# STRATEGIC MANAGEMENT Notes

**Overview**

The greatest challenge for a successful organization is change. This threatening change may either be internal or external to the enterprise.

**The concept of strategy**

The concept of strategy in business has been borrowed from military science and sports where it implies out- maneuvering the opponent. The term strategy began to be used in business with increase in competition and complexity of business operations.

A strategy is an administrative course of action designed to achieve success in the face of difficulties. It is a plan for meeting challenges posed by the activities of competitors and environmental forces. Strategy is the complex plan for bringing the organization from a given state to a desired position in a future period of time. For example, if management anticipates price-cut by competitors, it may decide upon a strategy of launching an advertising campaign to educate the customers and to convince them of the superiority of its products.

**Nature of strategy**

- Strategy is a contingent plan as it is designed to meet the demands of a difficult situation.
- Strategy provides direction in which human and physical resources will be deployed for achieving organizational goals in the face of environmental pressure and constraints.
- Strategy relates an organization to its external environment. Strategic decisions are primarily concerned with expected trends in the market, changes in government policy, technological developments etc.

- Strategy is an interpretative plan formulated to give meaning to other plans in the light of specific situations.
- Strategy determines the direction in which the organization is going in relation to its environment. It is the process of defining intentions and allocating or matching resources to opportunities and needs, thus achieving a strategic fit between them. Business strategy is concerned with achieving **competitive advantage.**
- The effective development and implementation of strategy depends on the strategic capability of the organization, which will include the ability not only to formulate strategic goals but also to develop and implement strategic plans through the process of strategic management.
- A strategy gives direction to diverse activities, even though the conditions under which the activities are carried out are rapidly changing.
- The strategy describes the way that the organization will pursue its goals, given the changing environment and the resource capabilities of the organization.
- It provides an understanding of how the organization plans to compete.
- It is the determination and evaluation of alternatives available to an organization in achieving its objectives and mission and the selection of appropriate alternatives to be pursued.
- It is the fundamental pattern of present and planned objectives, resource deployments, and interactions of a firm with markets, competitors and other environmental factors.

  A good strategy should specify;
- What is to be accomplished
- Where, i.e., which product/markets it will focus on

- How i.e., which resources and activities will be allocated to each product/market to meet environmental opportunities and threats and to gain a competitive advantage

**Components of strategy**

1. Scope; refers to the breadth of a firm's strategic domain i.e., the number and types of industries, product lines, and markets it competes in competes in or plans to enter.
2. Goals and objectives; these specify desires such as volume growth, profit contribution or return on investment over a specified period.
3. Resource deployment; strategy should specify how resources are to be obtained and allocated across businesses, product/markets, financial departments, and activities..
4. Identification of a sustainable competitive advantage; it refers to examining the market opportunities in each business and product-market and the firm's distinctive competencies or strengths relative to competitors.
5. Synergy; this exists when the firm's businesses, products, markets, resource deployments and competencies complement one another i.e., the whole becomes greater than the sum of its parts( 2+2=5)

Strategies can be classified into corporate, business-unit and functional strategies.

**Definition;** Strategic management is the process by which top management determines the long-term direction of the organization by ensuring that careful formulation, implementation and continuous evaluation of strategy take place.

**The strategic management process**

The process can be broken down into three phases;

- Strategy formulation

- Strategy implementation
- Strategy control

**Strategy formulation involves**;

- Defining the organization's guiding philosophy & purpose or mission.
- Establishing long-term objectives in order to achieve the mission.
- Selecting the strategy to achieve the objectives.

**Strategy implementation** involves;

- Establishing short-range objectives, budgets and functional strategies to achieve the strategy.

**Strategy control** involves the following;

- Establishing standards of performance.
- Monitoring progress in executing the strategy.
- Initiating corrective actions to ensure commitment to the implementation of the strategy.

**Defining an organization's purpose/mission**

- The mission defines the fundamental reason for the organization's existence. It provides a framework for decision-making that gives direction for the entire organization.
- It is an overall goal of the organization that provides a sense of direction and a guide to decision-making for all levels of management i.e. organizational objectives and strategies at lower levels are developed from the mission.
- The mission describes the organization's line of business, its products and specifies the markets it serves within a time frame of 3 to 5 years.
- The mission defines the boundaries or domain within which the organization will operate. The boundaries may be defined as industries or types of industries.

- The mission should not prevent change but provides direction for seeking new opportunities.
- It should be broad enough to allow exploitation of new opportunities but specific enough to provide direction.
- A mission should be achievable, in writing and should have a time frame for achievement.

**Mission statements should include the following components;**

- Targets customers and markets
- Principal products
- Geographic domain
- Core technologies used
- Concern for survival, growth and profitability
- Organizational self concept
- Desired public image.
- The organization's guiding philosophy

The organization's philosophy establishes the values and beliefs of the organization about how the business should be done and the organization's role in the society.

It establishes the relationship between the organization and its stakeholders i.e. its responsibilities towards customers, employees, shareholders and general public.

**Establishing organizational objectives**

An objective is a statement of what is to be achievable, measurable and stated with specific time frames.

They can be classified as either short-range, medium or long range.

They may also be corporate, business unit or functional/ departmental objectives.

Organizational objectives may be in the following areas;

**1.** Profitability **2.** Service to customers **3.** Employee wellbeing and welfare **4.** Social responsibility.

**Strategic business units (SBUs)**

A large organization's activities can be segmented as business units.

A business unit is an operating unit in an organization that sells a distinct set of products to a distinct market in competition with a well defined set of competitors. It is normally referred to as an **SBU**.

An organizational SBU often has the following characteristics;

- It has its own set of customers.
- It should have a clear set of competitors, which it is trying to surpass.
- It should have its own strategic planning manager responsible for its success.
- Its performance must be measurable in terms of profit and loss, i.e. it must be a true profit centre.

  e.g. K.B.C.'s SBUs include; K.B.C Kiswahili, K.B.C. English, Metro FM, K.B.C. T.V, Metro TV etc.



**Benefits of strategic management**

- It provides the organization with consistency of action i.e. helps ensure that all organizational units are working toward the same objectives (direction).
- The process forces managers to be more proactive and conscious of their environments i.e. to be future oriented.
- It provides opportunity to involve different levels of management, encourage the commitment of participating managers and reducing resistance to proposed change.

**ANALYZING THE EXTERNAL ENVIRONMENT**

In deciding an organization's future direction, managers must answer three questions;

- What is the organization's present position?
- Where does the management want the organization to be in future? (objectives)
- How does the organization move from its present position to the future desired position?

The first question is answered through the analysis of the firm's external and internal environment.

The environment is a major source of change. Some firms become victims of this change while others use it to their advantage.

The purpose of environmental analysis is to enable the firm to turn change to its advantage by being proactive.

Characteristics of the environment are;

- It is unique to every organization.
- It is constantly changing.
- One level is controllable while the other (remote-PESTEL) is uncontrollable.
- It is a source of Opportunities, Threats, Strengths & Weaknesses.

Environmental analysis can be divided into two major steps;

a. Defining; determining the relevant environmental forces.
b. Scanning & forecasting; collecting information concerning the defined environment.

**Defining the external environment**

External forces form the basis of the opportunities and threats that a firm faces. These are;

1. **Political /legal factors;** They define the legal and regulatory framework within which firms must operate. Constraints are placed on firms through fair trade practices, minimum wage legislation, pollution and pricing policies aimed at protecting the employees, consumers, the general public and the environment. Such actions reduce the profit potential of the firms. However, others such as patent laws and government subsidies are designed for the benefit and protection of firms.
2. **Economic factors;** They affect consumer spending power and consumption patterns.

   Managers must consider the general availability of finance, the level of disposable income and people's consumption patterns. Other factors are; the level of interest rates, inflation rates, trend of growth in GDP, the emergency of trading blocs (EAC,ECOWAS) and levels of employment.

3. **Social factors;** These include the values, beliefs, attitudes and lifestyles of people. As people's attitudes change, so does the demand for various types of products. Other examples of social change include;

- Entry of large numbers of women in the labour market
- Shifts in age distribution
- Geographic shifts in population
- Increased levels of education and sophistication

4. **Technological factors;** Technology refers to the means used to do useful work. To avoid product obsolescence and promote innovation, a firm must be aware of technological changes that influence its industry. Innovative technologies can lead to possibilities of a new product, product improvements or improvement in production and marketing techniques.

**Environmental forecasting techniques**

Environmental variables are dynamic and forecasting enables a firm to assess the future and make plans for it.

Forecasting techniques can be classified as either qualitative or quantitative.

Qualitative techniques are based primarily on opinions and judgements, on data that cannot be statistically analyzed.

Quantitative techniques are based on the analysis of data by use of statistical techniques.

**Qualitative forecasting techniques**

1. **Delphi method;** This is a method of developing a consensus of expert opinion. A panel of experts is chosen to study a particular problem. Panel members do not meet as a group. They are asked to give an opinion about certain future events. After the first round of opinions has been collected, the co-coordinator summarizes the opinions and sends the information to panel members. Based on this information, the panel members rethink

their earlier responses and make a second forecast. The same procedure continues until a consensus is reached.

