PART 2
Planning

CHAPTER 3
Planning and Strategic Management
Chapter Learning Objectives

After studying this chapter you should be able to:

1. Summarize the planning process and describe organizational goals.

2. Discuss the components of strategy and the types of strategic alternatives.

3. Describe how to use SWOT analysis in formulating strategy.

4. Identify and describe various alternative approaches to business-level strategy formulation.

5. Identify and describe various alternative approaches to corporate-level strategy formulation.

6. Discuss how tactical plans are developed and implemented.

7. Describe the basic types of operational plans used by organizations.
FIGURE 3.1 The Planning Process

The Environmental Context
- Purpose
- Premises
- Values
- Directions

Strategic goals → Strategic plans
Tactical goals → Tactical plans
Operational goals → Operational plans
Organizational Goals

Purposes of Goals

- Guidance and unified direction
- Promotion of good planning
- Source of motivation
- Evaluation and control
Organizational Goals

• Purposes of Goals
  – Provide guidance and a unified direction for people in the organization.
  – Have a strong effect on the quality of other aspects of planning.
  – Serve as a source of motivation for employees of the organization.
  – Provide an effective mechanism for evaluation and control of the organization.
Organizations Have a Purpose—That’s Why They Need Goals

Identification

Adaptation

Collaboration

Uses for Goals in Organizations

Integration

Revitalization

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Kinds of Organizational Goals

Setting Organizational Goals

By Level
- Mission statement
- Strategic goals
- Tactical goals
- Operational goals

By Area
- Operations
- Marketing
- Finance
- Production

By Time Frame
- Long-term goals
- Intermediate goals
- Short-term goals
- Explicit goals
- Open-ended goals
What Goals Do

• By Level

– **Mission statement** is a statement of the organization’s fundamental purpose.

– **Strategic goals**, set by top management, address broad competitive issues.

– **Tactical goals**, set by middle managers, that focus on how to operationalize actions to strategic goals.

– **Operational goals**, set by lower-level managers, focus on actions in support of tactical goals.
Different Goal Setting Processes in Organizations

**Top-down Goal Setting**
- Top management establishes mission
  - Mission determines strategic goals
  - Strategic goals determine tactical goals
  - Tactical goals determine operational goals

**Bottom-up Goal Setting**
- Strategic goals determine mission
  - Tactical goals determine strategic goals
  - Operational goals determine tactical goals
  - Individuals determine operational goals

**Interactive Goal Setting**
- Top management establishes mission
  - Strategic goals negotiated by consensus
  - Tactical goals negotiated by consensus
  - Operational goals negotiated by consensus
Planning Flow in Organizations

- Strategic Plans (upper management)
- Tactical Plans (middle management)
- Operational Plans (lower-level managers)
Kinds of Organizational Plans

• Strategic Plans
  – Are general plans outlining resource allocation, priorities, and action steps to achieve strategic goals.
  – Are set by and for top management.

• Tactical Plans
  – Are aimed at achieving the tactical goals set by and for middle management.

• Operational Plans
  – Have a short-term focus.
  – Are set by and for lower-level managers.
The Time Dimension of Planning

Planning must provide sufficient time to fulfill the managerial commitments involved.

- Long-range (strategic) plans of 5 or more years
- Intermediate-range (tactical) plans of 1–5 years
- Short-range (operational) action and contingency plans of 1 year or less
The Nature of Strategic Management

• **Strategy**
  – A comprehensive plan for accomplishing an organization’s goals.

• **Strategic Management**
  – The comprehensive and ongoing process of formulating and implementing strategies to approach business opportunities and challenges.

• **Effective Strategies**
  – Promote a superior alignment between the organization and its environment and the achievement of its goals.
Basic Components of Strategy

Components of Strategy

- Distinctive Competence
- Competitive Scope
- Resource Deployment
The Components of Strategy

• Distinctive Competence
  – Something an organization does exceptionally well.

• Scope
  – Range of markets in which an organization will compete.

• Resource Deployment
  – How an organization will distribute its resources in areas in which it competes.
Types of Strategic Alternatives

• Business-level Strategy
  – The strategic alternatives that an organization chooses from as it conducts business in an industry or a particular market.

