action that, it is believed, will attain the most preferred outcome (taking account of all the costs involved in decision-making). It follows, therefore, that prediction of the outcome of alternative courses of action is an integral part of the strategy making process.

5.0 Summary

The top management is primary concerned with the working of the whole organisation-and not only about anyone particular function or another. All problems within the organisation (or outside that will affect the organisation in any significant way) will be of interest to the top management, however, such areas / issues that are likely to significantly affect the operations of the company will receive primary concentration. There is always therefore a tendency to prioritise the problem that a company faces at any point in time. Those matters of the highest priority are commonly referred to as **"**strategic**"** issues or issues of a "policy" nature. These are the problems and issues that are attended to by the top management. At top management level, the primary work becomes that of formulation and implementation of strategy. The strategy guides the organisation and the work of all the people within it. Hence, the course variously called long-range planning. The top is in charge of management planning, corporate strategic. Strategy covers its subject matter and it's also the work of top management of the organisation.

6.0 Self-Assessment Exercise

How would define business policy as course of study. What major problems are addressed by business policy?

7.0 References/Further Reading

David, F. R. (2011).*Strategic Management Concepts and Cases*. (13th ed.).USA: Prentice Hall, One Lake Street, Upper Saddle River, New Jersey.

Denise, L. W. (2007). *Strategic Management for Senior Leaders*. Executive Support Division Department of the Navy: Total Quality Leadership Office.

Eisenhardt, K. M. &Martin, J. A. (2000). "*Dynamic Capabilities What are They?*" *Strategic Management Journal* 21.

Evans, N.C. &Stonehouse, G. (2003). Strategic *Management for Travel and Tourism*.

Oxford: Butterworth Heinemann.

Thompson, J. L. (2001).*Strategic Management.* London: (4th ed.).

White, C. (2004). *Strategic Management*. Basingstoke: Palgrave Macmillan.

Whittington, R. (2001). *What is Strategy and Does it Matter?* London: (2nd ed.). Thomson.

Unit 2 the Nature and Value of Strategic Management

1.0 Introduction

Managing activities internal to the firm is only part of the modern executive's responsibilities. The Modern executive also must respond to the challenges posed by the firm's immediate and remote external environments. The immediate external environment includes competitors, suppliers, increasingly scarce resources, government agencies and their ever more numerous regulations, and customers whose preferences often shift inexplicably. The remote external environment comprises economic and social conditions, political priorities, and technological developments, all of which must be anticipated, monitored, assessed, and incorporated into the executive's decision making. However, the executive often is compelled to subordinate the demands of the firm's internal activities and external environment to the multiple and often inconsistent requirements of its stakeholders: owners, top managers, employees, communities, customers, and country.

To deal effectively with everything that affects the growth and profitability of a firm, executives employ management processes that they feel will position it optimally in its competitive environment by maximising the anticipation of environmental changes and of unexpected internal and competitive demands. Perhaps the most significant improvement in these management processes came when "long-range planning," "planning, programming, budgeting," and "business policy" was blended with increased emphasis on environmental forecasting and external considerations in formulating and implementing plans. This all-encompassing approach is known as strategic management. In this unit, you shall be introduced to the basic conceptual issues and dimensions of strategic management as a field of study.

2.0 Objectives

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

- comment on the origin and development of business strategy
- describe the key elements in the strategic management process
- describe the strategic-management process
- define and give examples of key terms in strategic management
- discuss the nature of strategy formulation, implementation, and evaluation activities
- describe the benefits, problems and risks of strategic management.

3.0 Main Content

3.1 Origin and Development of Business Strategy

Strategies had been used in military warfare for thousands of years. Sun Tzu's *Art of War* was reportedly written about 2400 years ago. In business, the application of strategies was much more recent, and came about in response to problems posed by a changing environment. The concept of business strategies evolved over four main stages since the 1950s, as observed by Craig and Grant1: financial planning, corporate planning, industrial analysis and competitive positioning, and exploiting firm-specific strategic advantage.

3.1.1 Financial Planning

By the 1950s, companies were increasing in size and diversity. A better form of control was needed and budget planning was introduced. Discounted cash flow was also devised for deciding investment proposals. Controls suddenly became more effective.

3.1.2 Corporate Planning

Corporate planning was a product of the capitalist market economies in the 1960s. At national level, economic policies were applied, which were based on macro-economic models to forecast economic cycles; and Keynesian demand management policies were used to correct them. At corporate level, planning became forecast driven.

Medium-term demand forecast was used to draw up corporate plans, which would include strategic goals, projected sales and investment; and also to identify opportunities for developing new market, products and businesses.

3.1.3 Industry Analysis and Competitive Positioning

When the first oil crisis struck in 1973-4, the economic forecasts were being severely upset. Corporate plans that were based on these forecasts also failed miserably. In search of a new approach, the focus shifted to 'positioning the firm to make a profit'. Firms started to look at industry attractiveness to reposition them, and to select strategies to realise the decisions made.

3.1.4 Exploiting Firm-Specific Strategic Advantage

Analysis of industries and market ended in a situation in which competitors adopted a similar strategy, e.g. oil companies going into coal and mineral mining as a diversification strategy. Profits plunged with over-investment and intense competition. A better answer was later perceived – firms should seek some unique positions of competitive advantage based on firm-specific resources and capabilities. For long-term competitive advantage, firms also started to upgrade and broaden their resources and capabilities.

Strategic management has now evolved to the point that it is primary value is to help the organisation operate successfully in dynamic, complex environment. To be competitive in dynamic environment, corporations have to become less bureaucratic and more flexible. In stable environments such as those that have existed in the past, a competitive strategy simply involved defining a competitive position and then defending it. Because it takes less and less time for one product or technology to replace another, companies are finding that there are no such thing as competitive advantage.

Corporations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organisation: an organisation skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. Learning organisations avoid stability through continuous self-examinations and experimentations.

People at all levels, not just top the management, need to be involved in strategic management: scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures and evaluation techniques. At Xerox, for example, all employees have been trained in small-group activities and problem solving techniques. They are expected to use the techniques at all meetings and at all levels, with no topic being off-limits.

3.2 Initiation of Strategy- Triggering Events

A triggering event is something that stimulates a change in strategy. Some of the possible triggering events are:

New CEO

By asking 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.

Intervention by an External Institution

The firm's bank suddenly refuses to agree to a new loan or suddenly calls for 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.

Management's Recognition of a 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.

3.3 Strategic Management Perspectives

Strategic management as a term and concept is not new. The term was first used in the 1970s, and it meant that a staff of strategic planners more or less thought up strategic programmes and then tried to sell them to decision makers. The concept of strategic management builds on this definition of strategic planning, recognising that although planning is the prelude of strategic management, it is insufficient if not followed by the deployment and implementation of the plan and the evaluation of the plan in action.

Strategic management is a systems approach to identifying and making the necessary changes and measuring the organisation's performance asit moves toward its vision. It has been defined as a . . . . management system that links strategic planning and decision making with the day-to-day business of operational management.

3.3.1 Meaning and the Nature of Strategic Management

The increasing importance of strategic management may be a result of several trends. Increasing competition in most industries has made it difficult for some companies to compete. Modern and cheaper transportation and communication have led to increasing global trade and awareness. Technological development has led to accelerated changes in the global economy. Regardless of the reasons, the past two decades have seen a surge in interest in strategic management. Many perspectives on strategic management and the strategic management process have emerged.

3.3.2 The Concept of Management

To understand strategic management to be studied later, we need to have a basic understanding of the term management. The term 'management' can be used in two major contexts.

It is used with reference to a key group in an organisation in-charge of its affairs. In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganised resources of manpower, money, materials, and technology into a functioning whole. An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources. The survival and success of an organisation depend to a large extent on the competence and character of its management. Management has to also facilitate organisational change and adaptation.

The term is also used with reference to a set of interrelated functions and processes, to a field of study or discipline in social sciences and to a vocation or profession.

The functions and processes of management are wide-ranging but closely interrelated. They range all the way from design of the organisation, determination of the goals and activities, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units. They also include adoption of certain techniques, tools and methods for carrying on activities, through articulation of skills and efforts of organisational personnel in a unified manner and installation of communication and control systems to ensure that what is planned is achieved.

A wide range of definitions of management exist in the literature on management. Here we shall cite the definitions of a few theorists:

Peter Drucker

Management is a function, a discipline, a task to be done, and managers practice this discipline, carry out the functions and discharge these tasks.

Dalton McFarland

Management is the process by which managers create, direct, maintain and operate purposive organisations through systematic, coordinated a cooperative human effort.

Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner. Influence is backed by power, competence, knowledge and resources. Managers formulate their goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes of the environment.

3.3.3 What is a Strategy?

Definitions of strategy are legion - corporate strategy, business strategy, functional strategy, the process school, the analytic school, competitive strategy, resource-based strategy - to name but some. In addition, the world understands of what "strategy" means in a business context has evolved considerably over the last fifty years. For example, Ghemawat (2002) explains in some detail how what might be termed "the Harvard school's" conceptualisation of strategy evolved from the a theoretical SWOT (strengths, weaknesses, opportunities, and threats) analysis of the 1960s (Andrews 1971) to today's view which includes deep insights from both the industrial organisation economics literature (Von Neumann and Morgenstern 1944; Bain 1956; Tirole 1988) and organisational economics literature (Williamson 1975; Wernerfelt 1984; Barney 1991).

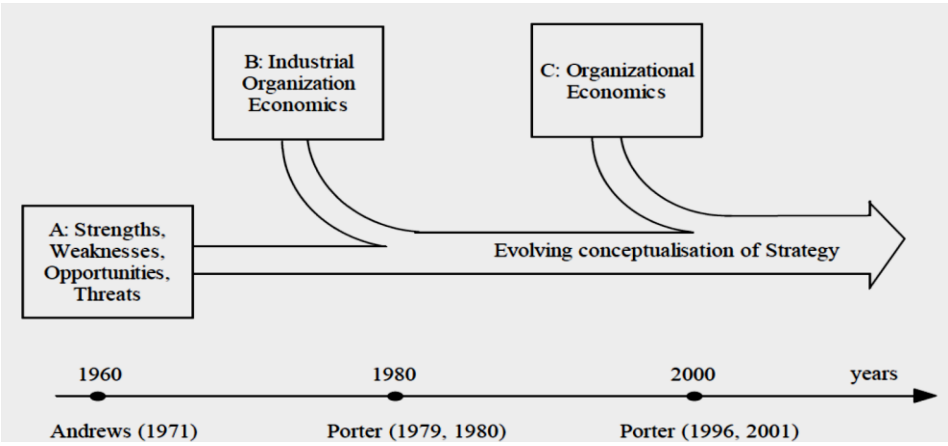

Fig. 2: The Evolution of the Harvard School Understanding of Strategy through Two Major Infusions of New Ideas

Since the Harvard school is probably the world's thought leader on strategy, and Porter is one of its primary spokespersons, it follows that Porter's most recent work, e.g., his 1996 paper "What is Strategy?" and his 2001 paper "Strategy and the Internet" provides what is arguably the most authoritative, up-to-date conceptualisation of strategy available.

