



CHAPTER 7 THE BASICS OF PLANNING AND STRATEGIC MANAGEMENT

Learning Objectives

1. Define planning and distinguish between formal and functional plans.
2. Contrast strategic planning with operational planning.
3. Explain the difference between objectives, policies, procedures, and rules.
4. Define the management by objective (MBO) process.
5. Define strategy and explain the various levels of strategies.
6. Define strategic management and explain the strategic management process.
7. Define organizational missions and explain how mission relates to long- and short -range objectives.
7. Discuss the component of a SWOT analysis.
8. Define a strategic business unit (SBU).
9. Discuss what organizational factors need to be evaluated in implementing a strategic plan.

Chapter Overview

The art of planning is one of the most fundamental management functions. It has been said that many may plan, but only a few plan well. Such is the case for many managers. There is a difference between strategic planning (long-term planning) and operational planning (short-term or daily planning). These differences are important to recognize, especially in a highly competitive environment.

Strategy forms are numerous and, to be successful, must be adapted to the individual manager's style, the competitive environment, and market conditions. The strategic management process provides a central planning methodology for the manager. The strategic management process explores the concepts of mission, objectives, policies, procedures, and rules and provides a basic format for categorizing and utilizing the concepts. The modern approach to strategic planning revolves around a SWOT (strengths, weaknesses, opportunities, and threats) analysis. This analysis not only helps the firm analyze competition but also aids in a constant re-evaluation of themselves.

Given the diverse nature of most firms today, complexity is somewhat reduced by viewing each component business as a strategic business unit (SBU). The SBU can be managed in a variety of ways. A simple growth-share matrix provides a beginning point from which more elaborate configurations can be developed. The conclusion of the planning and strategic process stresses implementation. Without successful implementation, the plan is only an idea.



Lecture Outline

- I. The Planning Process
 - A. **Planning** is the process of deciding what objectives to pursue during a future time period and what to do to achieve those objectives.
 - B. Why plan?
 - 1. Necessary for other management functions.
 - 2. Enables one to affect, not merely accept, the future.
 - 3. Actively involves personnel.
 - 4. Improves managerial performance.
 - 5. Good mental exercise.
 - C. **Formal planning** involves a written, documented plan developed through an identifiable process.
 - D. **Functional plans** originate from the functional areas, such as sales and marketing, production, finance, and personnel.
 - E. The planning horizon.
 - 1. **Short-range plans**—operates in a static environment; usually plans up to one year.
 - 2. Intermediate-range—plans cover one to three years.
 - 3. **Long-range plans**—cover three to five years and sometimes as much as 20 years.
 - F. Operational versus Strategic Plan
 - 1. **Strategic plans** are top-level and long-range in scope; they affect many parts of the organization.
 - 2. **Operational (tactical) plans** are short-range and functional in nature; they are usually done by mid-level to lower-level managers.
 - G. **Contingency plans** address the what-ifs of the manager's job.
 - H. **Objectives**—statements outlining what the organization is trying to achieve; give direction to the organization and its members.
 - 1. **Long-range objectives**—go beyond the current fiscal year; must support and not conflict with the organizational mission.
 - 2. **Short-range objectives**—tied to a specific time period of a year or less; derived from an in-depth evaluation of long-range objectives.
 - 3. Objectives for an organization can be defined into four categories: profit oriented (primary), services to customer (secondary), employee needs and well-being (individual), and social responsibility (societal).



4. Areas for establishing objectives include: profitability, markets, productivity, product, financial resources, physical facilities, research and innovation, organization structure, human resources, and social responsibility.
 5. How to State/Write Objectives—The SMART criteria offer helpful guidelines for stating and writing objectives. SMART stands for specific, measurable, achievable, relevant, and time-based .
- I. **Management by Objective (MBO)** is a philosophy based on converting organizational objectives into personal objectives.
1. MBO works best when objectives of each organizational unit are derived from the objectives of the next higher unit in the organization because:
 - a. People at all levels become more aware of organizational objectives.
 - b. Objectives are jointly set – by an individual and his superior.
- J. **Policies** are broad, general guides to action that constraint or direct the attainment of objectives.
1. **Procedure** is a series or related steps or tasks expressed in chronological order for a specific purpose.
 2. **Rules** require specific and definite actions to be taken or not to be taken in a give situation.

Key Terms #1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15; Learning Objectives #1, 2, 3, 4; Review Questions #1, 2, 3, 4, 5, 6, 7, 8; Management Illustration 7.1
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- II. Strategy
- A. Originated with the Greeks in 400 B.C.
 - B. **Strategy** is an outline of the basic steps management plans to take in order to reach an objective or set of objectives.
 - C. Levels of Strategy
 1. **Grand or corporate strategy** addresses which businesses an organization will be in and how resources will be allocated among those businesses.
 - a. **Growth strategies** are used when the organization tries to expand through concentration, vertical integration, or diversification.
 - b. **Stability strategies** are used when the organization is satisfied with its present course.
 - c. **Defensive (retrenchment) strategies** are used when the organization wants or needs to reduce its operations via turnaround, divestiture, or liquidation.
 - d. **Combination strategies** are used when an organization simultaneously employs different strategies for different parts of the company.



2. **Business strategies** focus on how to compete in a given business.
 1. Overall cost leadership—produce and deliver product/service at a lower cost.
 2. Differentiation—make the product/service unique in its category.
 3. Focus—direct attention to a narrow market segment.
3. **Functional strategies** are concerned with the activities of the different functional areas of a business.

Key Terms #16, 17, 18, 19, 20, 21, 22, 23; Learning Objective #5; Review Questions #9, 10, 11; Figures 7.1, 7.2; Management Illustration 7.2

III. The Strategic Management Process

A. Strategic Management

1. **Strategic management** is the application of the basic planning process at the highest levels of the organization.
2. The essence of strategic management is developing strategic plans and keeping them current as changes occur internally and in the environment.
3. Although guided by top management, successful strategic management involves many levels in the organization.