2. **Executive judgment;** This is a method of forecasting based on the intuition of one or more executives. The approach may work well where the forecaster has past market experience. A major demerit is that the forecaster may be too pessimistic or optimistic.
3. **Customer surveys;** In this case customers are asked what types and quantities of products they intend to buy during a specified period of time. But this may only be possible where the business has few customers who may be able to make accurate estimates of future product requirements. The disadvantage is that a customer survey may only reflect customers' purchase intentions and not actual purchases.
4. **Sales force forecasting survey;** Sales people are asked to estimate the anticipated sales in their territories for a specified period.

**Merits;**

- Sales people are closer to customers and are better placed to know the customers' future product needs.

**Demerits;**

- The sales people can be too pessimistic or optimistic.
- They tend to underestimate the sales potential in their territories.

**Quantitative techniques**

1. **Time series analysis;** This technique forecasts future demand based on what has happened in the past. The idea is to fit a trend line to historical data and then extrapolate this line into the future. The method assumes that historical data will form a similar pattern into the future.

2. **Regression modelling;** This is a forecasting technique in which an equation with one or more variables is used to predict another variable. The one being predicted is called the dependent variable and the other variables used to predict it are the independent variables. The technique determines how changes in the independent variables affect the dependent variable. Once a relationship is established, future values for the dependent variable can be forecast based on predicted values of the independent variables.

**Industry and competitive analysis**

This involves examining a firm's industry and competitive environment. Factors considered are;

- Industry structure
- Factors that determine competition
- The key factors for success in an industry.

Competitive analysis helps to define the company's distinctive competence and competitive advantage.

A **distinctive competence** is an activity or resource where the firm's position is superior to its rivals.

A **competitive advantage** refers to a firm's superior competitive position that allows it to achieve higher profitability than the industry's average.

**Purpose of industry and competitive analysis**

- Defining a firm's industry and served market. An **industry** is a group of companies that offer products that satisfy similar customer needs. A **served market** is the portion of the industry that the company targets.
- Identifying business opportunities- i.e. new market trends and **niches** a firm can serve.
- Providing a **benchmark** for evaluating the company relative to competitors.

- Shortening the company's response time to competitors' moves or pre-empting such moves.
- Helping a firm to gain a competitive advantage.
- Aiding in the development of strategy and its successful implementation.

**Understanding the industry's life cycle**

Industries come into existence and change over time due to technological, social and economic changes and managers need to understand these changes because they affect the intensity and basis for competition. The stages of the industry's life cycle are as follows;

1. **emerging (embryonic) stage**

At this stage companies offer products that have little standardization because the technology is not well developed. Channels of distribution are not well established. Potential customers and their buying habits are not known or are unclear. As some companies succeed, they attract new entrants as the industry's sales rises.

Strategies at this stage will be characterized by the following;

- Ability to rapidly improve product quality and performance features.
- Building advantageous relationships with key suppliers and distribution channels.
- Acquisition of a core group of loyal customers and the expansion of the customer base through model additions and advertising.
- The ability to forecast future competitors and the strategies they are likely to take.

2. **Growth stage**

Companies start to build their market share and profitability as industry sales expand. They are now able to standardize their products and achieve economies of scale. Strategies are similar to those of stage one.

3. **Shake out stage**

   Industries often experience a shakeout which usually leads to the collapse and exit of a large percentage of companies in the industry. They rid the industry of small and unstable competitors leaving the larger firms. Shakeouts occur due to the following;

- The saturation of the industry because of a large number of competitors and brands.
- A decline in the industry's growth rate, reducing the industry's ability to support all existing competitors.

4. **Maturity stage**

   At this stage the industry product becomes more standardized and success of the company mainly depends on aggressive marketing activities. Firms will have achieved economies of scale in their operations and are likely to use low prices as their competitive tool. Because market growth is non-existent firms are motivated to acquire market share by taking it away from competitors. Strategies at this stage will include;

- Pruning the product line- by dropping unprofitable product models and sizes.
- Emphasis on process innovation that permits low cost production.
- Emphasis on cost reduction through putting pressure on suppliers for lower prices and using cheaper components.
- Horizontal integration -acquiring or merging with other firms in similar business.
- International expansion- to markets where attractive growth and limited competition still exists.

5. **Decline stage**

The stage is marked by declining industry sales. Such decline compels managers to reconsider the company's objectives and determine whether it remains in the industry or exits.

**Characteristics of industry lifecycle**

- The stages vary in duration.
- Different stages require different skills, capabilities and strategies.
- Industry lifecycle is not always linear i.e. does not move sequentially from emerging to decline. An industry in maturity may experience revival because of new technology or changes in competitive strategies.

**Analyzing the structure of the industry**

Industry structure refers to the competitive profile/ analysis of the industry. Some are more competitive than others and the degree of competitiveness depends on the following factors;

- Barriers to entry and exit
- Level of product differentiation
- Level of concentration
- Economies of scale

**a. Barriers to entry and exit**

They make it difficult for new firms to enter the industry and existing ones to quit. When barriers to entry are high, competition declines over time. These entry barriers may be tangible or intangible.

Tangible barriers include;

- Capital requirements e.g. aircraft manufacturing
- Access to technological knowhow
- Access to distribution channels
- Extent of government control of the industry.

Intangible barriers are;

- Reputation of existing firms and brands

- Customer loyalty to current brands
- Customer switching costs

Exit barriers may include the company's physical assets which may lack a buyer and the effect of the departure from an industry on the company's reputation.

**b. Product differentiation**

This refers to the extent to which customers perceive products or services offered by the companies in the industry as different from others. Differentiation can be achieved through technological leadership, persuasive advertising, sales promotions and after-sales service.

**c. Concentration**

It is the extent to which industry sales are dominated by only a few firms. The intensity of competition declines over time if just a few firms are dominant. The firms that hold larger market shares are able to achieve economies of scale and use them to set lower prices that act as a barrier to new entrants or drive out smaller companies from the industry.

**d. Economies of scale**

It refers to the savings that companies achieve from producing large quantities.

**Understanding competitive dynamics**

**Michael Porter**'s five forces of competition can be used to gain an insight into an industry's competitiveness. These are;

- Threat of entry
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitute products
- Rivalry among existing companies.

**1. Threat of entry**

This is mainly dependent on barriers to entry aforementioned.

2. **Bargaining power of buyers**

   In some industries, buyers can exert power to producers by forcing down prices, demanding higher quality or more after-sales service. This is dependent on the following;

- The buyers are few and they buy in large volumes
- The product is not differentiated, is substitutable and there are other alternative suppliers.
- The buyer has little switching costs
- The buyer can integrate backward to make the industry's product.

3. **Bargaining power of suppliers**

   Suppliers can exert their bargaining power by raising prices or reducing the quality or quantity of their supplies. A supplier group is powerful if;

- It is made up of a few firms
- There are few or no substitute products
- The product is unique or differentiated
- There exists supplier switching costs
- It can integrate forward to produce the industry's product.

4. **Threat of substitutes**

   Substitutes are products that fulfil the same customer needs e.g. cars, trains and airplanes are substitute means of transportation. The threat is greater where there is little or no product differentiation and brand loyalty.

5. **Rivalry among existing firms**

   This is often based on tactics like price competition, new product introductions and heavy advertising. This rivalry is dependent on the following factors;

- Competitors are many
- They are roughly equal in size
- Industry growth is slow, leading to fights for market share

- The product lacks differentiation or switching costs
- Fixed costs are high and the product is perishable
- Exit barriers are high.

**Understanding the key success factors (KSFs)**

Key success factors determine the requirements for successful participation in an industry. The KSFs vary from one industry to another and vary from one phase of industry lifecycle to another.

Identifying KSFs requires an analysis of customers and (analysis of) the factors that lead to survival in the industry i.e. competitive factors. Customer analysis involves the following;

- Who are the customers?
- What are their met and unmet needs (what do they want)?
- How do customers choose between competing products?

**Performing strategic group analysis**

A strategic group is a set of companies within an industry that follow similar competitive strategies.

**Importance**

- Providing an overview of the major strategies used by companies in the industry and determining which strategies are most effective.
- Helping the company to examine its direct competitors
- Helping the company to examine its potential competitors
- Evaluating the company to explore different strategic options
- Forcing the firm to reassess its market position.
- Competitive benchmarking

**The process of competitor analysis**

A company can succeed only by designing offers/ products that satisfy target consumer needs better than competitors. This calls for competitor analysis. The process consists of the following steps;

- Identifying key competitors
- Assessing their objectives
- Assessing their strengths and weaknesses
- Assessing their strategies
- Assessing their reaction patterns
- Selecting which competitors to attack or avoid.