A typical dictionary will define the word 'strategy' as something that has to do with war and ways to win over enemy. In business organisational context the term is not much different. Businesses have to respond to a dynamic and often hostile external force for pursuit of their mission.

The very injection of the idea of strategy into business organisations is intended to unravel complexity and to reduce uncertainty of the environment. Strategy seeks to relate the goals of the organisation to the means of achieving them. Strategy is the game plan management is using to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organisational objectives.

A strategy of a corporation is a comprehensive master plan stating how corporation will achieve its mission and its objectives. It maximises competitive advantage and minimises competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business and functional.

To the extent the term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position. Its implications for corporate functioning are obvious. We may define the term 'strategy' as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go.

The following quotations from Porter (1996) and Porter (2001) capture the gist of this most recent thinking:

1. "The goal of strategy is to achieve a "superior long-term return on investment." "Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it."

2. "Competitive strategy is about being different."

3. "Strategy is the creation of a unique and valuable position, involving a different set of activities…. different from rivals."

4. "Strategy is making tradeoffs in competing."

5. "Strategy defines how all the elements of what a company does fit together."

6. "Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise. But they work in different ways."

7. "Operational effectiveness means performing similar activities better than rivals perform them."

8. "Strategy involves continuity of direction."

Summarising and for the purpose of this course, "strategy is the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets

and to fulfill stakeholder expectations"
(http://www.tutor2u.net/business/strategy/porter_five_forces.htm).

Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness. Objectives and goals alone do not fill in the need. Strategy provides an integrated framework for the top management to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses and to make major decisions in general. Top management operates in an environment of partial ignorance and uncertainty.

Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of the business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on.

These corporate wide strategies need to be operationalised by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like. However, strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated events.

3.3.4 Difference between Policy and Strategy

The term “policy” should not be considered as synonymous with the term “strategy”. The difference between policy and strategy can be summarised as follows-

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

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

3. Policy deals with routine/daily activities essential for effective and efficient running of an organisation while strategy deals with strategic decisions.

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

5. 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.

3.3.5 Strategy is Partly Proactive and Partly Reactive

A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions.

The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation and newly launched managerial initiatives to strengthen the company's overall position and performance. This part of management's game plan is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer patronage.

But not every strategic move is the result of proactive plotting and deliberate management design. Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required. Hence, a portion of a company's strategy is always developed as a reasoned response to unforeseen developments. But apart from adapting strategy to changes in the market, there is also a need to adapt strategy as new learning emerges about which pieces of the strategy are working well and which aren't and as management hits upon new ideas for improving the strategy. Crafting a strategy thus involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy.

3.4 The Strategic Management Process

In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. The overall objective of strategic management is twofold:

1. To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

2. To guide the company successfully through all changes in the environment.

Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilise all facets of the organisation), and functional plans (plans to carry out daily operations from the different functional disciplines). No matter how well the strategic processes have been designed and implemented, success depends on how well each department performs its customer-value-adding activities and how well the departments work together to serve the customer.

Value chains and value delivery networks have become popular with organisations that are sensitive to the wants and needs of consumers. Ultimately the aim of strategic management is to save the company's business products, services and communications so that they achieve targeted profits and growth. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then overtimes initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

Strategic management goes beyond the development of a strategic plan, which included the pre-planning and strategic planning processes. Strategic management is the deployment and implementation of the strategic plan and measurement and evaluation of the results. Strategic management has specifically been defined as a systems approach to identifying and making the necessary changes and measuring the organisation's performance as it moves toward its vision. It is a management system...that links strategic planning and decision making with the day-to-day business of operational management.

Strategic management is a systems approach to identifying and making the necessary changes and measuring the organisation's performance as it moves toward its vision. It has been defined as a . . . . Management system that links strategic planning and decision making with the day-to-day business of operational management... The following model depicts the five processes of strategic management which are pre-planning, strategic planning, deployment, implementation, and measurement and evaluation.

Identifying an organisation's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organisation present situation and condition may preclude certain strategies and may even dictate a particular course of action.

Every organisation has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organisation is going can be determined largely by where the organisation has been. The strategic management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission.

Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually. The strategic management process never really ends. The strategic management process can best be studied and applied using a model. Every model represents some kind of process. The model illustrated in the Figure 2.2 strategic management model is a widely accepted, comprehensive. This model like any other model of management does not guarantee sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic management process are shown in the model.

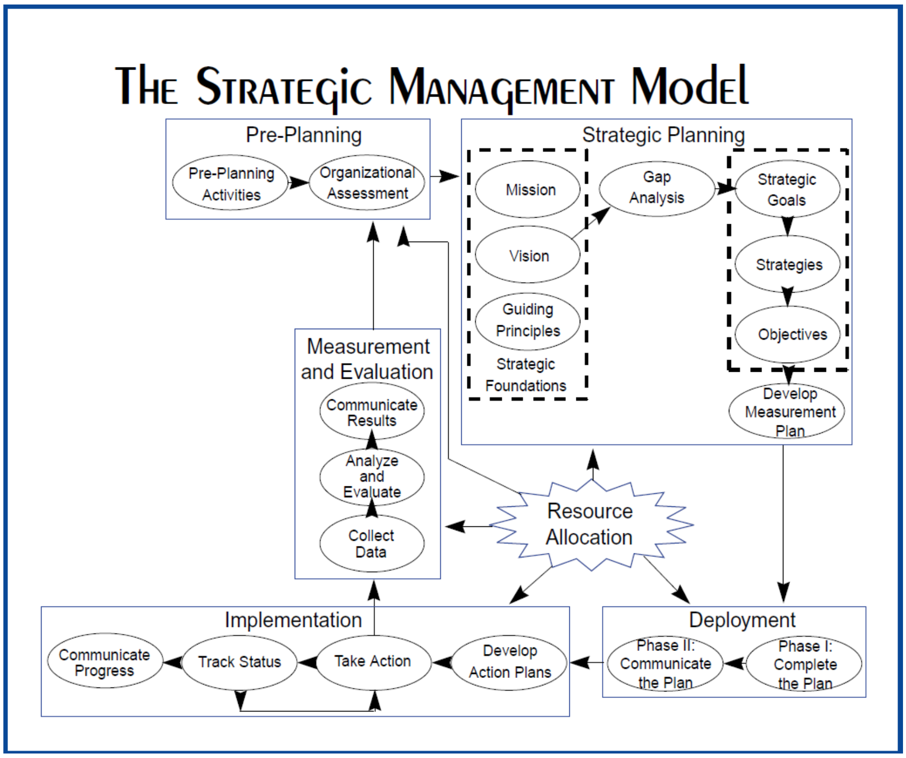

Fig. 2.2: Strategic Management Model

Source: Denise Lindsey Wells (2000) *Strategic Management for Senior Leaders: A Handbook for Implementation*: *A Handbook for Strategic* Planning (Department of the Navy Total Quality *Leadership*; Office Publication No. 94-02

The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests. The relationships shown in the figure above are not 'linear' but 'iterative'.

'A linear representation would give the impression that one stage of the process is totally distinct from another. The process should not be thought of as a sequence of steps followed by managers, but rather stages that may be moved through and which are likely to be repeated' (Paul Freathy, 2003, p. 58). In order to sustain in the competitive scenario, the managers must pay attention to this concept and implement it in their working.

Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organisation. Many organisations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. Creativity and candour from participants are encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

3.4.1 The Key Activities in Strategic Management

Application of the strategic management process is typically more formal in larger and well-established organisations. Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Smaller businesses tend to be less formal. The key activities in the strategic management process are shown in Figure 1.4 and begin by providing:

1. A situation analysis of the broad and operating environments of the organisation, including internal resources and both internal and external stakeholders. This is the stage one – It seeks to answer the question; Where are we now? (Beginning): This is always the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context. Here the firm must find out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is also known as SWOT (strength, weakness, opportunity, threat) analysis. You may refer third chapter for a detailed discussion on SWOT analysis.

2. The establishment of strategic direction, reflected in mission statements and organisational visions represent the Stage two that seek to answer the question- Where are we want to be? (Ends): This is a process of goal setting for the organisation after it has finalised its vision and mission. A strategic vision is a roadmap of the company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. An organisation's mission states what customers it serves, what need it satisfies, and what type of product it offers.

3. A formulation of specific strategies is the stage three with the question- how might we get there? Means: Here the organisation deals with the various strategic alternatives it has.

4. Stage four - which way is best? (Evaluation): out of all the alternatives generated in the earlier stage the organisation selects the best suitable alternative in line with its SWOT analysis.

5. Stage five seek to answer the question- how can we ensure arrival? (Control): this is an implementation and control stage of a suitable strategy.

Strategy implementation includes designing an organisational structure, controlling organisational processes, managing relationships with stakeholders, and managing resources to develop competitive advantage. Here again the organisation continuously does situational analysis and repeats the stages again.

While these activities may occur in the order specified, especially if a firm is engaging in a formal strategic planning programme, they may also be carried out in some other order or even simultaneously. for example, it is not uncommon for a strategic direction to serve as a foundation for the situation analysis. The feedback loops at the bottom of figure 2.3 indicate that organisations often cycle back to earlier activities during the strategic management process, as new information is gathered and assumptions change.

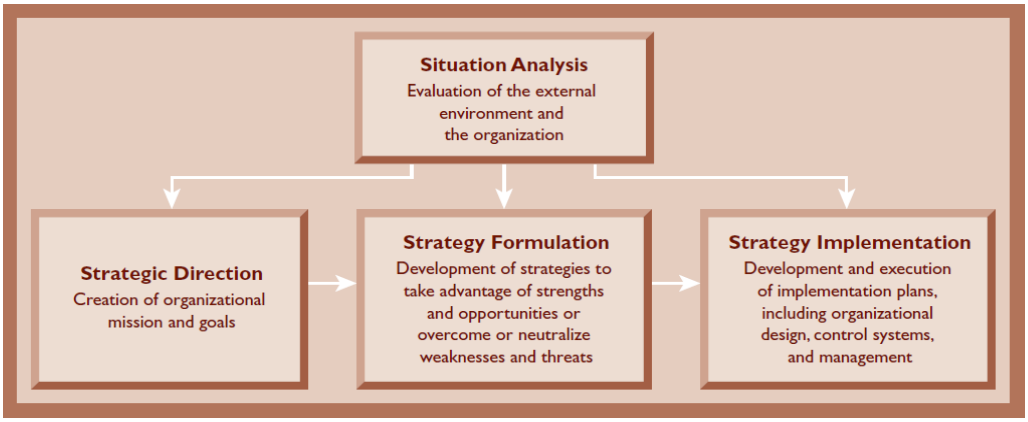

Fig. 2.3: The Strategic Management Process

For instance, a company may attempt to develop strategies consistent with its strategic direction and, after a trial period, discover that the direction was not reasonable. Also, an organisation may discover rather quickly (or over a longer period of time) that a proposed strategy cannot be implemented feasibly. As a result, the firm may have to cycle back to the formulation stage to fine - tune its strategic approach. In other words, organisations may learn from their own past actions and from environmental forces, and they may modify their behaviour in response.

