NATIONAL OPEN UNIVERSITY OF NIGERIA

BUS 428

Business Policy and Strategy

Module 2

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Module 2

Unit 1 Assessment of Companies

1.0 Introduction

After managers involved in the strategic management process have analysed the environment and determined organisational direction through the development of a mission statement and organisational objectives, they are ready to formulate strategy. Strategic formulation is the process of determining appropriate course of action for achieving organisational objectives and thereby accomplishing organisational purpose.

As a concept, a strategy is a specific action that a firm will take to achieve an objective. Defined more technically, a strategy is a long term commitment of resources to achieve specified objectives in a competitive environment. And by corporate strategy therefore, we mean the mix of policies and strategy plans that will enable affirm to achieve the objective established. Strategy is very much a question of choice from the alternative paths open to the company**.** The number of alternative available to any company is legion, and their identification and analysis may be a complex task.

Organisations need strategy in order to have guidelines for how to achieve objective and how to pursue the organisation's mission. Without a strategy or overall game plan,

1. There can be no consistency and effectiveness to generate a coherent response to the situation and problems it confronts. In addition organisations need strategies;
2. In order to out complete rivals, to maneuver through threatening environments, and to focus their effort.
3. In forming a strategy out of the many options that exist,

a. The strategist acts a forger of responses to market change.

b. A seeker of new opportunities, and

c. A synthesiser of the different moves and approaches taken at various times in various parts of the organisation.

2.0 Objectives

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

- pinpoint and comment on the available strategic tools for company assessment
- demonstrate mastery of the following environmental analysis tools: porter's five forces, critical question analysis, SWOT analysis, pest, business portfolio analysis among several others.

- explain why we should use TOWES instead of SWOT analysis.

3.0 Main Content

3.1 Tools for Developing Organisation Strategies

Managers formulate strategies; that reflect environmental analysis and lead to objective. Special tools that managers can use for assistance in formulating strategies include:

1. Critical question analysis
2. SWOT analysis
3. Business portfolio analysis
4. Michael Porter's model for industry analysis
5. Pest analysis application

The five strategy development tools are related but distinct. Managers should use which one tools or combination of tools seem most appropriate for them their organisations.

3.1.1 Critical Question Analysis

A synthesis of the ideas of several contemporary management writers suggest that formulating appropriate organisation strategy is a process of critical question analysis-answering the following four basic questions.

1. What are the purpose and objectives of the organisation? The answer to this question states where the organisation wants to go. As indicated earlier, appropriate strategy reflects organisational purpose and objectives. By answering this question during strategy formulation, managers are likely to remember this important point and thereby minimise inconsistencies among purposes, objectives and strategies.

2. Where is the organisation presently going? The answer to this question can tell managers if an organisation is achieving organisational goals and if so, whether the level of such progress is satisfactory. Whereas the first question focuses on where the organisation wants to go, this one focuses on where the organisation actually going.

3. In what kind of environment does the organisation now exist? Both internal and external environments-factors both inside and outside the organisation are covered in this question. For example, assume that a poorly trained middle-management team and a sudden influx of competitors in a market are factors that exist respectively in the internal and external environments of an organisation. Any strategy formulated, if it is to be appropriate, probably should deal with these factors.

4. What can be done to better achieve organisational objectives in the future? The answer to this question actually results in the strategy of the organisation. The question should be answered however, only after managers have had adequate. Managers can develop appropriate organisational strategy only if they have an understanding of where the

organisation wants to go, where the organisation is going, and in what environment the organisation exist.

3.1.2 SWOT Analysis

SWOT analysis is a strategic planning tool that matches internal organisational strengths and weaknesses with external opportunities and threats. (SWOT is an acronym) for a firm's strength and weaknesses and its environmental opportunities and threats). Analysing the environment and the company can assist the company in all of the other tasks of strategic management. Environmental factors internal to the firm usually can be classified as strengths(S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or threats(T).The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

Strengths

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. It is an inherent capacity that is in relation to the environment. For an organisation to be a success it requires strength and it gives strategic advantage to gain more than the competition. Examples of such strengths include:

1. Patents
2. Strong brand names
3. Good reputation among customers
4. Cost advantages from proprietary know-how
5. Another strength is the exclusive access to high of grade natural resources
6. There is also favourable access to distribution networks.

Weaknesses

The absence of certain strengths may be viewed as a weakness. It is an inherent inadequacy that is again in relation to the environment. It gives strategic disadvantage and something that required for success is missing. It leads to competition where weakness can be used to gain more due to inherent limitation/constraint/inadequacy. For example, each of the following may be considered weaknesses:

1. Lack of patent protection
2. A weak brand name
3. Poor reputation among customers
4. High cost structure

5. Lack of access to the best natural resources

6. Lack of access to key distribution channels

In some cases, a weakness may be the flip side of the strength. Take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be a considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. OPPORTUNITY- can be accomplished and can help to consolidate and strengthen the organisation. It's a favourable condition for an organisation in its environment. Some examples of such opportunities include:

1. An unfulfilled customer needs

2. Loosening of regulations

3. Removal of international trade barriers

Threats

Changes in the external environmental also may present threats to the firm. Also when the opportunities are not utilised properly it can cause problem to the organisation which causes threat. It is unfavorable condition for the organisation. It causes risk/damage to the organisation. Some examples of such threats include:

1. Shifts in consumer tastes away from the firm's products

2. Emergence of substitute products

3. New regulations

4. Increased trade barriers.

3.1.3 The SWOT Matrix

A firm should not necessarily pursue the more lucrative opportunities. Rather, it may have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

Internal Factors / External Factors	Internal Strength (S) Adequate financial resources, e.g. Quality products or services, cost advantage, an acknowledged market leadership etc.	Internal Weakness (W) Obsolete facilities, no clear strategic direction, a deteriorating position, lack of quality product or service, workforce, cash flow/illiquidity, etc.
External (O) Opportunities (consider risks also) Economic conditions, political and social changes, new products/services and technology	**SO strategy: Maxi-Maxi** Potential the most successful: utilizing the organisation's strengths to take advantage of opportunities	**WO strategy Mini-Mini** e.g. development strategy to overcome weaknesses in order to take advantage of opportunities
External Threats (T) Lack of energy, likely entry of new competitor, using sales of substitute products, changing buyers	**ST strategy: Maxi-Mini** e.g. use of strengths to cope with threats or to avoid threats	**WT strategy: Mini-Mini** e.g. retrenchment, liquidation or contraction

Fig. 2.1: The SWOT Matrix for Strategy Formulation

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. **SWOT** analysis is based on the assumption that if managers carefully, review such strengths, weaknesses, opportunities and threats, a useful strategy for ensuring organisation success will become evident. There are four alternative strategies as the SWOT matrix (also known as a TOWS matrix) is shown below: This based on the analysis of the external environment (threat and opportunities) and the internal environment (weaknesses and strength).

The SO Strategy is the most desirable position when a company can use its strength to take advantage of opportunities. Indeed, it is the aim of enterprises to move from any other position in the matrix to this situation.

If they have weaknesses, they will strive to overcome, making them strengths. If they face threats they will cope with them so that they can focus on opportunities.

The ST Strategy is based on the organisation's strength to deal with threats in the environment. The aim is to maximise the strengths while minimising the threats. Thus a company may use it technological, financial, managerial, or marketing strengths to cope with the treats of a new product introduced by its competitor.

The WO Strategy attempts to minimise the weaknesses and minimise opportunities. Thus a firm with certain weaknesses in some areas may either develop those areas within the enterprise or acquire those needed competencies from the outside/such as technology or personnel with skills, making it possible to take advantage of opportunities in the external environment.

The WT Strategy is to minimise both weakness and threats and may require the company, for example for form a joint venture or even liquidate. So far, the factors displayed in the SWOT matrix pertain to analysis at a particular point in time. External or internal environments are dynamic. Some factors change over time while others change very little. Because of the rapidly changing environment, the strategy designer must prepare several SWOT analysis / matrixes at different points in time.

Indeed, the SWOT matrix was proposed to underscore the distinct strategic, choices required for combining factors identified in the analysis of the internal and external environment.

3.1.4 Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognise and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner–

a. It is a source of information for strategic planning.

b. Builds organisation's strengths.

c. Reverse its weaknesses.

d. Maximise its response to opportunities.

e. Overcome organisation's threats.

f. It helps in identifying core competencies of the firm.

g. It helps in setting of objectives for strategic planning.

h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronising the firm's resources and capabilities with the competitive environment in which the firm operates.

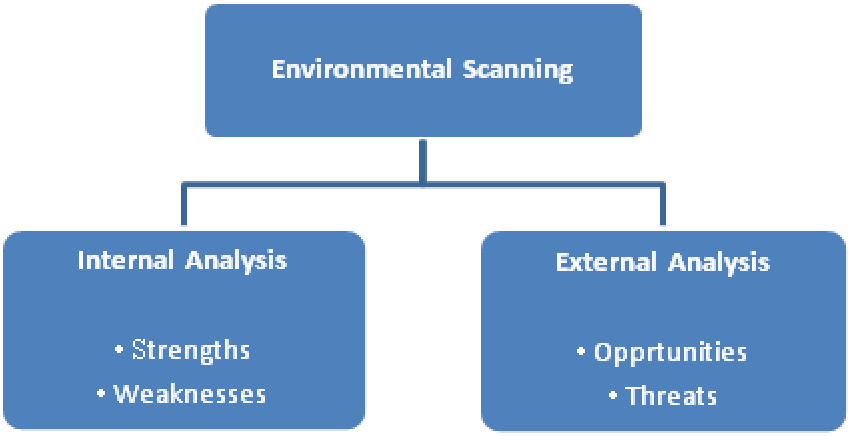

Fig. 2.2: SWOT Analysis Framework

Source: David, F. R. (2011). *Strategic Management Concepts and Cases.*(13th ed.). Pearson Education Inc.: One Lake Street, Upper Saddle River, New Jersey 07458

3.1.5 Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organisations to view circumstances as very simple because of which the organisations might overlook certain key strategic contact which may occur. Moreover, categorising aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organisation can identify these aspects for itself. There are certain limitations of SWOT Analysis which are not in control of management. These include:

a. Price increase

b. Inputs/raw materials

c. Government legislation

d. Economic environment

e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include:

a. Insufficient research and development facilities

b. Faulty products due to poor quality control

c. Poor industrial relations

d. Lack of skilled and efficient labour; etc.