B. The strategic management process includes:

1. Setting the organization's mission.
2. Defining what business or businesses the organization will be in.
3. Setting objectives.
4. Developing, implementing, and evaluating strategies.
5. Adjusting these components as necessary.

C. Major phases:

1. **Formulation phase**—the initial strategic plan is developed.
2. **Implementation phase**—the strategic plan is put into effect.
3. **Evaluation phase**—the implemented plan is monitored, evaluated, and updated.

D. Failure in any of the major phases can doom the success of the plan.

E. Formulating strategy

1. Identify the **mission** (purpose) of the organization. Why does the organization exist?
2. Identify the past and present strategies.
3. Diagnose past and present performance.
4. Set objectives—determine specific long-term and short-term objectives
5. SWOT analysis provides a general overview of an organization's strategic situation.



- a. The organization's internal strengths and weaknesses are identified and analyzed.
 - b. The organization's **external environment** (everything outside the organization) is analyzed to determine environmental threats and opportunities.
 - c. Michael Porter's five force model of competition – five major forces: suppliers, buyers, competitive rivalry among firms, product and service substitute, and potential entrants.
6. Comparing strategic alternatives identifies the feasible strategic choices that can be pursued by the organization.
- a. The evaluation and final choice of an appropriate strategic alternative involves integrating the organization's mission, objectives, internal analysis, and external analysis.
 - b. Comparing strategic alternatives in diversified, multibusiness organizations involves assessing the attractiveness of each business as well as the overall business mix.
 - c. A **strategic business unit (SBU)** is a distinct business that has its own set of competitors and can be managed reasonably independently of other businesses within the organization.
- F. Implementing Strategy—after careful formulation, the chosen strategy must be translated into organizational actions.
1. Ensure that the strategy is consistent with organizational factors (structure, policies, systems, etc.)
 2. Establish short-range objectives for the different functional units; involves many levels of management, especially lower-level managers.
- G. Evaluating and Controlling the Strategic Plan – monitor continuously the organizations progress towards its long-range objectives and mission.
1. Problem that is likely to occur
 2. Appropriate actions to be taken

Key Terms #24, 25, 26, 27, 28, 29, 30; Learning Objectives #6, 7, 8, 9, 10; Review Questions #12, 13, 14, 15, 16; Figures 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7.9; Management Illustrations 7.3, 7.4

Barriers to Student Understanding

1. First, most students do not really understand the basic function of planning. Though they have planned many times, they have probably not planned well or in a sequential fashion. It will help their understanding of the planning process to have them construct a plan in class. The plan can be about something simple, such as instructing someone on how to do something, giving directions, how to build something, or how to find a job. Have the class critique the planning effort. Are plans better made by individuals or by groups? This question always provokes some interesting comments.



2. A second barrier occurs when the students try to understand the concepts of strategy and strategic planning. The best way to give illustrations in this area is to use the military (historical battles) or athletics. Ask students to explain how the chosen strategy in either of the above two areas might be useful in planning business strategy. Ask them to construct a strategic plan for graduating, finding a job, or getting married. What makes the plan strategic in nature?
3. The last primary barrier deals with an understanding of SWOT analyses. The best way to do this (given that there is no case book available) is take one of the lead stories from Business Week or Fortune and ask the students to relate what they would perceive to be SWOT categories based on the stories. An excellent long-term project is to have the students pick a business or industry that they are interested in (Microsoft, Disney, etc.) and perform a SWOT analysis on the company. This helps them understand how critical to the planning effort it is that managers have the ability and the data necessary to evaluate the internal and external environment in which they have to make decisions.

Key Terms

1. Planning
2. Formal Plan
3. Functional Plans
4. Short-range Plans
5. Long-range Plans
6. Strategic Planning
7. Operations or Tactical Planning
8. Contingency Plans
9. Objective
10. Long-range Objectives
11. Short-range Objectives
12. Management by Objectives (MBO)
13. Policies
14. Procedure
15. Rules
16. Strategy
17. Corporate (Grand) Strategies



18. Growth Strategy
19. Stability Strategy
20. Defensive (Retrenchment) Strategy
21. Combination Strategy
22. Business Strategies
23. Functional Strategies
24. Strategic Management
25. Formulation Phase
26. Implementation Phase
27. Evaluation Phase
28. Mission
29. External Environment
30. Strategic Business Unit (SBU)

Suggested Answers to Analyzing Management Skills

- Why do you think it is important for a company like Starbucks to regularly refine and update its strategic objectives? What other function might annual strategic planning sessions serve?

In short, very few modern industries operate in a stable environment. Change can come from outside the organization (external changes such as consumer tastes, competitors, the economy, regulations, etc.). Change can also occur inside the organization (leadership, staff, strengths, weaknesses, etc.). Thus, refining current strategic objectives or, in some cases, adopting an entirely new strategy is necessary.

In addition to anticipating and adapting to change, annual strategic planning sessions help an organization determine what it is doing well and where it needs improvement.

Suggested Answers to Applying Management Skills

- What trends do you think will influence business in the next 10 years? If you opened a business today, what things would you do to plan for its future success?

In the next 10 years, the following trends (among others) may influence business: the aging of the work force and consumers; a growing number of women and minorities in the workplace, which will



continue to produce new market segments; an increasing disposable income for teenagers; increasing dispersion of technology, etc.

The future success of most any business will be enhanced by planning and strategic management. After the plan is established, reviewing the plan and adapting it to current realities are also important. Also, businesses need to clarify their mission statement, which should drive the planning and strategic management effort.

Answers to Review Questions

1. Define planning. What questions does planning answer?

Planning is the process of deciding what objectives to pursue during a future time period and what to do to achieve those objectives.