However, not all organisations engage in all of the processes depicted in Figure 2.3: entrepreneurial start - up firms rarely do. They often begin with an entrepreneur who has an idea for a product or service that he or she believes will lead to market success. Venture capital is raised through a variety of public or private sources, and a new business is born.

The entrepreneur may establish an informal sense of direction and a few goals, but the rest of the formal strategy process may be overlooked. If the organisation is successful, it will typically expand in both sales and personnel until it reaches a critical point at which the entrepreneur feels a loss of control. At this point, the entrepreneur may attempt to formalise various aspects of strategic planning, by hiring outside consultants, creating planning positions within the firm, or involving other managers in planning activities.

This same process is typical of non-profit start - ups as well, except that the nature of the cause (i.e., humanitarian or educational) may place tighter constraints on the way the firm is financed and organised. Consequently, the model in figure 2.3 is not intended to be a rigid representation of the strategic management process in all organisations as they currently operate. Nevertheless, the progression of activities - from analysis to planning to action and control - provides a logical way to study strategic management. Furthermore, the activities relate equally well to for - profit, non-profit, manufacturing, and service entities, although some of the differences in the way these organisations approach strategic management will be described throughout the text.

Strategic management goes beyond the development of a strategic plan, which included the pre-planning and strategic planning processes. Strategic management is the deployment and implementation of the strategic plan and measurement and evaluation of the results. Deployment involves completing the plan and communicating it to all employees.

Implementation involves resourcing the plan, putting it into action, and managing those actions. Measurement and evaluation consists not only of tracking implementation actions, but, more importantly, assessing how the organisation is changing as a result of those actions and using that information to update the plan.

3.4.2 Functions of Strategic Management

Strategic management performs the following functions

1. It provides a dual approach to problem solving. Firstly, it exploits the most effective means to overcome difficulties and face competition. Secondly, it assists ill the deployment of scarce resources among critical activities.

2. It focuses attention upon changes ill the organisational set up, administration of organisational process affecting behaviour and the development of effective leadership.

3. It offers a technique to manage changes. The management is totally prepared to anticipate, respond and influence to look at changes. It also offers a different way of thinking.

4. It furnishes the management with a perspective whereby, the latter gives equal importance to present and future opportunities.

5. It provides the management with a mechanism to cope with highly complex environment characterised by diversity of cultural, social, political and competitive forces.

3.4.3 Dimensions of Strategic Decisions

What decisions facing a business are strategic and therefore deserve strategic management attention? Typically, strategic issues have the following dimensions.

Strategic issues require top-management decisions because strategic decisions overarch several areas of a firm's operations; they require top-management involvement. Usually only top management has the perspective needed to understand the broad implications of such decisions and the power to authorise the necessary resource allocations.

Strategic Issues Require Large Amounts of the Firm's Resources: Strategic decisions involve substantial allocations of people, physical assets, or moneys that either must be redirected from internal sources or secured from outside the firm. They also commit the firm to actions over an extended period. For these reasons, they require substantial resources.

Strategic Issues often Affect the Firm's Long-Term Prosperity: Strategic decisions ostensibly commit the firm for a long time, typically five years; however, the impact of such decisions often lasts much longer. Once a firm has committed itself to a particular strategy, its image and competitive advantages usually are tied to that strategy. Firms become known in certain markets, for certain products, with certain technologies.

They would jeopardise their previous gains if they shifted from these markets, products, or technologies by adopting a radically different strategy. Thus, strategic decisions have enduring effects on firms - for better or worse.

Strategic Issues are Future Oriented: Strategic decisions are based on what managers forecast, rather than on what they know. In such decisions, emphasis is placed on the development of projections that will enable the firm to select the most promising strategic options. In the turbulent and competitive free enterprise environment, a firm will succeed only if it takes a proactive (anticipatory) stance toward change.

Strategic Issues usually have Multifunctional or Multi-business Consequences: Strategic decisions have complex implications for most areas of the firm. Decisions about such matters as customer mix, competitive emphasis, or organisational structure necessarily involve a number of the firm's strategic business units (SBUs), divisions, or program units. All of these areas will be affected by allocations or reallocations of responsibilities and resources that result from these decisions.

Strategic Issues Require Considering the Firm's External Environment: All business firms exist in an open system. They affect and are affected by external conditions that are largely beyond their control. Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its operations. They must consider what relevant others (e.g., competitors, customers, suppliers, creditors, government, and labour) are likely to do.

3.4.4 Characteristics of Strategic Management Decisions

The characteristics of strategic management decisions vary with the level of strategic activity considered. As shown in figure 2.4, decisions at the corporate level tend to be more value oriented, more conceptual, and less concrete than decisions at the business or functional level.

		Strategic Decision Makers			
Ends (What is to be achieved?)	Means (How is it to be achieved?)	Board of Directors	Corporate Managers	Business Managers	Functional Managers
Mission, including goals and philosophy		✓✓	✓✓	✓	
Long-term objectives	Grand strategy	✓	✓✓	✓✓	
Annual objectives	Short-term strategies and policies		✓	✓✓	✓✓

Note: ✓✓ indicate a principal responsibility; ✓ indicates a secondary responsibility.

Fig. 2.4: Hierarchies of Objectives and Strategies

Corporate-level decisions are often characterised by greater risk, cost, and profit potential; greater need for flexibility; and longer time horizons. Such decisions include the choice of businesses, dividend policies, sources of long-term financing, and priorities for growth.

Functional-level decisions implement the overall strategy formulated at the corporate and business levels. They involve action-oriented operational issues and are relatively short range and low risk. Functional-level decisions incur only modest costs, because they depend on available resources. They usually are adaptable to ongoing activities and, therefore, can be implemented with minimal cooperation.

Because functional-level decisions are relatively concrete and quantifiable, they receive critical attention and analysis even though their comparative profit potential is low. Common functional-level decisions include decisions on generic versus brand name labelling, basic versus applied research and development (R&D), high versus low inventory levels, general-purpose versus specific-purpose production equipment, and close versus loose supervision.

Business-level decisions help bridge decisions at the corporate and functional levels. Such decisions are less costly, risky, and potentially profitable than corporate-level decisions, but they are more costly, risky, and potentially profitable than functional-level decisions. Common business-level decisions include decisions on plant location, marketing segmentation and geographic coverage, and distribution channels.

3.4.5 Formality in Strategic Management

The formality of strategic management systems varies widely among companies. Formality refers to the degree to which participants, responsibilities, authority, and discretion indecision making are specified.

It is an important consideration in the study of strategic management, because greater formality is usually positively correlated with the cost, comprehensiveness, accuracy, and success of planning. A number of forces determine how much formality is needed in strategic management. The size of the organisation, its predominant management styles, and the complexity of its environment, its production process, its problems, and the purpose of its planning system all play a part in determining the appropriate degree of formality.

In particular, formality is associated with the size of the firm and with its stage of development. Some firms, especially smaller ones, follow an entrepreneurial mode**.** They are basically under the control of a single individual, and they produce a limited number of products or services. In such firms, strategic evaluation is informal, intuitive, and limited. Very large firms, on the other hand, make strategic evaluation part of a comprehensive, formal planning system, an approach that Henry Mintzberg called the planning mode**.** Mintzberg also identified a third mode (the adaptive mode), which he associated with medium-sized firms in relatively stable environments. For firms that follow the adaptive mode, the identification and evaluation of alternative strategies are closely related to existing strategy. It is not unusual to find different modes within the same organisation. For example, ExxonMobil might follow an entrepreneurial mode in developing and evaluating the strategy of its solar subsidiary but follow a planning mode in the rest of the company.

3.4.6 The Strategy Makers

The ideal strategic management team includes decision makers from all three company levels (the corporate, business, and functional)—for example, the chief executive officer (CEO), the product managers, and the heads of functional areas. In addition, the team obtains input from company planning staffs, when they exist, and from lower-level managers and supervisors. The latter provide data for strategic decision making and then implement strategies.

Because strategic decisions have a tremendous impact on a company and require large commitments of company resources, top managers must give final approval for strategic action. Figure 2.4 aligns levels of strategic decision makers with the kinds of objectives and strategies for which they are typically responsible. Planning departments, often headed by a corporate Vice President for planning, are common in large corporations. Medium-sized firms often employ at least one full-time staff member to spearhead strategic data-collection efforts. Even in small firms or less progressive larger firms, strategic planning often is spearheaded by an officer or by a group of officers designated as a planning committee.

Precisely what are managers' responsibilities in the strategic planning process at the corporate and business levels? Top management shoulders broad responsibility for all the major elements of strategic planning and management. They develop the major portions of the strategic plan and reviews, and they evaluate and counsel on all other portions. General Managers at the business level typically have principal responsibilities for developing environmental analysis and forecasting, establishing business objectives, and developing business plans prepared by staff groups.

A firm's President or CEO characteristically plays a dominant role in the strategic planning process. In many ways, this situation is desirable. The CEO's principal duty often is defined as giving long-term direction to the firm, and the CEO is ultimately responsible for the firm's success and, therefore, for the success of its strategy.

In addition, CEOs are typically strong-willed, company-oriented individuals. Remember also that when the dominance of the CEO approaches autocracy the effectiveness of the firm's strategic planning and management processes is likely to be diminished. For this reason, establishing a strategic management system implies that the CEO will allow managers at all levels to participate in the strategic posture of the company.

In implementing a company's strategy, the CEO must have an appreciation for the power and responsibility of the board, while retaining the power to lead the company with the guidance of informed directors. The interaction between the CEO and the board is key to any corporation's strategy. Empowerment of non-managerial employees has been a recent trend across major management teams.

For example, in 2003, IBM replaced its 92-year-old executive board structure with three newly created management teams: strategy, operations, and technology. Each team combined top executives, managers, and engineers going down six levels in some cases. This new team structure was responsible for guiding the creation of IBM's strategy and for helping to implement the strategies once they were authorised.

3.4.7 Importance of Strategic Management

Strategic planning and implementation have become a must for all organisations for their survival and growth in the present turbulent business environment. 'Survival of fittest 'as propagated by Darwin is the only principle of survival for organisation, where 'fittest' are not the 'largest' or 'strongest' organisation but those who can change and adapt successfully to the changes in business environment.

Many organisational giants have also followed the path of extinction failing to manage drastic changes in the business environment. Also business follows the war principle of 'win or lose', and not necessarily win-win situation arises in business world. Hence the organisation has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following process of strategic management - strategic analysis, formulation and implementation.

The Major Benefits of Strategic Management

Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, and markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.

Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.

Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

3.4.8 Reason Strategy Plans Fail

There are many reasons why strategic plans fail, especially:

1. Failure to understand the customer

a. Why do they buy?

b. Is there a real need for the product?

c. Inadequate or incorrect marketing research

2. Inability to predict environmental reaction

a. What will competitors do?

b. Fighting brands

c. Price wars

d. Will government intervene?