1. **Identifying competitors**

   A company can define its competitors as other companies offering a similar product/service to the same customer group at similar prices. There are two ways of identifying competitors;

**(a) Industry basis**

Many companies identify their competitors from the industry point of view. An industry is a group of firms which offer a product or class of products that are close substitutes for each other, e.g. the banking industry, pharmaceutical industry etc.

**(b) Market basis**

In this case competitors are companies that are trying to satisfy the same customer need or serve the same customer group. The market definition of competition opens the company's focus to a broader set of actual and potential competitors e.g. from an industry point of view coca cola might see its competitors as Pepsi and other soft drink manufacturers. But from a market perspective the customer actually wants to quench his thirst. This need can be satisfied by fruit juice, bottled water, beer etc.

2. **Determining competitors' objectives**

   Companies differ on the weights they put on short term and long term profitability and other objectives.

   Some competitors might be oriented toward satisfying profits (breaking even) than maximizing the profits.

   The company should be able to know the relative importance that a competitor places on current profitability, market share,

share growth, cash flow, technological leadership etc. E.g. a company pursuing low cost leadership will react more strongly to a competitor's cost-reducing manoeuvres than to the same competitor's advertising increase.

3. **Identifying competitors' strategies**
   In most industries, competitors can be sorted out into groups pursuing different strategies. A strategic group is a group of firms in an industry pursuing similar strategy. The company needs to examine each competitor on the following;

- Product quality
- Features and product mix
- Customer service
- Pricing policy
- Distribution coverage
- Promotion strategy
- R & D effectiveness

4. **Assessing competitors' strengths/weaknesses**
   The company needs to identify competitors' resources and capabilities. Knowledge of such resources can be obtained through conducting primary research with customers, suppliers and dealers. The company can carry out a customer analysis process as follows;

- Assess the company's and competitor's performance on different customer values against their ranked importance.
- Examine how customers in a specific segment rank the company's performance against a specific major competitor on important attributes.
- Monitor changes in customer value over time.

5. **Estimating competitor's reaction patterns**
   Each competitor reacts differently. Some react to certain types of attacks but not to others i.e. they may respond strongly to

price decreases but may not respond at all to advertising increases. This depends on their profit and marketing objectives.

6. **Selecting competitors to attack or avoid**

   A company may benefit from some competitors. This may be in the following ways;

- Competitors may help increase total demand
- They share the costs of product and market development
- They help to legitimize a new product/ technology
- They may serve less attractive segments which may accuse the company of ignoring the segments

Therefore some companies compete "constructively" while others may compete "destructively". Companies will often attack competitors who are destructive, small, or weak.



**ANALYZING THE INTERNAL ENVIRONMENT**

The internal environmental analysis process evaluates all relevant factors within an organization in order to determine its strengths and weaknesses.

It starts with the identification of the organization's resource allocations, an enumeration of its strengths and their strategic significance.

Such analysis may be done by people from the planning department or an external consulting firm. Some of the areas most organizations should analyze include;

- Financial position
- Product/service position
- Marketing capability
- R & D capability
- Organizational structure

- Human resources
- State of facilities and equipment
- Past and current objectives, strategies and their effectiveness.

Strengths have strategic significance when;

- They result in a distinctive competency. A distinctive competency occurs when an organization's cannot be easily matched by a competitor.
- They provide a competitive advantage. A competitive advantage is the ability to do something that competitors cannot do or cannot do as well.
- A weakness becomes a major vulnerability when it is a capability that is held by most competitors and is necessary for success in the industry.

**Value chain analysis**

It is a way of looking at a business as a chain of activities that transform inputs to outputs that customers value.

It attempts to understand how a business creates customer value by examining the contributions of different activities within the business to that value;

Inputs (raw materials, machinery) → conversion → outputs (products, services)

Customer value is derived from the following;

- Activities that differentiate the product(quality)
- Those that lower costs(affordability)
- Activities that meet customers need quickly(speedy delivery)

The analysis divides the activities of the firm into two groups;

a) Primary activities: are those involved in the physical creation of the product, marketing and transfer of the product to the buyer and after sales service.

b) Support activities: such as human resource, R & D, management etc.

**The value chain analysis process**

a) **Identify activities**

A firm often performs a number of activities that may represent a strength or weakness. These activities are such as;

- Installation
- Distribution
- Promotion

Any of these could be a source of competitive advantage.

b) **Allocate costs**

Each activity incurs costs and managers should assign costs to each of the activities and assess it on the basis of the customer value that it creates.

c) **Compare with competitors(competitor bench marking)**

To evaluate a value activity as a strength or weakness, comparisons are made between it and key competitor's activities. Each element in the chain delivers a part of the total value to the customer and contributes part of the total profits. The purpose is to measure the value delivered and the profit contributed by each element to the chain. Strategy would be to focus attention and resources onto the parts of the chain from which the majority of the value comes.



**IDENTIFYING STRATEGIC ALTERNATIVES**

Strategy outlines the steps an organization will take in order to achieve a set of objectives.

Strategy is developed by evaluating available alternatives and choosing one or more of the alternatives.

Strategies exist at different levels of the organization and are classified according to the scope of their coverage.

(a) Corporate strategies; they evaluate what business an organization will be in and how company resources will be allocated among those businesses. They are established at the highest levels of the organization and involve a long-range time horizon.

(b) Business unit strategies; they focus on how a specific **SBU** will compete in a given industry.

(c) Functional strategies; are concerned with the activities of different functional areas such as production, finance, marketing, etc.

**Corporate strategy alternatives**

These can be classified as follows;

A. Growth strategy

1. Concentration strategy (intensive growth strategies)

(a) Market development

(b) Product development

(c) Horizontal integration

2. Vertical integration

3. Diversification growth

(a) Concentric diversification

(b) Conglomerate diversification

B. Harvesting strategies

C. Defensive strategies

(a) Turnaround

(b) Divestment

(c) Liquidation

(d) Bankruptcy

D. Combination strategies

**A. Growth strategies**

A firm pursuing a growth strategy regularly develops new products, enters new markets, finds new uses for its existing products and develops new production processes.

Several generic strategies can be used for growth;

1. **Concentration strategy;** It is the strategy where the firm directs its resources to the profitable growth of a single product in a single market. The firm thoroughly develops its expertise in a limited area and grows by building its competencies and achieves a competitive edge. Actions available to the company include the following;

- Stretching the product line (new sizes, styles, tastes, colours)
- Expanding distribution into new geographic areas
- Encouraging non-users to use the product
- Encouraging more usage
- Penetrating competitor's positions through pricing strategies, product differentiation and advertising.

There are three approaches to pursue a concentration strategy;

**a) Market development;**

This involves marketing present products to customers in related market segments by adding on channels of distribution. This is achieved through the following;

- Opening additional geographic markets through regional or international expansion
- Attracting other market segments by developing product versions that appeal to other segments or by entering other channels of distribution.

**b) Product development**

This involves the modification of existing products or the creation of new but related products that can be marketed to current customers. Such a strategy is adopted to prolong the life-cycle of current products. The firm achieves this through developing additional models and sizes or changing the products' colour, shape, taste etc.

**c) Horizontal integration**

This involves growth through the acquisition of one or more firms producing a similar product or operating at the same stage of the production-marketing chain. The strategy is aimed at eliminating competition and providing the acquiring firm access to new markets and resources.

2. **Vertical integration;** It is where a firm acquires another firm that supplies it with inputs (such as raw materials) or one that is a customer for its output. E.g. EABL ltd acquired Central Glass Industries in a case of backward vertical integration. Forward integration moves an organization into distributing its own products or services and gives the organization control over sales and distribution channels.
3. **Diversification;** This is when an organization moves into areas that are clearly different from its current business to spread risk so that the organization is not subject to the whims of just one product or industry. Diversification can either be concentric or conglomerate.

- **Concentric diversification**
  This involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets or products. In this way the firm is able to build expertise in a related area and diversify risks.
- **Conglomerate diversification**
  It is where a large firm acquires a business because it represents the most promising investment opportunity and not because of similarity or synergy.

Growth strategies are achieved through **acquisitions**, **mergers**, or **joint ventures**

**An acquisition** occurs when one company purchases the assets of another and absorbs them into its own operations.

**A merger** occurs when two or more companies combine into one. Neither party acquires the other but both companies merge together combining operations to form a new entity.

**A joint venture** occurs when two or more organizations pool their resources for a given project. The two or more firms lack a necessary component for success in a particular competitive environment and by pooling resources together, they may be capable of doing something they could not do separately and are able to share risks and profits involved.

**B. Harvesting strategies**

Most products eventually reach a decline stage. This may be because of new competition, changes in consumer preferences or new technology. When this happens a firm 'harvests' as much as it can from the product, i.e. milking the cow dry. The approach is to limit additional investment and expenses and to maximize short-term profits and cash flow. Such a strategy should be considered under the following conditions;

- The product is in the decline stage
- The current market share of the product is small
- The firm has other better uses for its resources
- The product is not a major contributor of the sales or profitability of the firm.

**C. Defensive / turnaround strategies**

These are used when the company needs to reduce its operations, to reverse a negative trend or to overcome a crisis or problem.