2. Why is necessary to plan? Distinguish between formal and functional planning. How is most planning conducted?

Planning enables the other management functions to be performed. **Formal planning** is a written document, and follows an identifiable development process. **Functional planning** originates from the functional areas, such as sales and marketing, production, finance, and personnel. Informal planning is the way most planning is carried out.

3. What is the difference between strategic planning and operational planning? Between long-range and short-range planning?

Strategic planning is usually done by top managers and involves plans for a long period of time. Operational planning is usually done by mid-level and lower-level managers and involves day-to-day operations and is usually conducted over a shorter time period. Long-range plans are usually three to five years in length, whereas short-range plans generally occur within a one-year time frame.

4. What is a contingency plan?

A contingency plan addresses the what-ifs of the manager's job. Contingency planning gets the manager in the habit of being prepared and knowing what to do if something does go wrong.

5. Define policy, procedure, and rule.

- **Policies** are broad, general guides to action that constrain or direct objective attainment.
- A **procedure** is a series of related steps or tasks expressed in chronological order for a specific purpose.
- **Rules** require specific and definite actions to be taken or not to be taken in a given situation.



6. Define objectives and differentiate between long-range and short-range objectives.

Objectives are statements outlining what the organization is trying to achieve; they give an organization and its member's direction. Long-range objectives go beyond the current fiscal year; they must support and not conflict with the organizational mission. While short-range objectives are generally tied to a specific time period of a year or less and are derived from an in-depth evaluation of long-range objectives.

7. What are the SMART criteria for objectives?

The SMART criteria offer helpful guidelines for stating and writing objectives. SMART stands for specific, measurable, achievable, relevant, and time-based.

8. What is Management by objectives (MBO)?

Management by objective (MBO) is a philosophy based on converting organizational objectives into personal objectives and works best when the objectives of each organizational unit are derived from the objectives of the next higher unit in the organization.

9. Define strategy.

A **strategy** outlines the basic steps that management plans to take in order to reach an objective or set of objectives.

10. What are the major forms of strategy?

- Grand or Corporate strategy.
- Business strategy.
- Functional strategy.

11. What are the four types of corporate strategy? What are the three forms of business strategy?

- Corporate strategy: growth, stability, defensive, and combination.
- Business strategy: overall cost leadership, differentiation, and focus.

12. What are the steps in the strategic management process?

- Formulating the strategic plan.
- Implementing the strategic plan.
- Evaluating the strategic plan.



13. Define mission.

Mission defines the basic purpose(s) of an organization—why the organization exists.

14. What does SWOT stand for?

S: strengths (internal)

W: weaknesses (internal)

O: opportunities (external)

T: threats (external)

15. Describe the four cells of the SWOT Analysis Diagram.

- Cell 1 is the most favorable situation with the organization facing several environmental opportunities with numerous internal strengths. This situation calls for aggressive and growth-oriented strategies to exploit the favorable match.
- In Cell 2, the organization has identified numerous internal strengths; supports an aggressive strategy.
- In Cell 3 an organization faces very positive market opportunities but is constrained by relatively weak internal resources; supports a turnaround-oriented strategy.
- Cell 4 is the least favorable situation, with the organization facing major environmental threats with weak internal resources; supports a defensive Strategy.

16. Define a strategic business unit (SBU).

A **strategic business unit** is a distinct business, having its own set of competitors, which can be managed in a manner reasonably independent of other businesses within an organization.

Suggested Answers to Skill-Building Questions

1. Why should one plan? What are the benefits of planning?

Planning provides thoughtful direction to an individual or an organization. Planning forces the planner(s) to think about his/her current situation (strengths, weaknesses, opportunities, and threats) and anticipate changes. Planning helps people and organizations to achieve their goals. Specifically, planning helps in the performance of the other management functions, enables one to affect the future, actively involves personnel, improves managerial performance, and functions as a good mental exercise.



2. If you were serving as a strategic management consultant, how might you respond to the following question: How can I plan for next year when I don't even know what I'm going to do tomorrow?

Planning for next year will probably give you a much better idea of what you should be doing tomorrow.

3. As discussed on pages 000 and 000, strategic management is an activity that must emanate from the top management. Given this, why should you, as a first line or middle manager, be concerned with strategic management?

Although guided by top management, successful strategic management involves many different levels in the organization. A proper strategic management process helps ensure that plans throughout the different levels of the organization are coordinated and mutually supportive.

4. Comment on the following statement: Most organizations succeed or fail based on their ability to react to environmental changes.

Few industries operate in stable environments. Change is occurring at an increasingly rapid rate. Therefore, the organization that fails to anticipate change and successfully react to it will likely experience negative consequences. Scanning the environment to predict internal organizational and external environmental changes is critical.

Skill Building Exercise 7.1

Setting SMART Objectives

Student answers will vary. By the end of this exercise students would be able to better understand SMART objectives.

Skill Building Exercise 7.2

Developing a Personal Career Plan

One of the reasons for a personal career plan is that it helps avoid major mistakes and serves as a decision-making guide. The trick is to retain enough flexibility while providing a framework, too. This exercise (and its associated questions) often works best if assigned as homework several days in advance. Be sure to emphasize the need to use the strategic management process discussed in the chapter.

Skill Building Exercise 7.3

Most Admired Companies

Students' answers will vary. Ensure that the students study both the external and internal trends and forces that have influenced the elimination of the company from the list.



Skill Building Exercise 7.4

Making Assumptions

Translate the demographic data below into a set of assumptions for:

- a) a small community hospital may benefit by an aging population thus, the greater need for health care when increasing by 19.6%
- b) an urban school system may be expanding elementary and secondary schools by 10.6%.
- c) Ford Motor Company needs to gear automobile advertising and promotion toward the 35-44 year old population because its increasing by 42.4%.

Skill Building Exercise 7.5

Environmental Forces

Describe the threats and opportunities that might face General Motors as a result of these environmental forces.

The threats of these environmental forces that may impact General Motors are safety concerns, and economic concerns. Safety factors include safer automobiles and economic factors include more fuel efficient automobiles.

