STRATEGIC MANAGEMENT: CONCEPTS & PROCESS

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Strategic management plays a dynamic role in achieving successes in today's business world. Since it is relatively a new discipline, you need to understand the terms and concepts as well the process of strategic management. The purpose of this unit is to help you understand the meaning of strategic management, its benefits in the business world, the relationship between strategy and policy, the alignment of strategy with strategic plan, and other important issues.

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Lesson-1: Strategic Management: Concepts and Process

Learning Objectives:

After you have studied this lesson, you should be able to:

- Define strategic management.
- Discuss the benefits of strategic approach to managing.
- Clarify the concept of strategy
- Distinguish between strategy and policy,
- Understand the relationship between strategy and strategic plan.

Introduction

Business organizations are now facing great challenges due to uncertainty in the business-environment. Most changes are unpredictable. And so uncertainty creeps up. In the face of changes, many excellent new ideas may become obsolete. Changes are continually occurring in demographics, economic conditions of the country where business is located, trade practices due to deregulation/ liberalization, diversity of workers such as entering more and more female workers in the workplace, technology, and globalization trends. Not only in these external issues, changes are taking place. Changes are also occurring in the internal affairs of the business organizations in terms of high turnover of employees, loss of highly trained and skilled technical people, etc. All these threatening changes cause several internal problems for an organization. These changes lead to uncertainty and complexity in the business functioning. Strategy provides a way to deal with changes and their accompanying uncertainty both inside and outside the organization. Managers develop and implement strategy to conquer the market and survive. Thus, mangers involve themselves in strategic management process. Organizations of any size can adopt strategic management process, and the process is applicable to private, public, not-for-profit (NGO) and religious organizations. Since managers have to be involved in strategic management, they need to understand the concepts, issues and process related to strategic management.

Strategy provides a way to deal with changes and their accompanying uncertainty both inside and outside the organization.

Strategic management is not a very old phenomenon in the corporate world. The concepts and techniques have evolved over the years beginning in the 1970s in lukewarm way. Initially the concept of long-range planning was used in a few large companies in the USA. The two most admired companies that began using long-range planning are General Electric Company and Boston Consulting Group (a consulting firm). General Electric Company led the transition from 'strategic planning' to 'strategic management' during the 1980s. The concept of strategic management got worldwide attention in 1990s. it may be pertinent to mention here that 'strategic planning' seeks increased responsiveness to markets and competition by trying to think strategically. On the other hand, strategic management seeks competitive advantage and sustainable market growth by effectively managing all resources of the organization.

Strategic management process entails several pertinent issues that need clarification for better understanding. This chapter presents a framework for analysis of the strategic management process as well as attempts to clarify the relevant concepts and issues.

What is Strategic Management?

Strategic Management can be defined as the set of decisions and actions in the formulation and implementation of plans to achieve companys' objectives.

Strategic management is a stream of decisions and actions, which leads to the development of effective strategy to help achieve organizational objectives. Strategic management is construed as a process. In this process the strategists determine objectives and make strategic decisions. Our operational definition is as follows:

Strategic management is the process of strategic analysis of an organization, strategy-focused objective-setting, strategy formulation, strategy implementation, and strategic evaluation and control.

Strategy formulation entails making decisions with regard to selecting the strategy to achieve the long-range objectives.

Strategy implementation is concerned with sutting the formulated strategy into action.

Strategic analysis is involved with making an analysis of the industry in which the organization is operating its business and analysis of both the external and internal environmental factors. Strategy-focused objective-setting is concerned with establishing long-range objectives for the organization to achieve the vision and mission. Strategy formulation entails making decisions with regard to selecting the strategy to achieve the long-range objectives. Strategy implementation is concerned with putting the formulated-strategy into action. It is materialization or execution of strategy through deployment of necessary resources and aligning the organizational structure, systems (e.g., reward systems, support systems) and processes with the selected strategy. This element is also involves with making decisions regarding setting short-range objectives, developing budgets and formulating functional/supporting strategies to achieve the 'main strategy'. The last element of strategic management process – strategic evaluation and control – aims at establishing standards of performance, monitoring progress in the implementation of strategy, and initiating corrective adjustments in the strategy (if anything goes wrong).

Benefits of Strategic Approach to Managing

Today's world is a globalized world. Competition has become very fierce in most of the industries. Because of liberalization of trade and financial services, companies are becoming more and more globalized. This has further enhanced competition. Competition, thus, makes it obligatory for managers to think strategically about company's position. They must also think strategically about the impact of changing conditions. They need to monitor the external situations closely to determine when to initiate changes in the existing strategy of the organization. The advantages of strategic management in an organization, especially in business organization, include:

a) Providing better guidance to the entire organization.

b) Making managers more alert to the winds of change, new opportunities and threatening developments in the organization's external environment.

c) Providing managers with a rationale for evaluating competing budget requests for investment capital and new employees.

d) Helping to unify the numerous strategy-related decisions by managers across the organization.

e) Creating a more proactive management posture.