The firm may be having financial problems or it forecasts hard times ahead in terms of new competitors entering the market, new products or changes in government regulations. The strategies include retrenchment, divestment, liquidation and bankruptcy

1. **Retrenchment/ restructuring/ downsizing**

   A firm can find itself with declining profits because of recessions, production inefficiencies or innovative breakthroughs by competitors. Such a firm can survive if it fortifies its distinctive competencies. This is often achieved in two ways;

   **-Cost reduction;** e.g. laying off employees, leasing rather than purchasing new heavy equipment, eliminating elaborate promotional activities and dropping unprofitable items from the product line.

   **-Asset reduction;** e.g. the sale of land, buildings and equipment not essential to the basic activity of the firm.

2. **Divestiture**

   Is the sale of a firm or a major component of a firm because the company has financial needs where its cash flow can be greatly improved if business with high market value are sacrificed or because of government action when a firm is perceived to monopolize or unfairly dominate a particular industry.

3. **Liquidation**

   It is where a firm is sold in parts for its tangible asset value. As a strategy, it minimizes the losses of all the firm's shareholders. The proceeds of the sale are then distributed to creditors, the remainder of which can then be distributed to shareholders.

4. **Bankruptcy**

   A company can go to the courts to ask for a **reorganization bankruptcy**. It persuades its creditors to temporarily freeze their claim while it undertakes to reorganize and build the company's operations back to profitability. The company may close down unprofitable business divisions, reduce its workforce or negotiate employee contracts to affordable salary levels.

## D. Combination Strategies: Joint ventures, Strategic alliances and Consortia

1. **Joint venture**

   This is where two or more firms lack a necessary component for success in a particular competitive environment and decide to enter a co-operative arrangement where they contribute in providing the resources required for a business venture.

2. **Strategic alliances**

   These are partnerships that exist for a definite period during which partners contribute their skills and expertise to a co-operative project. One partner may contribute manufacturing expertise while the other provides marketing skills. Often such alliances are undertaken because partners want to learn from one another with the intention of building own capabilities to replace the partner when the contractual arrangement between them ends.

3. **Consortia**

   These are large, interlocking relationships between businesses of an industry. Firms in one industry e.g. pharmaceutical or electronic may gang together to fund a research program. It often results in cost-sharing and increased economies of scale for the companies involved.

**Business unit strategy alternatives**

Strategies at this level can be categorized into three major types;

- Overall cost leadership
- Differentiation
- Focus

1. **Overall cost leadership;** This involves producing and delivering the product or service at a lower cost than the competition. Low cost producers maximize economies of scale and implement cost cutting technologies. They are then able to charge lower prices

or to enjoy higher profit margins. They depend on some unique capabilities to achieve and sustain their low cost position e.g.

a) Having secured suppliers of scarce low materials
b) Having a dominant market share position
c) Having secured technology that cannot be copied.

2. **Differentiation strategy;** This requires that a company creates a product that is recognized as being unique, thus permitting the firm to charge higher than average prices. Differentiation can come in the form of a unique product attribute, better customer service or an elaborate dealer network. It is aimed at building customer brand loyalty and a resulting lower sensitivity to price.
3. **Focus;** It involves targeting a particular buyer group and serving the well defined but narrow market niche better than competitors who serve a broader market. The idea is to achieve a least cost position or differentiation or both within a narrow market. The product is tailored to the unique demands of the smaller segment.

**Global strategy**

Globalization refers to the strategy of approaching worldwide markets with standardized products. Multinational companies (MNCs) are firms that compete in more than one national market.

**Reasons why firms internationalize/ globalize**

1. **Additional resources;** Various inputs including natural resources, technologies, skilled personnel and materials may be obtained more readily outside the home country.
2. **Lower costs;** Costs including labour, materials etc. may be lower outside the home country.
3. **Incentives;** These may be available from the host country or home government to encourage foreign investment.

4. **Taxes;** Different corporate tax rates in different countries provide opportunities for firms to maximize their after-tax, worldwide profits.
5. **Economies of scale;** National markets may be too small to support efficient production.
6. **Synergy;** operations in more than one national environment provide opportunities to combine benefits from one location with another.
7. **Protecting home market;** through offense in the competitors' home i.e. a strong offense in a competitors market can put pressure on the competitor that results in a pull back from foreign activities to protect itself at home.
8. **Trade barriers** e.g. tariffs, quotas and other restrictive trade practices can make exports to foreign markets less attractive hence local operations in foreign markets become attractive.
9. **International competition;** If a company's competitors become international and the company wants to remain competitive, foreign operations become necessary.
10. **Restrictions and regulations** imposed by the home government may increase the cost of operating at home and it may be possible to avoid these by establishing foreign operations.

**Characteristics of global industries**

- Barriers to entry decline and it becomes easier for foreign companies to penetrate national markets.
- Industry concentration declines as a result of entry by foreign producers. Concentration refers to the amount of market share controlled by the top 1-4 producers in the industry. A low concentration ratio indicates a highly competitive industry.
- Competition rises with internationalization and the diversity of competitors also increases.

- Consumer buying power rises with increased internationalization because they have many new options from which to choose.

**International strategic choices**

Deciding whether to go abroad and engage in international operations requires a company to develop an international strategy that involves three steps;

a. Determining the company's preparedness for international operations
b. Deciding on the company's mode of entry into different markets
c. Developing the organizational structure that supports the chosen strategy.

A firm should not decide to go international because every competitor is doing so but should first analyze the suitability of its structure, culture, people and resources for international operations.

Before making a decision to go international the company must weigh several risks;

1. The firm might not understand foreign customer preferences and fail to offer a competitively attractive product.
2. The firm might not understand the foreign country's business culture.
3. The firm might realize that it lacks managers with foreign experience.
4. The foreign country might change its laws or undergo a political revolution and expropriate foreign property (Zimbabwe).

**Foreign market entry methods**

These are;

- exporting
- licensing
- franchising

- joint ventures
- foreign direct investments (FDI)

  **Exporting;** Most firms start with this so as to gain a foothold and necessary experience in the international market. It has the following advantages;
- It offers the firm opportunity to learn and develop appropriate experience with international markets.
- The firm is able to expand its market and diversify its risks against unfavourable domestic markets
- Enables the firm to achieve economies of scale because of increased production volume
- It does not require major initial capital investments.

  **Licensing;** Licensing is an arrangement where the licensor gives something of value to the licensee in exchange for certain performance and payments from the licensee. The licensor may give the licensee one or more of the following;
- **Patent rights** e.g. rights to produce or sell a new invention for a certain number of years.
- **Copyrights**, the exclusive legal right to reproduce, publish and sell a form of literary, musical or artistic work.
- Technical know-how.

  The royalties/ fees generated from licensing are a major source of revenue for the licensor. Licensing offers a company three major advantages:
- It helps the company to overcome trade barriers without much cost or investment.
- It allows the company to overcome limits or investments imposed by foreign governments.
- No risks of expropriation.

  **Disadvantages**

- The foreign partner may gain experience and evolve into a major competitor after the contract expires.
- The licensor forfeits control on production and marketing of its products and this may lead to low quality products and poor service.

**Franchising;** It is a special form of licensing which allows the franchisee to sell a product using the parent's brand name or trade mark, carefully developed production procedures and marketing strategies. The franchisee pays a fee to the parent company (franchisor) and must strictly adhere to the policies of the parent.

It offers a quick way of entering foreign markets.

**Joint ventures;** This is entering foreign markets by joining with foreign companies to produce or market a product. The process begins with a mutually agreeable pooling of capital, production or marketing expertise, patents or trademarks.

**Advantages**

- Potentially greater returns from equity participation as opposed to royalties e.g. the company may control 50% of share capital thus be entitled to 50% of the profits.
- Greater control over production and marketing.
- The firm gets greater experience in international business.

**Disadvantages**

- Need for greater capital outlay.
- Interest of one partner may conflict with the other.

**Foreign Direct Manufacturing (FDI)**

This refers to direct ownership of foreign- based manufacturing facilities. This is appropriate under the following conditions;

- The host country market is large
- The host country market is geographically close

- The company has good international experience
- The company has significant competitive technological advantage.

**Advantages**

- Increased control over the firm's foreign operations
- Allows the company to exploit its competitive advantages in new markets
- Enables the company to achieve economies of scale
- It gives the company an opportunity to manufacture its products locally and to include local needs and preferences

**Disadvantages**

- It requires greater commitment of resources to international operations
- The company exposes a large investment to risks such as expropriation
- It creates problems for a firm that desires to divest from foreign operations

**Factors determining the mode of entry into international markets**

Two major factors should be considered. These are;

a. Environmental variables
b. Strategic variables

**A. Environmental factors**

These are; country risk, location familiarity, demand conditions and competitive conditions,

1. Country risk. They include;

- Political risks such as political instability
- Ownership and control risks such as expropriation
- Operational risks e.g. local price controls
- Profit transfer risks which relate to exchange rate issues.