Skill Building Exercise 7.6

Word Associations

- | | |
|----------|------------|
| 1. Blue | 1. Dog |
| 2. Soft | 2. Chicken |
| 3. Fruit | 3. Wise |
| 4. Star | 4. Fly |
| 5. Blind | 5. Evening |
| 6. Bed | 6. Yellow |
| 7. Soap | 7. Ring |
| 8. Cold | 8. Shoe |



9. Monkey 9. Turn
10. Bed 10. French

Suggested Answers to Case Incident Questions

Case 7.1 First in the Market

1. What caused the wood project to fail?
Premature enthusiasm for an untested product and overeager beavers in charge who leapt before they looked. All of this could have been avoided if Johnny and Greg had developed a sound strategic plan.
2. Would a more effective strategy on the part of Johnny and Greg have aided in ensuring the success of the project?
Yes! Most strategies that are effective are well thought-out and not rushed. Johnny and Greg should have asked more “what if” questions.
3. At what stage of the strategic management process did the breakdown occur?
It can be argued that the breakdown occurred in the very first stage (analyze the current status) since Johnny and Greg never initiated the strategic management process.
4. What general observations can be made so as to prevent such a situation from occurring again?
Take the time to carry out the process right the first time or you’ll regret it later! Develop a sound strategy. A good strategy cannot be rushed; it must be well thought-out from start to finish.

Case 7.2 Hudson Shoe Company

1. What were the objectives of Hudson Shoe?
An objective was to enter a foreign market. It was not very specific or clear, more like a thought rather than something to follow through with.
2. What strategies do you think Hudson Shoe was following?
No strategies were evident.
3. How would you evaluate John Hudson’s plans?
The plan was not well prepared. Negotiations were more spur-of-the-moment rather than planned and prepared for. Little commitment and follow through can occur without planning.



4. What would you do if you were John Hudson?

Suggestions for John would be to figure what position Hudson Shoe Company is looking to take in the industry. Once these objectives are clear, he should devise policies for employees to follow and a mission to describe to objectives. This will promote an understanding and following. John and his partners should look at their strengths, weaknesses, opportunities, and threats to get a good solid view of the company's positions. With these internal and external factors, they can formulate appropriate strategies to feasibly achieve the objectives set.

Suggested Student Projects

1. Find a great military, athletic, or business leader and outline the successful strategies or plans that helped the leader overcome obstacles. What do you think contributed to his/her ability to be a good strategist or planner?
2. Take the strategic management process and apply it to a problem that you are currently facing. The problem could be personal, work related, or career related. What do you think is the most critical step?
3. Take a contemporary business article about a company and its products and try to apply the SWOT technique of analyzing internal and external data. What data is missing from your analysis? How do you think that you might be able to attain the data if you were a competitor studying the company?



Chapter 7

The Basics of Planning and Strategic Management

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Learning Objectives

After studying this chapter, you will be able to:

1. Define planning and distinguish between formal and functional plans.
2. Contrast strategic planning with operational planning.
3. Explain the differences between objectives, policies, procedures, and rules.
4. Define the management by objectives (MBO) process.
5. Define strategy and explain the various levels of strategies.

7-2

Serving to Promote the Potential Of People & Organizations



Learning Objectives (cont'd)

After studying this chapter, you will be able to:

6. Define strategic management and explain the strategic management process.
7. Define organizational mission and explain how mission relates to long- and short-range objectives.
8. Discuss the components of a SWOT analysis.
9. Define a strategic business unit (SBU).
10. Discuss what organizational factors need to be evaluated in implementing a strategic plan.

The Planning Process

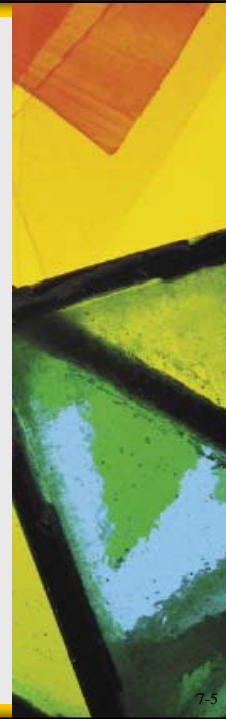
- **Planning**
 - The process of deciding what objectives to pursue during a future time period and what to do to achieve those objectives.
- **Why plan?**
 - Actively affect the future.
 - Set objectives and “make it happen.”
 - Involve personnel from across the organization.
 - Positively effect managerial performance.
 - Gain knowledge and experience from the planning process.

Serving to Promote the Potential Of People & Organizations



The Planning Process (cont'd)

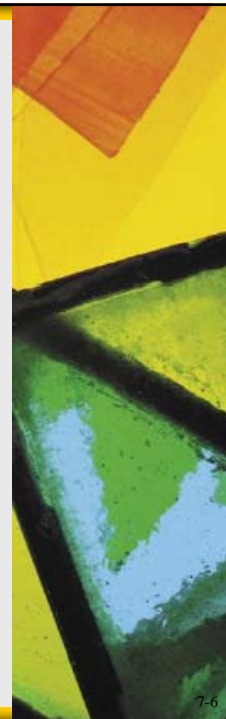
- **Formal Plans**
 - Written, documented plans developed through an identifiable process.
 - The environment, size and type of business are factors that usually affect the planning process.
- **Functional Plans**
 - Originate from the functional areas of an organization such as production, marketing, finance, and personnel.



7-5

The Planning Horizon

- **Short-range plans**
 - Generally cover up to one year.
- **Long-range plans**
 - Typically span at least three to five years.
 - Some extend as far as 20 years into the future.
 - Usually carried out at the top management levels.
- **Intermediate plans**
 - Cover the term between short-range and long-range plans.
 - Usually between three to five years.
 - Derived from long-range plans; short-range plans derived from intermediate plans.