Concept of Strategy

A strategy is considered as a long-term plan that relates the strategic advantages of an organization to the challenges of the environment. It involves determination of long-term objectives of the organization and adoption of courses of action. It also involves allocation of resources necessary to achieve the objectives. When defined this way, objectives are considered as part of strategy formulation. According to the definition provided by Thompson and Strickland, strategy is the means used to achieve the ends. Here 'means' refer to ways or actions and 'ends' refer to objectives. Strategy expresses the intention of management about the way to achieve objectives of the organization.

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Strategy versus Policy

We should not confuse strategy with policy. Policies are general statements or understandings that guide managers' thinking in decision making. Policy guides a manager's thinking in decision making; strategy implies the commitment of resources in a given direction. Two may, however, be essentially same. One company may have a 'policy of growth through acquisition of other firms' while another company may have a 'policy of growing only by expanding present markets and products.' While these are policies, they are also essential elements of major strategies.

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Strategy implies the commitment of resources in a given direction.

Strategy and Strategic Plan

A strategic plan is prepared to cope with a number of issues, such as the industry and competitive conditions, expected actions of the key actors in the industry, and any obstacles to the success of the organization. It incorporates the industry conditions, competitive situations as well as the vision, mission, objectives, and strategy. Strategic plans aim at achieving strategic goals. These plans are set by the senior-most managers (directors in the company's board and the CEO plus other senior-level people). Most successful companies have been found to have strategic plan in the form of written document. This document contains a description of industry's economic aspects, key success factors, drivers of change, and strategic plan that describes company's internal and external environment. Some companies have the policy of not disclosing strategic plan to all but selective managers, while some others make only vague general statements for the reasons of competitive sensitivity.

Strategic plans aim at achieving strategic goals.

Traditionally, strategic plan covers a time period of more than one year. But now-a-days, because of the high speed of change in many industries, strategic plans are made even for quarterly use. The time-span of strategic plan needs to be shorter, sometimes measured in months, in the organizations involved in e-business (especially in e-retailing).

Review Questions

1. Briefly define and explain the process of strategic management.
2. What is strategy and how is it different from policy?
3. What is a strategic plan and why does an organization prepare a strategic plan?
4. How does an organizational philosophy establish a relationship between the organization and its stakeholders?
5. Explain the concept of policy with a few examples.

Application Discussion Questions

1. Choose a few business companies in your locality with which you are familiar, and then examine their strategic management process.
2. Identify two policies of your college or university where you are studying. Do the policies provide support for the implementation of strategy?

Lesson-2: Issues in Strategic Management: An Overview

Learning Objectives:

After you have studied this lesson, you should be able to:

- Explain the concepts of organizational philosophy, organizational policy, competitive strategy, functional strategy, environmental scanning, core competency, and code of ethics.
- Identify the levels of strategy making in an organization.
- Understand the concept of value chain of a company.
- Elucidate the concept of competitive advantage and identify the various sources of competitive advantage.

Introduction

Every manager must have a clear understanding of the relevant concepts as well as the basic issues of strategic management. This lesson has been designed in such a way that the students can fully comprehend some basic concepts and issues such as organizational philosophy, organizational policy, functional strategy, competitive strategy, environmental scanning, core competency, code of ethics, levels of strategy-making, value chain, and competitive advantage.

1. Organizational Philosophy

Organizational philosophy establishes the relationship between the organization and its stakeholders.

Organizational philosophy establishes the relationship between the organization and its stakeholdes.[1] it 'establishes the values and beliefs of the organization about what is important in both life and business, how business should be conducted, its view of humanity, its role in society, the way the world works, and what is to be held inviolate.[2] In most organizations, the guiding philosophy is formulated by the owner or founder or the Chief Executive Officer (CEO). Their beliefs about, for example, the importance of employees as individuals, of formality in communication, and belief in superior quality and service are reflected in the philosophy.

2. Organizational Policy:

A policy is a broad guidelines that lasts relatively for a longer period of time.

A policy is a broad guideline for decision making. A policy is a standing plan in the sense that it lasts relatively for a longer period of time. It specifies the organization's response to a designated problem or situation.[3] It is a general guide for action and that is why, it is the most general form of standing plan. Some examples of policy are given below:

i) To answer all written complaints of consumers in writing. (policy of a manufacturing company)

ii) To require a minimum down payment of 10% of the purchase price (policy of real estate company).

iii) To appoint those firms as dealers for selling accounting software who do not carry software of other software companies (policy of a software development company).

iv) Not to grant a franchise to an individual who already owns another fast-food restaurant (policy of an international fast-food chain).

v) Admission will be granted only to students who secure a minimum of 60% marks in the admission test (admission policy of a university).

Organizations use policies to provide uniform guidelines to all employees regarding certain issues/activities so that they can make decisions and take actions uniformly on those issues. Policies are formulated to ensure clear guidance to managers and other employees throughout the organization.

3. Competitive Strategy and Functional Strategy

Competitive strategy refers to a strategy that incorporates the impact of external environment along with the integrative concerns of internal environment of an organization. Examples of competitive strategy include differentiation strategy, low-cost strategy and focus or market-niche strategy.