2. Location familiarity; a firm should understand the economic, social, technological and cultural values of their potential markets.
3. Demand conditions; if the market is uncertain because of declining demand or is in a recession, the firm should use a mode of entry with less commitment e.g. exporting
4. Competitive conditions; when competition is high the firm should use a mode of entry that requires limited source commitment.

**B. Strategic variables**

1. Extent of economies of scale i.e. the potential for savings from increased volume of operations. FDI is better suited.
2. Concentration; it means that a few firms control most industry sales. As concentration rises, the industry moves toward monopoly and success is achieved in such a scenario through FDI.

**Generic international strategies**

**1. The multi domestic strategy**

It is premised on the belief that national markets differ in their structure, demographics, key success factors etc. this calls for differentiation in the competitive strategies used in different countries i.e. each country or regional market is treated differently because there is need to customize products to meet the tastes of local consumers, establish distribution channels unique to every country, etc.

Most global service companies tend to be multi-domestic e.g. insurance, banking, retailing etc.

**2. Global strategy**

In this case the firm focuses on exploiting similarities among countries in order to create a competitive advantage. Competition crosses national borders and occurs on a worldwide basis. The firm offers a standardized product to all its markets and engages in mass production and mass marketing.

**STRATEGY EVALUATION AND SELECTION**

To determine whether to make adjustments to the current strategy or change the strategy, it is necessary to project the results that will be achieved if no changes are made in the current strategy.

When the current strategy is unlikely to achieve the objectives set for the planning period, a performance gap exists.

**Gap analysis** is a technique that identifies a firm's current objectives and determines whether the current strategy would achieve the objectives. The firm may have the objective of e.g. increasing sales by 10% over the next two years. It needs to undertake a projection or forecast that will indicate whether the objective is realistic under the current strategy and prevailing conditions.

A resulting gap between target objectives and forecast actual performance indicates that the current strategy may not achieve target objectives.

The process of environmental analysis and internal analysis provide the information for determining whether a gap may occur.

The performance gap may be closed by careful implementation of the current strategy or more efficient use of resources or by improving competitive position for improved effectiveness.

**Portfolio analysis**

A technique that has been developed to assist in strategy evaluation and selection process is known as portfolio analysis. The Boston Consulting Group's (BCG) Growth-Share Matrix and the Planning Grid are commonly used approaches in portfolio analysis.

**The BCG Matrix**

The Growth share matrix postulates that all organizations are composed of more than one business. These businesses, also called strategic business units (SBUs) are called its corporate portfolio. The approach proposes that separate strategies be developed for each of these independent businesses.

The BCG approach is a classification of a company's businesses based on two variables; the business' relative market share in its industry and the annual market growth rate of the industry in which the business operates.

The relative market share refers to the SBU's market share relative to that of its largest competitor in that industry. A relative market share(RMS) of 0.1 means that the company's sales volume is only 10% of the leader's and an RMS of 10 means the company's SBU is the leader and is 10 times that of the next strongest competitor.

The following steps are followed in using the growth-share matrix in strategy evaluation and selection;

- Divide the company into its business units (SBUs)
- Determine the market growth rate for each business unit
- Determine the relative market share of each business unit
- Develop a graphical picture of the company's overall portfolio of business.

The matrix is divided into four cells, each indicating a different type of business.

1. **Question marks;**

Are businesses that operate in high growth markets but have low relative market share. They require a lot of cash because the company has to spend to keep up with the fast growing market because it wants to keep up with or overtake the market leader. Such a business is described as a question mark because the company has to think hard about whether to continue putting money into this business. The SBU may also be known as a problem child.

2. **Stars;**

Are the market leaders in a high growth market. A star does not necessarily produce positive cash flow because the company must spend to keep up with the high market growth and to fight off the competitors' attacks. They are stars because they are promising future cash cows.

3. **Cash cows;**

They are businesses operating in a market with falling market growth rate, have the largest relative market share and produce a lot of cash for the company. The firm does not have to finance expansion because the market's growth rate has slowed down. Due to the large market share, the business enjoys economies of scale and a higher profit margin. The company uses cash-flows from the cash-cows to support other businesses.

4. **Dogs;**

These are businesses with weak market shares in low growth markets. The company should consider harvesting these businesses or holding them in the hope that conditions may improve e.g. a turnaround in market growth rate.

Relative market share (RMS) and market growth rate are important parameters that influence strategy.

RMS determines the rate at which the business generates cash i.e. a business with high market share should have higher profit margins and cash flows.

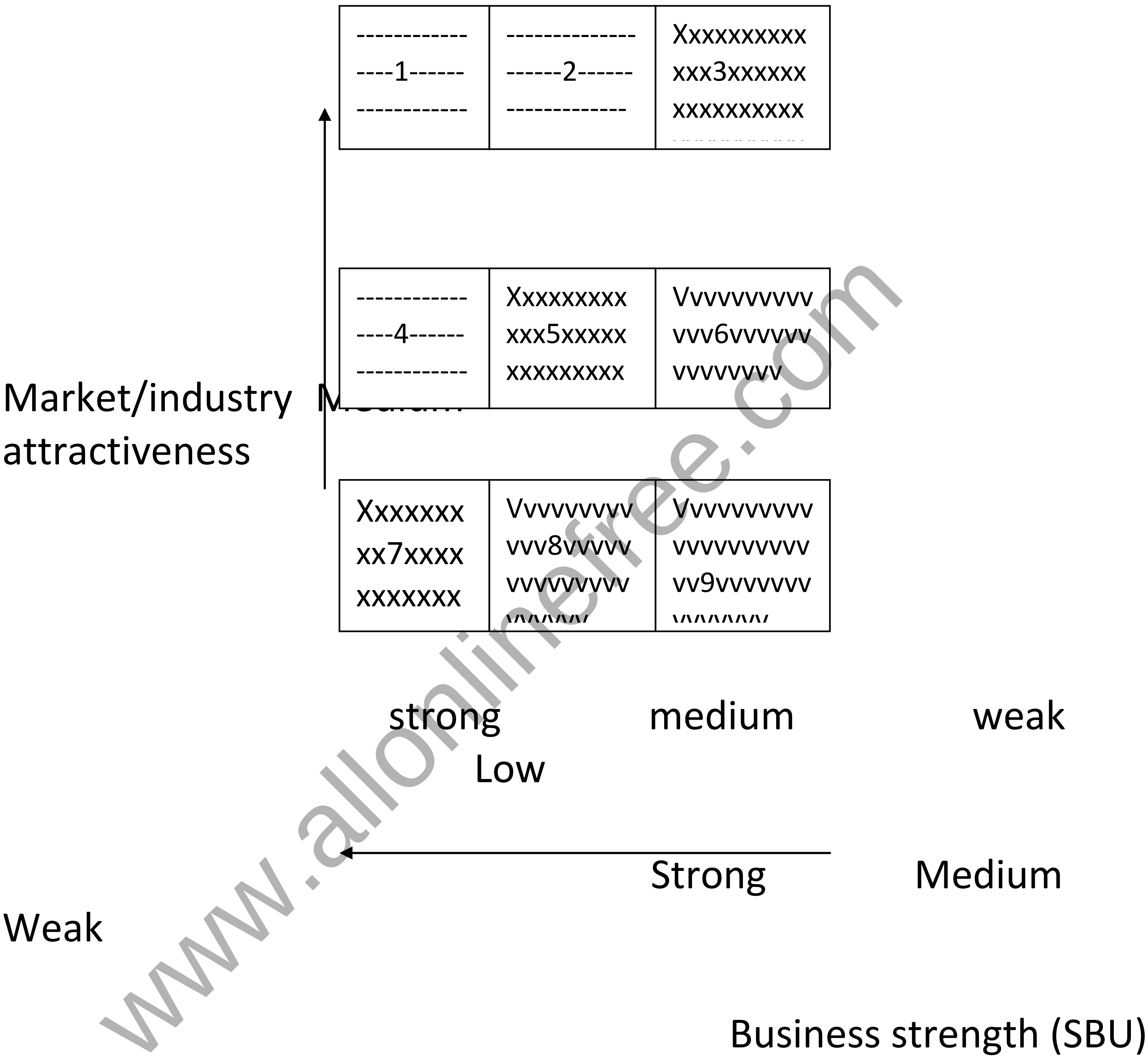
On the other hand the market growth rate influences the ease of gaining market share and also determines the level of opportunity for investment.

After a portfolio analysis, a firm should decide whether its portfolio is healthy or not. An unbalanced portfolio would be one having too many dogs and question marks and too few cash cows and stars. The company should decide whether to build, hold, harvest or divest its SBUs.

a. **Build**;
 Appropriate for question marks whose market shares must grow if they are to become stars and for stars if they are to become cash cows.
b. **Hold**;
 It is appropriate for cash cows if they are to continue yielding large cash flows.
c. **Harvest**;
 It is a strategy to increase short-term cash flow regardless of long term effect. It involves milking the business dry and entails eliminating unnecessary R&D expenditures, not replacing worn out equipment, reducing advertising expenditure, reducing the sales force etc. the strategy is appropriate for weak cash cows, dogs and question marks.
d. **Divest**;
 Refers to liquidating or selling weak businesses and is appropriate for dogs and question marks.

