Business Strategic Management
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Objectives

The general purpose of this module is to provide an introduction and overview to the strategic planning and management process for new and beginning businesses.

Participants will . . .
1. understand the basic concepts in strategic management,

2. identify sources of jobs and income for the local economy including strategies such as creation, attraction, retention and expansion, and

3. approach economic development with a broader strategic planning philosophy to increase chances for success.

Total Time Required

1.5 to 2 hour

Materials Needed

A comfortable workshop setting is desired. Arrange the tables and chairs to enhance discussion and face-to-face interaction. Sometimes a classroom setting is all you have and that will work as well.

- PowerPoint or overhead slides

Audio/Video Equipment

- Overhead projector
- Easel, flip chart and markers

Directions and Training Tips

1. The first definition on Slide 2 is one proposed by Samuel Certo and J. Paul Peter in their book *Strategic Management: Concepts and Applications*. This definition is highlighted by the following statement from Cornell Maiser, the chairman of the board of Kaiser:

   We have begun implementation of our strategic plan for the decade. Two years in formulation, the plan calls for Kaiser to identify its most promising business and focus its resources on long-term development and profitability. Increased resources will be allocated to business lines where the company believes it has existing strengths such as superior technology, low costs or strong market positions.

The second definition is a little more down to earth. It shows that the firm's management recognizes that there are forces which affect the firm and the firm's profitability both inside and outside of the business's operations. These forces affect two primary components of the firm. The management component includes the firm's operations, financial position, labor situation and overall management structure. The marketing component includes not only the firm's marketing strategy (including packaging, advertising, customer service, quality control procedures, etc.) but also recognizes the fact that there is competition that the firm must face. This competition exists both inside and outside of the firm. While the firm's outside competition is fairly obvious, the inside competition most often arises from conflicts between the production and management functions of the business and the marketing functions. In many small businesses, these conflicts often reside within one person.

2. Establish the mission by deciding on the business or businesses that the company or division should engage in and other fundamentals that will guide and characterize the business, such as continuous growth. The company's mission is usually timeless. In other words, it should not be changed every year. It should, however, guide the changes in the company's objectives and strategies (Slide 3).

- **Formulate philosophy** – establishing the beliefs, values, attitudes and unwritten guidelines that add up to "the way we do things around here." This is what makes one company different from other companies.

- **Establish policies** – deciding on the plans of action to guide the performance of major activities in carrying out strategy in accordance with company philosophy.

- **Set objectives** – deciding on achievement targets within a defined time range. Objectives are narrower in scope than the mission and are designed to aid in making operational plans for carrying out strategy.

- **Develop strategy** – developing concepts, ideas and plans for achieving objectives successfully and meeting and beating the competition. Strategic planning is part of the total planning process that includes management, marketing and operational planning.

- **Plan the organizational structure** – developing the plan of orgaization and the activities that help people work together to perform activities in accordance with strategy, philosophy and policies.

- **Provide personnel** – recruiting, selecting and developing people to fill the positions in the organizational plan.

- **Establish procedures** – determining and prescribing how all important and current activities will be carried out.

- **Provide facilities** – providing the plant, equipment and other physical facilities required to carry on the business.

- **Provide capital** – making sure the business has the money and credit needed for working capital (money to operate on) and physical facilities.

- **Set standards** – establishing measures of performance that will enable the business to best achieve its long-term objectives successfully.

- **Establish management programs and operational plans** – developing programs and plans governing activities and the use of resources that, when carried out in accordance with established strategy, policies, procedures and standards, will enable people to achieve particular objectives. These are phases of the total planning process, which includes strategic planning.

- **Provide control information** – supplying facts and figures to help people follow the strategies, policies, procedures and programs; to keep alert to forces at work inside and outside the business; and to measure overall company performance against established plans and standards.

- **Activate people** – commanding and motivating people to act in accordance with philosophy, policies, procedures and standards in carrying out the plans of the company.

3. The strategic management process is a series of steps that not only formalize the process but also give a clear path to the firm's management as to how the process should be completed. Each of these steps is discussed in turn (Slide 4).