3. Over-estimation of resource competence

a. Can the staff, equipment, and processes handle the new strategy?

b. Failure to develop new employee and management skills

4. Failure to coordinate

a. Reporting and control relationships not adequate

b. Organisational structure not flexible enough

5. Failure to obtain senior management commitment

a. Failure to get management involved right from the start

b. Failure to obtain sufficient company resources to accomplish task

6. Failure to obtain employee commitment

a. New strategy not well explained to employees

b. No incentives given to workers to embrace the new strategy

7. Under-estimation of time requirements

a. No critical path analysis done

8. Failure to follow the plan

a. No follow through after initial planning

b. No tracking of progress against plan

c. No consequences for above

9 Failure to manage change

a. Inadequate understanding of the internal resistance to change

b. Lack of vision on the relationships between processes, technology and organisation

10. Poor communications

a. Insufficient information sharing among stakeholders

b. Exclusion of stakeholders and delegates.

3.4.9 Problems of Strategic Management

Aluko, et al (2004), Akingbade (2007), Adeleke, Ogundele and Oyenuga (2008 have however identified the following disadvantages of strategic management.

a. It involves a great deal of time and effort, as well as thinking about figuring out and forecasting the most important variable in a business for, say, 20years and above. The effort involved could be too much for available staff.

b. Strategic plan can become written-in-stone that is, rigid like the Ten Commandments, whereas it is supposed to be a guide.

c. The margin of error for a long-range environmental forecast can sometimes be quite large, as if one is forecasting profit for the next five or more years, because of the volatile nature of the economy.

d. It requires a considerable investment in money and people .

e. Some firms seem to remain at the planning stage almost perpetually, i.e. implementation and control are sometimes ignored.

f. It also sometime, tend to restrict the organisation to the most rational and risk-free opportunities, since managers might with ***T6*** develop only those goals that could survive the detached analysis of strategic management, while attractive opportunities that involves high degree of uncertainty or that are difficult to analyse might be avoided or over-looked.

3.4.10 Risks of Strategic Management

Managers must be trained to guard against three types of unintended negative consequences of involvement in strategy formulation.

First, the time that managers spend on the strategic management process may have a negative impact on operational responsibilities. Managers must be trained to minimise that impact by scheduling their duties to allow the necessary time for strategic activities.

Second, if the formulators of strategy are not intimately involved in its implementation, they may shirk their individual responsibility for the decisions reached. Thus, strategic managers must be trained to limit their promises to performance that the decision makers and their subordinates can deliver.

Third**,** strategic managers must be trained to anticipate and respond to the disappointment of participating subordinates over unattained expectations. Subordinates may expect their involvement in even minor phases of total strategy formulation to result in both acceptance of their proposals and an increase in their rewards, or they may expect a solicitation of their input on selected issues to extend to other areas of decision making. Sensitising managers to these possible negative consequences and preparing them with effective means of minimising such consequences will greatly enhance the potential of strategic planning.

3.5 Pitfalls in Strategic Planning

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

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

1. Using strategic planning to gain control over decisions and resources.
2. Doing strategic planning only to satisfy accreditation or regulatory requirements.
3. Too hastily moving from mission development to strategy formulation.
4. ailing to communicate the plan to employees, who continue working in the dark.
5. Top managers making many intuitive decisions that conflict with the formal plan.
6. op managers not actively supporting the strategic-planning process.
7. Failing to use plans as a standard for measuring performance.
8. Delegating planning to a "planner" rather than involving all managers.
9. Failing to involve key employees in all phases of planning.
10. Failing to create a collaborative climate supportive of change.
11. Viewing planning as unnecessary or unimportant.
12. Becoming so engrossed in current problems that insufficient or no planning is done.
13. Being so formal in planning that flexibility and creativity are stifled.

4.0 Conclusion

Strategic management has now evolved to the point that it is primary value is to help the organisation operate successfully in dynamic, complex environment.In today's business environment, more than in any preceding era, the only constant is change. Successful organisations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, and cultures to survive the shocks and prosper from the forces that decimate the competition.

The need to adapt to change leads organisations to key strategic-management questions, such as “What kind of business should we become?” “Are we in the right field(s)?” “Should we reshape our business?” “What new competitors are entering our industry?” “What strategies should we pursue?” “How are our customers changing?” “Are new technologies being developed that could put us out of business?”

Corporations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organisation: an organisation skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights.

Learning organisations avoid stability through continuous self-examinations and experimentations. People at all levels, not just top the management, need to be involved in strategic management: scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures and evaluation techniques.

5.0 Summary

Strategic management has been defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives. It comprises nine critical tasks.

1. Formulate the company’s mission, including broad statements about its purpose, philosophy, and goals.
2. Conduct an analysis that reflects the company’s internal conditions and capabilities.
3. Assess the company’s external environment, including both the competitive and the general contextual factors.
4. Analyse the company’s options by matching its resources with the external environment.
5. Identify the most desirable options by evaluating each option in light of the company’s mission.
6. Select a set of long-term objectives and grand strategies that will achieve the most desirable options.
7. Develop annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies.
8. Implement the strategic choices by means of budgeted resource allocations in which the matching of tasks, people, structures, technologies, and reward systems is emphasised.
9. Evaluate the success of the strategic process as an input for future decision making.

As these nine tasks indicate, strategic management involves the planning, directing, organising, and controlling of a company’s strategy-related decisions and actions. By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to achieve company objectives. A strategy is a company's game plan. Although that plan does not precisely detail all future deployments of people, finances, and material, it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete.

6.0 Self-Assessment Exercise

Being aware of potential pitfalls and being prepared to address them is essential to the strategic management success. Illuminate this statement.

7.0 References/Further Reading

David, F.R. (2011). *Strategic Management Concepts and Cases.*USA :(13th ed.). Pearson Education, Inc: One Lake Street, Upper Saddle River, New Jersey.

Denise, L. W. (2007). *Strategic Management for Senior Leaders*. Executive Support Division Department of the Navy Total Quality Leadership Office.

Grant, R. M. (2003). "Strategic Planning in a Turbulent Environment: Evidence from the Oil Majors," *Strategic Management Journal,*24.

Porter, M. E. (1998).*Competitive Strategy Techniques for Analysing Industries and Competitors.* New York: Free Press.

Yunus, A. D. (2010). *Strategic Management Practice and Corporate Performance of Selected Small Business Enterprises*. Lagos: *Metropolis, International Journal of Business and Management* Vol. 5, No. 11; November.

Unit 3 Vision, Mission and Objectives

1.0 Introduction

The formulation of the organisational vision, mission, aims and objectives are crucial for the firm in having a clear strategic direction. However, the composition and content of the vision, mission, aims and objectives is open to interpretation. Amongst the various steps in the strategic management model we will restrict discussion to vision, mission and objectives in this unit.

2.0 Objectives

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

- describe the nature and role of vision and mission statements in strategic management.
- discuss how clear vision and mission statements can benefit other strategic-management activities.
- write good vision and mission statements.

3.0 Main Content

3.1 The Vision

Very early in the strategy making process, a company's senior managers must wrestle with the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out.

Top management's views and conclusions about the company's direction and the product-customer-market-technology focus constitute a strategic vision for the company. A strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are going" and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organisational identity.

A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction. For instance, Aliko Dangote's vision of spaghetti in every home's table had power because it captured the imagination of others, aided internal efforts to mobilise the Dangote's group of company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

A strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

The three elements of a strategic vision:

a. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"

b. Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"

c. Communicating the strategic vision in clear, exciting terms that arouse organisation wide commitment.

How to develop a strategic vision

The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.

1. Forming a strategic vision is an exercise in intelligent entrepreneurship.

2. Many successful organisations need to change direction not in order to survive but in order to maintain their success.

3. A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organisation.

4. The best-worded vision statement clearly and crisply illuminate the direction in which organisation is headed.

3.1.1 Purpose or Mission

According to Glueck and Jauch, a mission is answer to the question 'what business are we in' that is faced by corporate-level strategist. Every kind of organised operation has, or at least should have if it is to be meaningful, a purpose or mission. In business policy, both these terms are either used jointly or singly. They identify the basic functions or tasks of an enterprise or agency or any part of it.

The mission is a statement which defines the role that an organisation plays in the society. The organisations also have some purpose that is anything that an organisation strives for. Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission and purpose. We can describe mission as "a statement which defines the role that an organisation plays in the society", and purpose as "anything which an organisation strives for".

Since both mission and purpose go hand in hand, they can be used together while maintaining the basic difference between them. Mission strictly refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organisation strives to achieve in order to fulfill its mission to the society. A corporate mission is the vision and purpose of an organisation. It is the broad purpose, which the society within the organisation is operating, expects it to serve. In every social system, enterprises have a basic function or task that is assigned to them by society.

For example, the purpose of business generally is production and distribution of goods and services in most cases at a profit. The purpose of the court is the interpretation of laws and their application. ***The*** purpose of a university is teaching and research. The mission or purpose

of an organisation is the general framework within which management tests its key decisions**.**

The mission determines the direction the company will take John Argenti specially defined purpose of an organisation (corporate purpose) as: "The reason why any organisation was formed and it continues to exist. Corporate purpose is the vindication for all its strategies, all its action, indeed everything it ever does in its entire life history. It is the justification for its very existence, its raison d'être. It is the sole criterion by which one may judge whether an organisation is a success or a failure. It is the ends as oppose to the means. An organisation's purpose is unalterable. If it is changed the organisation itself would have to be reconstituted as a new legal entity."

Consciously or unconsciously, formally or informally, every company has a mission. It may exist only in the mind of top management. The common purpose of every organisational member is the statement of purpose or mission, it describes the fundamental values of the company-why it exists the market seeks to serve and how it would serve the market selected.

These are the value that management and staff have to buy into. Every manager in the company needs to understand the statement of mission, understand where they are taking the company and why.

3.1.2 Why Organisation Should Have Mission?

Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm. In other words, the mission serves as a justification for the firm's very presence and existence; it legitimises the firm's presence.

Mission is also an expression of the vision of the corporation, its founder/ leader. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

It represents the common purpose, which the entire firm shares and pursues. A mission is not a confidential affair to be confined at the top; it has to be open to the entire company. All people are supposed to draw meaning and direction from it. It adds zeal to the firm and its people. A mission is not a fad-it is a tool to build and sustain commitment of the people to the corporation's policies. A mission is not rhetoric - it is the corporation's guiding principle.

Every organisation functions through a network of aims. Mission is the foundation from which the network of aims is built. The mission serves as a proclamation to insiders and outsiders on what the corporation stands for.

A mission, however, is not a PR document; while it legitimises the corporation's existence and role in society, its main purpose is to give internal direction for the future of the corporation. According to Peter Drucker, every organisation must ask this important question “What business are we in?”