Strategic management primarily deals with competitive strategy, although functional strategy is not ignored. Competitive strategy refers to a strategy that incorporates the impact of external environment along with the integrative concerns of internal environment of an organization. Competitive strategy aims at gaining competitive advantage in the marketplace against the competitors. And competitive advantage comes from strategies that lead to some uniqueness in the marketplace and high perceived value in the eyes of customers. Winning competitive strategies are grounded in sustainable competitive advantage. Examples of competitive strategy include differentiation strategy, low-cost strategy and focus or market-niche strategy.

Refers to a strategy that emphasizes on a particular functional area of an organization. Examples of functional strategy include production strategy, marketing strategy, human resource strategy and financial strategy.

On the other hand, functional strategy refers to a strategy that emphasizes on a particular functional area of an organization. It is formulated to achieve some objectives of a business unit by maximizing resource productivity. Sometimes functional strategy is called departmental strategy, since each business-function is usually vested with a department. Examples of functional strategy include production strategy, marketing strategy, human resource strategy and financial strategy.

Functional strategy is concerned with developing ***distinctive competence*** to provide a business unit with a competitive advantage. [4] Each business unit or company has its own set of departments, and every department has its own functional strategy. Functional strategies are adopted to support the competitive strategy. For example, a company following a low-cost competitive strategy needs a production strategy that emphasizes on reducing cost of operations and also a human resource strategy that emphasizes on retaining lowest possible number of employees who are highly qualified to work for the organization. Other functional strategies such as marketing strategy, advertising strategy and financial strategies are also to be formulated appropriately to support the business-level competitive strategy.

4. Levels of Strategy-Making

In a diversified company (a company having different single-line of businesses under one umbrella), strategies are initiated at four levels. The strategies at each level of the organization are known by the name of the level:

#	Levels of Organization	Names of Strategy
1	Corporate level	Corporate strategy
2	Business level	Business strategy
3	Functional level	Functional strategy
4	Operating level	Operating strategy

In a single-business enterprise, three-level strategies are formulated:

#	Levels of Organization	Names of Strategy
1	Business level	Business strategy
2	Functional level	Functional strategy
3	Operating level	Operating strategy

Corporate strategy is formulated at the top level of a diversified company (in our country, a diversified company is popularly known as 'group of companies' or 'group of industries.' For example, Bashundhara Group, Partex Group, Beximco Group, Square Group and 5M Group). Such strategy describes the company's overall direction in terms of its various businesses and product lines.[5] Corporate strategy generally affects all the business-units under its umbrella. A corporate strategy, for example, of Bashundhara may be acquiring the major tissue paper companies in Bangladesh in order to become the unquestionable market leader. *Business strategy* is formulated at the business-unit level or product level. This strategy emphasizes on the strengthening of company's competitive position of products or services. Business strategies are composed of competitive and cooperative strategies.[6] Functional strategy has already been discussed and therefore we avoid repetition here. Operating strategy is formulated at the operating units of an organization. A company may develop operating strategy for its sales territories.

Corporate strategy describes company's overall direction in terms of its various business and product lines.

Business strategy is formulated at the business-unit level or product level.

5. Environmental Scanning

Environmental scanning is often used interchangeably with 'strategic analysis' which is the first element of strategic management. Hunger and Wheelen define environmental scanning as 'monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation.'

6. Core Competency

Core competency of on organization is a central value creating capability of the organization.

Core competency of an organization is its core skill. It is a central value-creating capability of the organization.[7] Core competencies emerge from a company's experience, learned skills, and focused efforts on performing one or more related value chain components. Also called distinctive competences, core competencies are activities of the company where its position is superior to its competitors. For example, Toyota Motor Company of Japan is believed to have core competencies in the design and manufacturing of car using just-in-time philosophy. 5M InfoTech Limited of Dhaka, a software company, has core competencies in programming and systems analysis. A company can use its core competencies to pursue business opportunities.

Core competency also called distinctive competences are activities of the company where its position is superior to its competitors.

When we say that a company has a core competency in an area of business activity, we mean that the company can do that activity especially well in comparison to its competitors. Examples of core competencies include:

- Manufacturing excellence
- Exceptional quality control
- Ability to provide better service
- Superior design capability
- Innovativeness in developing new products
- Mastery of an important technology
- A strong understanding of customer needs and tastes
- Company's ability to create and commercialize new product.

Core competencies are valuable compe-titive assets which enhance a firms' competitiveness.

It is easier to build competitive advantage when a firm has a core competence in an area important to market success. It becomes much easier when competitors do not have offsetting competences. Core competencies are thus valuable competitive assets. They enhance a firm's competitiveness.

7. Code of Ethics

Ethics refer to principles of conduct that govern decision making and behavior of people.

Ethics refer to principles of conduct that govern decision making and behavior of people. Ethics play an important role in developing organizational philosophies. Ethics of people in the organization either as individuals or groups who are involved in developing future direction of the organization has important implications for the stakeholders. Managers need to understand clearly why ethics are important in their organizations.

The following are some of the ethical questions in business:

b. Is sale of cigarettes by a company ethical?

c. Is giving advertising for promotion of cigarettes or wine or spurious drugs ethical?

d. Is export of a product banned in home country ethical practice for a multinational company?

e. What are the ethical implications of forbidding a company's purchasing agents from accepting gifts from vendors while encouraging sales agents to give gifts to prospective buyers?