7-6

Serving to Promote the Potential Of People & Organizations



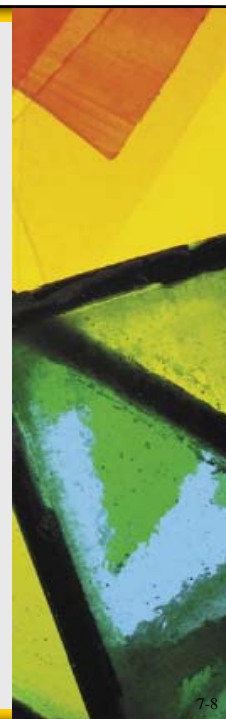
Types of Plans

- **Strategic planning**
 - Analogous to top-level, long-range planning.
 - Covers a relatively long period.
 - Applied at the highest levels of the organization and affecting many parts of the organization.
- **Operations or tactical planning**
 - Short-range planning.
 - Done primarily by middle- to lower-level managers.
 - Concentrates on the formulation of functional plans.
- **Contingency plans**
 - Address the what-ifs of the manager's job.
 - Gets the manager in the habit of being prepared and knowing what to do if something does go wrong.
 - Most needed in rapidly changing environments.



Setting Objectives

- **Objectives**
 - Statements outlining what the organization is trying to achieve.
 - Provide direction to an organization and its members.
- **Long-range objectives**
 - Go beyond the current fiscal year.
 - Must support and not conflict with the organizational mission.
- **Short-range objectives**
 - Generally tied to a specific time period of a year or less.
 - Derived from an in-depth evaluation of long-range objectives.



Serving to Promote the Potential Of People & Organizations



Classifying Objectives

- Objectives should be dynamic.
- Four general categories objectives usually fall into:
 - Profit oriented
 - Service to customers
 - Employee needs and well-being
 - Social responsibility
- Another scheme for classifying objectives:
 - Primary: Relate directly to profit
 - Secondary: Apply to specific units of the organization.
 - Individual: Directly concern the organization's employees.
 - Societal: Relate to the local, national, and global communities.

7-9

Establishing Objectives

- Areas for establishing objectives in most organizations:
 - Profitability
 - Markets
 - Productivity
 - Product
 - Financial resources
 - Physical facilities
 - Research and innovation
 - Organization structure
 - Human resources
 - Social responsibility

7-10

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How to State/Write Objectives

- The SMART criteria offer helpful guidelines for stating and writing objectives.
- SMART stands for:
 - Specific
 - Measurable
 - Achievable
 - Relevant
 - Time-based

7-11

Management by Objectives

- A philosophy based on converting organizational objectives into personal objectives.
 - It works best when the objectives of each organizational unit are derived from the objectives of the next higher unit in the organization.
 - People at each level become more aware of organizational objectives.
 - Objectives for an individual are jointly set by the person and the superior; there are give-and-take negotiating sessions between them.
 - Achieving self-formulated objectives can improve motivation and, thus, job performance.

7-12

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Other Approaches to Setting Objectives

- Policies
 - Broad, general guides to action that constrain or direct the attainment of objectives.
 - Create an understanding among members of a group that makes the actions of each member more predictable to other members.
- Procedure
 - Series of related steps or tasks expressed in chronological order for a specific purpose.
 - They define in a step-by-step fashion, methods through which policies are achieved.
- Rules
 - Require specific and definite actions to be taken or not to be taken in a given situation.

7-13

Strategy

- Strategy
 - Outlines the basic steps management plans to take to reach an objective or a set of objectives.
 - Outlines how management intends to achieve its objectives.
- Levels of Strategy:
 - Corporate Strategies
 - Business Strategies
 - Functional Strategies

7-14

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Levels of Strategies

Corporate Strategy
Addresses which businesses an organization will be in and how resources will be allocated among those businesses; describes the way the organization will pursue its objectives.

Business Strategy
Focuses on how to compete in a given business.

Functional Strategy
Concerned with the activities of the different functional areas of the organization, short-range step-by-step methods to be used (tactics).

Figure 7.2

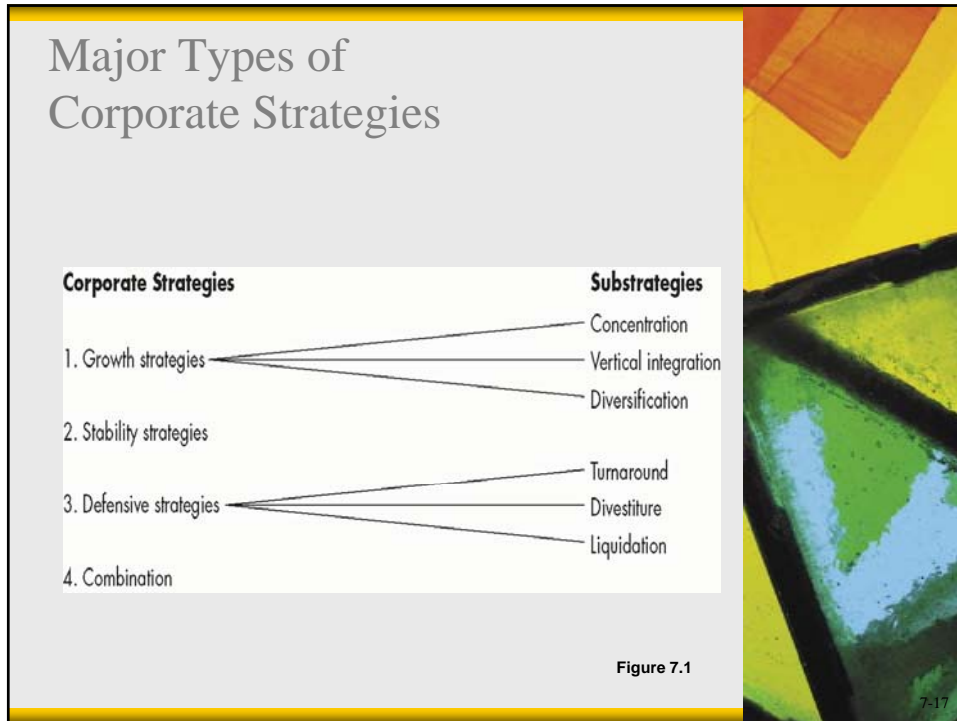
7-15

Corporate Strategies

- Corporate (grand) strategies
 - Address which businesses an organization will be in and how resources will be allocated among these businesses.
 - Established at the highest level of the organization's management involving long-range time horizon.
 - Concerned with the overall direction of the company and tied to the mission statements.