- To ensure unanimity of purpose within the organisation.
- To provide a basis for motivating the use of the organisation’s resources.
- To develop a basis, or standard, for allocating organisational resources.
- To establish a general tone or organisational climate, for example, to suggest a businesslike operation.
- To serve as a focal point for those who can identify with the organisation’s purpose and direction, and to deter those who cannot form participating further in the organisation’s activities.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
- To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

3.1.3 Characteristics of Well Stated Corporate Mission

A company’s mission statement is typically focused on its present business scope – “who we are and what we do”; mission statements broadly describe an organisation’s present capabilities, customer focus, activities, and business makeup. Mission should contain elements of long-term strategy as well as desired outcomes they often basic values and the philosophy of the organisations that is perceived by the senior managers at the senior level who write them. A good mission statement should be of precise, clear, feasible, distinctive and motivating. It should indicate major components of strategy. A better stated corporate mission has the following characteristics:

1. It is simply and easily understood.
2. It makes sense in terms of products delivered or service rendered i.e the mission applies to the nature of the business – manufacturing or retailing – and the markets served.
3. It is widely communicated within the company. It I included in new employee orientation, in employee handbooks, statements of a company’s memoranda of association etc.
4. It serves as reference check for major decisions such as new Markets to be entered, new products to be development e.t.c.

5. It is credible, something organisational member can believe in.

3.1.4 Useful Points while Writing Mission of a Company

Creation of a mission is an event. It takes place at a point in time presumably at the inception of the company. But efforts precede the creation of a mission. These efforts are to:

1. Understand the external environment in which company will operate

2. The market capacity available for the company products or service

3. What the company is in business for (is a bank for example formed to provide Mortgage services for private home owners or to provide a deposit facility for savers or to do both). Based on the understanding of the environment, the market and why the company is in operation a mission statement is created.

While creating statement of mission is an event, the execution is a process or activity. Strategic plans, annual business plans, quarterly goals, all derived from the mission statement are part of the on-going series of activities or process. A corporate mission may not be in written form, but it manifests itself in the values that top management adopts (e.g. their internal performance expectation). In the words of Charles gar field (1989), the following points are useful while writing mission of a company:

- One of the roles of a mission statement is to give the organisation its own special identity, business emphasis and path for development -one that typically sets it apart from other similarly situated companies.

- A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs.

- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.

- Good mission statements are highly personalised - unique to the organisation for which they are developed.

3.1.5 Who Should Set the Mission?

It is possible the mission of an organisation was set even before the organisation became a reality. This is especially true in public sector, not-for-profit organisations and even subsidiaries of diversified multinational companies.

In such cases, it would not be much problem identifying the mission, as they are normally contained in legislation creating the agency, the organisation constitution etc. For a subsidiary to a multinational or a large company, its basic purpose would be contained in some communications document such as minutes of board meetings or special project report etc. Where there is no existing mission in place, the responsibility generally lies with the top management. On the question of employee participation on mission formulation, it is a frequent subject of argument.

The traditional practice is for the top management to decide on the mission and key objectives. Middle and lower managers would then formulate the strategies and tactical plans to realise these objectives and mission. In the case of small companies, the CEO often does establish basic missions without much reference to others.

In companies that are operated in a very democratic manner, there is a tendency for increased employee input in mission setting or revision. In the SME context, this is probably not expected nor should it be encouraged, as employee turnover is a problem. A mission set by earlier employees may not be acceptable to the succeeding ones anyway. In addition, there is an attitude and aptitude problem in that the employees may not be willing or capable to set a challenging mission. Irrespective on the way missions are formulated, a fact remains that they are "highly dependent on the chief executive officer's value". They are not likely to change without direct intervention of the chief executive officer.

It would not be true to assume that any organisation can set a mission, at any time and under all circumstances. Booth pointed out that under certain circumstances, a mission just cannot be easily formulated:

In a diverse organisation, defining a mission for the whole organisation may be difficult.

There exist conflicting objectives among different stakeholders; which may mean difficulties in getting members to agree on one common mission.

A rapid changing environment may make it impossible to agree on a specific mission.

Then there is also the human resistance factor. Some mangers prefer to use methods less rigidly; in the words of Booth "unconscious strategy of perspective or pattern". Some managers are convicted to their 'play-by-ear', or intuition method. There are also those risk-averse types who would not decide without reliable information. In the writer's company, the company mission was not done until its tenth. The main reason is the unwillingness of those who are committed onto some directions that may turn out to be wrong.

3.1.6 Communicating the Mission

Booth declared, "The mission statement has no value if once established it is not communicated and used as a guide throughout the organisation. The mission statement should represent the values and aspirations of most members of the enterprise and as such it sets the stage within which the ethics and approach to crisis preparation and management will be set."

Booth's view brings on the problems of communications in organisations. In a very small organisation with the owner or a handful of employees, daily contact and conversation can often fulfill the role of communicating the message. As the organisation gets larger, and especially with employees situated outside the main office, communication problem takes on a new dimension. Although telephone conversation is a viable means of communication, cost is a discouraging factor. It appears that putting information down on paper is needed somewhere along the line. Once a mission is carefully worded, communications can begin. They can be circulated by mail, e-mail, fax, or distributed by hand during a briefing etc.

To have a lasting effect, there is a need to raise the visibility of the mission. In which case, it can be hung on office walls, or appearing on company brochures, newsletters, being frequently quoted in staff meetings etc. Another advantage of a written mission is that it helps an entrepreneur to crystallise his or her thought. Employees frequently complained about no knowing what the management wanted, that accounted for paralysis or lack of unity in effort. This is understandable when entrepreneurs approach business in a haphazard manner. A moving target is always harder to hit. The experience and observation of the writer is that once a mission can be decided upon, a sense of calmness and peace of mind set in that makes business management much easier.

3.2 Objectives and Goals

Business organisation translates their vision and mission into objectives. The visionary and broad nature of the company mission demands a conversion into specific performance targets as a guide to action. This stage calls a definition of objectives-verifiable measurable, and quantitatively formulated – for all phases of company operation. The literature of management is however filled with references to goals and objectives. These terms are used in variety of ways, many of them conflicting.

Oftentimes however, the term objective is used synonymous with goals. But we will make an attempt to distinguish the two. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attributes which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to short term perspective. However, this distinction is not made by several theorists on the subject. Accordingly, we will also use the term interchangeably. Objectives are organisations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organisations performance and progress.

All organisations have objectives. The pursuit of objectives is an unending process such that organisations sustain themselves. They provide meaning and sense of direction to organisational endeavour. Organisational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organisational activity and for evaluating how the organisation is performing.

Objectives with strategic focus relate to outcomes that strengthen an organisations overall business position and competitive vitality. Regardless of a company's purpose or mission, however, every firm needs long-term, immediate, and short-term goals.

Long term goals relates to extended periods of time typically five years or more. Immediate goal are set for a period of one to five years, companies usually have intermediate goals in several area. For example, the marketing department's goal might be to increase sales by 3 percent in two years. Finance might aim for 3 percent increase in return on investment in three years.

Like the intermediate goals, short-term goals are set for perhaps one year and developed for several different areas. Increase sales by 2 percent this year, cutting costs by one percent next quarter etc.

Steiner defined long-range objective as "The desirable or needed result to be achieved by a specific time". Another author offered further explanation, "In order for the strategic plan to become reality, it must be made operational. This means becoming quite specific about the element of the planning by dealing with three basic questions: Who? Will do what? When?" Some examples are given as follows:

- To achieve 100 percent total customer satisfaction…everyday…in every restaurant…for every customers Rubbermaid.
- To increase annual sales from N1 billion to N2 billion in five years.
- To have 30 percent of sales each year come from products not in the company's product line five years earlier.
- To achieve a net sales growth rate of 10 percent per year.
- To maintain average earnings per share growth rate of 15 percent per year.
- To pay out 25 percent to 35 percent of net income in dividends.
- To dispose of those parts of our business which do not or cannot generate adequate returns or do not fit our business strategy.

Generally, objectives are determined by the board of director, who approve objectives. It is however, preferable for objectives to be specific and expressed in quantitative terms. Specific objective usually have limits, e.g to open a new Mr. Bigg's fast food restaurant in five months' time. Formulating specific objectives and developing appropriate policies, within the framework of general objective often jointly result in co-ordinated and controlled decision making. Careful planning of objective helps management to give members a sense of direction and purpose – this is essential to achieve effective results.

Generally, an organisation functions systematically because is sets goals and plans accordingly. Daniel Robey provides an excellent list of the key functions of business goals (Robey 1982). To summarise his comments, goals serves to:

1. Provides direction and guidance for mangers at all levels. If managers know precisely where the company itself is headed, their error is less likely in the different unit of the company.
2. Helps firms allocate resources. Areas that are expected to grow, for example, will get first priority.
3. Helps to define corporate culture. A competitive culture that rewards success and having the tolerance for failure can often result from effective goal setting.

4. Help managers assess performance.

5. Justify or legitimise the organisation's activities.

6. Focus attention and set constraints for member behaviour.

7. Identify the nature of the organisation and elicit commitment.

8. Reduce uncertainty by clarifying what the organisation is pursuing.

9. Help an organisation to learn and adapt by showing discrepancies between goals and actual progress (providing feedback).

10. Serve as a standard of assessment for organisation members.

11. Provide a rationale for organisation design.

Always, there has to be a clear link between objectives goals and missions which all define the purpose of the organisation. This is the essence of strategic management. Glueck (1984) has this to say: "Strategic Management is a star of decisions and actions which leads to the development of effective strategy or strategies to help achieve corporate objectives". See figure below:

POLICY	**OBJECTIVES**	**STRATEGY FACTOR**	**TACTICS**
Product Development	Development and market a new detergent more likely to get cloths cleaner	Many consumers tend to understand detergent and so do not get good cleaning results	Wash detergent was introduced in tablet form to help assure proper measurement of detergent.
Creative	Reposition our coffee as having batter taste than other blends	The taste of black coffee is the true taste of coffee flavour	A new advertising theme "Ask the one who drinks it black"

Fig.3.1: Relationship between Objectives, Goals and Strategy Factors

At one time, it was widely assumed that the owner of a company set that firm's goals. Glueck and Jauch refer to this as a trickle-down theory because it was assumed that others in the organisation simply accepted these goals. Chester Barnard, believing that it was naive to assume such ready acceptance, suggested that organisational objectives arose from a consensus of the employees (Gleuck and Jauch, pp. 78-79).

This trickle-up theory, however, is also naive in assuming that an organisation is simply the sum of individual perspectives, and that it can achieve direction from an unguided and usually disparate group of people. Modern theories spring from combinations of these two approaches, suggesting goal development is a complex goal-bargaining process that enjoys some advantages of both basic theories. Bargaining, while seeming a rather negative and poorly developed goal-setting approach, has the advantage of involving most, if not all, employees in the process. As a result, it is more likely that key concerns, internal as well as external, will be taken into account. By involving employees, you improve their understanding of and commitment to the firm.

3.2.1 Must it be only Financial?

Many objectives can be pursued at the same time but most in financial terms e.g. return in investment, net profit. It is also getting more common for organisations to include nonfinancial goals nowadays e.g. to be number one in a certain market; to increase the company's visibility in the community. Objectives may not be just business and profits.