3.1.6 Business Portfolio Analysis

Business portfolio analysis is another strategy development tool that has gained wide acceptance. Business portfolio analysis is an organisational strategy formulation technique that is based on the philosophy that organisations should develop strategy much as they handle investment portfolios. Just as sound financial investments should be emphasised and unsound ones should be discarded, sound organisational activities should be emphasised and unsound one de-emphasised. Two business portfolio tools are the BCG Growth - Share Matrix and the GE Multi-factor portfolio Matrix.

1. The BCG Growth - Share Matrix

The Boston Consulting Group (BCG), a leading manufacturing consulting firm, development and popularised portfolio analysis tools that helps managers develop organisational strategy base upon market share of businesses and the growth of market in which business exist. The first step in using the BCG growth-share matrix is identifying strategic business unit (SBUS) that exist within an organisation. A strategic business unit is a significant organisation segment that is analysed to develop organisational strategy aimed at generating future business or revenue. Exactly what constitute an SBU varies from organisation to organisation. In larger organisation, an SBU's could be a company division, a single product or a complete product line. In smaller organisations, an ***SBU's*** might be the entire company. Although SBU's varies drastically in form, each has the characteristics of:-

1. Being a single business or collection of related business
2. Having its own competitors
3. Having manager who is accountable for its operation, and
4. Being an area that can be independently planned for within the organisation.

After SBU's have identified a particular organisation, the next step is using the BCG Matrix is to categories them as being within one of the following four matrix quadrants as shown in the Figure 2.2 below:

RELATIVE MARKET SHARE POSITION

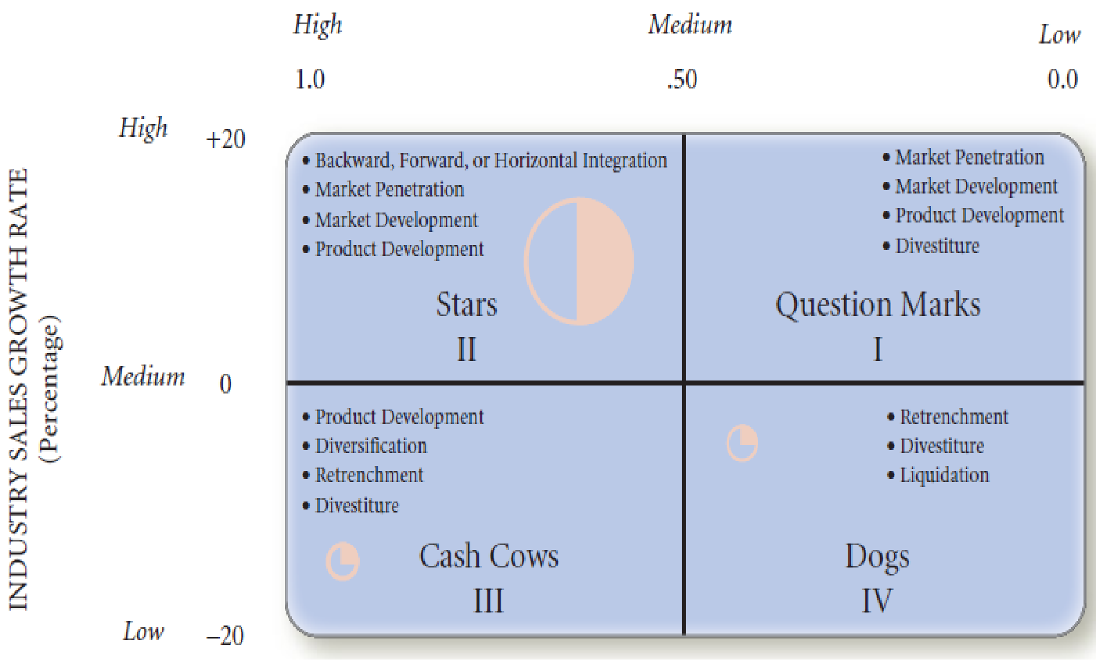

Fig. 2.3: The BCG Matrix

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

1. Star

A star is a business in the high growth, strategic competitive position and typically need large amount of cash to support their rapid and significant growth. A star business/product also generate large amounts of cash for the organisation and are usually areas in which management earn attractive returns.

2. Cash Cows

SBU's- That are 'cash cows' have a large share of a market that is only growing slightly (or product has reached maturity of the PLC). Naturally these SBUs provide the organisation with large amount of cash. Since the market is not growing significantly, however, the cash so generated is generally used to meet the financial demands of the organisation in other areas, such as in the expansion of the star sub. Manager typically finds "cash cow" very desirable because of the financial flexibility that a "cash cow" provides a manager.

3. Question Marks (Undecided)

SBUs that are 'question marks' have a small share of a high-growth market. They are called "question marks" because they are those businesses about which the company has to make a critical decision should they get in-or out? The company/product at this stage experience a competitive disadvantage associated with low market share.

In this case, management would naturally attempt to turn question marks into stars through further investment. The company will therefore have to use more advertising, greater intensity of sales effort, better after sale service, attractive price offers, efficient distribution attractive product features and other efforts which especially in the short run can be expected to strengthen position on shares.

4. Dogs

SBUs or products that are "dogs" have a relatively small share of a low-growth market. These businesses are usually not profitable and generally should be disposed of. They may even drain cash resources that other SBUs or products have generated.

The company in this case may follow one of the concentration strategies, that is, strategic shrinking or divestment. The financial resources can be deployed in other operations.

Companies such as shell oil among others have used BCG Matrix in their strategy management processes. Indeed, the portfolio matrix was developed for large corporation with several divisions often organised around SBUs. There are however, some possible pitfalls in this technique. For example, the matrix does not consider such factors as:

1. Various types of risk associated with product development
2. Threats that inflation and other economic conditions can create in the future, and
3. Social, political and ecological pressures
4. The model has also been criticised considered insufficient for the evaluation of an industry's attractiveness
5. Similarly, the market share as a yardstick for estimating the competitive position may be inadequate.

3.1.7 Michael Porter's Model for Industry Analysis

Michael Porter, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry. Porter placed the dynamic relationship between enterprise strategy and industry structure at the centre of his concept of 'competitive strategy'. He presented the possibility of 'selecting' a strategy based on a well-defined 'position' in the economic market-place backed-up by 'analysis' rather than 'prescription'. According to Porter, basic competitive forces determine the intensity level. The stronger each of these forces is, the more companies are limited in their ability to raise prices and earned greater profits.

To understand this in a clearer manner, the use of Michael Porter's 'five forces' model can be made. In his model, he explained that there are five forces that determine industry attractiveness and long-run industry profitability.

These are (1) the threat of entry of new competitors, (2) the threat of substitutes, (3) the bargaining power of buyers, (4) the bargaining power of suppliers and (5) the degree of rivalry between existing competitors. Thus each firm should seek to find a place in this framework in order to 'best defend itself against these competitive forces or can influence them in its favour.' The model is illustrated below.

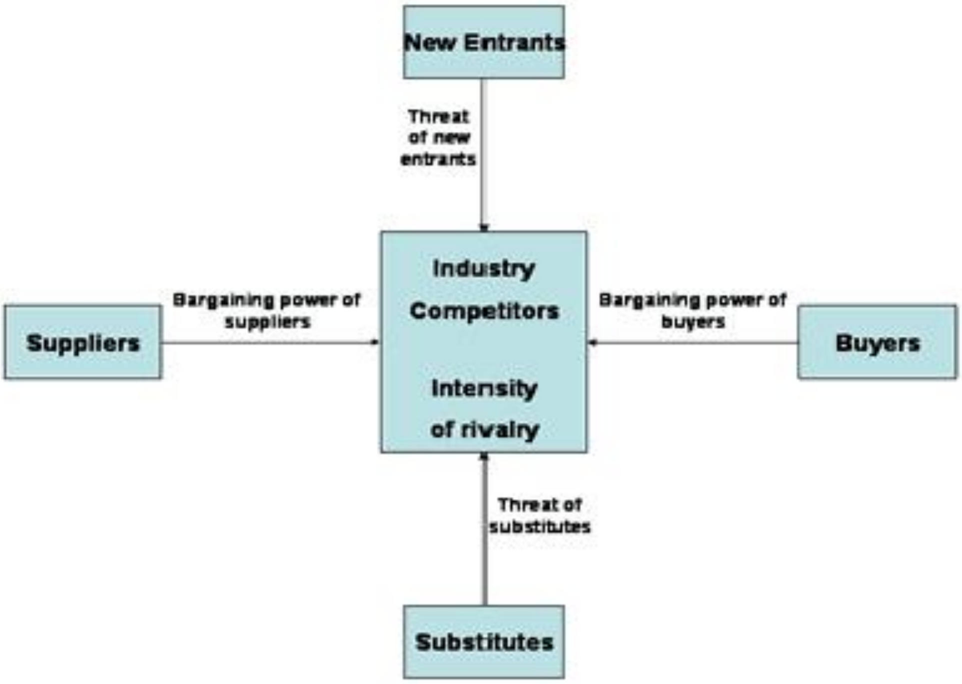

Fig.2.4: Porter's Five Force Model

Source:http://www.tutor2u.net/business/strategy/porter_five_forces.htm

1. Threat of New Entrants

New entrants are newcomers to an existing industry. They typically bring new capacity, a desire to gain market share and substantial resources. Therefore they are threats to an established corporation. Some of the possible barriers to entry are the following.

1. Economies of scale
2. Product differentiation
3. Capital requirements
4. Switching costs
5. Access to distribution channels
6. Cost disadvantages independent of size
7. Government policy

2. Rivalry among Existing Firms

Rivalry is the amount of direct competition in an industry. In most industries corporations are mutually dependent. A competitive move by one firm can be expected to have a noticeable effect on its competitors and thus make us retaliation or counter efforts. According to Porter, intense rivalry is related to the presence of the following factors.

1. Number of competitors
2. Rate of industry growth
3. Product or service characteristics
4. Amount of fixed costs
5. Capacity
6. Height of exit barriers
7. Diversity of rivals

3. Treat of Substitute Product or Services

Substitute products are those products that appear to be different but can satisfy the same need as another product. According to Porter, "Substitute limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge." To the extent that switching costs are low, substitutes may have a strong effect on the industry.

4. Bargaining Power of Buyers

Buyers affect the industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other. The bargaining power of buyers constitutes the ability of the buyers, individually or collectively, to force a reduction in prices of prod The major objective of this study is to critically examine the effect of strategic environmental scanning on organisation performance and to establish stand position about the result of company that adopts continuous environmental scanning and the company that merely operate with it. Products and services demand a higher quality or better service or to seek more value for their purchase in any way. A high buyer bargaining power enables a firm to pass on the cost escalation to buyers or to make the buyers accept a lower quality of product and services at a higher price.