7-16

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Business Strategies

- Business strategies (competitive strategies)
 - Focus on how to compete in a given business.
 - Generally applies to a single business unit.
 - Usually situational in nature.

7-18

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Types of Business Strategies

- Overall cost leadership
 - Usually attained through a combination of experience and efficiency.
 - Usually requires that the company develop some unique advantages over competitors.
 - Requires attention to production methods, overhead, marginal customers and overall cost reduction in sales and R&D.
- Differentiation
 - Making product(s) unique to allow company to charge higher-than-average prices.
 - Aimed to build brand loyalty and lower sensitivity to prices by making it the company's competitive advantage.

7-19

Types of Business Strategies (cont'd)

- Focus
 - Company directs its attention to a narrow market segment.
 - Allows company to serve this narrow market better than competitors.

7-20

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Functional Strategies

- Functional strategies
 - Concerned with the activities of different functional areas of the business.
 - Narrower in scope than business strategies.
 - Primarily concerned with how-to issues.
 - Usually in effect for a relatively short period, often one year or less.

7-21

Strategic Management

- The application of the basic planning process at the highest levels of the organization.
 - Formulation, proper implementation, and continuous evaluation of strategic plans.
 - Determines the long run directions and performance of an organization.
 - The essence is developing strategic plans and keeping them current.
 - Guided by top management, successful strategic management involves many levels of the organization.

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Phases of Strategic Management Process

- Formulation phase
 - Developing the initial strategic plan.
- Implementation phase
 - Implementation of the strategic plan that has been formulated.
- Evaluation phase
 - Continuous evaluation and updation of the strategic plan.

7-23

Formulation Phase

- Corporate and business level strategies are chosen based on:
 - Organization's strengths and weaknesses
 - Threats and opportunities the environment presents.
- The first step is obtaining a clear perspective of current position and status of the organization.
 - Identifying mission
 - Identifying past and present strategies
 - Diagnosing organizations past and present performance
 - Setting objectives for company's operation.

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Objectives of the Company Mission

1. To ensure unanimity of purpose within the organization.
2. To provide a basis for motivating the use of the organization's resources.
3. To develop a basis, or standard, for allocating organizational resources.
4. To establish a general tone or organizational climate; for example, to suggest a businesslike operation.
5. To serve as a focal point for those who can identify with the organization's purpose and direction and to deter those who cannot do so from participating further in its activities.
6. To facilitate the translation of objectives and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
7. To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

Figure 7.3

Source: Adapted from William R. King and David I. Cleland. *Strategic Planning and Policy* (New York: Van Nostrand Reinhold, 1978), p. 124.

Examples of Mission Statements

Company	Mission Statement
FedEx	FedEx Corporation will produce superior financial returns for its shareowners by providing high value-added logistics, transportation, and related information services through focused operating companies. Customer requirements will be met in the highest quality manner appropriate to each market segment served. FedEx Corporation will strive to develop mutually rewarding relationships with its employees, partners, and suppliers. Safety will be the first consideration in all operations. Corporate activities will be conducted to the highest ethical and professional standards.
Harley-Davidson	We fulfill dreams through the experience of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles and branded products and services in selected market segments.
Pfizer	We will become the world's most valued company to patients, customers, colleagues, investors, business partners, and the communities where we work and live.

Figure 7.4

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Organizational Purpose

- Drucker's approach to defining an organization's present business:
 - Identify the customers
 - Where are they?
 - How do they buy?
 - How can they be reached?
 - What is the customer buying?
 - What is the customer looking for in the product?

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Strategic Investigation

- Peter Drucker recommends four areas to investigate:
 - What is the long-term market potential?
 - What changes in market structure might occur due to economic developments, changes in lifestyle or styles, or competition?
 - What possible changes will alter customers' buying habits?
 - What customer needs are not being adequately served by available products and services?

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Mission Statement Components

1. Customer-market	We believe our first responsibility is to the doctors, nurses, and patients, to mothers and all others who use our products and services. (Johnson & Johnson) To anticipate and meet market needs of farmers, ranchers, and rural communities within North America. (CENEX)
2. Product-service	AMAX's principal products are molybdenum, coal, iron ore, copper, lead, zinc, petroleum and natural gas, potash, phosphates, nickel, tungsten, silver, gold, and magnesium. (AMAX)
3. Geographic domain	We are dedicated to the total success of Corning Glass Works as a worldwide competitor. (Corning Glass)
4. Technology	Control Data is in the business of applying microelectronics and computer technology in two general areas: computer-related hardware and computing-enhancing services, which include computation, information, education, and finance. (Control Data) The common technology in these areas relates to discrete particle coatings. (NASHUA)
5. Concern for survival	In this respect, the company will conduct its operation prudently, and will provide the profits and growth which will assure Hoover's ultimate success. (Hoover Universal)
6. Philosophy	We are committed to improve health care throughout the world. (Baxter Healthcare) We believe human development to be the worthiest of the goals of civilization and independence to be the superior condition for nurturing growth in the capabilities of people. (Sun Company)
7. Self-concept	Hoover Universal is a diversified, multi-industry corporation with strong manufacturing capabilities, entrepreneurial policies, and individual business unit autonomy. (Hoover Universal)
8. Concern for public image	We are responsible to the communities in which we live and work and to the world community as well. (Johnson & Johnson) Also, we must be responsive to the broader concerns of the public, including especially the general desire for improvement in the quality of life, equal opportunity for all, and the constructive use of natural resources. (Sun Company)

Source: From John A. Pearce II and F. R. David, "Corporate Mission Statements: The Bottom Line," *Academy of Management Executive*, May 1987. Reprinted with permission.