**The planning grid (the GE model)**

The planning grid was developed by General Electric (GE). It plots each business unit on a nine cell grid. The horizontal axis is a qualitative analysis of the business unit's strengths, while the vertical axis is a qualitative analysis of the industry attractiveness. It is based on the fact that a firm is successful in so far as it enters attractive markets and possesses the business strength to succeed in those markets. Market attractiveness is rated as high, medium or low and business strength is rated as being strong, medium or weak.




The following factors are considered to determine **business strengths;**

- Market share held
- Profitability
- Competitive position
- Growth rate of the business unit
- Quality of management and employees

- Product quality
- Distribution and promotion effectiveness
- R&D performance, etc.

**Market/industry attractiveness** is judged on a number of factors i.e.

- Market size
- Market growth rate
- Competitive intensity
- Industry profitability

The nine cells of the GE matrix fall into three zones. The three zones in the upper left corner (1, 2, & 4) indicate strong SBUs in which the firm should invest heavily and pursue growth strategies. The diagonal cells (3, 5, &7) indicate SBUs that are medium in attractiveness. The firm should pursue growth or harvesting strategies in these SBUs. Cells 6, 8, & 9 indicate SBUs that are low in attractiveness in which the company should divest or pursue defensive strategies (turnaround, divestiture, and liquidation).

**Shortcomings/ demerits/ critique of the portfolio models**

The portfolio techniques help managers to think more strategically, understand the viability of their business better, improve quality of their plans, eliminate weaker businesses and strengthen their investment in more profitable businesses. But they both have the following limitations;

1. They may lead a firm to place too much emphasis on market share growth and entry into high growth businesses and neglect the current businesses.
2. The weights and ratings of a given business can be manipulated by management to produce a desired location in the matrix.

3. Many businesses may end up in the middle of the matrix as a result of averaging the ratings and this makes it hard to know which appropriate strategy to take for a specific SBU.
4. The models fail to show the synergies (shared experience or complementary effect) between the two or more businesses i.e. there is a danger of terminating a losing business unit that actually provides an essential core competence or added value to other business units (SBUs).
5. Two or more businesses can end up in the same cell while they differ greatly in ratings on different factors e.g.

| | Business A | business B |
|---|---|---|
| Market share | 50% | 30% |
| Product quality | 60% | 90% |
| Promotion effectiveness | 40% | 30% |
| Total | 150 | 150 |
| Average | 50% | 50% |

**SWOT analysis/ SWOT matrix**

It is an organization's appraisal of its internal strengths and weaknesses and its external opportunities and threats.

SWOT analysis is based on the assumption that an effective strategy results from a sound "fit" between a firm's internal resources and its external situation.

**An opportunity** is a favourable situation in a firm's environment e.g. identification of a previously overlooked market segment, favourable changes in regulatory circumstances, improved buyer purchasing power, technological changes .

**A threat** is a major impediment to a firm's current or desired position e.g. entrance of a new competitor, slow market growth, new unfavourable regulations.

**A strength** is a unique resource (distinctive competence) that gives a firm a competitive advantage in the market.

**A weakness** is a limitation or deficiency in resources relative to competitors that impedes the firm's effective performance.

A SWOT analysis presents a company in four possible scenarios;

| | S | |
|---|---|---|
| S, O 1 | S,T 2 | |
| W, O 3 | W, T 4 | W |
| O | T | |

Cell 1 is the most favourable situation where the firm faces several opportunities and has numerous strengths to pursue those opportunities.

In cell 2 the firm has identified key strengths but faces an unfavourable environment. In this situation, strategy would be to redeploy the strong resources to build long term opportunities.

A firm in cell 3 faces opportunities but is constrained by weak internal resources. The strategy would be to focus on eliminating the weaknesses so as to pursue the opportunities.

Cell 4 is the least favourable and calls for strategies that reduce or redirect involvement in products or markets (product elimination, market withdrawal).

**PIMS (profit impact of market strategy)**

The PIMs database maintained by the strategic planning institute consists of strategic data that includes financial data, information on customers, competitors, etc. The database is collected across industries offering different products and services in regional, national and international markets. The database offers client companies customized capabilities regarding strategy evaluation and selection depending on their industry.

**Internal factors affecting strategy evaluation and selection**

1. **Role of the current strategy;**
 Current strategies are often built on past strategies. If management has invested time and resources in the current strategy they would be more comfortable with a choice that is closely related to and only involves a slight alteration of the current strategy.
2. **Degree of a firm's external dependence;**
 A firm may be dependent on one customer or one supplier and this may mean the firm faces a strategic threat and may employ the strategies of vertical or horizontal integration.
3. **Attitude towards risk;**
 Where attitudes favour risk, the range of strategic choices expands and high risk strategies become acceptable. But where management is risk-averse the range of strategic choices is limited and risky alternatives are eliminated before strategic choices are made.
4. **Managerial priorities different from shareholder's interest**
 Managers are required to make decisions that are in shareholders' best interests but they frequently place their own interests above others e.g. where shareholders' value may be maximized by selling a company, managers in the acquired firm may not select such a strategy for fear of losing their jobs.
5. **Internal/ political considerations**
 The use of power to pursue individual or group interests is common in organizations e.g. when the CEO who is a dominant

force and source of power, begins to favour a particular choice, it is often selected.

6. **Competitive reaction**

   In evaluating strategic choices, management has to weigh the likely competitor reactions e.g. the competitor may launch an aggressive counter- strategy and management must consider the impact of such reactions on the success of the chosen strategy.

**STRATEGY IMPLEMENTATION**

Strategy implementation involves translating formulated strategies into action. It entails moving from "planning your work" to "working your plan". Successful implementation of strategy requires the following;

- Strategies must be communicated and clearly defined for all affected employees.
- All affected employees must receive management support through having an appropriate organizational structure, empowering policies, sound leadership and effective reward systems.
- Corporate and business-unit strategies must be translated into short-term objectives and functional strategies.

1. **Communicating strategy**

A strategy has to be clearly understood before it can be implemented.

This gives purpose to the activities of each employee and allows the employee to link whatever task is at hand to the overall organizational goal.

It also provides the employee with general guidance for making decisions and enables him/her to direct efforts towards activities that are important.

2. **Strategy and structure**

Structure is the sum total of the ways in which the organization divides its labour into distinct tasks and then achieves coordination between them.

The structure breaks up the company's work into well defined jobs, assigns these jobs to departments and people and coordinates these jobs by defining formal lines of authority and communication.

**Types of organizational structures**

1. Functional organizational structure
2. Geographic
3. Divisional
4. Strategic business unit
5. Matrix/Complex

1. **Functional organizational structure**

It is where the organization units are defined by the nature of the work. Most organizations have four basic functions; production, sales, finance and human resources.

Each of the functions may be broken down where necessary e.g. the production department may be split into maintenance, quality control, engineering, manufacturing etc. Employees are grouped by function and report to managers in the same area of functional expertise, who report to the CEO. Such structure is often used in organizations with a similar or narrow product line.

**Advantages**

- Develops functional expertise
- Enhances efficient use of resources through specialization
- Centralized control of strategic decisions.

**Disadvantages**

- Encourages narrow specialization when members of a functional group develop more loyalty to the functional group's goals.
- Conflict may develop among different departments striving for different goals
- Limits the development of general managers
- Decreases response time as the organization grows.

**2. Geographic organizational structure**

It is found in organizations that maintain physically dispersed and autonomous operations or offices. It is commonly used by international organizations and those in the service industry e.g. banks, insurance companies, retailers, restaurant and hotel chains.

**Advantages**

- Allows tailoring of strategy to the needs of each geographic market.
- Permits the use of local employees which creates customer goodwill and an awareness of local feelings and tastes.
- Improves response time to the customer.
- Provides excellent training experience for general managers.

**Disadvantages**

- Makes it difficult to maintain consistency of service/ image from area to area.
- Can result in duplication of staff services at headquarters and regional levels.
- Adds another layer of management.
- Creates the dilemma of deciding how much autonomy to give to regional offices.

**3. Divisional organizational structures(customer or product-based structures)**

They are the structures adopted by organizations characterized by diversified products and unrelated customer groups.
The different businesses (divisions) are broken down first, then followed by a traditional functional or geographic breakdown. Each division operates as an autonomous profit centre headed by a division manager. Organizations that have largely diversified products and customers use such a structure.

**Advantages**

- Authority is placed at the appropriate level for rapid response.
- Frees CEOs (top managers) to deal with corporate strategic issues.
- Provides a good training experience for strategic managers.

**Disadvantages**

- Can result in costly duplication of staff functions at corporate and divisional levels.
- Can enhance negative divisional rivalry for corporate resources.
- Creates the problem of deciding how much authority to delegate to divisional managers.
- Creates the problem of how to equitably distribute corporate resources and overhead costs.