5. Bargaining Power of Supplier

Suppliers can affect the industry through their ability to raise prices or reduce the quality of purchased goods and services. Like the bargaining power of buyers, suppliers too, have a level of bargaining power. The bargaining power of suppliers constitutes their ability, individual or collectively, to force an increase in the price of the product or level of service. A high supplier bargaining power constitutes a positive feature for the existing firms or new entrant of an industry. A low supplier bargaining power prevent a firm from passing on it cost increase to the buyers to make the buyers accept a lower quality of product and service at a high price.

The Porter's model can be applied to every industry, small or large scale industries alike. If the company is seen as the buyer of the goods produced by the manufacturer, then the bargaining power of the company increases and the competitive forces within the model shifts in the favour of the buying company.

The strength of the bargaining power of the buying company can be explained by the growth of large, modern retail firms, which have immense resources, manpower, technology and influence, as well as direct insights into the consumer buying patterns. The direct connection with the consumer brings the retailer closer to the consumer giving him a chance to identify its real needs and wants. As a result of which the retailer also initiates to produce its own products that are fine-tuned to the inputs received by the consumers themselves and launches his own brands and labels.

This proves to be another competitive force in the model, that is, 'entry of new competitors'**.** Thus we see that two of the competitive forces in the model shifts in favour of the buying company. The buying company can strengthen his position in the bargaining process by threatening to discontinue selling the manufacturer's products, by virtue of being a large avenue of selling the manufacturer's products. As such, the buying company r is able to dictate terms to the manufacturer, extract more discounts and increase the profitability of the retail organisation.

3.1.8 Pest Analysis Application

Pest analysis stands for "Political, Economic, Social-cultural, and Technological Analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. The growing importance of environmental or ecological factors in the first decade of the 21st century have given rise to green business and encouraged widespread use of an updated version of the PEST framework.

Composition

Political factors regard how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability.

Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bad). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

Economic factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

Social-cultural factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labour). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

Technological factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

4.0 Conclusion

The main appeal of any managerial approach is the expectation that it will enhance organisational performance. This is especially true of strategic management. Through involvement in strategic-management activities, managers and employees achieve a better understanding of an organisation's priorities and operations. Strategic management allows organisations to be efficient, but more important, it allows them to be effective. Although strategic management does not guarantee organisational success, the process allows proactive rather than reactive decision making. Strategic management may represent a radical change in philosophy for some organisations, so strategists must be trained to anticipate and constructively respond to questions and issues as they arise.

5.0 Summary

Modern strategy-formulation tools and concepts are described in this unit and integrated into a practical three-stage framework. Tools such as the SWOT matrix, BCG matrix, pest analysis, critical question analysis and Michael Porter's 'five forces' model can significantly enhance the quality of strategic decisions, but they should never be used to dictate the choice of strategies. Behavioural cultural and political aspects of strategy generation and selection are always important to consider and manage.

6.0 Self-Assessment Exercise

In a BCG matrix, would the question mark quadrant or the cash cow quadrant be more desirable? Explain.

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Unit 2 Company Strategy

1.0 Introduction

Strategy formulation is basically a function of the environment (external) and the resources (unique skill) of the enterprise (i.e. internal), in line with its objectives. Analysing the organisational environment and applying one or more of the strategy tools-critical question analysis, SWOT analysis, business portfolio analysis, and porter's model give managers a platform on which to formulate an organisation strategy.

2.0 Objectives

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

- explain the issues involved in strategic alternative
- comment on how organisations identify alternative courses of action for its survival and growth
- discuss the basis for strategic alternative classifications
- differentiate among the types of organisation strategies
- describe alternatives for integrating and implementing an acquisition
- describe concepts: horizontal relationships, means to achieve diversification, unrelated diversification, conglomerate and divestment.
- compare and contrast different growth, stability, retrenchment and divestment or contraction strategies.

3.0 Main Content

3.1 Strategic Alternatives

Strategic alternatives refer to different courses of action which an organisation may pursue at a point in time. These alternatives are crucial to the success of the organisation. More often than not, these are influenced by factors external to the organisation and over which - the organisation has limited control. For example consider a situation where a firm is experiencing increased competition of its products. How should the organisation respond?

The question now is should strategic alternatives reduce price'? Should it improve the quality of the product'! Should it say yes, to the 2 questions? Should it improve the distribution network? Should it improve promotional effort? Is there a set of guidelines which could be followed by the organisation? Alternatives external to the organisation such as mergers, acquisitions and joint ventures may also be considered. The list of alternatives will be incomplete without the alternative of disinvestment. There are situations when withdrawal from an existing business is the most suitable course of action. In fact, it may be wrong to consider that continuing to produce a particular product or service is a must.

A firm may consider withdrawal from a business if the present value of the anticipated stream of earnings from that business is less than its present worth. Thus, if the present value of the stream is of earnings from the textile unit of a corporate group is less than the net worth of the textile business, the organisation should withdraw from the textile business. Sometimes there may be obstacles if the organisation wishes to withdraw. The most serious opposition may come from the government in its anxiety to protect workers likely to be rendered unemployed. This kind of a situation is being faced by the Kaduna textile company limited, a highly diversified group. Any organisation contemplating to withdraw from a particular business should attempt to foresee the constraints and evolve ways to overcome them. Some obvious alternatives include:

1. Offering alternative jobs to workers in other units;

2. Providing attractive retrenchment terms to workers so that they would not easily turn down the offer (the golden handshake).

3.2 Generating Strategic Alternatives

How does an organisation identify alternative courses of action for its survival and growth? The procedure may differ from organisation to organisation depending upon its size, style of management, work ethos and industry characteristics.

Small Organisations

In a small organisation all decisions are made by the owner himself or by the chief executive. These decisions deal with what an organisation should do under alternative situations. What new businesses should be added or what existing businesses should be done away with the success or failure of the organisation depends upon the experience and technical competence of the chief executive. Thus, in small organisations strategic alternatives are identified by the owner-manager. Of course his decision may be influenced by some bureaucrats, industrialists, etc. with whom he interacts. The procedure used for identifying alternatives may be intuitive rather than based on a well-defined procedure. The process of implementing alternatives in small business is however reasonably fast.

Large Organisations

In organisations of medium to large size, the following mechanisms may be employed for identifying strategic alternatives.

i. Brain-storming sessions;

ii. Special meetings for the purpose;

iii. Services of outside consultant;

vi. Joint meetings of the consultant and the senior employees of the organisation.

Brain Storming Session

In most organisations strategic alternatives are identified during the brain-storming sessions. In such meetings participants are encouraged to come out with any course of action which they feel is possible. At this stage no importance is attached to relative merits and demerits of the alternatives. In the next stage each alternative is reviewed and subjected to a close scrutiny. The alternatives which are considered fairly appealing are further examined and analysed for final selection of one or more alternatives.

Consider the case of power shortage in an organisation which produces an energy-intensive product such as aluminum. What should the organisation do? Since the decision is, bound to affect the organisation crucially, the alternatives are of critical, importance. These may include:

1. Buy a generator,

2. Start producing those products which are not very energy intensive,

3. Have a stand-by generator for meeting part of the, requirements;

4. Introduce a change in, the product-mix, with an emphasis on; those products which, have a higher contribution per unit of investment.

The few alternatives listed above have their own: implications in, terms of financial, physical facilities, manpower requirements, etc. The chief executive has to select the alternative which is the most appropriate in his opinion. The current resource position of the organisation will be a major influencing factor in this decision.

Special Meetings

Large organisations, recognising the significant of generating strategic alternatives, hold special meetings away from the place of their work in a hotel or a holiday resort. This is to ensure that the process of thinking, is, not disturbed by interruptions during the course of deliberations. The participants present alternative scenarios along with their recommended courses of action. Alternative scenarios may be based upon assumptions regarding:

1. Rate of growth of the economy

2. Position, regarding foreign exchange

3. Rate of inflation

4. Rate of unemployment

5. Ideology of the political party in power

6. Rate of change in technology

7. Socio-cultural factor having a bearing on the profitability of the organisation

Depending on the assumptions, regarding the values and future trends of the above parameters, alternative courses of action, are often recommended. An attempt is made through the discussions to arrive at a consensus. The turnaround, strategy of a leading pharmaceutical company GlaxoWellcome was conceived in. a series of meetings the chief executive had with his senior managers.

Outside Consultants

This procedure of identifying strategic alternatives is based on the premise that an outsider can observe the phenomenon in an objective manner. It is recognised that the executive's who have been actively associated with, a particular project, are often so involved with it that they tend to, be subjective and over look its shortcomings. Others, from within the organisation may also be unable to see its limitations. Under such conditions, engaging outside consultant may be a more effective way to generate, strategic alternatives on an objective basis. The outside viewpoint is expected to, be new and fresh, and thus, can show, up many new opportunities, to the organisation.

Joint Meeting

Another desired way of generating alternatives is to hire the services of a, consultant but also associate some internal members in the process. This method is able to combine the advantages of the new ideas contributed by outsiders being blended with workable solutions from within the organisation. In, any case, an, outside consultant may like to seek the opinion of the internal members on his proposals.

Classifying Strategic Alternatives

From the point of view of an organisation, strategic alternatives may be classified on the basis of degree of risk involved. Thus we have:

1. High risk strategic alternatives
2. Moderate risk strategic alternatives
3. Low risk strategic alternatives;

Within this broad classification there may be a number of specific courses of action. The above classification provides the following strategic options in that order of risk:

1. Niche
2. Vertical integration-backward and forward
3. Horizontal expansion
4. Diversification

1. Niche Strategy

Niche means concentrating around a product and market. It is a strategy involving very low degree of risk and represents the typical behaviour of the small companies. Such organisations, in general, are scared of growing big as it could entail them into legal, labour and management problems. They are content with their present position and wish to capitalise on their superior knowledge of local conditions and choose a very narrow segment of market. 'NIRMA' until recently followed this alternative with great success. In Nigeria, the government policy has always favoured small scale units. Such units have been accorded a favourable treatment in the matter of licensing, credit and supply of raw material. Thus, the factors internal to the organisation and government policies have contributed to the growth of small companies in Nigeria.

2. Vertical Integration

This can assume two forms: backward and forward. Backward integration means in house production of critical inputs for the main business or going in for marketing of products by opening retail outlets. The company may also add to the existing products / processes by taking up the production of intermediate goods. In the case of forward integration the companies try to reach customers through their own distributional network. Organisations follow forward integration to take advantage of the closer contact with the customers and to ensure a control over retail price of their products. Reliance Company has pursued this strategy very effectively. Integration is a moderate risk alternative.