4. While this step is basically the SWOT analysis that many of us have become accustomed to hearing about, it is the engine which drives the strategic management and planning processes. It is impossible for a business to know where it wants to go if it doesn't know where it is currently at in relation to itself, its products and other businesses which affect it. These other businesses will not only include competitors but also include product substitutes, complementary businesses, etc. (Slide 5).

5. The environmental structure of each company is divided into three basic environments with each part having subsectors that should form the major foci of that particular environmental structure. These different environments and their structures are: (Slide 6)

   - **General environment** – this is the level of an organization's external environment that is made up of components that are normally broad in scope and have little immediate application for managing an organization.

   - **Social component** – describes characteristics of the society in which the organization exists such as literacy rates, educational levels, lifestyles, etc.

- **Economic component** – indicates how resources are distributed and used within the environment such as unemployment rates, productivity with a given technology, interest and tax rates, etc.

- **Political** – comprises the elements that are related to government affairs such as lobbying efforts by a particular industry, etc.

- **Legal** – consists of legislation that has been passed such as environmental protection, worker safety, etc.

- **Technical** – consists of new approaches to producing goods and services including new procedures as well as new equipment.

- **Operating Environment** – the level of the firm's external environment that has an immediate impact on the firm's operations and profitability.

- **International** – comprised of factors related to the international implications of organizational operation. While all firms are not impacted by an international aspect, the number of firms that are impacted by this is increasing. One prime example is the North American Free Trade Association (NAFTA), which had a dramatic impact on vegetable producers and cut-and-sew operations.

- **Supplier** – includes all variables related to those who provide the resources (inputs) for the organization that are purchased and transformed into the final goods and services offered for sale by the business. How many vendors offer specified inputs for sale, the relative quality of these inputs, the reliability of vendor deliveries, and the credit terms offered by the vendors are just some of the variables that impact this environmental level.

- **Labor** – this component is made up of the factors that influence the supply of workers that are available and able to perform specific organizational tasks. Issues which impact this environmental level include skill levels, trainability, desired wage rates, the average age (or average working life) of potential workers, and the desirability of working for a particular organization as perceived by potential workers.

- **Competition** – consists of those with whom a business must compete in order to secure resources and sell products. The business must understand the strengths, weaknesses and capabilities of existing and potential competitors and predict what strategies they are likely to employ.

- **Customer –** this component reflects the characteristics and behavior of those who buy goods and services provided by the organization. Profiles of likely potential customers should be developed, and the company's customer service and marketing strategies should be tailored to these profiles.

- **Internal environment** – the level which exists inside the organization and has immediate and specific implications for managing the organization.

- **Organizational** – what is the company's organizational structure, and what challenges and opportunities does this structure present with regard to the ability of the company to compete in the overall environment of the industry.

- **Marketing** – what marketing strategies are employed by the company to entice existing and potential customers to purchase products and services? Have these marketing strategies been developed in accordance with the customer profiles developed in the operating environment phase?

- **Financial** – what financial position must the firm maintain in order to operate in its environment? What levels are profitability will be required? What level of working capital must be present at specific times during the year in order for the company to pay its bills?

- **Personnel** – what type of worker must the company be able to hire to produce and market its products and/or services? Are the workers in a particular area trainable? What educational opportunities are available for workers in the area? Can the company find another organization to screen and train workers, or must these functions be performed by the company itself?

- **Production** – what production methods and equipment are available to the company? Are these methods and equipment efficient to a point where the company can compete in its overall environment?

6. Expert opinion is achieved when knowledgeable people are selected and asked to assign importance and probability ranges to various possible future developments. One refined version, the Delphi technique, puts experts through several rounds of event assessment where they keep refining their assumptions and judgments (Slide 7).

   - **Trend extrapolation** – researchers fit best-fitting devices (linear, quadratic, or S-shaped growth curves) through past time series to serve as a basis for extrapolation. This method can be very unreliable in that new developments can completely alter the expected direction of movement of these trends. Therefore, it is imperative that these forecasting models be kept up to date.