"It is becoming increasingly recognised that there should be formal statements of objectives to be met on behalf of a variety of stakeholders, including customers, suppliers, employees and the community at large." Objectives whether in financial or non-financial terms are important as they provide direction, aid in evaluation, allow coordination and are necessary for effective planning, organisation and controlling of activities.

3.2.2 Criteria for Good Objectives

Steiner offered ten characteristics of good objectives:

Suitable: A good objective must relate to the basic purpose or mission. "An objective that makes no contribution to purpose is non-productive. One that conflicts with purpose is dangerous."

Measurable over time: It should be stated what is expected to happen in concrete terms and when.

Feasible: A good objective must be achievable. Unrealistic or impractical objectives serve no purpose and should therefore be avoided.

Acceptable: A good objective should be acceptable by stakeholders, especially the key ones. An objective that does not have stakeholder blessings is bound to fail.

Flexible: A good objective should have an element of flexibility built in, that it can be modified in the event of unforeseen circumstances. However, it must not be done in a "wishy-washy' manner. It must be firm enough to provide a direction.

Motivating: Drucker's research showed that objectives that are set a little more aggressive and "a little higher that likely to be reached" lead to better performance.

Understandable: Objectives should be written in forms that are easily understood. Furthermore, managers should take proactive stand to ensure complete understanding.

Commitment: There should be a commitment by all, especially the managers, to see the objectives being realised. They also should be prepared to do what is needed.

People Participation: “Best results are achieved when those who are responsible for achieving objectives have some role in setting them. This is less true for a very small organisation than, say, for large decentralised companies.” Lower managers and staff have “detail, intimate and substantive” knowledge that can be used in reliable planning.

Linkage: Many linkages are involved. First, there should be a linkage of the objective to the basic purpose. Second, the objectives in different parts of large decentralised company should be consistent with the top management objectives. Third, even within a division, the various objectives should have some linkages with one another.

3.2.3 Guidelines to Help Avoid Pitfalls in Setting Objectives

Anthony Raia provides a list of guidelines to help you avoid pitfalls in setting objectives (Rue and Byars, p. 107). Some of the most important include:

- Limit the number of statements of objectives to the key result areas (for your business). Do not obscure priorities by stating too many objectives.
- Review your statements with others to assure consistency and mutual support. Do not fall into the trap of setting your objectives in a vacuum.
- Modify your statements to meet changing conditions and priorities.
- Do not continue to pursue objectives that have become obsolete.
- Adapt your objectives directly to organisational goals and strategic plans. Do not assume that they support higher level management objectives.
- Quantify and target the results whenever possible. Do not formulate objectives where attainment cannot be measured or at least verified.
- Test your objectives for challenge and achievability. Do not build in cushions to hedge against accountability for results.
- Adjust the objectives to the available resources and the realities of organisational life. Do not keep your head either in the clouds or in the sand.
- Establish performance reports and milestones that measure progress toward the objective. Do not rely on instinct or crude benchmarks to appraise performance.
- Put your objectives in writing and express them in clear, concise and unambiguous statements. Do not allow them to remain in loose or vague terms.

The formulation of a mission, goals and objectives is a complex, repetitive and continual process. As a small business owner-manager, your first reaction may be that you don't have the time or the resources to accomplish this. This may be true; however, you must develop a process that you can implement and be comfortable with. You will need to be aware of this process, the relationship of goals to ultimate performance and the need to be specific and consistent. A carefully thought-out set of goals provides the base on which the rest of strategic planning will proceed. The time you put into carefully assessing what you hope to achieve and how you will measure it will reduce the time required to assess and control performance.

For objectives to be meaningful to serve the intended role must possess, it should have the following characteristics:

1. Objectives should define the organisation's relationship with its environment.
2. They should be facilitative towards achievement of mission and purpose.
3. They should provide the basis for strategic decision-making.
4. They should provide standards for performance appraisal.
5. Objectives should be understandable.
6. Objectives should be concrete and specific.
7. Objectives should be related to a time frame.
8. Objectives should be measurable and controllable.
9. ix. Objectives should be challenging.
10. Different objectives should correlate with each other.
11. Objectives should be set within constraints.

4.0 Conclusion

Many organisations today develop a vision statement that answers the question "What do we want to become?" Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms." It addresses the basic question that faces all strategists: "What is our business?" A clear mission statement describes the values and priorities of an organisation.

Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organisation. A mission statement is a constant reminder to its employees of why the organisation exists and what the founders envisioned when they put their fame and fortune at risk to breathe life into their dreams.

5.0 Summary

Strategy formulation is the development of long-range plans for they effective management of environmental opportunities and threats, taking into consideration corporate strengths and weakness. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. An organisation's mission is its purpose, or the reason for its existence. It states what it is providing to society. A well-conceived mission statement defines the fundamental , unique purpose that sets a company apart from other firms of its types and identifies the scope of the company's operation in terms of products offered and markets served. 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 fulfillment of the corporation's mission.

6.0 Self-Assessment Exercise

Beauty is in the eyes of the beholder. Use this statement to describe what corporate is and or should be and should be set. What are the demarcating features of well stated objective?

7.0 References/Further Reading

Campbell, A. & Yeung, S. (1999). Creating a Sense of Mission. Developing Strategies for Competitive Advantage. Oxford: Elsevier Science.

David,F. R. (2011).Strategic Management Concepts and Cases.(13th ed.). Prentice Hall: One Lake Street, Upper Saddle River, New Jersey.

Eisenhardt K. M. & Martin J. A. (2000). "Dynamic Capabilities: What are They? "Strategic Management Journal 21.

Johnson, G. & Scholes, K. (2002). Exploring Corporate Strategy. (6th ed.). London: Prentice Hall.

Sufi, T. & Lyons, H. (2003). "Mission Statements Exposed". International Journal of Contemporary Hospitality Management.

Unit 4 Environmental Analysis

1.0 Introduction

This unit examines the tools and concepts needed to conduct an external strategic management audit (sometimes called environmental scanning or industry analysis). An external audit focuses on identifying and evaluating trends and events beyond the control of a single firm, such as increased foreign competition, an aging society, consumer fear of travelling, and stock market volatility. An external audit reveals key opportunities and threats confronting an organisation so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats.

The purpose of an external audit is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term finite suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimise the impact of potential threats. This unit presents a practical framework for gathering, assimilating, and analysing external information.

2.0 Objectives

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

- appraise the impact of external factors on strategic planning.
- describe the competition and strength of the competitive forces; Which companies are in the strongest/weakest positions? What strategic moves are rivals likely to make next?
- discuss the causes of changes in the industry's competitive structure and business environments
- asses industry attractiveness the prospects for above average profitability.

3.0 Main Content

3.1 Key External Forces

External forces can be divided into five broad categories: (1) economic forces (2) social, cultural, demographic, and natural environment forces (3) political, governmental, and legal forces (4) technological forces and (5) competitive forces. Relationships among these forces and an organisation are depicted in figure 4.1. External trends and events, such as the Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services.

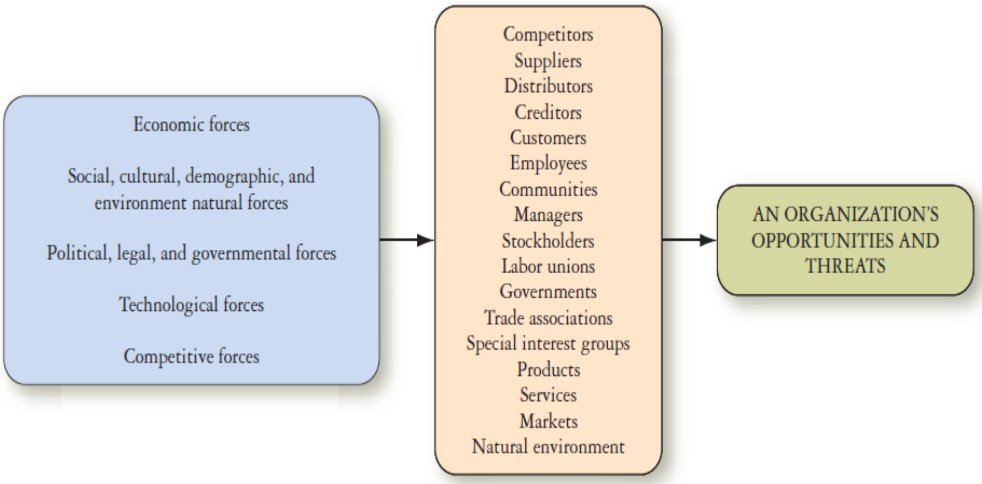

Fig. 4.1: Relationships between Key External Forces and an Organisation

Source: Adapted from R. Schroeder, *Operations Management* (New York: McGraw-Hill, 1981)

External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organisations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives. The increasing complexity of business today is evidenced by more countries developing the capacity and will to compete aggressively in world markets. Foreign businesses and countries are willing to learn, adapt, innovate, and invent to compete successfully in the marketplace.

3.1.1 The Process of Performing an External Audit

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

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit.

This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information. Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm.

Freund as quoted by David (2011) emphasised that these key external factors should be:

1. Important to achieving long-term and annual objectives,
2. Measurable,
3. Applicable to all competing firms, and
4. Hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas.

A final list of the most important key external factors should be communicated and distributed widely in the organisation. Both opportunities and threats can be key external factors.

Environmental Scanning is the monitoring, evaluating and disseminating of information from the external environment to the key people within the business. Hunger and Wheelen (1996) state that to be successful over time the organisation must be in tune with its external environment. There must be a strategic fit between what the environment wants and what the business has to offer, as well as between what the business needs and what the environment can provide. According to Hunger and current predictions are that the environment for all organisations will become even more uncertain in the coming years, due to factors such as better information technology and the effect that it will have or already has on competition between businesses.

According to Duncan (1972) environmental uncertainty refers to the combination of the degree of complexity and the degree of change in an organisation's external environment. This environmental uncertainty is a threat to strategic managers, because it hampers their ability to develop long-range plans and to make strategic decisions to keep the business in equilibrium with its external environment. Managers who are willing to actively embrace the increasing uncertainty facing their organisations in order to anticipate future developments engage in strategic management.

According to Kroon (1993) the analysis of the external environment consists of an analysis of the international, macro-management and the market or task environment. Changes and trends are considered in the international, economic, social, technological, physical, political, institutional and the market or task environment.

Economic Forces

Economic factors have a direct impact on the potential attractiveness of various strategies. For example, when interest rates rise, funds needed for capital expansion become more costly or unavailable. Also, when interest rate raises discretionary income declines and the demand for discretionary goods falls. When stock prices increase, the desirability of equity as a source of capital for market development increases. Also, when the market rises, consumer and business wealth expands. A summary of economic variables that often represent opportunities and threats for organisations is provided in the table below.