3.4 Company Strategy

Corporate strategy is primarily about the choice of direction for the firm as a whole. This is true whether the firm is a small, one-product company or a large multinational corporation. In a large multi-business company, however, corporate strategy is also about managing various product lines and business units for maximum value.

In this instance, corporate headquarters must play the role of organisational “parent” in that it must deal with various product and business unit “children”. Even though each product line or business unit has its own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the marketplace, the corporation must coordinate these different business strategies so that the corporation as a whole succeeds as a “family”.

Corporate strategy, therefore, includes decisions regarding the flow of financial and other resources to and from a company’s product lines and business units. Through a series of coordinating devices, a company transfers skills and capabilities developed in a one unit to other units that need such resources. In this way, it attempts to obtain synergies among numerous product lines and business units so that the corporate whole is greater than the sum of its individual business unit parts. All corporations, from the smallest company offering one product in only one industry to the largest conglomerate operating in many industries in many product must, at one time or another, consider one or more of these issues.

3.4.1 Directional Strategy

Just as every product or business unit must follow a business strategy to improve its competitive position, every corporation must decide its orientation towards growth by asking the following three questions.

- Should we expand, cut back, or continue our operations unchanged?
- Should we concentrate our activities within our current industry or should we diversify into other industries?
- If we want to grow and expand, should we do so through internal development or through external acquisitions, mergers, or joint ventures?
- A corporation's directional strategy is composed of three(3) general orientations towards growth (sometimes called grant strategies)
- Growth strategy expands the company's activities.
- Stability strategies make no change to the company's current activities.
- Retrenchment strategies reduce the company's level of activities.

3.4.2 Growth or Expansion Strategies

By far the most widely pursued corporate strategies of business firms are those designed to achieve growth in sales, assets, profit, or some combination of these. Growth or expansion is a strategy adopted by management to increase the amount of business than an SBU is currently generating. The company in this case decides to expand its product, market or both. Management generally invest substantial amount of money to implement this strategy and may even sacrifice short-term profit to build long-term gain. In doing this, the company may pursue one or two of the following options.

1. Horizontal expansion
2. Horizontal integration,
3. Vertical integration,
4. Conglomerate expansion.

Each of these growth strategies has its own primary objectives and its own constraints cum consequences.

3.4.3 Horizontal Expansion

This involves expanding within existing market using existing product or services. In other words, it is market share strategy using existing products within existing market.

This is the least risky of the growth strategies because the company is using the same product(s) to expand the same market rather than entering into a new market; that is doing more of what you are doing before. This is a strategy that is aimed at achieving both growth objectives and also profitability objective. It is therefore a strategy generally directed at achieving the corporate objective of profitability and growth.

The major advantage of this strategy is that (1) it is not as risky as other growth strategies. Since the company is operating within the same market and marketing the same product (services), it is therefore knowledgeable about the market and the product. Also (2) the company does not need to change its technology in order to pursue this objective because the machines are not still the same, nor does the company need train, retain or hire categories of employees. Moreover (3) such strategy may not involve colossal additional financial commitment.

The drawbacks include (1) market saturation in the sense that there is a limit to which you can extract the market; there can be a sudden change in taste while the competitors may also be pursing the strategy. Yet again, (2) obsolescence may set in before actually achieving the profit objective. Moreover, (3) it is a strategy that is only good or appropriate for a short-run objective because the long-run survival profitability may likely be scarified at the altar of long run. Lastly, (4) the technical and the marketing staff may be over-stretched by setting for them unrealistic product or sale's target thereby breeding frustration and inefficiency.

3.4.4 Horizontal Integration

The drawbacks of horizontal expansion have resulted in companies pursing other growth strategies such as horizontal integration sometimes called related diversification or concentric strategy. This strategy involves either getting the same product into the new or related market or getting closely related products into a new or closely related market. This is an expansionary or incremental strategy because the company takes a little shift from the existing market or product, and this differentiates it from horizontal expansion strategy. The problems associated with this strategy are (1) that of management or size and new addition. It is a problem because of new shift such as new problems of personnel, technology, channel of distribution etc. The objective is virtually similar that is, profitability and growth.

A company can expand in this way either internally or externally and in which case, by merger of acquisition. This expansionary objective may be more cosmetic because it is a cover up for the personal objective of administrative technocrat, that is, the CEO etc.

3.4.5 Vertical Integration Strategy

Companies that pursue vertical integration typically move forward to secure more control of their channels of distribution (forward integration) or move backward to secure supplies of raw materials (backward integration).

Forward integration involved undertaking those activities that will bring the company to a nearest point to the ultimate consumer. For example, it may involve the company directly marketing its own product(s) either by establishing or acquiring marketing outlets. The Backward vertical integration involves the company producing and feeding itself with the necessary inputs for its existing company activities. In order words, it involves the company producing what it uses to buy before. Instead of buying already manufactured product, you now produce them yourself. Integration attempts to have control of a whole range of activities from production to marketing.

Organisation integrates backward because of (1) assured supply of inputs at the time they are needed. Assurance of control of quality and quantity of inputs is one of the principal reasons for vertical integration been adopted by most companies. The same reason applies to forward vertical integration here; the control is over the marketing activities. Secondly, vertical integration makes the company to gain the benefit of synergy. Synergism refers to the phenomenon of the whole being greater than the sum of its parts. In this sense, firms undertake vertical integration with the expectation that the new combination of activities will yield more to the whole than either activity by itself.

While vertical integration may be attractive, it may create new additional problems. (1) Companies may not be adequately prepared to effectively handle new operations (production or marketing) because of their peculiar management problems. Similarly, (2) vertical integration strategy may negatively affect, at least, in the short-run, the market share value of the company being acquired or the resulting company where expansion takes the form or merger or acquisition.

3.4.6 Conglomerate Strategy

Whereas, concentric growth strategy is an alternative where the firm goes into businesses which are related to the existing ones, say from manufacture of spare parts for passenger cars to the manufacture of spare parts for tractors. This no doubt is an example of the product related concentric growth. An example of customer related concentric growth is when a firm producing farm equipment decides to enter the business of chemicals and fertilisers. The growth alternative of conglomerate diversification involves a firm acquiring another firm which has surplus cash even though there may be nothing in common with the existing business. The Dangote groups have pursued this alternative within the scope of its limited resources. This is an expansion strategy that basically involves diversifying into unrelated activities such as entering into new markets with new product. It is the most diversified form of expansion. Companies may decide to adopt this strategy for a number of reasons.

Firstly, to enjoy benefit of economies of scale and a sudden change in technology or a business opportunity where such suddenly open ups and the company wants to exploit such opportunities.

Secondly, conglomerates have great potential power for a more efficient allocation of resources. It is argued that the power or strength is even-out the cyclical fluctuations inherent in many industries.

Thirdly, conglomerate may be viewed in similar term with portfolio management, that is, it may reduce through diversification.

The conglomerate strategy may however create a number of problems for example (1) functional limitation, because the company may virtually operate as a confederation since it consists of a number of different activities that are unrelated except in ownership. Moreover, (2) the company has many products and, or markets to effectively handle. Similarly, (3) conglomerate (unrelated diversification) has also come under criticism because in the long run, it tended to be less profitable than related diversification. Finally, (4) the problem of managing large size is added to that of managing diversity and such diversity may limit be benefit associated with large size such as economy of scale and synergy.

3.4.7 External Growth Strategies Consisting of Merger and Joint Venture

Merger is an external growth strategic alternative consisting of two firms joining together. There are different objectives of mergers including the need-to tide over the financial crisis. The objectives of mergers and the procedures followed in negotiating a merger are discussed in detail in another unit in this block.

Joint venture is an alternative which can meet a number of needs such as rapid rate of growth desired by the firm, maintaining the risk within reasonable limit, and to tide over the constraint of resources. Thus a firm having constraint of production capacity can have a joint venture with a firm having surplus production capacity. Pepsi Cola (a US multi-national company), Voltas and Agro have recently joined hands to promote a joint venture in the area of agro industries.

In merger, a firm may acquire another firm or two or more firm may combine together to improve their competitive strength or to gain control over additional facilities. Merger may be of two types.

1. A firm merges with other firms in the same industry having similar or related products, using similar processes and distributing through similar channels. Such a merger creates problems of co-ordination between the merged units.

2. Under this type of merger, firms merging together are engaged in altogether different lines of business and have little common in their products, processes and distribution channel. They are known as conglomerate merger.

Acquisition or Take-Over

Acquisition generally refers to buying another firm, either its assets or as an operating company. In a takeover, or acquisition, one company gets control over the acquired company. Takeover involves a change in ownership and management of the acquired company.

A strategic alliance is a partnership of two or more corporations or business units to achieve strategically significant objectives that are mutually beneficial.

3.4.8 Intensive Strategies

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

3.4.9 Market Penetration

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

These five guidelines indicate when market penetration may be an effective strategy.

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

3.4.10 Market Development

Market development involves introducing present products or services into new geographic areas. For example, retailers such as Wal-Mart stores and cash - and - carry are expanding further into China Nigeria even in a world of slumping sales.

These six guidelines indicate when market development may be an especially effective strategy:

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

3.4.11 Product Development

Product development is a strategy that seeks increased sales by improving or modifying present products or services. Product development usually entails large research and development expenditures.

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

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

2. When an organisation competes in an industry that is characterised by rapid technological developments.

3. When major competitors offer better-quality products at comparable prices.

4. When an organisation competes in a high-growth industry.

5. When an organisation has especially strong research and development capabilities.

Defensive Strategies

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

1. Status - Quo or Stability Strategy

The strategy-quo strategy involves the company taking steps / actions to maintain its existing market position or share. The status-quo does not mean that the company keeps on producing the same product(s) or stay in the same markets), it may involve the company adding few products and, entering new market of even withdrawing certain products from the market(s) provided such action directed at maintaining the existing market share of that company. A number of reasons make companies to adopt status-quo strategy.

Firstly, it avoids the problem of managing large size or additional growth associated with expansion.

Secondly, the company may not want to generate a competition war by expanding particularly if it will not be able to cope with such competition. However, though seemingly, a status-quo objective may be a sign of business or management weakness or even complacency in the context of a dynamic market and where rules of competition are virtually non-existent; a company that maintains a status-quo objective may discover much too late that it is not position to cope with changing consumer taste, production technology or even expanding into created market(s).