   - **Trend correlation** – researchers correlate various time series in the hope of identifying leading and lagging relationships that can be used for forecasting the trends in a particular industry.

   - **Dynamic modeling** – researchers build sets of equations that attempt to describe the underlying system. The coefficient in the equations is fitted through statistical means.

   - **Cross-impact analysis** – a set of key trends (those with a high importance or probability of occurring) are identified. The question is then asked, "If event A occurs, what will be the impact on all other trends?" The results are then used to build sets of domino chains with one event triggering others.

- **Multiple scenarios** – pictures of alternative futures are built with each being internally consistent and with a certain probability of happening. These futures are then used as the basis for contingency planning.

- **Demand/hazard forecasting** – major events that would greatly impact the firm are identified. Each event is rated for its convergence with several major trends taking place in society and for its appeal to each major public group in the society. The higher the event's convergence and appeal, the higher its probability of occurring. The highest-scoring events are then researched further.

7. The organizational mission statement is a very broad statement of why the organization exists. Organizational objectives are the targets toward which the organization directs its efforts. These objectives provide the foundation for planning, communication, motivating and controlling. Without these objectives, behavior in an organization can stray in almost any direction (Slide 8).

8. The organizational vision statement for Yum Brands (the organization that contains Kentucky Fried Chicken, Long John Silvers, Taco Bell, A&W, and Pizza Hut) is listed in Slide 9:

   Our passion, as a restaurant company, is to put a YUM on people's faces around the world, satisfying customers every time they eat our food and doing it better than any other restaurant company. KFC, Pizza Hut, Taco Bell, Long John Silvers and A&W offer customers food they crave, comeback value and customer-focused teams. The unique eating experiences in each of our brands make our customers smile and inspire their loyalty for life. Toward that end, our 725,000 associates around the world are trained to be customer maniacs.

   The company's mission statement is a derivative of the vision statement. It says:

   We at Yum! Brands, Inc., pledge to conduct our business according to these truths, which we believe the foundation for building the best restaurant company in the world.

   People Capability First . . . *Satisfy customers and profitability follows*
   Respond to the Voice of the Customer . . . *Not just listen*
   The Restaurant General Manager is Our Number One Leader . . . *Not senior management*
   Run Each Restaurant As If It's Our Only One . . . *Avoid the trap of averages*
   Recognition Shows You Care . . . *People leave when you don't*
   Great Operations and Marketing Innovation Drive Sales . . . *No finger pointing*
   Operation Discipline Through Process and Standards . . . *Consistency, not "program of the month"*
   Franchisees Are Vital Assets . . . *Operate as one system, not two*
   Quality in Everything We Do . . . *Especially the food*

The mission statement contains information such as the types of roducts or services the company produces, who the customers tend to be, and the important values that it holds. The Yum mission statement focuses on these values. In addition, the following important results of a mission statement are found in this example.

- It helps to focus human effort in a common direction – the mission makes clear the targets that they are wanting to reach (customers that eat at restaurants around the world).

- It helps to ensure that the organization will not pursue conflicting purposes – there are two factors in the Yum mission statement that illustrate this point. First, the mission statement is aimed at satisfying its customers. Second, and perhaps just as important, the mission statement names the businesses that are included in the Yum umbrella organization. While KFC, Pizza Hut, Taco Bell, Long John Silvers and A&W are all fast food restaurants, they are all targeted to very different clienteles or at least offer a diversified product.

- It serves as a general rational for allocating organizational resources – the above mission statement mainly talks about employee training in this light. It says that the company's workers (the company calls them associates) are trained to be customer maniacs. This not only describes the employee training plan that the company has adopted, but it also infers that the basic infrastructure of the company can be made to be more customer friendly by the actions of the company's labor force. This infrastructure includes serving lines, machinery, restrooms, overall store appearance, etc. It also talks about the importance of the restaurants' general managers and the company's franchisees in allocating support resources.