Figure 7.5

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Identifying Past and Present Strategies

- A strategy or a series of strategies, as reflected by the organization's past actions and intentions, can usually be identified.
- The following questions can be addressed:
 - Has past strategy been consciously developed?
 - If not, can past history be analyzed to identify what implicit strategy has evolved?
 - If so, has the strategy been recorded in written form?

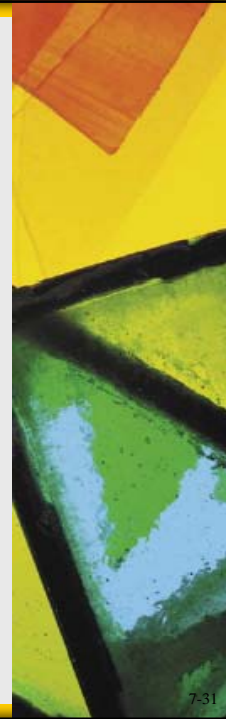
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Diagnosing Performance and Setting Objectives

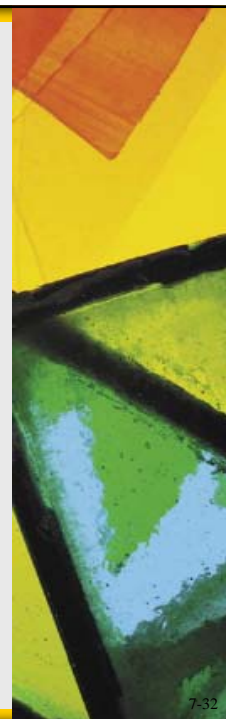
- Evaluating an organization's performance usually involves some type of in-depth financial analysis and diagnosis of past and present performance. The following questions can be addressed:
 - How is the organization currently performing?
 - How has the organization performed over the last several years?
 - Is the performance trend moving up or down?
- The next step in formulating strategy is to decide the long-, intermediate-, and short-range objectives should be in light of the current mission.



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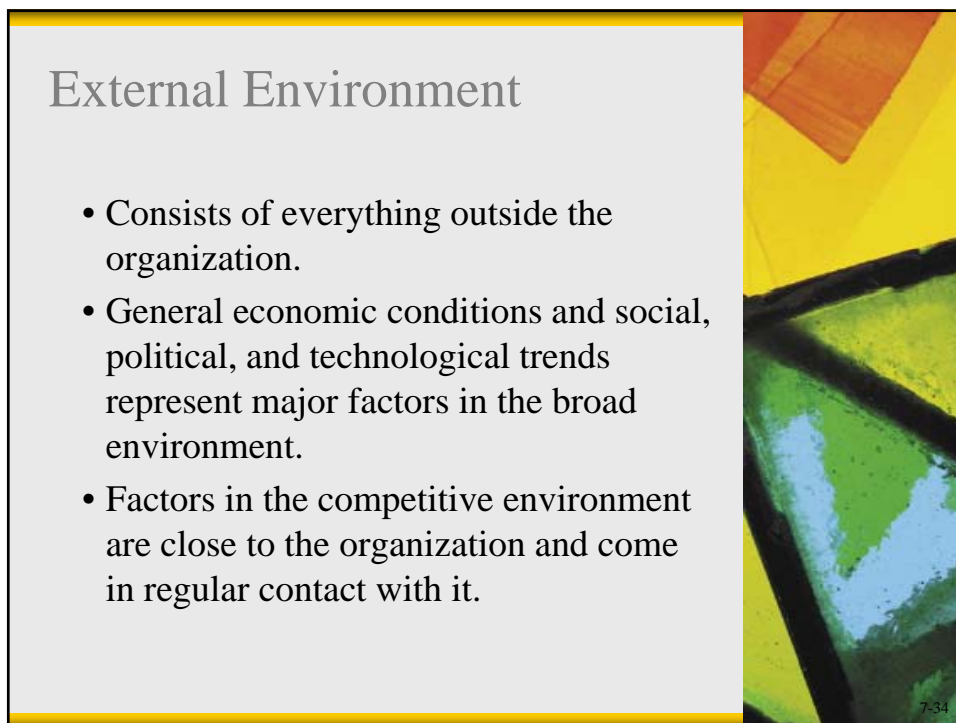
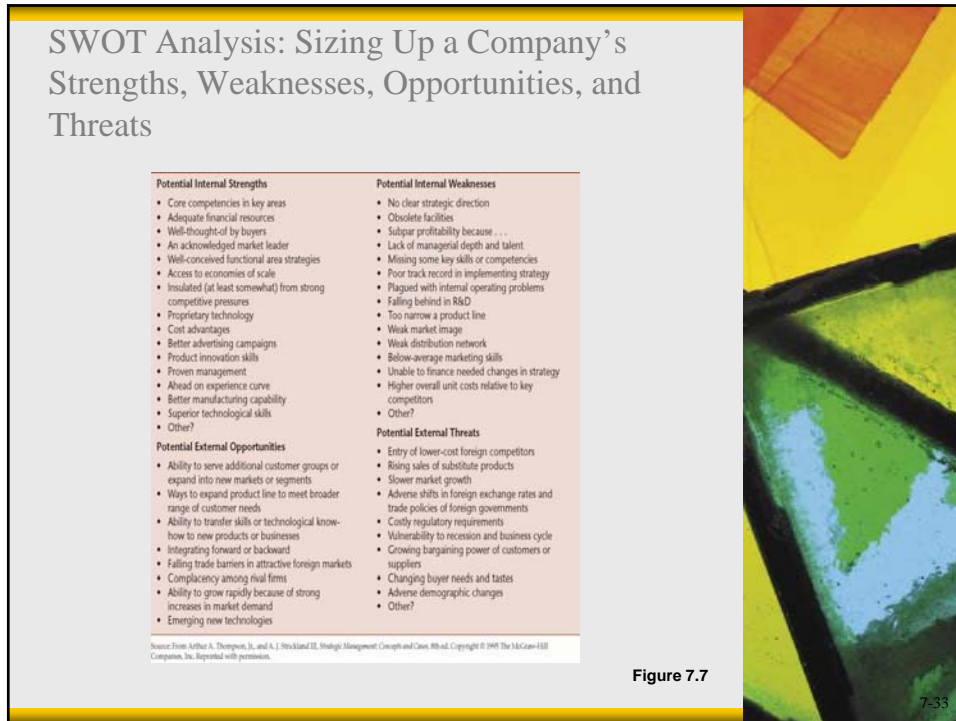
SWOT Analysis