2. Retrenchment

Retrenchment occurs when an organisation regroups through cost and asset reduction to reverse declining sales and profits. Sometimes called a turnaround or reorganisational strategy, retrenchment is designed to fortify an organisation's basic distinctive competence. During retrenchment, strategists work with limited resources and face pressure from shareholders, employees, and the media. Retrenchment can entail selling off land and buildings to raise needed cash, pruning product lines, closing marginal businesses, closing obsolete factories, automating processes, reducing the number of employees, and instituting expense control systems. Most banks are pursuing retrenchment. A total of 25 banks failed between 2005 and 2011 in Nigeria alone including the prominent and largest banks like Bank of the North, Savannah Bank, Trade Bank, Societie Generele, Afribank, Intercontinental Bank, Oceanic Bank and Bank PHB.

Five guidelines for when retrenchment may be an especially effective strategy to pursue are as follows:

1. When an organisation has a clearly distinctive competence but has failed consistently to meet its objectives and goals over time.

2. When an organisation is one of the weaker competitors in a given industry.

3. When an organisation is plagued by inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.

4. When an organisation has failed to capitalise on external opportunities, minimise external threats, take advantage of internal strengths, and overcome internal weaknesses over time; that is, when the organisation's strategic managers have failed (and possibly will be replaced by more competent individuals).

5. When an organisation has grown so large so quickly that major internal reorganisation is needed.

3. Divestiture or Contraction Strategy

This is the complete reverse of the growth or expansion strategy. Divestiture Selling a division or part of an organisation is called divestiture. Divestiture often is used to raise capital for further strategic acquisitions or investments. Divestiture can be part of an overall retrenchment strategy to rid an organisation of businesses that are unprofitable, that require too much capital, or that do not fit well with the firm's other activities. Divestiture has also become a popular strategy for firms to focus on their core businesses and become less diversified. It represents company conscious steps to reduce its size either in terms of business activities, product and work. It is a strategy adopted by companies to get rid of a portion of its activities. Historically firms have divested their unwanted or poorly performing divisions, but the global recession has witnessed firms simply closing such operations.

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

1. When an organisation has pursued a retrenchment strategy and failed to accomplish needed improvements.

2. When a division needs more resources to be competitive than the company can provide.

3. When a division is responsible for an organisation's overall poor performance.

4. When a division is a misfit with the rest of an organisation; this can result from radically different markets, customers, managers, employees, values, or needs.

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

6. When government antitrust action threatens an organisation.

One problem with divestment is that, (1) it may be interpreted either rightly or wrongly outside as a sign of business collapse or failure. Such negative information can affect the company's market value. Also, (2) it may create industrial relations problems such as lay-offs of employees, which the employees or their organisation may resist.

It be should be noted for a single-product company, one particular strategy will be adopted which is considered to be the most appropriate to a time. For a multi-product business, a range of individual strategies will be adopted, each one of which is appropriate to a particular product area; and the way in which these individual product strategies should be combined is determined. The chosen strategy for a firm will depend upon four factors;

1. The current performance of the firm relative to its expectation

2. The goals, which the organisation is pursuing

3. The balance of threats and opportunities in any individual product market area

4. The overall strength and weakness of the business in the market.

Liquidation

Selling all of a company's assets, in parts, for their tangible worth is called liquidation. Liquidation is recognition of defeat and consequently can be an emotionally difficult strategy. However, it may be better to cease operating than to continue losing large sums of money.

Perhaps the most well-known Nigerian firms that liquidated in the last three decades include Nigeria Airways, Concord Airline, Okada Airline, Leventis Football Club, Nigeria Herald Newspaper, Daily Times Newspaper, Jebba paper mill among others. Thousands of small businesses in Nigeria liquidate annually without ever making the news. It is tough to start and successfully operate a small business.

These three guidelines indicate when liquidation may be an especially effective strategy to pursue:

1. When an organisation has pursued both a retrenchment strategy and a divestiture strategy, and neither has been successful.

2. When an organisation's only alternative is bankruptcy. Liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organisation's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.

3. When the stockholders of a firm can minimise their losses by selling the organisation's assets.

4.0 Conclusion

Simultaneous assessment of the external environment and the company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are possible avenues for investment. However, they must be screened through the criterion of the company mission to generate a set of possible and desired opportunities. This screening process results in the selection of options from which a strategic choice is made. The process is meant to provide the combination of long-term objectives and generic and grand strategies that optimally position the firm in its external environment to achieve the company mission.

Strategic analysis and choice in single or dominant product/service businesses centre around identifying strategies that are most effective at building sustainable competitive advantage based on key value chain activities and capabilities—core competencies of the firm. Multi business companies find their managers focused on the question of which combination of businesses maximises shareholder value as the guiding theme during their strategic analysis and choice.

5.0 Summary

This unit brings strategic management to life with many contemporary examples. A dozen types of strategies are defined and exemplified. Guidelines are presented for determining when it is most appropriate to pursue different types of strategies. An overview of strategic management in non-profit organisations, governmental agencies, and small firms is provided.

6.0 Self-Assessment Exercise

The company that opted for the expansion strategy decides to expand its product, market or both. Substantiate this statement.

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Unit 3 Strategy Implementation

1.0 Introduction

The strategic-management process does not end when the firm decides what strategy or strategies to pursue. There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the firm understand the business, feel a part of the company, and through involvement in strategy-formulation activities have become committed to helping the organisation succeed. Without understanding and commitment, strategy-implementation efforts face major problems. Implementing strategy affects an organisation from top to bottom; it affects all the functional and divisional areas of a business.

As a concept, strategy implementation is the translation of chosen strategy into organisational action so as to achieve strategic goals and objectives. Strategy implementation describes the sum total of the activities and choices required for the execution of strategic plan by which strategies and policies are put into action through the development of programs , budgets and procedures. Strategy implementation is also defined as the manner in which an organisation should develop, utilise, and amalgamate organisational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results.

Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organisation's structure to handle new activities as well as training personnel and devising appropriate system. Specifically, such implementation involves three main activities.

1. Bring the general long-term plans back to the detailed, operational, current decision-making level. It is vital that strategic plans are translated into action. Without being tied into the annual budgeting cycle, or whatever means an organisation uses to allocate its resources, corporate plans will remain ineffective at best, and at worst, an exercise in futility.

2. Planning and starting the major capital projects. For example a new factory construction.

3. Monitoring and reviewing progress. This is the control process. With monitoring it is necessary to seek information about actual progress for comparison with plans and for corrective action to be taken where necessary. Similarly, it is necessary to monitor the key assumptions upon which the plans themselves are built.

2.0 Objectives

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

- clearly define the concept of strategy implementation
- explain why strategy implementation is more difficult than strategy formulation
- discuss the importance of annual objectives and policies in achieving organisational commitment for strategies to be implemented
- explain why organisational structure is so important in strategy implementation
- explain how a firm can effectively link performance and pay to strategies
- describe how to modify an organisational culture to support new strategies.

3.0 MAIN CONTENT

3.1 The Difference between Strategy Formulation and Strategy Implementation.

Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realise the difference between the two because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. The strategy-implementation stage of strategic management is revealed in Figure 3:1. Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation.

Thus strategy formulation and strategy implementation are the two sides of same coin. In order words, the strategic planning process that was used to create the plan is inverted in the implementation phase. Following are the main differences between Strategy Formulation and Strategy Implementation:

Strategy Formulation	Strategy Implementation
Strategy formulation includes planning and decision-making involved in developing organisation's strategic goals and plans.	Strategy implementation involves all those means related to executing the strategic plans.
In short, strategy formulation is placing the forces before the action.	In short, strategy implementation is managing forces during the action.
Strategy formulation is an entrepreneurial activity based on strategic decision-making.	Strategic implementation is mainly an administrative task based on strategic and operational decisions.
Strategy formulation emphasis on effectiveness.	Strategy implementation emphasis on efficiency.
Strategy Formulation is a rational process.	Strategy Implementation is basically an operational process.
Strategy formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy formulation requires a great deal of initiative and logical skills.	Strategy implementation requires specific motivational and leadership traits.
Strategic formulation precedes Strategy Implementation.	Strategy implementation follows strategy formulation.

Fig. 3.1: Main Differences between Strategy Formulation and Strategy Implementation

(Adopted from Strategy Implementation and Control by the Institute of Chartered Accountants of India).

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An organisational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organisational performance. Organisational culture refers to the specialised collection of values, attitudes, norms and beliefs shared by organisational members and groups. Strategy-formulation concepts and tools do not differ greatly for small, large, for-profit, or non-profit organisations.

However, strategy implementation varies substantially among different types and sizes of organisations. Implementing strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organisation are pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system.

These types of activities obviously differ greatly between manufacturing, service, and governmental organisations. There is no such thing as successful strategic design per se. This sounds obvious, but in practice the distinction is not always made. Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus organisational success is a function of good strategy and proper implementation. The matrix in the figure 3.2 below represents various combinations of strategy formulation and implementation:

A

B

(Success)

C

Sound Strategy Flawed Weak Excellent Strategy implementation

Fig. 3.2: Strategy Formulation and Implementation Matrix

(Source: Strategy Implementation and Control by the Institute of Chartered Accountants of India).

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The Figure shows the distinction between sound/flawed strategy formulation and excellent/ weak strategy implementation. Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it. Square A is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing leadership and so on. In such a situation the company will aim at moving from square A to square B, given the realisation of their implementation difficulties.

Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills. Square C is reserved for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success also goes through business model redesign and implementation/execution readjustment.

Taken together all the elements of business strategy it is to be seen as a chosen set of actions by means of which a market position relative to other competing enterprises is sought and maintained. This gives us the notion of competitive position.

3.1 Issues in Strategy Implementation

The different issues involved in strategy implementation cover practically everything that is included in the discipline of management studies. A strategist, therefore, has to bring to his other task a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design structures, formulate functional policies, and take into account the leadership styles required, besides dealing with various other issues.

The strategic plan devised by the organisation proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent: implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.

Strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernisation plan. Plans result in different kinds of programmes. A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation. An example of a programme is a research and development programme for the development of a new product.

Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organisations.

Thus, research and development programmes may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

Projects create the needed infrastructure for the day-to-day operations in an organisation. They may be used for setting up new or additional plants, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation of strategies.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is provided, it would be essential to see that a proper organisational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work. Given below in sequential manner the issues in strategy implementation which are to be considered:

→ Project implementation	→ Procedural implementation
→ Resource allocation	→ Structural implementation
→ Functional implementation	→Behavioural implementation

But it should be noted that the sequence does not mean that each of the following activities are necessarily performed one after another. Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities, which are performed only once. In all but the smallest organisations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle and lower-level managers.

Managers and employees are motivated more by perceived self-interests than by organisational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities. Of equal importance, strategists should be involved as much as possible in strategy-implementation activities. Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organisational structure, restructuring and reengineering, revising reward and incentive plans, minimising resistance to change, matching managers with strategy, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resource function and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in major new direction.