- It establishes broad areas of job responsibilities within the organization – the example mission statement talks about people and the people's responsibilities within the organization. The phrase, "Our passion as a restaurant company," tells of management's dedication to satisfy the customer and to provide food to the customer better than any other restaurant company. As noted earlier, the company's labor force (associates) are mandated to serve the wants and needs of the customer. Furthermore, it recognizes that the general managers of the company and the company's franchisees are vital pieces to the puzzle.

- It acts as a basis for the development of organizational objectives – the organizational objectives of Yum! Brands include building the best restaurant company in the world, recognizing the importance of the individual restaurant in the overall company operational procedures, and satisfying customers every time they eat at one of the restaurants contained in the company umbrella.

Peter Drucker maintains that there are eight key areas which should be addressed by these objectives. These include market standing, innovation, productivity, resource levels, profitability, manager performance and evaluation, worker performance and attitude, and social responsibility.

He defines these key areas as follows:

- **Market standing** – the position of an organization (where it stands) relative to its competitors.

- **Innovation** – any change made to improve methods of conducting organizational business.

- **Productivity** – the level of goods or services produced by an organization relative to the resources used in the production process.

- **Resource levels** – the relative amounts of various resources held by an organization such as inventory, equipment and cash. Most organizations should set objectives indicating the relative amounts of these assets that should be held.

- **Profitability** – the ability of an organization to earn revenue dollars beyond the expenses necessary to generate the revenue.

- **Manager performance and development** – the quality of managerial performance and the rate at which managers are developing personally.

- **Worker performance and attitude** – the quality of nonmangement performance and such employees' feelings about their work. These areas are extremely crucial to the long term organizational success.

- **Social responsibility** – the obligation of business to help improve the welfare of society while it strives to reach organizational objectives.

What are the purpose(s) and objective(s) of the organization? – the answer to this question tells management where the organization wants to go. As discussed earlier, appropriate strategies reflect the organization's mission and objectives. Managers who consider this question during the strategy formulation process are more likely to avoid inconsistencies among the company's mission, objectives and strategies (Slide 12).

Where is the organization presently going? – this question reveals whether an organization is achieving its goals or at least making satisfactory progress. The first question focuses on where the company wants to go; this question focuses on where the organization is actually going.

What critical environmental factors does the organization currently face? – this question addresses both internal and external environments and the factors that are both inside and outside the organization. For example, if a poorly trained middle-management team (internal environment) and an increase in competitive pressure (external environment) are critical strategic concerns, then any strategy formulated should deal with these issues.

What can be done to achieve organizational objectives more effectively in the future? – the answer to this question results in the formulation of a strategy for the organization. It goes beyond environmental analysis and includes the stages of planning and selection. This question should be answered only after managers have had plenty of opportunity to reflect on the answers to the previous questions. In other words, managers can formulate appropriate organizational strategies only when they have a clear understanding of where the company wants to go, where the organization is actually going, and what the environment in which the organization operates is and is likely to be.

9. The vertical axis indicates the market growth rate, which is the annual growth percentage of the market in which the business operates. Anything under 10 percent is typically considered to be a low growth market, while market growth in excess of 10 percent is considered to be a high growth market (Slide 13).

   The horizontal indicates market share dominance or relative market share. It is computed by dividing the firm's market share (in units) by the market share of the largest competitor. For example, a relative market share of 0.2 means that the sales volume of the business is only 20 percent of the market leader's sales volume; a relative market share of 2.0 means that the business has a sales volume twice that of the next largest competitor. A relative market share of 1.0 is set as the dividing line between high and low share.

   Each of the circles represents the relative revenue of a single business; that is, a larger circle represents more sales than a smaller circle.

   This type of diagram not only can be used to determine a company's current position in the environment, but also to determine if a potential entrepreneur wants to enter a specified industry.

10. Firms entering an industry bring new capacity and a desire to gain market share and profits, but whether new firms enter an industry depends on the barriers to entry. In addition, established firms in an industry may benefit from "experience curve" effects. That is, their cumulative experience in producing and marketing a product or service often reduces their per-unit costs below those of inexperienced firms. In general, the higher the entry barriers, the less likely outside firms are to enter the industry (Slide 14).