• Corporate-level Strategy
  – The strategic alternatives that an organization chooses from as it manages its operations simultaneously across several industries and several markets.
Organizational Structure and Strategic Alternatives

Corporate-level strategy

Market A
- Business-level strategy
  - Functional-level strategy
  - Operations-level strategy

Market B
- Business-level strategy
  - Functional-level strategy
  - Operations-level strategy
The Relationships of Strategies by Organizational Level

**Corporate strategy**
- **Formulation**: Decisions about which markets to compete in
- **Implementation**: Competing in these markets via existing operations, mergers, acquisitions, new ventures, divestitures

**Business strategy**
- **Formulation**: Decisions about how to compete in each market
- **Implementation**: Carrying out the strategies chosen for each business

**Functional strategy**
- **Formulation**: Decisions about how to address each function within the organization
- **Implementation**: Carrying out the strategies chosen for each function
Management Challenge Question

• If it is important that all employees be involved in strategy implementation, then what are the most important responsibilities for managers in helping them participate?
FIGURE 3.2 SWOT Analysis

Mission
An organization’s fundamental purpose

SWOT Analysis
To formulate strategies that support the mission

Internal Analysis
Strengths (distinctive competencies)
Weaknesses

External Analysis
Opportunities
Threats

Good Strategies
Those that support the mission and
- exploit opportunities and strengths
- neutralize threats
- avoid weaknesses
SWOT Analysis: Evaluating Strengths

• Organizational Strengths
  – Skills and abilities enabling an organization to conceive of and implement strategies.

• Distinctive Competencies
  – Strengths possessed by only a small number of competitors that are useful for competitive advantage and superior performance.

• Competitive Advantage
  – Results from a firm exploiting its unique competencies to attain superior performance.
SWOT Analysis: Evaluating Weaknesses

• Organizational Weaknesses
  – Insufficiencies of skills and capabilities that limit an organization’s choice of strategic actions in support of its mission.

• Weaknesses can be overcome by:
  – Making investments to obtain the strengths needed.
  – Modifying the organization’s mission so it can be accomplished with the current workforce.
• Organizational Opportunities
  – Areas in the organization’s environment that may generate high performance.

• Organizational Threats
  – Areas in the organization’s environment that make it difficult for the organization to achieve high performance.
Porter’s Generic Strategies

• Differentiation Strategy
  – Seeking to distinguish an organization from its competitors through the quality of its products or services.

• Overall Cost Leadership Strategy
  – Attempting to gain competitive advantage by reducing overall costs below the costs of competing firms.

• Focus Strategy
  – Concentrating on a specific regional market, product line, or group of buyers.
Strategies Based on the Product Life Cycle

- Product Life Cycle
  - A model that shows sales volume changes over the life of products.
  - *Introduction stage*: demand may be very high and sometimes outpaces the firm’s ability to supply the product.
  - *Growth stage*: more firms begin producing the product, and sales continue to grow.
  - *Mature stage*: overall demand growth begins to slow down.
  - *Decline stage*: demand for product decreases.
FIGURE 3.3 The Product Life Cycle

- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

**Sales Volume**
- **High**
- **Low**

**Time**

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Management Challenge Questions

• Which of Porter’s generic strategies are best suited for which stages of the product life cycle?

• Do your answers support the concept that structure must follow strategy?
The Adaptation Model of Business Strategy

Environmental Complexity and Change

Dynamic, growing environment characterized by high uncertainty and risk

Moderately stable environment with some uncertainty and risk

Very stable environment with little uncertainty and risk

Prospector
Stress growth, risk taking, innovation, and new opportunities

Analyzer
Stress maintenance of status quo with moderate innovation and growth

Defender
Stress stability, conservatism, and maintenance of status quo

Reactor
Little consideration of environment; drift with little concern for strategy

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Corporate-Level Strategies

Strategic Choices

- Single-product strategy (simplicity)
- Related diversification (synergy)
- Unrelated diversification (risk/return)
Implementing Related Diversification

Bases of Diversification Relatedness

- Similar technology resources
- Common marketing and distribution skills
- Common brand name and reputation
- Common customers and markets

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Related Diversification’s Advantages

Competitive Advantages of Related Diversification

- Reduction of business and economic risk
- Creation of economies of scale and scope
- Synergistic sharing of strengths and competencies
Related Diversification

- A strategy in which an organization operates in several different businesses, industries, or markets that are somehow linked.