Now-a-days it is widely believed that organizations should develop written *code of ethics* to guide the employees in taking care of ethics in their activities. Code of ethics is a written document that contains principles of conduct to be used in decision making. A code of ethics heightens an organization's reputation in the society. Organizations should therefore build ethics into their cultures. Existence of a code of ethics or code of conduct make an environment in organizations where all people try to make ethical conduct a way of life. Thompson and Strickland have prepared a list of topics that organizations usually cover in codes of ethics:[8]

Code of ethics is a written document that contains principles of conduct to be used in decision making.

- Honesty and observance of law
- Conflicts of interest
- Acquiring and using information about others
- Political activities
- Use of company assets, resources, and property
- Protection of proprietary information
- Pricing, contracting, and billing.
- Fairness in selling and marketing practices
- Using inside information and securities trading
- Suppliers relationships and procurement practices
- Payments to obtain business

Organizations should develop procedures for enforcing ethical standards. They need to ensure that all employees comply with the code of ethics in every unit of the organization and at every level. Employees should be given training about how to comply with ethical standards. Managers must inform the employees how ethical standards apply in various areas in which employees are working. They can show by examples – they themselves must practice ethical standards. Practicing ethical standards must be a continuous exercise. Ethical standards must be integrated into organizational policies, and all actions of the organization.

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8. Value Chain of Company

The value chain of a company consists of the company's primary and support activities. The primary activities are involved with the physical creation of a product, its distribution and marketing, and the after-sales service related to the product. Specifically, we can say that the primary activities of a manufacturing company include inbound logistics, operations/production, outbound logistics, marketing, and service. The support activities are necessary for supporting the primary activities to

The value chain consists of a company's primary and support activities.

take place. They include company's infrastructure, human resource management, technological development, procurement, finance, inventory, etc. Collectively, all these primary and support activities constitute the value chain. It shows how a product moves from the stage of raw materials to the final customers. Figure-1.1 depicts the basic value chain of a manufacturing company.

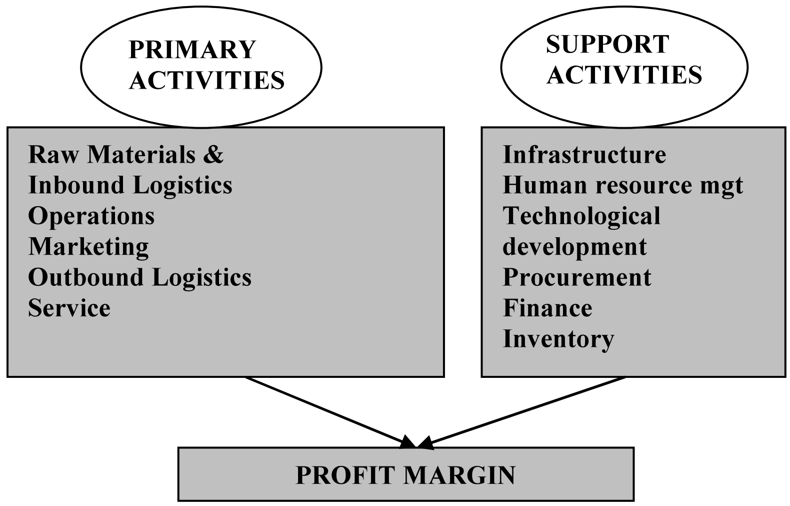

Figure-1.1: The basic value chain of a manufacturing company

9. Competitive Advantage

Competitive advantage indicates a company's competitive position that allows it to achieve higher profitability than the industry's average.

Competitive advantage is the special edge that allows an organization to deal with market and environmental forces better than its competitors. It comes from strategies that lead to some uniqueness in the market place. It indicates a company's competitive position that allows it to achieve higher profitability than the industry's average. To develop competitive advantage, a company should develop distinctive competences and then use them to creatively competes in its markets.

A company has competitive advantage whenever it has an edge over the competitors in attracting customers and defending against competitive forces. There are many sources of competitive advantages:

- Having the best-made product on the market.
- Delivering superior customer service.
- Achieving lower cost than competitors.
- Being in a more convenient geographical location.
- Proprietary technology.
- Providing buyers more value for money,
- Features and styling with more buyer appeal.
- Shorter lead times in developing and testing new products.
- A well-known brand name and reputation.

Managers need to recognize that winning business strategies are grounded in sustainable competitive advantage.

Review Questions

1. What is core competency? Explain with examples.
2. What do you mean by Code of Ethics? Mention some of the ethical questions in business.
3. Prepare a list of topics that organizations usually include in their code of ethics.
4. What is value chain of a company? Discuss in the context of a manufacturing organization.
5. Define and explain the concept of 'competitive advantage.' What are the sources of competitive advantages of a business organization?
6. Is there any distinction between competitive strategy and functional strategy? Explain.
7. Identify the various levels of strategy-making in an organization and then briefly discuss about their formulation.

Application Discussion Questions

1. Suppose that your company (a pharmaceutical company) has adopted a policy of offering 'duplex flats' located at the posh urban areas to the physicians to motivate them to prescribe your company's newly-produced pharmaceutical product. Do you think it ethical for the company? Why or why not?