    Suppliers can be a threat in an industry because they can raise the price of raw maters or reduce quality of the inputs. Powerful suppliers can reduce the profitability of an industry if companies in the industry cannot pay higher prices to cover price increases that the supplier imposes.

    Buyers compete with the industry by forcing prices down and bargaining for higher quality or more services while competitors off against each other – all at the expense of industry profitability.

Substitutes limit the potential return in an industry by placing a ceiling on the prices that firms in the industry can profitably charge. The more attractive the price-performance alternatives offered by substitutes, the tighter the lid on industry profits. For example, the advent of "Raisonettes" may limit the price that can be charged for so-called healthy snacks such as "Strawberry Yogurt Raisons."

Rivalry among existing competitors is the conventional type of competition in which firms try to take customers from one another. Strategies such as price competition, advertising battles, new product introductions, and increased customer service are commonly used to attract customers from competitors.

Strategic alternatives are strategies that can be used by a firm to outperform other firms in the industry. They include:

- Overall cost leadership yields a firm above-average returns in its industry despite the presence of strong competitive forces. However, this often requires high relative market share or other advantages such as favorable access to raw materials or the ready availability of cash.

- Differentiation involves creating and marketing unique products for the market. The key to successful implementation of this strategy is to obtain a differential advantage that is readily perceived by the consumer.

- Focus is essentially a strategy of segmenting markets and appealing to only one or a few groups of consumers or other buyers. The logic of this approach is that a firm that limits its attention to one or a few market segments can better serve those segments than other firms that seek to influence the entire market.

11. Operations strategy focuses on making decisions about required plant capacity, plant or building layout, manufacturing and production processes, and inventory requirements. Two important aspects of this strategy are controlling costs and improving the efficiency of plant operations (Slide 15).

    - **Financial strategy** – this area focuses on forecasting and financial planning, securing financing, assessing the profit potential of various alternatives, and evaluating the financial condition of the business.

    - **Marketing strategy** – this area focuses on determining the appropriate markets for business offerings and on developing effective (profitable) marketing mixes (the marketing mix consists of four strategic elements: price, product, promotion and channel(s) of distribution).

    - **Human resource strategy** – this area is concerned with attracting, assessing, motivating, training and retaining the number and quality of employees required to run the business efficiently and profitably. This function is also responsible for affirmative action planning and evaluating the safety of the work environment.

12. Once the strategies have been formulated, the task remains to implement those strategies. There are several approaches that can be used either quite successfully or disastrously to change a company's direction in its industry and environment. These approaches include: (Slide 16)

- **Commander approach –** the manager will determine the "best" strategy either alone or with the help of a group of experts. Once the desired strategy is formulated, the manager passes it along to subordinates who are instructed to execute the strategy. In this scenario, the manager does not take an active role in implementing the strategy but rather uses explicit or implied power to see that the strategy is implemented. There are three conditions that must be met in order for the new strategy to be implemented. First, the manager must have enough power to command the implementation of the strategy. It should be recognized that implementation under this approach is resisted if the new strategy threatens the position of employees. Second, accurate and timely information regarding the strategy must be available, and the environment in which the company operates should be reasonably stable. If the environment is changing so that information becomes dated before it can be assimilated, effective implementation under the approach is unlikely. Finally, the manager formulating the strategy should be insulated from personal biases and political influences that might affect the outcome of the strategy (Slide 17).

  One drawback to this approach is that it can reduce employee motivation, and employees who feel that they have no say in strategy formulation are unlikely to be very innovative. However, the approach can work in smaller companies within stable industries. Advocates of this approach say that managers who utilize it can gain a valuable perspective from the company, and the approach allows these managers to focus their energies on strategy formulation. Second, young managers in particular seem to prefer this approach since it allows them to focus on the quantitative, objective aspects of a situation rather than on the qualitative, subjective elements of behavioral interactions. Many young managers are better trained to deal with the objective rather than the subjective. Finally, such an approach may make some ambitious managers feel powerful in that their thinking and decision making affects the activities of the workforce - people (Slide 18).