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

The rationale for objectives and strategies should be understood clearly communicated throughout an organisation. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organisational members. Major external opportunities and threats should be clear, and managers and employees' questions should be answered. Top-down flow of communication is essential for developing bottom-up support.

Firms need to develop a competitor focus at all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to be benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal. This is a challenge for strategists of the firm. Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers.

3.2 Key Actions for Successful Implementation of Strategic Plan

Following are actions that are keys for successfully implementing the strategic plan and actions that guarantee failure. Table 3.1 clearly illustrates this.

Table 3. 1: Key Actions for Successful Strategy Implementation

Keys to Success	**Facts of Failure**
Assign roles and responsibilities	No accountability
Involve senior leaders	Disengagement from process
Define an infrastructure	Unmanaged activity
Link goal groups	Fragmented accomplishment of objectives leads to sub-optimisation
Phase integration of implementation actions with workload	Force people to choose between implementation and daily work; too many teams
Involve everyone within the organisation	No alignment of strategies
Allocate resources for implementation	Focus only on short term need for resources
Manage the change process	Ignore or avoid change
Evaluate results	No measurement system
Share lessons learned; acknowledge successes through open and frequent communication	Hide mistakes/lay blame; limited/no communication

3.3 Implementing strategy

Depending on how the company is organised those who implements strategy will probably be a much more divorced group of people than those who formulate it. Most of the people in the organisation who are crucial to successful strategy implementation probably had little to do with the development of corporate and even business strategy.

Therefore they might be entirely ignorant of vast amount of data and work into formulation process. This is one reason why involving middle managers in the formulation as well as in the implementation of strategy tends to result in better organisational performance.

Developing Programmes, Budgets and Procedures

The managers of divisions and functional areas worked with their fellow managers to develop programmes, budgets and procedures for implementation of strategy. They also work to achieve synergy among the divisions and functional areas in order to establish and maintain a company's distinctive competence.

Programmes

A program is a statement of the activities or steps needed to accomplish a single use plan. The purpose of programme is to make a strategy action oriented.

Budgets

A budget is a statement of corporation's programme in monitory terms. After programmes are developed, the budget process begins. Planning a budget is the last real check a corporation has on the feasibility of its selected strategy. An ideal strategy might found to be completely impractical only after specific implementation programs are casted in detail.

Procedures

Procedures are system of sequential steps or techniques that describe in detail how a particular task or job is to be done.

Synergy Achievement

One of the goals to be achieved in strategy implementation is synergy between functions and business units, which is why corporations commonly reorganise after an acquisition. The acquisition or development of additional product lines is often justified on the basis of achieving some advantages of scale in one or more of company's functional areas.

3.4 Stages of Corporate Development

Successful companies tend to follow a pattern of structural development called stages of development as they grow and expand. Beginning with the simple structure of the entrepreneurial firm, they usually get larger and organise along functional lines with marketing production and finance department. With continuing success the company adds new product lines in different industries and organises itself into interconnected divisions. The differences among these three stages of corporate development in terms of typical problems, objectives strategies, reward systems and other characteristics as specified in detail in Table 3.2.

Table 3. 2: The Development Differences among these Three Stages of Corporate Development

	Function	Stage I	Stage II	Stage III
1	Sizing up: major problems	Survival and growth dealing with short term operating problems	Growth, nationalisation and expansion of resources	Trusteeship in manage-ment and investment and control of large increasing and diversified resources
2	Objectives	Personal and subjective	Profits and meetings functionally oriented budgets and performance targets	ROI, profits, earnings per share
3	Strategy	Implicit and personal	Functionally oriented, exploitation of a basic product or service	Group and product Diversification
4	Organisation	One man show	Functionally specialised group	Multiunit general staff office and decentralised operating divisions
5	Measurement and control	Personal, subjective control	Assessment of functional operation	Complex formula system geared to comparative assessment of performance measure

6	Reward punishment system	Informal, personal, subjective	More structures	Companywide policies usually applied to many different classes of managers and workers

Resource Allocation

Resource allocation is a central management activity that allows for strategy execution. In organisations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated according to priorities established by annual objectives. Nothing could be more detrimental to strategic management and to organisational success than for resources to be allocated in ways not consistent with priorities indicated by approved annual objectives. All organisations have at least four types of resources that can be used to achieve desired objectives: financial resources, physical resources, human resources, and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented.

A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organisational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge. The real value of any resource allocation program lies in the resulting accomplishment of an organisation's objectives.

Effective resource allocation does not guarantee successful strategy implementation because programs, personnel, controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a "resource allocation process."

Table 3.3: Some Management Trade-Off Decisions Required in Strategy Implementation

To emphasis short-term profits or long-term growth
To emphasis profit margin or market share
To emphasis market development or market penetration
To lay off or furlough
To seek growth or stability
To take high risk or low risk
To be more socially responsible or more profitable
To outsource jobs or pay more to keep jobs at home

To acquire externally or to build internally

To restructure or reengineer

To use leverage or equity to raise funds

To use part-time or full-time employees

(Source: David, Fred R. (2011). *Strategic Management: Concepts and Cases.* (13th). One Lake Street, Upper Saddle River, New Jersey

3.5 Matching Structure with Strategy

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

The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated. If an organisation's structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organisation's structure is set up along functional business lines, then resources are allocated by functional areas. Unless new or revised strategies place emphasis in the same areas as old strategies, structural reorientation commonly becomes a part of strategy implementation.

Changes in strategy lead to changes in organisational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follow strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure. Chandler found a particular structure sequence to be repeated often as organisations grow and change strategy over time; this sequence is depicted in Figure 7.1

There is no one optimal organisational design or structure for a given strategy or type of organisation. What is appropriate for one organisation may not be appropriate for a similar firm, although successful firms in a given industry do tend to organise themselves in a similar way. For example, consumer goods companies tend to emulate the divisional structure- by-product form of organisation. Small firms tend to be functionally structured (centralised). Medium-sized firms tend to be divisionally structured (decentralised). Large firms tend to use a strategic business unit (SBU) or matrix structure. As organisations grow, their structures generally change from simple to complex as a result of concatenation, or the linking together of several basic strategies.

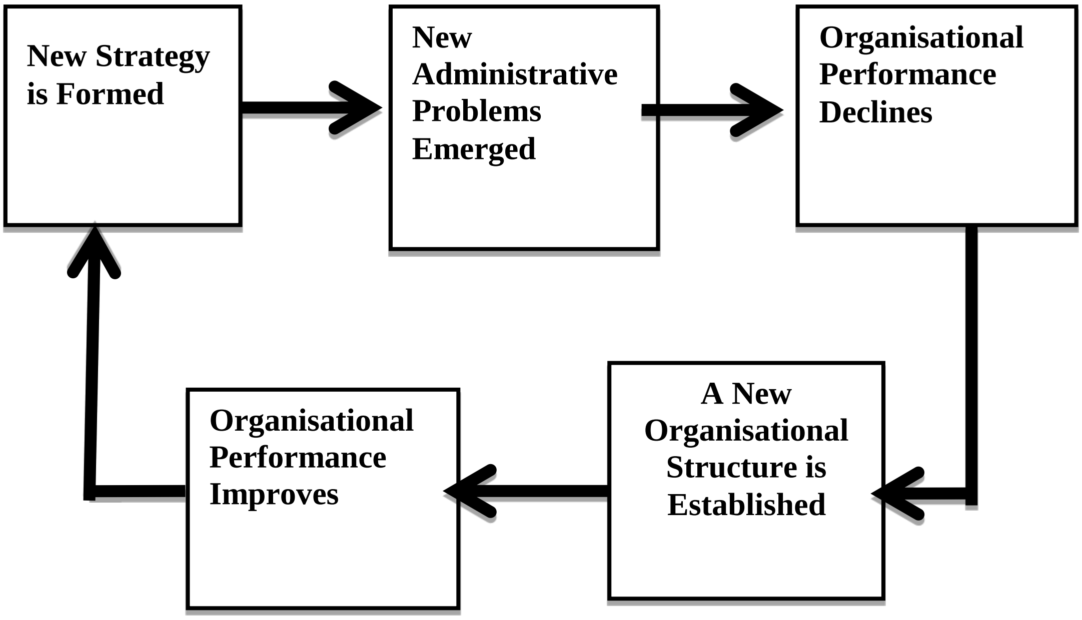

Fig. 3.3: Chandler's Strategy-Structure Relationship

(Source: Strategy Implementation and Control by the Institute of Chartered Accountants of India).

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Numerous external and internal forces affect an organisation; no firm could change its structure in response to every one of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organisational structure may become ineffective. As indicated in Tables 3. 4, symptoms of an ineffective organisational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and too many unachieved objectives. Changes in structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.

Table 3. 4: Symptoms of an Ineffective Organisational Structure

1. Too many levels of management
2. Too many meetings attended by too many people
3. Too much attention being directed toward solving interdepartmental conflicts
4. Too large a span of control
5. Too many unachieved objectives
6. Declining corporate or business performance
7. Losing ground to rival firms
8. Revenue and/or earnings divided by number of employees and/or number of managers is low compared to rival firms

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

Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished. We examine this issue by focusing on seven basic types of organisational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

The Functional Structure

The most widely used structure is the functional or centralised type because this structure is the simplest and least expensive of the seven alternatives. A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems. A university may structure its activities by major functions that include academic affairs, student services, alumni relations, athletics, maintenance, and accounting.

Besides being simple and inexpensive, a functional structure also promotes specialisation of labour, encourages efficient use of managerial and technical talent, minimises the need for an elaborate control system, and allows rapid decision making. Some disadvantages of a functional structure are that it forces accountability to the top, minimises career development opportunities, and is sometimes characterised by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets.

A competitive advantage is created when there is a proper match between strategy and structure. Ineffective strategy/structure matches may result in company rigidity and failure, given the complexity and need for rapid changes in today's competitive landscape. Thus, effective strategic leaders seek to develop an organisational structure and accompanying controls that are superior to those of their competitors. Selecting the organisational structure and controls that result in effective implementation of chosen strategies is a fundamental challenge for managers, especially top-level managers. This is because companies must be flexible, innovative, and creative in the global economy if they are to exploit their core competencies in the pursuit of marketplace opportunities. Companies must also maintain a certain degree of stability in their structures so that day-to- day tasks can be completed efficiently.

Access to reliable information is imperative if executives are to reach decisions regarding the selection of a structure that is sufficiently flexible and stable. Useful information contributes to the formation and use of effective structures and controls, which yield improved decision making. In order to implement and manage strategies that has been formulated: all companies-need some form of organisational structure. And, as companies formulate new strategies, increase in size, or change their level of diversification, new organisational structures may be required. Organisational structure is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes.