NOTES

1. L.L.Byars, L.W. Rue and S.A. Zahra, *Strategic Management* (Chicago: Irwin, 1996, p. 7.)
2. J.C. Collins and J.I. Porras, "Organizational Vision and Visionary Organizations," Research Paper No. 1159, Graduate School of Business, Stanford University, September 1991, p.11.
3. R.W Griffin, *General Management* (Delhi: AITBS publishers and Distributors, 1998, p. 184.).
4. For details, see J.D. Hunger and T.L. Wheelen, *Essentials of Strategic Management* (New Jersey: Prentice Hall, 2001, pp. 112-113).
5. Hunger and Wheelen, Ibid.
6. Ibid., p. 7.
7. G. Hamel and C.K. Prahalad, *Competing for the Future* (Mass: Harvard Business School Press, 1994).
8. A. A.Thompson and A.J. Strickland, *Strategic Management* (Burr Ridge, Illinois: Irwin, 2001), p. 422.

Lesson-3: Establishing Company's Vision and Mission

Learning Objectives:

After you have studied this lesson, you should be able to:

- Clarify the concept and importance of vision of an organization.
- Define mission and describe the ideal contents of a mission statement.
- Explain why and how to communicate the organization's vision and mission to the stakeholders.
- Discuss the concept of 'objective' and to understand how the objectives can be made SMART.
- Discuss why strategic management is an ongoing process.
- Know who are the strategy managers.

Introduction

Strategic management requires a well-thought out vision and a clear mission for an organization. Subsequently, the mission needs to be translated into organizational objectives for facilitating its achievement. Vision and mission are important as they provide long-term direction to the organization. And, objectives – both long-range and short-range – provide targets for achievement. This lesson looks at the first two issues for in-depth analysis. First, we discuss about the meaning of vision, importance of vision, and the factors to be considered while developing a vision. Next, we examine the relevant issues of mission – meaning, ideal contents/components, mission for departments, linkage of 'business definition' to mission statement, and communicating mission along with vision to stakeholders. In Lesson-4, we provide an in-depth look at the setting of objectives, to be followed by formulation of strategy.

Developing a Vision

Meaning of Vision

A vision is a mental image of a possible and desirable future state of the organization.

Effective strategy making begins with a vision. Vision is a future-oriented concept of the business. Forming a strategic vision is an exercise in thinking about where a company needs to head to be successful. A vision is a mental image of a possible and desirable future state of the organization. A vision describes aspirations for the future - a destination for the organization. We can say that a vision is a dream – a distant, long-term dream.

Vision statement refers to an under-standing of why the organization exists.

An organization's vision, which is often called 'purpose of the organization', is designed to express the fundamental reason for the organization's existence.[1] Usually most organizations describe their vision or purpose in one or two sentences in the form of a statement – called vision statement. Vision statement is used to refer to an understanding of why the organization exists. It provides direction for the organization.

Examples of Vision

a. Vision statement of the World Vision of Bangladesh:

"Working for a world that no longer tolerates poverty."

b. Vision statement of Walt Disney Company:

"To make people happy"

Importance of Vision in an Organization

A vision statement is important to a company for a variety of reasons. First, it provides a clear direction about where the company is heading. Secondly, it has a strategy-making value in the sense that it indicates the type of strategy the company should follow to reach the dreamed destination. Thirdly, it helps managers to think strategically about such issues as advent of new technology, changes in the customer expectations and needs, available marketing opportunities and other environmental factors. Fourthly, managers get insight about drawing reasoned conclusions concerning winds of change and then selecting appropriate paths to deal with the change.

Developing a Mission

Meaning of Mission

An organization's mission is formulated in the form of a statement. It is, therefore, often called mission statement. A mission is an overall goal of the organization that provides a sense of direction and a guide to decision making for all levels of management.[2] A mission can also be defined as a broad goal of an organization which justifies an organization's existence. It is a statement of an organization's reason to exist. It states what the company is providing to society. For example, a company may provide a service such as legal services, housecleaning, or software development. Or, it may provide a product such as cosmetics, or toiletry. An organization's mission does not indicate the details and measurable targets. It rather contains a statement of attitude, outlook and orientation. A mission statement reveals who the company is and what it does. It clarifies the nature of existing products, markets, and functions the firm presently provides.[3]

A mission is a broad goal of an organization which justifies an organizations' existence.

Mission should define the organization's line/lines of business, identify its products and services, and specify the markets it serves at present and within a time frame of three to five years. It should be achievable, in writing, and have a time frame for achievement.[4] Since a mission is a relatively permanent part of an organization's identity, it should be broad-based but customer-focused.

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The mission is not to make a profit. It is to give the organization its own special identity, business emphasis, and path for development. It must set a company apart from other similarly situated companies. If profit is made the focus of mission, it will be impossible to differentiate one company from another.