- Technique for evaluating an organization's internal strengths and weaknesses and its external opportunities and threats.
- An organization's strengths and weaknesses are usually identified by conducting an internal analysis of the organization.
 - What things does the organization do well?
 - What things does the organization do poorly?
From a resource perspective?
 - What are the organization's strengths and weaknesses?



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Forecasting of Environmental Trends

- Qualitative techniques are based primarily on opinions and judgments.
- Quantitative techniques are based primarily on the analysis of data and the use of statistical techniques.
- Five forces model of competition
 - A tool developed by Michael Porter.
 - Suggests that the competitive environment can be assessed by analyzing the import of, and interactions among five major forces in the competitive or industry environment.

7-35

Five Forces Model of Competition

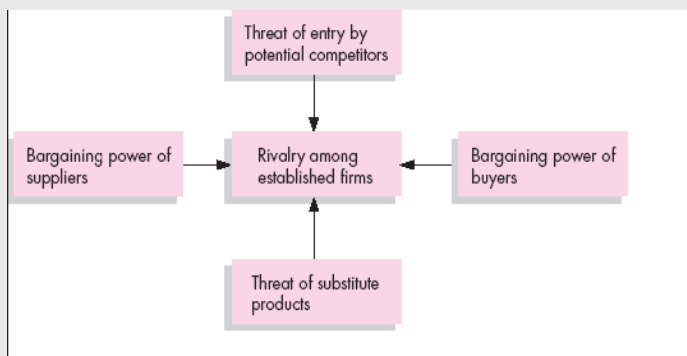


Figure 7.6

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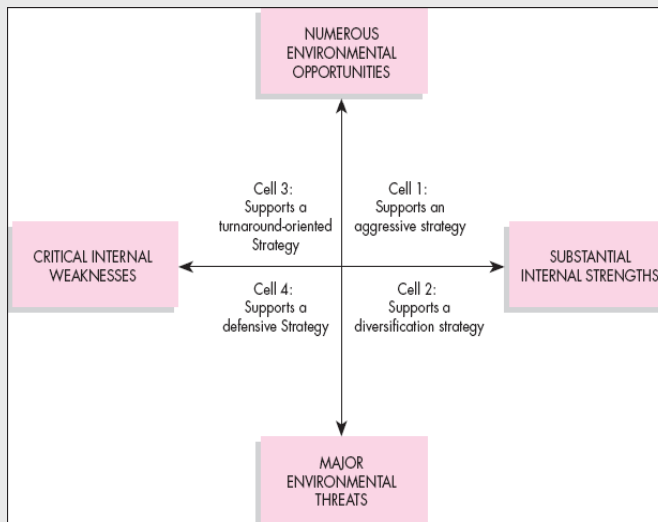


Comparing Strategic Alternatives

- Goal is to identify feasible strategic alternatives and select the best alternative.
 - the results of the SWOT analysis can be used to narrow down the feasible strategic alternatives.
 - Evaluation and final choice of an appropriate strategic alternative involves the integration of the mission, objectives, internal analysis, and external analysis.
 - Once the corporate strategy has been identified, additional sub-strategies must be selected to support it.
- Strategic business unit (SBU)
 - Distinct business that has its own set of competitors and can be managed reasonably independently of other businesses within the organization.
 - In a small organization, the entire company may be a SBU.

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SWOT Analysis Diagram



Source: M. E. Porter, *Competitive Strategy* (New York: Free Press, 1980).

Figure 7.8

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Implementing Strategy

- Include determining and implementing the most appropriate organizational structure, developing short- range objectives, and establishing functional strategies.
- Organizational Factors
 - An organization's current structure places restrictions on strategy implementation.
 - Strategy must fit with current organizational policies, or conflicting policies must be modified.
 - Organizational systems currently in place can affect how the strategy might best be implemented.
- Functional Strategies
 - Development of functional strategies generally requires active participation of many levels of management.

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The Strategic Management Process

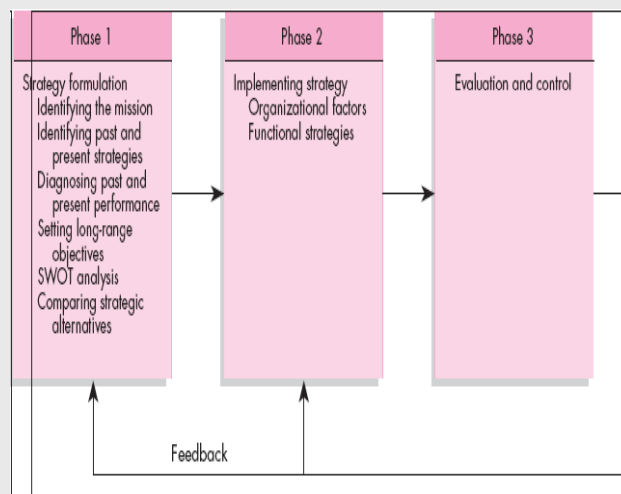


Figure 7.9

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