4. **Strategic business units**

As the number, size and diversity of divisions or businesses grow, some organizations find it advantageous to group the related businesses under senior managers, who then report directly to the CEO. The groups created are called strategic business units (SBUs).

**Advantages**

- Provides coordination among divisions with similar strategic concerns and product markets.
- Directs accountability to distinct business units

**Disadvantages**

- Adds another layer of management
- Can increase dysfunctional (negative) competition for corporate resources.
- Can present difficulties in defining the roles and authority of the CEO, the SBU managers and divisional managers.

**5. Matrix structure**

Also called "project" structure is a way of forming project teams within the traditional organization. A project is a combination of human, finance, raw material and machinery resources pooled together in a temporary organization to achieve a specified purpose. The development of a new product would be an example of a project.

Employees working on a project are officially assigned to the project and to their original department. A project manager is given the authority for meeting the project objectives in terms of cost, quality, quantity and completion time. When the project work is done, the project team is dissolved and the functional personnel return to their departments.

It may also be in the form of a combination of a functional and a product or market structure where employees are responsible both to functional managers and to product or market managers.

**Advantages**

- Simultaneously accommodates several project- oriented business activities
- Facilitates co-operation and coordination of related activities.
- Provides for training experience for strategic managers.

**Disadvantages**

- Can result in confusion and contradicting policies.
- Requires a lot of vertical and horizontal coordination.
- May result in slow decisions.

- Hard to maintain a balance between functional and project loyalty.

**Restructuring-- matching structure to strategy**

This should be done by way of emphasizing on strategically critical activities.

Such activities include distribution, R&D, new product development etc. which should be made the central building blocks for designing the organizational structure. This should be done with consideration on the results to be delivered e.g. customer satisfaction, product differentiation, lower costs, speed of delivery etc. Restructuring is achieved through;

a. Downsizing; it means laying off large numbers of managerial staff and other employees. This is aimed at reducing levels of management and widening the span of control to cut costs.
b. Outsourcing; means obtaining work previously done by employees inside the company. During restructuring certain activities may be seen as not being strategically critical and may even be done more competently by other outside businesses specializing in them.

**Guidelines for designing effective organizational structures**

1. A single product organization or one with a single dominant business should use a functional structure.
2. An organization with regional, national or international locations should use a geographic structure.
3. An organization with a small number of related lines of business should normally use a divisional structure.
4. The one with several unrelated lines of business should be organized into strategic business units.

**Organizational Policies**

A policy is a broad guide to thinking and action of organization members.

Policies are directives designed to guide the thinking, decisions and actions of managers and subordinates in implementing a firm's strategy.

Whenever strategic changes are made, it is necessary to review current policies and determine whether they need to be modified.

**Importance of policies**

- They establish indirect control over independent action by clearly stating how things are to be done i.e. they control decisions yet permit and empower employees to conduct activities without direct intervention by top management.
- They ensure quicker decisions in routine activities by standardizing answers to routine, recurring questions.
- They counteract resistance to chosen strategies by clarifying what is expected and facilitate acceptance especially when operating managers participate in policy formulation.
- They provide communication channels between organizational units, thereby providing a necessary foundation for coordinated, efficient efforts. E.g. of a policy; to accept customers' return of goods submitted within one month of purchase.

**Procedures and rules**

These differ from policies in degree of specificity. All seek to limit opportunities for individuals to make bad decisions or take undesired actions.

A procedure is a series of related steps or tasks expressed in chronological order to achieve a specific purpose. They specify in step-by-step fashion the manner in which a recurring activity must be accomplished.

Rules require that specific and definite actions be taken or not taken with respect to a given situation. They permit no flexibility and no deviation.

Example of a procedure is staff recruitment procedure .g. of a rule; 'no smoking in the factory premises'.

**Organizational leadership**

Leadership is the ability to influence the attitudes and opinions of others in order to achieve a coordinated effort from a diverse group of employees.

Without a linkage between manager selection and strategy, an organization risks either sacrificing a well planned strategy to a manager who is ill suited to implement it or hiring a key manager without a clear rationale for that particular choice. The assumption is that the style of managers influences their effectiveness in carrying out particular strategies. Certain organizational cultures and strategies are better suited for certain styles of leadership.

Therefore the organization should be provided with management skills required to cope with the consequences of constant change i.e. operating managers to provide the operational leadership and vision.

**Matching culture to strategy**

Organizational culture refers to the collective assumption and beliefs that pervade the organization about how business should be conducted and how employees should behave and should be treated.

A strong culture makes activities predictable i.e. management knows how employees will react in certain situations.

Strategic change that requires activities different from those suggested by the culture may fail unless attention is given to matching the strategy and culture.

Three basic considerations should be emphasized by firms seeking to manage a strategy-culture relationship;

- Key changes should be linked to the basic company mission.

- Emphasis should be placed on the use of existing personnel where possible to fill positions created to implement the new strategy because existing personnel possess the shared values and norms that help ensure cultural compatibility as major changes are made.
- Attention should be made to the changes that are least compatible with the current culture so that current norms are not disrupted.

**Strategy and reward/ motivational systems**

Highly motivated employees can increase the likelihood that organizational strategies will be successfully implemented. The organizational reward system is one of the most effective motivational tools.

The organizational rewards include all types of rewards both intrinsic and extrinsic, which are received as a result of employment. Intrinsic rewards are such as recognition, responsibility status, attention, advancement etc. Extrinsic rewards are external and are provided by the organization and are such as adequate pay, allowances, insurance etc.

Incentive pay plans attempt to tie pay to performance and can be used to motivate employees to work towards organizational objectives. Such plans will often include commissions, bonuses and pay rises.

**Tactical Issues in Strategy Implementation**

For successful implementation of strategy, firstly short-range objectives must be established for the entire organization. The short-range objectives translate long-range objectives into short-range targets for each unit.

Secondly, financial resources must be allocated to each organizational unit.

Thirdly strategies must be developed for each of the functional areas (marketing, finance, production etc).

**Short-range objectives**

Long-range objectives do not provide the detail necessary to guide daily operations.

Short-range objectives are more specific, usually focus on a time frame of one year or less and are often quantifiable.

One way to ensure that short-range objectives are derived from long-range objectives is to use the **cascade approach** to setting objectives which consists the following steps;

1. The objective setting process begins at the top of the organization with a statement of purpose and mission.
2. Long-range objectives are established to achieve this purpose and mission.
3. Long-range objectives lead to the setting of short-range objectives and performance targets for the overall organization.
4. Long-range and short-range objectives are established for each SBU, major divisions or units in the organization
5. Short-range objectives are established for the functional areas in each SBU or division.

**Benefits of short-term objectives**

- They give operating personnel a better understanding of their role in the firm's mission.
- They provide a basis for strategic control i.e. they provide a clear, measurable basis for developing budgets and schedules for controlling the implementation of strategy.
- They can be powerful motivators of performance if they are linked to the firm's reward system.

**Budgeting**

It is a process by which management specifies the resources to be employed to achieve the organization's objectives.

It also provides the means of measuring the successful accomplishment of the stated objectives within a specified period. The following conditions must exist to ensure that the budgeting process helps in strategy implementation;

- Senior management must have a strong commitment to the budgeting process.
- Budgeting must be based on the objectives and strategies of the business.
- Regular reviews of the operating results in comparison to the budget must be conducted.
- All levels of management must be required to explain variances in the budget.

**Functional strategies/tactics**

They describe the means to be used by each functional area in carrying out top level strategy. They indicate the key routine activities that must be undertaken and translate the corporate/ business unit strategy into action. They differ from business or corporate strategies in three ways;

1. **Time horizon**

   They identify activities to be undertaken "now" or in the near future, usually one year or less. Their short-term horizon helps managers to adjust to changing conditions.

2. **Specificity**

   Where business strategies provide general direction, functional tactics identify specific activities to be undertaken e.g. where a generic strategy is market development, the specific functional strategy would be what pricing strategy to use.

3. **Participants**

   Business strategy is the responsibility of the general manager of the business. Operational managers must then establish the functional tactics that contribute to business level goals.

## The role of functional strategies

Functional strategies can be developed for any unit within an organization. The functional areas within an organization would normally include the following;

- Marketing
- Finance
- Production
- Human resources
- Research and development

## Marketing strategies

The basic role of marketing is to have the right products or services in the right quantity at the right place and time. The 4Ps of the marketing mix are the basis for marketing activities. The activities are based on careful identification of consumer needs and designing strategies to meet the needs. It is concerned with matching existing or potential products with the needs of customers, informing customers that products exist, having the products at the right time and place to facilitate exchange and assigning a price to the products or services. The marketing strategy selected is dependent on whether the organization is attempting to reach new or existing customers and whether its products or services are new or already exist.