Ideal Contents of a Mission Statement

There does not exist any hard and fast rule for formulating a mission statement. An analysis of various mission statements of different companies (especially business-oriented firms) indicates that a mission statement needs to include some common issues, such as:

(a) Customer needs *(i.e., what is being satisfied)*

(b) Customer groups *(i.e., who is being satisfied)*

(c) Company's activities, technologies, and competencies *(i.e., how the company goes about creating value to customers and satisfying their needs)*

Pearce and David identified eight basic components of a typical corporate mission statement as follows:[5]

1. Target customers and markets (e.g., students, engineers, doctors, nurses, patients)
2. Products or services (e.g., toothpaste, perfume, computer)
3. Geographical domain (e.g., national level, worldwide)
4. Technology (e.g., cellular communication technology; information technology)
5. Concern for survival (e.g., to conduct business prudently to provide profits and growth)
6. Philosophy (e.g., a spirit of sharing and caring where people give cheerfully of their time, knowledge and experience)
7. Company's self-concept (e.g., a diversified, multi-industry company) and
8. Concern for public image (e.g., to share the world's obligation for the protection of the environment).

Examples of Mission Statements

(1) Mission Statement of Hewlett-Packard Company

Hewlett Packard is a major designer and manufacturer of electronic products and systems for measurement and computation. Its basic business purpose is to provide the competitive capabilities and services needed to help customers worldwide improve their personal and business effectiveness.

(2) Mission Statement of Apple Computer

To bring the best personal computing products and support to students, educators, designers, scientists, engineers, business persons and consumers in over 140 countries around the world.

(3) Mission Statement of Intel (world-famous producer of motherboard and microprocessor)

To be the preeminent building block supplier to the new computing industry worldwide.

(3) Mission Statement of IFIC Bank

IFIC Bank's mission is to provide service to its clients with the help of a skilled and dedicated workforce whose creative talents, innovative actions and competitive edge make its position unique in giving quality service to all institutions and individuals for which the Bank cares for.

Can there be a mission for functional departments?

There can be separate mission statements for the departments like Marketing, Finance, Human Resources, Research and Development (R & D), etc. For example, the mission of the Human Resources Department can be "to contribute to organizational success by developing effective leaders, creating high-performance teams, and maximizing the potential of individuals." The mission of the marketing department may be 'providing excellent customer service all the time round the year to exceed the customers' expectations.'

Why is 'business definition' considered essential for mission statement?

Before a mission statement is prepared, mangers must clearly define what business the company is presently in. This is essential because the mission statement must convey "who we are, what we do, and where we are now."

The complexity of defining a business has been very articulately presented by Thompson and Strickland:

a) Is Coca-Cola in the soft-drink business?

b) Is Coca-Cola in the beverage business?

Taking a soft-drink perspective means that managements' strategic attention needs to be concentrated on outcompeting Pepsi, 7-up, Dr. Pepper etc. On the other hand, taking beverage perspective means that management also needs to think strategically about positioning Coca-Cola products to compete against fruit juices, iced tea, bottled water, milk and coffee.

Some companies are found to have provided a *broad definition* of mission, while some other companies prefer a *narrow definition.* Broad definition makes a mission statement too abstract to be well-understood. Take this example: "Bengal Furnishing Company is in the furniture business.' The company is in fact involved in wooden furniture business. If it claims in its mission statement that it is in 'furniture business', then it implies that the company is also engaged in wrought-iron furniture, steel furniture and plastic furniture businesses. If a company states that *it is in soft-drink business*, not in beverage business, then it implies that the company follows a narrow definition of business.

In general, three dimensions can be used to define a business of a company. Abell has suggested these dimensions for defining business.[6] These dimensions are:

(a) Who is being satisfied?

(b) What is being satisfied?

(c) How are customers' needs being satisfied?

These three dimensions indicate that business definition needs to incorporate the customer groups targeted by the company, the needs of the customers that the company wants to satisfy, and the skills or competencies that the company has to use for satisfying the needs of targeted customer groups (see Figure 1.2).

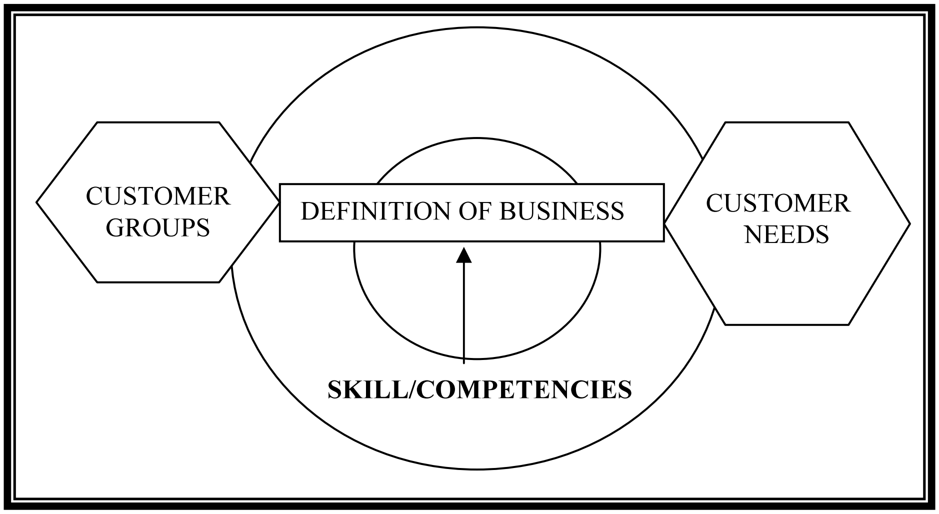

Figure 1.2: Definition of business as suggested by Abell.