Organisational structure, influenced by factors such as an organisation's age and size, acts as a framework which reflects managers' determination of what a company does and how tasks are completed, given the chosen strategy. The most important issue is that the company's structure must be congruent with or fit with the company's strategy. Simple organisational structure is most appropriate for companies that follow a single-business strategy and offer a line of products in a single geographic market. The simple structure also is appropriate for companies implementing focused cost leadership or focused differentiation strategies. A simple structure is an organisational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor.

Little specialisation of tasks, few rules, little formalisation, unsophisticated information systems and direct involvement of owner-manager in all phases of day-to-day operations characterise the simple structure. In the simple structure, communication is frequent and direct, and new products tend to be introduced to the market quickly, which can result in a competitive advantage. Because of these characteristics, few of the coordination problems that are common in larger organisations exist.

A simple organisational structure may result in competitive advantages for some small companies relative to their larger counterparts. These potential competitive advantages include a broad-based openness to innovation, greater structural flexibility, and an ability to respond more rapidly to environmental changes. However, if they are successful, small companies grow larger. As a result of this growth, the company outgrows the simple structure. Generally, there are significant increases in the amount of competitively relevant information that requires processing. More extensive and complicated information-processing requirements place significant pressures on owner-managers (often due to a lack of organisational skills or experience or simply due to lack of time).

Thus, it is incumbent on the company's managers to recognise the inadequacies or inefficiencies of the simple structure and change it to one that is more consistent with company's strategy. To coordinate more complex organisational functions, companies should abandon the simple structure in favour of the functional structure. The functional structure is used by larger companies and by companies with low levels of diversification.

The Functional Structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources. The functional structure enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination. However, compared to the simple structure, there also are some potential problems. Differences in functional specialisation and orientation may impede communications and coordination. Thus, the chief executive officer must integrate functional decision-making and coordinate actions of the overall business across functions. Functional specialists often may develop a myopic (or narrow) perspective, losing sight of the company's strategic vision and mission. When this happens, this problem can be overcome by implementing the multidivisional structure.

3.6 The Strategic Business Unit (SBU) Structure

As the number, size, and diversity of divisions in an organisation increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. Because of limits to an individual chief executive officer's ability to process complex strategic information, problems related to isolation of functional area managers, and increasing diversification, the structure of the company needs to change. In these instances, the SBU structure is most appropriate. Also in multidivisional organisations, an SBU structure can greatly facilitate strategy implementation efforts.

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls. Hence, the SBU structure groups' similar divisions into strategic business units and delegates' authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer.

This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units. In the ninety-division conglomerate just mentioned, the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics, such as competing in the same industry, being located in the same area, or having the same customers.

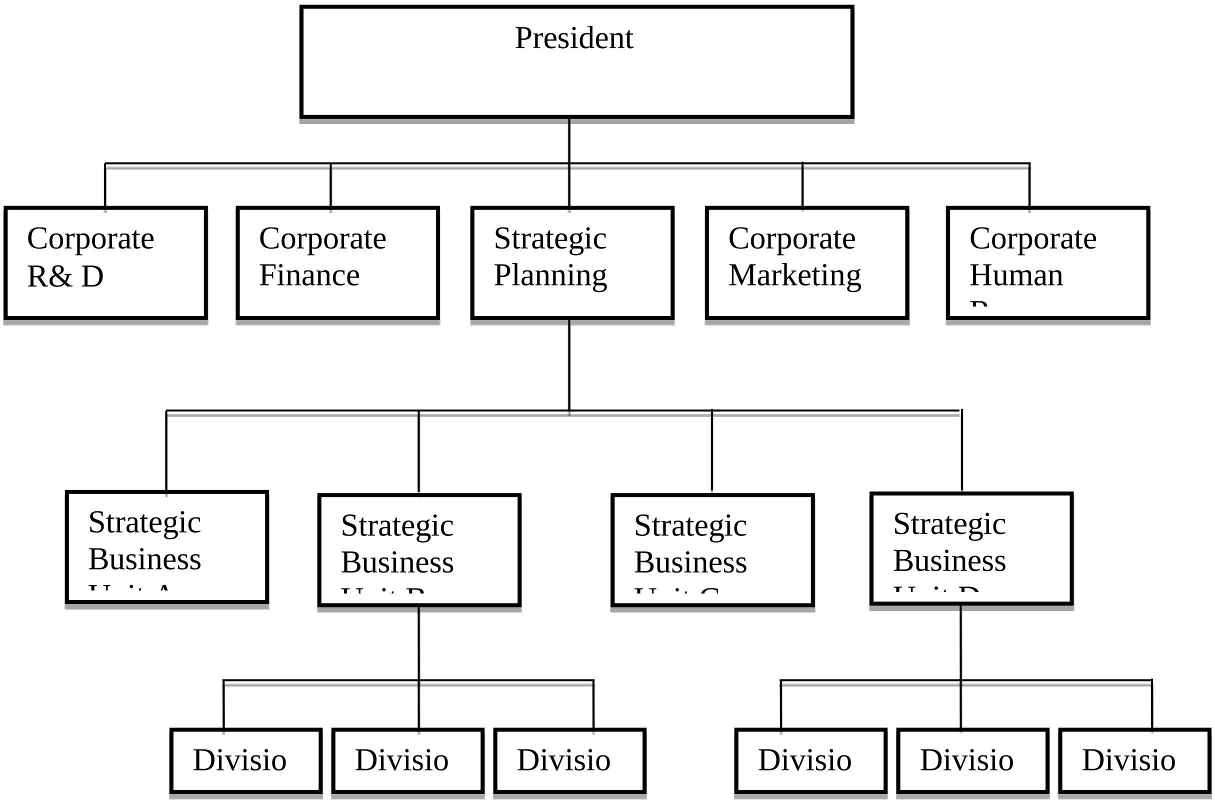

Fig. 3.4: SBU Structure

(Source: Strategy Implementation and Control by the Institute of Chartered Accountants of India)

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Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability. This enables the company to more accurately monitor the performance of individual businesses, simplifying control problems.

It also facilitates comparisons between divisions, improving the allocation of resources and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance. A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness within each SBU at the third level.

This means that, within each SBU, divisions are related to each other, as also that SBU groups are unrelated to each other. Within each SBU, divisions producing similar products and/or using similar technologies can be organised to achieve synergy. Individual SBUs are treated as profit centres and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

4.0 Conclusion

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organisational dimension such as organisational structure, reward structure, resource-allocation process, etc. Strategy implementation poses a threat to many managers and employees in an organisation. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

Successful strategy implementation depends on cooperation among all functional and divisional managers in an organisation. Marketing departments are commonly charged with implementing strategies that require significant increases in sales revenues in new areas and with new or improved products.

Finance and accounting managers must devise effective strategy-implementation approaches at low cost and minimum risk to that firm. R&D managers have to transfer complex technologies or develop new technologies to successfully implement strategies. Information systems managers are being called upon more and more to provide leadership and training for all individuals in the firm. The nature and role of marketing finance / accounting, R&D, and management information systems activities, coupled with the management activities largely determine organisational success.

5.0 Summary

Strategy implementation directly affects the lives of plant managers, division managers, department managers, sales managers, product managers, project managers, personnel managers, staff managers, supervisors, and all employees. In some situations, individuals may not have participated in the strategy-formulation process at all and may not appreciate, understand, or even accept the work and thought that went into strategy formulation. There may even be foot dragging or resistance on their part. Managers and employees who do not understand the business and are not committed to the business may attempt to sabotage strategy-implementation efforts in hopes that the organisation will return to its old ways.

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6.0 Self-Assessment Exercise

Changes in strategy often require changes in the way an organisation is structured. Amplify this statement.

7.0 References/Further Reading

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Unit 4 Strategy Evaluation and Control

1.0 Introduction

The best formulated and best implemented strategies become obsolete as a firm's external and internal environments change. It is essential, therefore, that strategists systematically review, evaluate, and control the execution of strategies. This chapter presents a framework that can guide managers' efforts to evaluate strategic-management activities, to make sure they are working, and to make timely changes. Management information systems being used to evaluate strategies are discussed. Guidelines are presented for formulating, implementing, and evaluating strategies.

2.0 Objectives

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

- define in clear term the concept of strategy evaluation
- discuss the strategic evaluation process
- describe practical framework for evaluating strategies
- explain why strategy evaluation is complex, sensitive, and yet essential for organisational success
- discuss the role of auditing in strategy evaluation.

3.0 Main Content

3.1 The Nature of Strategy Evaluation

The strategic-management process results in decisions that can have significant, long-lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse.

Most strategists agree, therefore, that strategy evaluation is vital to an organisation's well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. Strategy evaluation includes three basic activities.

- Examining the underlying bases of a firm's strategy,
- Comparing expected results with actual results, and
- Taking corrective actions to ensure that performance conforms to plans.

Adequate and timely feedback is the cornerstone of effective strategy evaluation. Strategy evaluation can be no better than the information on which it is based.

Strategy evaluation can be a complex and sensitive undertaking. In many organisations, strategy evaluation is simply an appraisal of how well an organisation has performed. Have the firm's assets increased? Has there been an increase in profitability? Have sales increased? Have productivity levels increased? Have profit margin, return on investment, and earnings-per-share ratios increased? Some firms argue that their strategy must have been correct if the answers to these types of questions are affirmative. Well, the strategy or strategies may have been correct, but this type of reasoning can be misleading because strategy evaluation must have both a long-run and short-run focus. Strategies often do not affect short-term operating results until it is too late to make needed changes.

It is impossible to demonstrate conclusively that a particular strategy is optimal or even to guarantee that it will work. One can, however, evaluate it for critical flaws. Richard Rumelt offered four criteria that could be used to evaluate a strategy: consistency, consonance, feasibility, and advantage. Described in Table 1, consonance and advantage are mostly based on a firm's external assessment, whereas consistency and feasibility are largely based on an internal assessment.

Table 4.1: Rumelt's Criteria for Evaluating Strategies

Consistency

A strategy should not present inconsistent goals and policies. Organisational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic inconsistency. Three guidelines help determine if organisational problems are due to inconsistencies in strategy:

- If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.
- If success for one organisational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.
- If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

Consonance

Consonance refers to the need for strategists to examine sets of trends, as well as individual trends, in evaluating strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, the day-care explosion came about as a combined result of many trends that included a rise in the average level of education, increased inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.