Bases of Relatedness in Implementing Related Diversification

- Similar technology
- Common marketing and distribution skills
- Common brand name and reputation
- Common customers
Unrelated Diversification

• Unrelated Diversified Organization
  – Operates multiple businesses that are not logically associated with one another.

• Advantages
  – Stable corporate-level performance over time due to business cycle differences among the multiple businesses.
  – Resources can be allocated to areas with the highest return potentials to maximize corporate performance.
• Disadvantages

– The strategy does not usually lead to high performance due to the complexity of managing a diversity of businesses.

– Firms with unrelated strategies fail to exploit important synergies, putting them at a competitive disadvantage to firms with related diversification strategies.
Managing Diversification

• Portfolio Management Techniques
  –Are used to make decisions about what businesses to engage in and how to manage these multiple businesses to maximize corporate performance.

• BCG (Boston Consulting Group) Matrix
• GE (General Electric) Business Screen
Portfolio Management Techniques

• BCG Matrix

– Evaluates businesses relative to the growth rate of their markets and their individual market shares.

– Classifies the types of businesses of a diversified organization’s portfolio as:

  • **Dogs** having small market shares and no growth prospects.
  
  • **Cash cows** having large shares of mature markets.
  
  • **Question marks** having small market shares in quickly growing markets.
  
  • **Stars** having large shares of rapidly growing markets.
FIGURE 3.4  The BCG Matrix

- Stars: High Market Growth Rate, High Relative Market Share
- Question marks: High Market Growth Rate, Low Relative Market Share
- Cash Cows: Low Market Growth Rate, High Relative Market Share
- Dogs: Low Market Growth Rate, Low Relative Market Share
Portfolio Management Techniques (cont’d)

• GE Business Screen
  – Evaluates firms in a diversified portfolio along two multi-factor dimensions:
    • Industry attractiveness.
    • Competitive position (strength) of portfolio firms.
  – Shows where a firm should invest more of its resources in competitive businesses in attractive industries.
FIGURE 3.5 The GE Business Screen

Competitive Position
1. Market share
2. Technological know-how
3. Product quality
4. Service network
5. Price competitiveness
6. Operation costs

Industry Attractiveness
1. Market growth
2. Market size
3. Capital requirements
4. Competitive intensity
Developing and Executing Tactical Plans

Developing tactical plans
• Recognize and understand overarching strategic plans and tactical goals
• Specify relevant resource and time issues
• Recognize and identify human resource commitments

Executing tactical plans
• Evaluate each course of action in light of its goal
• Obtain and distribute information and resources
• Monitor horizontal and vertical communication and integration of activities
• Monitor ongoing activities for goal achievement

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<table>
<thead>
<tr>
<th>Types of Operational Plans</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Single-use Plans</strong></td>
<td>Developed to carry out a course of action not likely to be repeated in the future</td>
</tr>
<tr>
<td>Program</td>
<td>Single-use plan for a large set of activities</td>
</tr>
<tr>
<td>Project</td>
<td>Single-use plan of less scope and complexity than a program</td>
</tr>
<tr>
<td><strong>Standing Plans</strong></td>
<td>Developed for activities that recur regularly over a period of time</td>
</tr>
<tr>
<td>Policy</td>
<td>Standing plan specifying the organization’s general response to a designated problem or situation</td>
</tr>
<tr>
<td>Standard operating procedure</td>
<td>Standing plan outlining steps to be followed in particular circumstances</td>
</tr>
<tr>
<td>Rules and regulations</td>
<td>Standing plans describing exactly how specific activities are to be carried out</td>
</tr>
</tbody>
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Contingency Planning and Crisis Management

• Contingency Planning
  – The determination of alternative courses of action to be taken if an intended plan is unexpectedly disrupted or rendered inappropriate.

• Crisis Management
  – The set of procedures the organization uses in the event of a disaster or other unexpected calamity.
Management Challenge Question

- What effects would an organization’s culture be likely to have on its contingency planning?
- On its management of a crisis?
FIGURE 3.6 Contingency Planning

Ongoing planning process

Action point 1
Develop plan, considering contingency events

Action point 2
Implement plan and formally identify contingency events

Action point 3
Specify indicators for the contingency events and develop contingency plans for each possible event

Action point 4
Successfully complete plan or contingency plan

Monitor contingency event indicators and implement contingency plan if necessary