Can mission be changed or revised?

In this world of continuous changes in the environment, it is common to periodically redefine the mission of companies. Sometimes, the original mission formulated long ago does not work due to some reasons – it may become unacceptable to the stakeholders. In that case, mission should be modified or altogether created anew.

Communicating the Vision and Mission

The language of vision and mission should be so succinct and specific that it can pin down the organization's real business arena.

To enlist employee commitment, the vision needs to be communicated to all employees. People need to believe that the company's management knows where it is trying to take the company. Management should present the vision and mission in language that creates a vivid image in the employee's heads and provokes emotion. For example, building a mosque or temple (mandir) or church is more inspiring than 'laying foundation stone.' The language of vision and mission should be so succinct and specific that it can pin down the organization's real business arena.

Effective mission statements are those which can inspire all stakeholders.

Effective mission statements are those which can inspire all stakeholders. An inspiring and challenging mission statement can serve as a powerful motivational tool. Company should communicate their mission in words that convey a sense of organization's purpose. A well-communicated mission statement pays off in several ways: (1) it motivates all key stakeholders to develop firm commitment in themselves for the realization of the organization's purpose; (2) it facilitates focused decision making; (3) it helps departmental managers develop missions for departments, set departmental objectives and formulate departmental strategies; and (4) it creates a sense of pride in the employees.

Integration of Vision and Mission: To Be or Not to Be?

Because of the closeness of the essence of both vision and mission, some people raise the question: should vision and mission be integrated and formulated together without any separation? The question is simple but the answer is difficult. Generally, we can say that some organizations are found to have integrated these two into one. They have formulated vision and mission together with no demarcation line between the two. Hill and Jones did not make any distinction between vision and mission. They are in favor of using these two terms interchangeably.

Review Questions

1. What do you mean by vision? "A vision of a company describes the aspiration for the future – a destination for the organization." Do you support this view? Why?
2. Why is the vision important for an organization?
3. What is mission? What does a mission statement reveal?
4. Point out the ideal contents of a mission statement.
5. Can there be a mission for a functional department?
6. Why is 'business definition' considered essential for mission statement?
7. Can the mission of an organization changed or revised?
8. What is the importance of communicating vision and mission to the organization's stakeholders?
9. Should there be an integration of vision with the mission?

Application Discussion Questions

1. Visit a company or an NGO situated in your locality. Obtain its vision and mission statements. Find out the contents of these statements and then make comments whether they have incorporated the necessary issues in these statements.

NOTES

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4. L R Jauch and W F Glueck, *Business Policy and Strategic Management* (NY: McGraw-Hill, 1988, p. 77).
5. J. A. Pearce II and F. R. David, "Corporate Mission Statements: The Bottom Line," *Academy of Management Executive*, May 1992, pp. 109-16.
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Lesson-4: Setting Objectives and Formulating Strategies

Learning Objectives:

After you have studied this lesson, you should be able to:

- Clarify the concept of objective.
- Understand how the objectives can be made SMART.
- Provide examples of SMART objectives.
- Set examples of strategic and financial objectives.
- Understand long-term and annual objectives.
- Discuss why strategic management is an ongoing process.
- Know who are the strategy managers?

Introduction

Establishing objective is a direction-setting task. Mission statement provides an overall goal for the organization but does not enable managers to go for action. Managers therefore need to convert the mission into specific performance objectives. Establishing objectives converts vision and mission into specific performance outcomes. Objectives must be set for financial performance and strategic performance for success. Top managers set broader objectives with longer time horizons than do successively lower levels of managers. Lower level managers set objectives based on the middle-level objectives. In effect, lower-level objectives provide the means for achieving middle-level objectives and, in turn, middle-level objectives provide the means for achieving top-level objectives.[1]

A simple question is: What is an objective? An objective is the means to achieve the ends. Objectives are basically targets – the anticipated end results of any endeavor. An objective is a specific commitment to achieve a measurable result within a given time frame. An objective needs to be written in quantitative, measurable and concrete terms. A well-formulated objective must be SMART. Here, S=Specific, M=Measurable, A=Achievable (some view that A should stand for 'Appropriate' – appropriate to resources, environment and technology of the organization), R=Realistic, and T=Time-bound. An objective must clearly show what the company wants to achieve and when it wants to achieve it.

An objective is a specific commitment to achieve a measurable result within a given time frame. An objective needs to be written in quantitative, measurable and concrete terms.

Examples of SMART Objectives:

i) To increase the sales of all products of the company by 5% during the year 2006.

ii) To reduce overhead costs of the company by Tk. 100,000.00 during the next six months.

iii) To achieve 20% increase in the sales of brand-X by December 31, 2007.

iv) To increase unit sales of '5M Family Software-APANJON' in Chittagong area by 5000 units by June 30, 2006.

Some writers are of the view that there should be a distinction between 'goal' and objective. However, managers generally prefer to use both the terms interchangeably. The above are the examples of operating objectives, used by operational mangers and mid-level mangers for implementing their plans with specific targets in mind.