**Marketing strategy by customer and products (Ansoff's product/market expansion grid)**

**Markets**

**Existing**

**New**

**Existing market penetration**

**market development**

**Products**

**New product development**

**diversification**

With a market penetration strategy the organization attempts to gain greater control in a market in which it already has a product. A firm can take the following actions;

- Increasing present customer's usage rate
- Attracting competitors' customers and non-users to buy the product
- Promoting new uses of current products

Product development involves the modification of existing products or the creation of new but related products that can be marketed to current customers. The strategy is adopted to prolong the life cycle of current products.

Market development involves marketing present products to customers in related market segments. This is achieved through;

- Opening additional geographic markets e.g. regional or international expansion
- Developing product versions to appeal to other customer segments.
- With a diversification strategy, an organization offers a new product or service to new customers.

After the basic marketing strategy is determined, more specific strategies are required. These are called marketing mix strategies which include;

- Determining the exact type of product that is to be offered (product strategy)

- Deciding how the product or service is to be communicated to customers (promotion strategy)
- Selecting the method for distributing the product to the customer (channel strategy)
- Establish a price for the product or service (price strategy)

**Financial strategy**

This is concerned with;

- Determining the magnitude and characteristics of funds necessary to conduct business operations.
- Allocating resources in the most efficient manner.
- Providing financial data to top management in determining the feasibility of various strategic activities.

**Production strategies**

This is concerned with selecting, designing and up-dating the systems that produce the organization's products. Production/operating systems consist of the activities and processes necessary to transform in-puts into products.

**Human resource strategies**

Human resource management includes those activities concerned with determining the human resources, in quantity and quality that the organization needs to achieve its objectives. These include;

- Recruiting
- Hiring
- Training
- Developing
- Compensating
- Developing disciplinary systems

An organization can only be successful if it can obtain the necessary talent. The cost of acquiring, retaining, developing, and motivating the needed talent should be economically feasible.

In developing an effective human resource strategy an organization should;

- Identify what human resources are needed and how they should be allocated.
- Develop and implement human resource practices that select, reward and develop employees who best contribute to accomplishment of objectives.
- Use resources to compete for or retain employees who are needed to reach its objectives.
- Develop mechanisms that match employees' competencies to the organization's present and future needs.

**R&D strategies**

Products and services become obsolete more rapidly today than ever before. The need to develop or improve products and production processes is met by the research and development function.

**Cross-functional implications of strategy implementation**

Cross functional implications of strategy refer to the impacts that the different functional strategies have on other functional areas. E.g. operations personnel usually fight for narrow (few) product lines with little variation, while marketing personnel are likely to argue for wider product lines with few variations. Such implications of strategy can be identified by considering the following;

- **Formulation;** careful consideration of the strengths and weaknesses of the organization include a review of the functional areas that should alert managers to potential conflicts.

- **Communication;** communication of the strategy is a way of giving functional areas the same information.
- **Trade-offs;** the strategy should spell out major trade-offs.
- **Participation;** functional managers who have a part in strategy formulation and implementation are in a better position to understand what is required of them and are likely to be more committed to the implementation.
- **Multi-functional experience**; managers should spend part of their tenure in functions other than their own specialty. This gives them a lot of insight into the practices and problems of others.

**Commitment to strategy implementation**

Employee input is essential to successful strategy implementation because all decisions made by strategic managers must ultimately be interpreted and implemented by individual employees. The best way to achieve understanding and acceptance of strategic decisions is to involve as many affected employees as possible in the strategic management process.

**STRATEGIC CONTROL**

This is concerned with tracking strategy as it is being implemented, detecting problems or changes and making necessary adjustments.

Managers responsible to the success of strategy want to know whether the organization is moving in the right direction and whether performance standards are being met.

**The purpose for control**

- To ensure the validity of the premises on which the strategy has been formulated
- Determine that the company's chosen strategy is being implemented effectively, on time, and within the constraints of resources available to the company.
- Determine that the company is performing according to plans and expectations.

- Provide feedback to managers on their unit's performance.
- Generate data for evaluating executive performance and making compensation decisions.

**Components of the strategic control system**

1. **Strategic surveillance**
   This is designed to quickly detect environmental changes or shifts that are likely to impact the company's strategy.
2. **Special alert control**
   This serves as an early warning system/ signal of pending crises and which may affect the company or the implementation of its strategy.
3. **Premise control**
   Strategy is based on certain planning premises/ assumptions. Premise control is designed to check systematically and continuously whether the premises on which the strategy is based are still valid. Planning premises are influenced heavily by industry and environmental factors which are often changing. It requires monitoring the actions undertaken by management to implement strategy and determine the effect of these actions.
4. **Implementation control**
   Strategy implementation takes place as a series of steps, programs and investments that occur over an extended time. It is designed to assess whether the overall strategy should be changed in light of the results associated with the actions that implement the overall strategy.
   It is designed to review the progress being made in implementing strategy, highlighting deviations from expectations and goals.
   It is a post action control system using tools like budgets, schedules and programs. It provides evaluation and control over

short periods- usually one month to a year. Such control system often takes four common steps;

i. Set standards of performance
ii. Measure actual performance
iii. Identify deviations from standards set
iv. Take corrective actions

**Qualities of an effective (strategic) control system**

1. It should be future oriented. It should help managers to visualize every aspect of the strategy formulation and implementation and plan accordingly.
2. It should be closely linked to strategy evaluation requiring managers to examine the appropriateness of their strategy.
3. It should emphasize both content and process issues. It should focus on the activities and functions and the process of performing the activities.
4. It should balance short term and long term demands on the company i.e. should recognize that short term successes do not always mean long term competitive superiority.
5. It should establish formality without undue bureaucracy i.e. should establish a structure that creates legitimacy and instils a sense of accountability and help to accomplish goals efficiently and economically.
6. Suitability; it must be tailored to suit the nature and requirements of the organization. Techniques of control will vary according to the size and type of the organization.
7. Promptness; the system should be able to detect deviations and problems before they occur.
8. Objectivity; standards of measurements should be objective and specific i.e. based on facts so that control is acceptable and useful.

9. Flexibility; the system should be flexible enough to ensure adjustment to changes in circumstances.

**Reasons for failure of control systems**

1. Poorly stated goals.
2. Obsession with procedures and systems-even if they make sense or not.
3. Insufficient information processing capabilities. This may be because of faulty design of the system or failure of the company to upgrade the system as information needs change.
4. Mismatch between the capabilities of the system and managers' abilities i.e. the system may generate more information than managers can reasonably process. They are thus overwhelmed by detailed data or sometimes the system may not generate the required data.
5. Breakdown in authority-responsibility centres; as the organization becomes bigger, people responsible for control become far removed from the operating units. Additionally a long time may elapse between data collecting and reporting making it to lose relevance and timeliness which may cause the company to miss opportunities.
6. Dysfunctional organization politics;
   Organizational political manoeuvring is involved in the entire control process i.e. the type of information to be collected, who collects them, who has access to the data, who interprets it, etc. Managers have a lot at stake when it comes to control systems e.g. their reputations and those of their units are greatly affected by the system's results. Resource allocation and compensation decisions are affected by the results of strategic controls. In trying to gain and maintain power, managers may render the control system ineffective by;

- Withholding information they consider damaging to their careers.
- Manipulating the data to make the results look more positive to their seniors.
- Offering multiple interpretations of the results to create uncertainty about the meaning of the findings.
- Using the results to implicate other units or executives for their units' poor results.

**The role of senior executives in strategic control**

To ensure effective strategic controls, senior executives should;

- Clarify and communicate the goals of the control system. They should outline expected results and their potential uses.
- Establish information flow between different units of the control units.
- Clarify the responsibilities associated with different units of the control system. They should decide who will carry out the control system's managerial responsibilities.
- Provide political and financial support i.e. making available the right personnel and equipment for the system.

**TQM and continuous improvement**

TQM (Total Quality Management) is a system for integrating continuous quality improvement efforts of people at all levels of the organization to deliver products/services which ensure customer satisfaction.

TQM is built around customer satisfaction. It is based on accurate measurement of every critical variable in a business, on continuous improvement of products, processes and work relationships. There are nine essential elements of implementing total quality management;

1. Define quality and customer value;

The firm should have a clear definition of quality which should be developed from a customer's perspective and communicated to all individuals as a written policy. Quality to the customer means that the product is priced competitively performs well and that the firm provides it quickly i.e. customer value depends on quality, price and speed.

2. Develop a customer orientation.
3. Focus on the company's product delivery process i.e. breakdown every activity/step in the process of providing the company's product and look at ways to improve it because each process contributes value and this value should be enhanced.
4. Develop customer and supplier relationships.
5. Take a preventive approach i.e. being proactive rather than reactive.
6. Adopt a "zero-defect" attitude i.e. instil the attitude that "good enough" is not good enough anymore and the zero-defect objective should be each individual's performance standard.
7. Make decisions based on facts and accurate measurements and using these facts to trace problems and eliminating their causes.
8. Encourage every manager and employee to take a participative approach.
9. Strive for continuous improvement i.e. continually improving quality, efficiency and responsiveness in a firm's processes, products and services which is necessary for long-term survival.