Feasibility

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

Advantage

A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas**:**

(1) resources (2) skills, or (3) position. The idea that the positioning of one's resources can enhance their combined effectiveness is familiar to military theorists, chess players, and diplomats. Position can also play a crucial role in an organisation's strategy. Once gained, a good position is defensible—meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their raw skill levels are only average. Although not all positional advantages are associated with size, it is true that larger organisations tend to operate in markets and use procedures that turn their size into advantage, while smaller firms seek product/market positions that exploit other types of advantage. The principal characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in evaluating strategy, organisations should examine the nature of positional advantages associated with a given strategy.

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

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

Other reasons why strategy evaluation is more difficult today include the following trends:

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

3.1 The Process of Evaluating Strategies

Strategy evaluation is necessary for all sizes and kinds of organisations. Strategy evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation. Regardless of the size of the organisation, a certain amount of management by wandering around at all levels is essential to effective strategy evaluation. Strategy-evaluation activities should be performed on a continuing basis, rather than at the end of specified periods of time or just after problems occur. Waiting until the end of the year, for example, could result in a firm closing the barn door after the horses have already escaped.

Evaluating strategies on a continuous rather than on a periodic basis allows benchmarks of progress to be established and more effectively monitored. Some strategies take years to implement; consequently, associated results may not become apparent for years. Successful strategies combine patience with a willingness to promptly take corrective actions when necessary. There always comes a time when corrective actions are needed in an organisation! Managers and employees of the firm should be continually aware of progress being made toward achieving the firm's objectives. As critical success factors change, organisational members should be involved in determining appropriate corrective actions.

If assumptions and expectations deviate significantly from forecasts, then the firm should renew strategy-formulation activities, perhaps sooner than planned. In strategy evaluation, like strategy formulation and strategy implementation, people make the difference. Through involvement in the process of evaluating strategies, managers and employees become committed to keeping the firm moving steadily toward achieving objectives.

3.2 A Strategy-Evaluation Framework

Table 9-3 summarises strategy-evaluation activities in terms of key questions that should be addressed, alternative answers to those questions, and appropriate actions for an organisation to take. Notice that corrective actions are almost always needed except when (1) external and internal factors have not significantly changed and (2) the firm is progressing satisfactorily toward achieving stated objectives. Relationships among strategy-evaluation activities are illustrated in Figure 4.2.

Table 4.2: A Strategy-Evaluation Assessment Matrix

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

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

Reviewing Bases of Strategy

As shown in table 4.2, reviewing the underlying bases of an organisation's strategy could be approached by developing a revised EFE matrix and IFE matrix. A revised IFE matrix should focus on changes in the organisation's management, marketing, finance/accounting, production/operations, R&D, and management information systems strengths and weaknesses. A revised EFE matrix should indicate how effective a firm's strategies have been in response to key opportunities and threats. External opportunities and threats and internal strengths and weaknesses that represent the bases of current strategies should continually be monitored for change. It is not really a question of whether these factors will change but rather when they will change and in what ways. Here are some key questions to address in evaluating strategies.

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

Measuring Organisational Performance

Another important strategy-evaluation activity is measuring organisational performance. This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Both long-term and annual objectives are commonly used in this process. Criteria for evaluating strategies should be measurable and easily verifiable. Criteria that predict results may be more important than those that reveal what already has happened.

For example, rather than simply being informed that sales in the last quarter were 20 per cent under what was expected, strategists need to know that sales in the next quarter may be 20 per cent below standard unless some action is taken to counter the trend. Really effective control requires accurate forecasting. Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective actions. Many factors, such as unreasonable policies, unexpected turns in the economy, unreliable suppliers or distributors, or ineffective strategies, can result in unsatisfactory progress toward meeting objectives. Problems can result from ineffectiveness (not doing the right things) or inefficiency (poorly doing the right things).

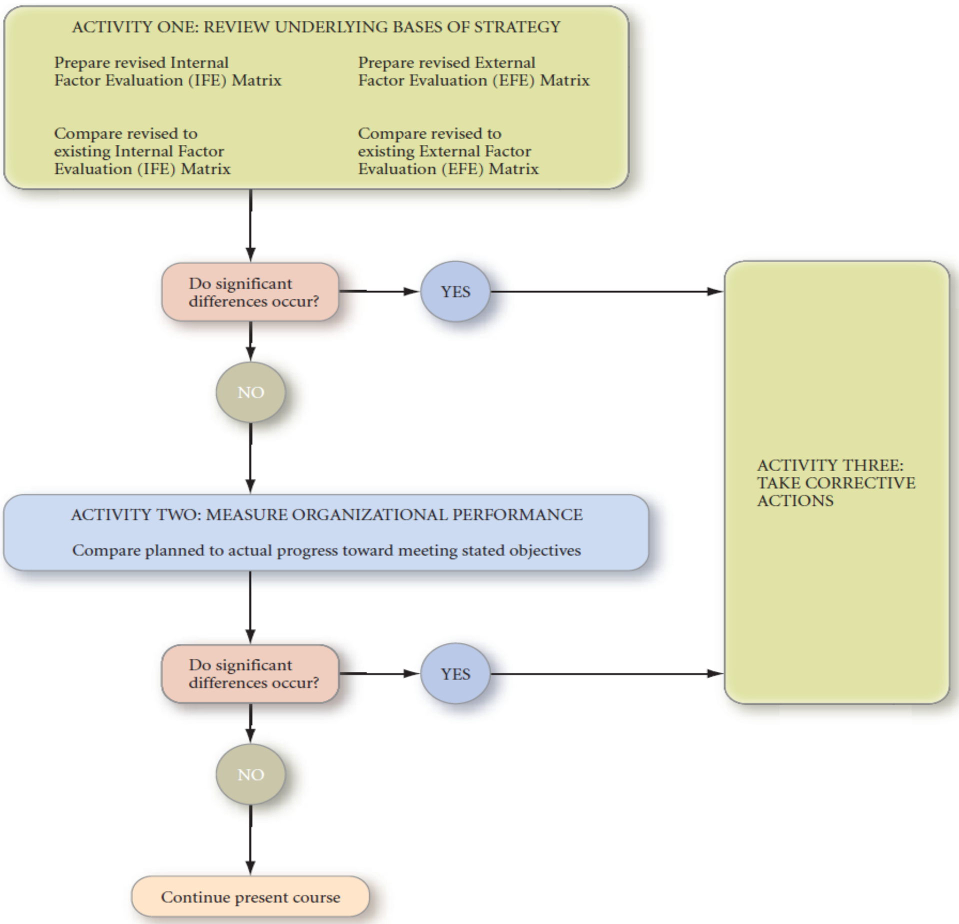

Fig. 4.1: A Strategy-Evaluation Framework

Taking Corrective Actions

The final strategy-evaluation activity, taking corrective actions, requires making changes to competitively reposition a firm for the future. As indicated in Table 4.3, examples of changes that may be needed are altering an organisation's structure, replacing one or more key individuals, selling a division, or revising a business mission.

Other changes could include establishing or revising objectives, devising new policies, issuing stock to raise capital, adding additional salespersons, differently allocating resources, or developing new performance incentives. Taking corrective actions does not necessarily mean that existing strategies will be abandoned or even that new strategies must be formulated.

Table 4.3: Corrective Actions Possibly Needed to Correct Unfavourable Variances

1. Alter the firm's structure
2. Replace one or more key individuals
3. Divest a division
4. Alter the firm's vision and/or mission
5. Revise objectives
6. Alter strategies
7. Devise new policies
8. Install new performance incentives
9. Raise capital with stock or debt
10. Add or terminate salespersons, employees, or managers
11. Allocate resources differently
12. Outsource (or rein in) business functions

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

No organisation can survive as an island; no organisation can escape change. Taking corrective actions is necessary to keep an organisation on track toward achieving stated objectives. Strategy evaluation enhances an organisation's ability to adapt successfully to changing circumstances. Taking corrective actions raises employees' and managers' anxieties. Research suggests that participation in strategy-evaluation activities is one of the best ways to overcome individuals' resistance to change. Strategy evaluation can lead to strategy-formulation changes, strategy-implementation changes, both formulation and implementation changes, and no changes at all. Strategists cannot escape having to revise strategies and implementation approaches sooner or later.

3.3 Characteristics of an Effective Evaluation System

Strategy evaluation must meet several basic requirements to be effective.

First, strategy evaluation activities must be economical; too much information can be just as bad as too little information; and too many controls can do more harm than good. Strategy-evaluation activities also should be meaningful; they should specifically relate to a firm's objectives.

They should provide managers with useful information about tasks over which they have control and influence. Strategy-evaluation activities should provide timely information; on occasion and in some areas, managers may daily need information.

Strategy evaluation should be designed to provide a true picture of what is happening. For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder.

Strategy evaluations should fairly portray this type of situation. Information derived from the strategy-evaluation process should facilitate action and should be directed to those individuals in the organisation who need to take action based on it.

The strategy-evaluation process should not dominate decisions; it should foster mutual understanding, trust, and common sense. No department should fail to cooperate with another in evaluating strategies.

Strategy evaluations should be simple, not too cumbersome, and not too restrictive. Complex strategy-evaluation systems often confuse people and accomplish little. The test of an effective evaluation system is its usefulness, not its complexity.

There is no one ideal strategy-evaluation system. The unique characteristics of an organisation, including its size, management style, purpose, problems, and strengths, can determine a strategy-evaluation and control system's final design.

4.0 Conclusion

Corrective actions should place an organisation in a better position to capitalise upon internal strengths; to take advantage of key external opportunities; to avoid, reduce, or mitigate external threats; and to improve internal weaknesses. Corrective actions should have a proper time horizon and an appropriate amount of risk. They should be internally consistent and socially responsible. Perhaps most important, corrective actions strengthen an organisation's competitive position in its basic industry. Continuous strategy evaluation keeps strategists close to the pulse of an organisation and provides information needed for an effective strategic-management system.

5.0 Summary

This unit presents a strategy-evaluation framework that can facilitate accomplishment of annual and long-term objectives. Effective strategy evaluation allows an organisation to capitalise on internal strengths as they develop, to exploit external opportunities as they emerge, to recognise and defend against threats, and to mitigate internal weaknesses before they become detrimental. Strategists in successful organisations take the time to formulate, implement, and then evaluate strategies deliberately and systematically. Good strategists move their organisation forward with purpose and direction, continually evaluating and improving the firm's external and internal strategic positions.

Strategy evaluation allows an organisation to shape its own future rather than allowing it to be constantly shaped by remote forces that have little or no vested interest in the well-being of the enterprise. Although not a guarantee for success, strategic management allows organisations to make effective long-term decisions, to execute those decisions efficiently and to take corrective actions as needed to ensure success.

6.0 Self-Assessment Exercise

Discuss fully the basic requirements for effective strategic evaluation.

7.0 References/Further Reading

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