- **Organizational Change approach** - the focus is on how to get an organization to implement a strategy. Managers who implement this approach assume that a good strategy has been formulated and view their task as getting the company moving toward new goals. The tools used to accomplish this approach are largely behavioral and include such things as changing the organizational structure and staffing to focus attention on the organization's new priorities, revising planning and control systems, and invoking other organizational change techniques. Because these behavioral tools are used, this approach is often more effective than the Commander approach and can be used to implement more difficult strategies (Slide 19).

However, it does have several limitations that may limit its use to smaller companies in stable industries. It doesn't help managers stay abreast of rapid changes in the environment. It doesn't deal with situations where politics and personal agendas discourage objectivity among strategists. And since it imposes strategy in a top down fashion, it is subject to the same motivational problems as the Commander approach. Finally, it can backfire in rapidly changing industries since the manager sacrifices strategic flexibility by manipulating organizational systems and structures that may take a long time to implement (Slide 20).

- **Collaborative approach** – the manager in charge of the strategy calls in the rest of the management team to brainstorm strategy formulation and implementation. The role of the manager is that of a coordinator. Other members of the organization's management team are encouraged to contribute their points of view in order to extract whatever group wisdom may be present (Slide 21).

This approach overcomes two key limitations present in the previous two approaches. First, by capturing information contributed by managers close to operations, it can increase the quality and timeliness of the information incorporated in the strategy. Also, it improves the chances of efficient implementation to the degree that participation enhances strategy commitment (Slide 22).

However, it may result in a poorer strategy since the strategy is negotiated among managers with different points of view and possibly different goals. This may reduce the chances of management's ability to formulate and implement the "best" strategy. Furthermore, it is not really collective decision making from an organizational viewpoint since management retains centralized control over the strategy. This can lead to political problems within the organization that may impede rapid and efficient strategy formulation and implementation (Slide 23).

- **Cultural approach** – this approach enlarges the Collaborative approach by including lower levels of the company. It partially breaks down the barriers between management and workers since each member of the organization can be involved to some degree in both the formulation and implementation of the strategy. It seems to work best in organizations that have sufficient resources to absorb the cost of building and maintaining a supportive value system. Often these are high-growth firms in high-technology industries (Slide 24).

It has the advantage of more enthusiastic implementation of strategies by all members of the company. Limitations include: (1) it seems to only work in organizations composed primarily of informed, intelligent people; (2) it consumes enormous amounts of time; (3) it can promote such a strong sense of organizational identity that it becomes a handicap (for example, bringing in managers from outside the organization can be difficult because they aren't accepted by the other members of the organization since they didn't "grow up" with the organization); and (4) it can promote a strong organizational culture to an extent that change and innovation becomes difficult (Slide 25).

- **Crescive approach** – this approach addresses strategy formulation and implementation simultaneously (crescive means "increasing" or "growing"). The manager does not focus on performing the formulation and implementation tasks himself, but encourages subordinates to develop, champion and implement sound strategies on their own. This approach is a "bottom-up" approach rather than a "top-down" approach since it moves upword from the workforce to management. Second, the strategy becomes the sum of all the individual proposals that are "successfully" proposed throughout the planning period. Third, the manager in charge of the strategy shapes the employees' notions of what are acceptable strategies and acts as a judge evaluating the proposals rather than a master strategist (Slide 26).

  Advantages to this approach include encouraging middle managers to formulate several effective strategies and giving them the opportunity to carry out the implementation phase (this autonomy increases their motivation to make the strategy succeed). Also, strategies developed by those closest to the firm's operational and marketing functions are more likely to be operationally sound and more effectively implemented (Slide 27).

  Limitations arise when resources are not available for individuals to develop good ideas and when tolerance is not extended in the cases where failure occurs despite a worthy effort having been made.

13. Strategic control simply means monitoring the strategic management process, comparing its performance to specified standards, and then taking action where needed to ensure that the planned events outlined in the strategic formulation process actually occur (Slide 28).