Table 4.1: Key Economic Variables to be Monitored

Shift to a service economy in the United States	Availability of credit
Level of disposable income	Propensity of people to spend
Interest rates	Inflation rates
Money market rates	Federal government budget deficits
Gross domestic product trend	Consumption patterns
Unemployment trends	Worker productivity levels
Value of the naira in world markets	Stock market trends
Foreign countries' economic conditions	Import/export factors
Demand shifts for different categories of goods and services	Income differences by region and Consumer groups
Monetary policies	Price fluctuations
Tax rates	Fiscal policies
Organisation of Petroleum Exporting Countries (OPEC) policies	
Coalitions of Lesser Developed Countries (LDC) policies	

Source: David, Fred R. (2011) Strategic Management: Concepts and Cases. (13th ed.). Pearson Education, Inc., Prentice Hall:, One Lake Street, Upper Saddle River, New Jersey

Social, Cultural, Demographic, and Natural Environment Forces

Social, cultural, demographic, and environmental changes have a major impact on virtually all products, services, markets, and customers. Small, large, for-profit, and nonprofits organisations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and environmental variables.

In every way, Nigeria is much different today than it was yesterday, and tomorrow promises even greater changes. Social, cultural, demographic, and environmental trends are shaping the way Nigerians live, work, produce, and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies.

There are now more Nigerians households with people living alone or with unrelated people than there are households consisting of married couples with children. Nigerians are now making more and more purchases online. The aging American population affects the strategic orientation of nearly all organisations. A summary of important social, cultural, demographic, and environmental variables that represent opportunities or threats for virtually all organisations is given in Table 4.2.

Table 4.2: Key Social, Cultural, Demographic, and Natural Environment Variables

Childbearing rates	Number of special-interest groups
Number of marriages	Number of divorces
Number of births	Number of deaths
Immigration and emigration rates	Social Security programs
Life expectancy rates	Per capita income
Location of retailing, manufacturing, and service businesses	Lifestyles
Attitudes toward business	Traffic congestion
Average disposable income	Trust in government
Attitudes toward government	Attitudes toward work
Buying habits	Ethical concerns
Attitudes toward investing	Racial equality
Use of birth control	Average level of education
Government regulation	Attitudes toward retirement
Attitudes toward leisure time	Attitudes toward product quality
Attitudes toward customer service	Pollution control
Attitudes toward foreign peoples	Social programmes
Number of churches/Mosques	Attitudes toward authority
Number of church / Mosques	Social responsibility

members'	
Attitudes toward careers	Waste management
Population changes by race, age, sex, and level of affluence	Endangered species
Regional changes in tastes and preferences	Air pollution
Number of women and minority workers	Recycling
Number of high school and college graduates by geographic area	Ozone depletion

Source: David, Fred R. (2011) Strategic Management: Concepts and Cases (13th ed.). Pearson Education, Inc., Prentice Hall: One Lake Street, Upper Saddle River, New Jersey

Political, Governmental, and Legal Forces

Federal, state, local, and foreign governments are major regulators, deregulators, subsidisers, employers, and customers of organisations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organisations. For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit. Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly. The increasing global interdependence among economies, markets, governments, and organisations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

In the face of a deepening global recession, countries worldwide are resorting to protectionism to safeguard their own industries. European Union (EU) nations, for example, have tightened their own trade rules and resumed subsidies for several of their own industries while barring imports from certain other countries. Governments are taking control of more and more companies as the global economic recession cripples firms considered vital to the nation's financial stability. As more and more companies around the world accept government bailouts, those companies are being forced to march to priorities set by political leaders.

Even in the United States, the federal government is battling the recession with its deepest intervention in the economy since the great depression. Most governments today are now strategic managers in industries from banking to insurance to autos. Governments worldwide are under pressure to protect jobs at home and maintain the nation's industrial base.

Local, state, and federal laws; regulatory agencies; and special-interest groups can have a major impact on the strategies of small, large, for-profit, and non-profit organisations. Many companies have altered or abandoned strategies in the past because of political or governmental actions. In the academic world, as state budgets have dropped in recent years, so too has state support for colleges and universities. Due to the decline in monies received from the state, many institutions of higher learning are doing more fundraising on their own—naming buildings and classrooms, for example, for donors.

Technological Forces

Revolutionary technological changes and discoveries are having a dramatic impact on organisations. Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements can dramatically affect organisations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position. Technological advancements can create new markets, result in a proliferation of new and improved products, change the relative competitive cost positions in an industry, and render existing products and services obsolete.

Technological changes can reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills, and result in changing values and expectations of employees, managers, and customers. Technological advancements can create new competitive advantages that are more powerful than existing advantages. No company or industry today is insulated against emerging technological developments. In high-tech industries, identification and evaluation of key technological opportunities and threats can be the most important part of the external strategic-management audit.

The internet has changed the very nature of opportunities and threats by altering the life cycles of products, increasing the speed of distribution, creating new products and services, erasing limitations of traditional geographic markets, and changing the historical trade-off between production standardisation and flexibility. The internet is altering economies of scale, changing entry barriers, and redefining the relationship between industries and various suppliers, creditors, customers, and competitors. To effectively capitalise on e-commerce, a number of organisations are establishing two new positions in their firms: chief information officer (CIO) and chief technology officer (CTO). This trend reflects the growing importance of information technology (IT) in strategic management. A CIO and CTO work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed.

These individuals are responsible for developing, maintaining, and updating a company's information database. The CIO is more a manager, managing the firm's relationship with stakeholders; the CTO is more a technician, focusing on technical issues such as data acquisition, data processing, decision-support systems, and software and hardware acquisition.

Not all sectors of the economy are affected equally by technological developments. The communications, electronics, aeronautics, and pharmaceutical industries are much more volatile than the textile, forestry, and metals industries. Organisations that traditionally have limited technology expenditures to what they can fund after meeting marketing and financial requirements urgently need a reversal in thinking. The pace of technological change is increasing and literally wiping out businesses every day. An emerging consensus holds that technology management is one of the key responsibilities of strategists. Firms should pursue strategies that take advantage of technological opportunities to achieve sustainable, competitive advantages in the marketplace.

Competitive Forces

An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies. Competition in virtually all industries can be described as intense—and sometimes as cutthroat. Collecting and evaluating information on competitors is essential for successful strategy formulation.

Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Many multidivisional firms do not provide sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information.

Seven Characteristics Describe the Most Competitive Companies

1. Market share matters; the 90th share point is not as important as the 91st, and nothing is more dangerous than falling to 89.

2. Understand and remember precisely what business you are in.

3. Whether it is broke or not fix it—make it better; not just products, but the whole company, if necessary.

4. Innovate or evaporate; particularly in technology-driven businesses, nothing quite recedes like success.

5. Acquisition is essential to growth; the most successful purchases are in niches that add a technology or a related market.

6. People make a difference; tired of hearing it? It is rather too bad.

7. There is no substitute for quality and no greater threat than failing to be cost competitive on a global basis.

Table 4.3: Key Questions about Competitors

1.	What are the major competitors' strengths?
2.	What are the major competitors' weaknesses?
3.	What are the major competitors' objectives and strategies?
4.	How will the major competitors most likely respond to current economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends affecting

	our industry?
5.	How vulnerable are the major competitors to our alternative company strategies?
6.	How vulnerable are our alternative strategies to successful counterattack by our major competitors?
7.	How are our products or services positioned relative to major competitors?
8.	To what extent are new firms entering and old firms leaving this industry?
9.	What key factors have resulted in our present competitive position in this industry?
10.	How have the sales and profit rankings of major competitors in the industry changed over recent years? Why have these rankings changed that way?
11.	What is the nature of supplier and distributor relationships in this industry?
12	To what extent could substitute products or services be a threat to competitors in this industry?

Source: David, Fred R. (2011) Strategic Management: Concepts and Cases (13th ed.). Pearson Education, Inc., Prentice Hall: One Lake Street, Upper Saddle River, New Jersey

Collecting and evaluating information on competitors is essential for successful strategy formulation. Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Many multidivisional firms do not provide sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information. Addressing questions about competitors such as those presented in Table 3-9 is important in performing an external audit.

3.1.2 The Nature of an Internal Audit

All organisations have strengths and weaknesses in the functional areas of business.

No enterprise is equally strong or weak in all areas. Internal strengths/weaknesses, coupled with external opportunities/threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalising upon internal strengths and overcoming weaknesses. A firm's strengths that cannot be easily matched or imitated by competitors are called distinctive competencies. Building competitive advantages involves taking advantage of distinctive competencies.

Performing an internal audit requires gathering, assimilating, and evaluating information about the firm's operations. Strategic management is a highly interactive process that requires effective coordination among management, marketing, finance/accounting, production/operations, R&D, and management information systems managers.

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

Compared to the external audit, the process of performing an internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organisation. This is a great benefit because managers and employees perform better when they understand how their work affects other areas and activities of the firm.

For example, when marketing and manufacturing managers jointly discuss issues related to internal strengths and weaknesses, they gain a better appreciation of the issues, problems, concerns, and needs of all the functional areas. In organisations that do not use strategic management, marketing, finance, and manufacturing managers often do not interact with each other in significant ways. Performing an internal audit thus is an excellent vehicle or forum for improving the process of communication in the organisation. Communication may be the most important word in management.

A failure to recognise and understand relationships among the functional areas of business can be detrimental to strategic management, and the number of those relationships that must be managed increases dramatically with a firm's size, diversity, geographic dispersion, and the number of products or services offered.

Management

The functions of management consist of five basic activities: planning, organising, motivating, staffing, and controlling. An overview of these activities is provided in Table 4.

Table 4.4: The Basic Functions of Management

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

Source: David, Fred R. (2011) Strategic Management: Concepts and Cases (13th ed.). Pearson Education, Inc., Prentice Hall: One Lake Street, Upper Saddle River, New Jersey

Management Audit Checklist of Questions

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

Positive or yes answers to the checklist questions suggest potential areas of strength.

1. Does the firm use strategic-management concepts?

2. Are company objectives and goals measurable and well communicated?

3. Do managers at all hierarchical levels plan effectively?

4. Do managers delegate authority well?
5. Is the organisation's structure appropriate?
6. Are job descriptions and job specifications clear?
7. Is employee morale high?
8. Are employee turnover and absenteeism low?
9. Are organisational reward and control mechanisms effective?

Marketing

Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services. There are seven basic functions of marketing:

1. customer analysis,
2. selling products/services,
3. product and service planning,
4. pricing,
5. distribution,
6. marketing research, and
7. opportunity analysis.

Understanding these functions helps strategists identify and evaluate marketing strengths and weaknesses.

Marketing Audit Checklist of Questions

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

1. Are markets segmented effectively?
2. Is the organisation positioned well among competitors?
3. Has the firm's market share been increasing?
4. Are present channels of distribution reliable and cost effective?
5. Does the firm have an effective sales organisation?
6. Does the firm conduct market research?

7. Are product quality and customer service good?

8. Are the firm's products and services priced appropriately?

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

10. Are marketing, planning, and budgeting effective?

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

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

Finance/Accounting

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

Basic Types of Financial Ratios

Financial ratios are computed from an organisation's income statement and balance sheet. Computing financial ratios is like taking a picture because the results reflect a situation at just one point in time. Comparing ratios over time and to industry averages is more likely to result in meaningful statistics that can be used to identify and evaluate strengths and weaknesses. Table 4.5 provides a summary of key financial ratios showing how each ratio is calculated and what each ratio measures.