Strategic performance objectives are concerned with sustaining and improving company's long-term market position and competitiveness.

Financial performance objectives are related to achieving financial gains for having a strong financial standing.

Strategic and Financial Performance Objectives

In strategic management, we are more concerned with strategic performance objectives and financial performance objectives. *Strategic performance objectives* are concerned with sustaining and improving company's long-term market position and competitiveness. On the other hand, *financial performance objectives* are related to achieving financial gains for having a strong financial standing. Below are some examples of strategic performance objectives and financial performance objectives.

Examples of Strategic Objectives

1. A longer market share
2. Higher product quality
3. Lower costs relative to key competitors
4. Superior customer service
5. Increased ability to compete in international markets

Examples of Financial Objectives

- Faster revenue
- Higher dividends
- Stable earnings during recessionary periods
- Higher returns on invested capital.

In addition to the above types of objectives, strategic managers also need to be concerned with the long-term and annual objectives.

Long-Term Objectives

Long-term objectives typically involve such issues as return on investment, staff development, profitability and the like.

Long-term objectives are the end results that an organization contemplates to achieve over a long period of time, usually five-year period. However, five-year period is absolutely arbitrary. An organization that experiences a turbulent situation in the industry may choose to consider a period less than five year as long-term. If, on the other hand, a company operates in a stable industry where there is no or less environmental turbulence, a period over five year may be the norm for long-term objective. So, it is better to define long-term as a multiyear period. Long-term objectives typically involve such issues as return on investment, staff development, profitability and the like.

Annual Objectives

Annual objectives is the end rusult than an organization seeks to achieve within a year.

Annual objectives are viewed as short-term objectives (although in certain situations short-term objectives may be for even a day). We can define annual objectives as the end results that an organization seeks to achieve within a year. For example, a company may set an annual objective of achieving two (2%) percent growth in profitability. Annual objectives are to be set in relation to the long-term objectives of the company. As an instance, the marketing department can set the objective of increasing sales volume at the rate of five (5%) percent every year for the next five years. This has been set keeping in view the company's long-term objective of achieving twenty-five (25%) percent growth in sales volume during the next five years.

Formulating Strategy

Once the organization has set the relevant objectives, it is then ready to formulate strategy. A strategy is crafted in relation to an objective. Objective is, in fact, the main building block of strategy-making. An organization's strategy consists of the combined actions of managers for achieving strategic and financial objectives of the company. Strategy is action-oriented –what to do and when to do it. Strategy-making is involved with the identification and deciding on the ways that an organization can undertake to achieve the performance targets, weaken the competitors, achieve and maintain competitive advantage, and ensure long-term survival of the organization. All managers need to be involved in strategy-making in their own areas of activities. The top-level mangers formulate *corporate strategy* (in the diversified companies) that is meant for the entire organization as a whole. The unit-level managers (single-business enterprise) formulate *business strategy*, and the mid-level managers formulate *functional strategy* for each specific functional unit within the enterprise (such as production strategy for production function, marketing strategy for marketing function, etc.). If an organization (single-business enterprise) has one or more basic operating units such as factory/plant, or sales territory or small sections within a department, there can be *operating strategy* for those operating units. The operating level managers formulate the operating strategies, usually in cooperation with the mid-level managers.

Strategy is action-oriented –what to do and when to do it.

Strategic Management is an Ongoing Process, Not a One-Time Shot

Managers are responsible for detecting when new developments within or outside the company require a strategic response and when they don't. Their job is to tract progress, spot problems and issues clearly, monitor the winds of market and customer change, and initiate adjustments as needed. This is why, the task of evaluating performance and initiating corrective adjustments is both the end and the beginning of the strategic management cycle.

Who Perform the Tasks of Strategic Management?

There is a wrong notion among some people that strategy-making and strategy implementation are the sole prerogatives of senior managers only. In reality, all managers at all levels need to participate in the process of strategic management. Also, the relevant employees need to be involved for effective formulation and implementation of strategy. Thus, we can say that the following personnel are involved in performing the tasks of strategic management:

All managers at all levels need to participate in the process of strategic management.

- ✓ The CEO (most important strategy manager)
- ✓ Other senior managers (usually involved in proposing key elements of the overall company strategy)
- ✓ Divisional and departmental managers (play supporting role/do some or most of the strategy making for the units).
- ✓ Other lower-level managers (strategy markers and implementers for the areas they supervise).

Review Questions

1. What is an objective? Why should objectives be SMART?
2. Distinguish between long-term and annual objectives.
3. Give five examples each of strategic and financial objectives.
4. Why is it said that strategic management is an ongoing process, not a one-time shot?
5. Who perform the tasks of strategic management?

Application Discussion Questions

1. Collect some business objectives of a company and using the knowledge that you have gained from this lesson, say if the objectives are really SMART.

NOTES

1. In this book, we use the term 'goal' and 'objective' interchangeably to mean the same thing, although some authors make a distinction between goal and objective. Ricky Griffin in his book on management suggests that the term 'objective' can be used to indicate the operational level goal of an organization. He prefers the term goal for strategic level and middle level of the organization. He further suggests that the operating objectives must be SMART. However, top-level strategic goals and mid-level tactical goals are descriptive and therefore not measurable.