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

1. Liquidity Ratios measure a firm's ability to meet maturing short-term obligations.

Current ratio

Quick (or acid-test) ratio.

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

Debt-to-total-assets ratio

Debt-to-equity ratio

Long-term debt-to-equity ratio

Times-interest-earned (or coverage) ratio.

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

Inventory turnover

Fixed assets turnover

Total assets turnover

Accounts receivable turnover

Average collection period.

4. Profitability Ratios measure management's overall effectiveness as shown by the returns generated on sales and investment.

Gross profit margin

Operating profit margin

Net profit margin

Return on total assets (ROA)

Return on stockholders' equity (ROE)

Earnings per share (EPS)

Price-earnings ratio.

5. Growth Ratios measure the firm's ability to maintain its economic position in the growth of the economy and industry.

Sales

Net income

Earnings per share

Dividends per share

Financial ratio analysis must go beyond the actual calculation and interpretation of ratios.

Ratio	How Calculated	What It Measures
Liquidity Ratios		
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations
Quick Ratio	$\frac{\text{Current assets minus inventory}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations without relying upon the sale of its inventories
Leverage Ratios		
Debt-to-Total-Assets Ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	$\frac{\text{Long-term debt}}{\text{Total stockholders' equity}}$	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs
Activity Ratios		
Inventory Turnover	$\frac{\text{Sales}}{\text{Inventory of finished goods}}$	Whether a firm holds excessive stocks of inventories and whether a firm is slowly selling its inventories compared to the industry average
Fixed Assets Turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Sales productivity and plant and equipment utilization
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Whether a firm is generating a sufficient volume of business for the size of its asset investment
Accounts Receivable Turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	The average length of time it takes a firm to collect credit sales (in percentage terms)
Average Collection Period	$\frac{\text{Accounts receivable}}{\text{Total credit sales/365 days}}$	The average length of time it takes a firm to collect on credit sales (in days)
Profitability Ratios		
Gross Profit Margin	$\frac{\text{Sales minus cost of goods sold}}{\text{Sales}}$	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Sales}}$	Profitability without concern for taxes and interest
Net Profit Margin	$\frac{\text{Net income}}{\text{Sales}}$	After-tax profits per dollar of sales
Return on Total Assets (ROA)	$\frac{\text{Net income}}{\text{Total assets}}$	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)
Return on Stockholders' Equity (ROE)	$\frac{\text{Net income}}{\text{Total stockholders' equity}}$	After-tax profits per dollar of stockholders' investment in the firm
Profitability Ratios		
Earnings Per Share (EPS)	$\frac{\text{Net income}}{\text{Number of shares of common stock outstanding}}$	Earnings available to the owners of common stock
Price-Earnings Ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Attractiveness of firm on equity markets
Growth Ratios		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales
Net Income	Annual percentage growth in profits	Firm's growth rate in profits
Earnings Per Share	Annual percentage growth in EPS	Firm's growth rate in EPS
Dividends Per Share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share

Source: David, Fred R. (2011) Strategic Management: Concepts and Cases (13th ed.). Pearson Education, Inc., Prentice Hall: One Lake Street, Upper Saddle River, New Jersey

The Analysis should be conducted on Three Separate Fronts

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

2. How does each ratio compare to industry norms? A firm's inventory turnover ratio may appear impressive at first glance but may pale when compared to industry standards or norms. Industries can differ dramatically on certain ratios.

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

Financial ratio analysis is not without some limitations. First of all, financial ratios are based on accounting data, and firms differ in their treatment of such items as depreciation, inventory valuation, research and development expenditures, pension plan costs, mergers, and taxes. Also, seasonal factors can influence comparative ratios. Therefore, conformity to industry composite ratios does not establish with certainty that a firm is performing normally or that it is well managed.

Finance/Accounting Audit Checklist

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

1. Where is the firm financially strong and weak as indicated by financial ratio analyses?
2. Can the firm raise needed short-term capital?
3. Can the firm raise needed long-term capital through debt and/or equity?
4. Does the firm have sufficient working capital?
5. Are capital budgeting procedures effective?
6. Are dividend payout policies reasonable?
7. Does the firm have good relations with its investors and stockholders?
8. Are the firm's financial managers experienced and well trained?

9. Is the firm's debt situation excellent?

Production/Operations

The production/operations function of a business consists of all those activities that transform inputs into goods and services. Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets. A manufacturing operation transforms or converts inputs such as raw materials, labour, capital, machines, and facilities into finished goods and services. As indicated in Table 6, Roger Schroeder suggested that production/operations management comprises five functions or decision areas: process, capacity, inventory, workforce, and quality.

Table 4.6:The Basic Functions (Decisions) Within Production/Operations

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

Source: David, Fred R. (2011) Strategic Management: Concepts and Cases (13th ed.). Pearson Education, Inc., Prentice Hall: One Lake Street, Upper Saddle River, New Jersey

Production/operations activities often represent the largest part of an organisation's human and capital assets. In most industries, the major costs of producing a product or service are incurred within operations, so production/operations can have great value as a competitive weapon in a company's overall strategy.

Strengths and weaknesses in the five functions of production can mean the success or failure of an enterprise. Many production/operations managers are finding that cross-training of employees can help their firms respond faster to changing markets. Cross-training of workers can increase efficiency, quality, productivity, and job satisfaction.

Production/Operations Audit Checklist

Questions such as the following should be examined:

1. Are supplies of raw materials, parts, and subassemblies reliable and reasonable?
2. Are facilities, equipment, machinery, and offices in good condition?
3. Are inventory-control policies and procedures effective?
4. Are quality-control policies and procedures effective?
5. Are facilities, resources, and markets strategically located?
6. Does the firm have technological competencies?

Research and Development

The fifth major area of internal operations that should be examined for specific strengths and weaknesses is research and development (R&D). Many firms today do not conduct R&D, and yet many other companies depend on successful R&D activities for survival. Firms pursuing a product development strategy especially need to have a strong R&D orientation.

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

Effective management of the R&D function requires a strategic and operational partnership between R&D and the other vital business functions. A spirit of partnership and mutual trust between general and R&D managers is evident in the best-managed firms today. Managers in these firms jointly explore; assess; and decide the what, when, where, why, and how much of R&D. Priorities, costs, benefits, risks, and rewards associated with R&D activities are discussed openly and shared. The overall mission of R&D thus has become broad-based, including supporting existing businesses, helping launch new businesses, developing new products, improving product quality, improving manufacturing efficiency, and deepening or broadening the company's technological capabilities.

Research and Development Audit

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

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

2. If outside R&D firms are used, are they cost-effective?
3. Are the organisation's R&D personnel well qualified?
4. Are R&D resources allocated effectively?
5. Are management information and computer systems adequate?
6. Is communication between R&D and other organisational units effective?
7. Are present products technologically competitive?

Management Information Systems

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

A management information system's purpose is to improve the performance of an enterprise by improving the quality of managerial decisions. An effective information system thus collects, codes, stores, synthesises, and presents information in such a manner that it answers important operating and strategic questions. The heart of an information system is a database containing the kinds of records and data important to managers.

A management information system receives raw material from both the external and internal evaluation of an organisation. It gathers data about marketing, finance, production, and personnel matters internally, and social, cultural, demographic, environmental, economic, political, governmental, legal, technological, and competitive factors externally. Data are integrated in ways needed to support managerial decision making.

There is a logical flow of material in a computer information system, whereby data are input to the system and transformed into output. Outputs include computer printouts, written reports, tables, charts, graphs, checks, purchase orders, invoices, inventory records, payroll accounts, and a variety of other documents. Payoffs from alternative strategies can be calculated and estimated. Data become information only when they are evaluated, filtered, condensed, analysed, and organised for a specific purpose, problem, individual, or time. Because organisations are becoming more complex, decentralised, and globally dispersed, the function of information systems is growing in importance.

Management Information Systems Audit

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

1. Do all managers in the firm use the information system to make decisions?
2. Is there a chief information officer or director of information systems position in the firm?

3. Are data in the information system updated regularly?
4. Do managers from all functional areas of the firm contribute input to the information system?
5. Are there effective passwords for entry into the firm's information system?
6. Are strategists of the firm familiar with the information systems of rival firms?
7. Is the information system user-friendly?
8. Do all users of the information system understand the competitive advantages that information can provide firms?
9. Are computer training workshops provided for users of the information system?
10. Is the firm's information system continually being improved in content and user-friendliness?

4.0 Conclusion

Increasing turbulence in markets and industries around the world means the external audit has become an explicit and vital part of the strategic-management process. This unit provides a framework for collecting and evaluating economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Firms that do not mobilise and empower their managers and employees to identify, monitor, forecast, and evaluate key external forces may fail to anticipate emerging opportunities and threats and, consequently, may pursue ineffective strategies, miss opportunities, and invite organisational demise. Management, marketing, finance / accounting, production/operations, research and development, and management information systems represent the core operations of most businesses.

A strategic-management audit of a firm's internal operations is vital to organisational health. Many companies still prefer to be judged solely on their bottom line performance. However, an increasing number of successful organisations are using the internal audit to gain competitive advantages over rival firms. Firms not taking advantage of the Internet are technologically falling behind. A major responsibility of strategists is to ensure development of an effective external audit system. Multinational firms especially need a systematic and effective external audit system because external forces among foreign countries vary so greatly.

5.0 Summary

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to keep people within the corporation. It is a tool that a corporation uses to avoid strategic surprise and to ensure long-term health. The social environment includes general forces that do not directly touch on the short-run activities of the organisation but those can, and often do, influence its long-run decisions.

These forces are economic forces; technological forces; political-legal forces; socio cultural forces. Trends in economic part of societal environment can have an obvious impact on business activity. Changes in the technological part of the societal environment have a significant impact on business firms. Demographic trends are part of socio-cultural aspects of the societal environment.

A corporation's scanning of the environment should include analysis of all the relevant elements in the task environment. These analyses take the form of individual reports written by various people in different parts of the firms. These and other reports are then summarised and transmitted up the corporate hierarchy for top management to use in strategic decision making.

If a new development reported regarding a particular product category, top management may then sent memos to people throughout the organisation to watch for and reports on development in related product areas. The many reports resulting from these scanning efforts when boiled down to their essential, act as a detailed list of external strategic factors.

6.0 Self-Assessment Exercise

What are the issues involved in the performance of an internal audit of organisation?

7.0 References/Further Reading

Hunger, J.D. & Wheelen, T.L. (1996*).Strategic Management*. New York: Addison-Wesley Publishing Company.

Kroon, J. (1993). *General Management.* Oxford: Pretoria HAUM.

Schutte, F.G. (1993*). Integrated Management Systems*. Oxford: Butterworth Pretoria.

Smit, E. & Morgan, N.I. (1996).*Contemporary Issues in Strategic Management*. Johannesburg: Kagiso Tertiary.

Thomas, J.B., Clark, S.M. &Gioia, D.A. (1993)."Strategic Sense Making and Organisational Performance. Linkages among Scanning, Interpretation, Action and Outcomes". *.Academy of Management Journal.*