



# **Essentials of Strategic Management**

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## **The Essentials of Strategic Management**

“The Essentials of Strategic Management” provides us with a short, concise explanation of the most important concepts and techniques in strategic management. It is a rigorous explanation of many topics and concerns in strategic management. These concepts are clearly explained by citing various examples.

### **Precisely the book deals with the following.**

- A strategic decision-making model based on the underlying process of environmental scanning, strategy formation, strategy implementation and evaluation and control.
- Michael Porter’s approach to industry analysis and competitive strategy
- Functional analysis and functional strategies. R & D and R & D strategies which emphasize the importance of technology to strategy and product-market decisions.
- Executive leadership and succession, reengineering, total quality management, MBO and action planning.
- Social responsibility in terms of its importance to strategic decision making.



## **Basics concepts of strategic management**

### **The study of strategic management**

Strategic management is the set of managerial decision and action that determines the long-run performance of a corporation. It includes environmental scanning (both external and internal), strategy formulation (strategic or long range planning), strategy implementation, and evaluation and control. The study of strategic management therefore emphasizes the monitoring and evaluating of external opportunities and threats in lights of a corporation's strengths and weaknesses.

### **Evolution of strategic management**

From his extensive work in the field, Bruce Henderson of the Boston Consulting Group concluded that intuitive strategies cannot be continued successfully if (1) the corporation becomes large, (2) the layers of management increase, or (3) the environment changes substantially.

**Phase 1** - Basic financial planning: Seek better operational control by trying to meet budgets.

**Phase 2** - Fore-cast based planning: Seeking more effective planning for growth by trying to predict the future beyond next year.

**Phase 3**. Externally oriented planning (strategic planning): Seeking increasing responsiveness to markets and competition by trying to think strategically.

**Phase 4**. Strategic management: Seeking a competitive advantage and a successful future by managing all resources.

Phase 4 in the evolution of the strategic management includes a consideration of strategy implementation and evaluation and control, in addition to the emphasis on the strategic planning in Phase 3.

General Electric, one of the pioneers of the strategic planning, led the transition from the strategic planning to strategic management during the 1980s. By the 1990s, most corporations around the world had also begun the conversion to strategic management.

### **Learning-A part of strategic management**

Strategic management has now evolved to the point that its primary value is to help the organization operate successfully in dynamic, complex environment. To be competitive in dynamic environment, corporations have to become less bureaucratic and more flexible. In stable environments such as those that have existed in the past, a competitive strategy simply involved defining a competitive position and then defending it. Because it takes less and less time for one product or technology to replace another, companies are finding that there are no such thing as competitive advantage.

Corporations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization: an



organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. Learning organizations avoid stability through continuous self-examinations and experimentations. People at all levels, not just top the management, need to be involved in strategic management: scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures and evaluation techniques. At Xerox, for example, all employees have been trained in small-group activities and problem solving techniques. They are expected to use the techniques at all meetings and at all levels, with no topic being off-limits.

### **Initiation of strategy: Triggering Events**

A triggering event is something that stimulates a change in strategy .Some of the possible triggering events is:

**New CEO:** By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation's existence.

**Intervention by an external institution:** The firm's bank suddenly refuses to agree to a new loan or suddenly calls for payment in full on an old one.

**Threat of a change in ownership:** Another firm may initiate a takeover by buying the company's common stock.

**Management's recognition of a performance gap:** A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.

### **Basic model of strategic management**

Strategic management consists of four basic elements

1. Environmental scanning
2. Strategy Formulation
3. Strategy Implementation and
4. Evaluation and control

Management scans both the external environment for opportunities and threats and the internal environmental for strengths and weakness. The following factors that are most important to the corporation's future are called strategic factors: strengths, weakness, opportunities and threats (SWOT)

### **Strategy Formulation**

Strategy formulation is the development of long-range plans for they effective management of environmental opportunities and threats, taking into consideration corporate strengths and weakness. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines.

### **Mission**

An organization's mission is its purpose, or the reason for its existence. It states what it is providing to society .A well conceived mission statement defines the fundamental , unique purpose that sets a company apart from other firms of its types and identifies the scope of the company 's operation in terms of products offered and markets served



## **Objectives**

Objectives are the end results of planned activity; they state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in fulfillment of the corporation's mission.

## **Strategies**

A strategy of a corporation is a comprehensive master plan stating how corporation will achieve its mission and its objectives. It maximizes competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business and functional.

## **Policies**

A policy is a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that the employees throughout the firm make decisions and take actions that support the corporation's mission, its objectives and its strategies.

## **Strategic decision making**

Strategic deals with the long-run future of the entire organization and have three characteristic

1. Rare- Strategic decisions are unusual and typically have no precedent to follow.
2. Consequential-Strategic decisions commit substantial resources and demand a great deal of commitment
3. Directive- strategic decisions set precedents for lesser decisions and future actions throughout the organization.

## **Mintzberg's mode s of strategic decision making**

According to Henry Mintzberg, the most typical approaches or modes of strategic decision making are entrepreneurial, adaptive and planning.

## **Making better strategic decisions**

The book proposes that in most situations the planning mode, which includes the basic elements of strategic management process, is a more rational and thus better way of making strategic decisions.

Following eight-step strategic decision-making process is proposed

1. Evaluate current performance results
2. Review corporate governance
3. Scan the external environment
4. Analyze strategic factors (SWOT)
5. Generate, evaluate and select the best alternative strategy
6. Implement selected strategies
7. Evaluate implemented strategies



## Corporate Governance and Social Responsibility

Corporate governance is a mechanism established to allow different parties to contribute capital, expertise and labour for their mutual benefit the investor or shareholder participates in the profits of the enterprise without taking responsibility for the operations. Management runs the company without being personally responsible for providing the funds. So as representatives of the shareholders, directors have both the authority and the responsibility to establish basic corporate policies and to ensure they are followed.

The board of directors has, therefore, an obligation to approve all decisions that might affect the long run performance of the corporation. The term corporate governance refers to the relationship among these three groups (board of directors, management and shareholders) in determining the direction and performance of the corporation

### Responsibilities of the board

Specific requirements of board members of board members vary, depending on the state in which the corporate charter is issued. The following five responsibilities of board of directors listed in order of importance

1. Setting corporate strategy ,overall direction, mission and vision
2. Succession: hiring and firing the CEO and top management
3. Controlling , monitoring or supervising top management
4. Reviewing and approving the use of resources
5. Caring for stockholders interests

### Role of board in strategic management

The role of board of directors is to carry out three basic tasks

1. Monitor
2. Evaluate and influence
3. Initiate and determine



## **Environmental scanning and industry analysis**

### **Environmental scanning**

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to keep people within the corporation. It is a tool that a corporation uses to avoid strategic surprise and to ensure long-term health.

### **Scanning of external environmental variables**

The social environment includes general forces that do not directly touch on the short-run activities of the organization but those can, and often do, influence its long-run decisions. These forces are

- Economic forces
- Technological forces
- Political-legal forces
- Sociocultural forces

### **Scanning of social environment**

The social environment contains many possible strategic factors. The number of factors becomes enormous when one realize that each country in the world can be represented by its own unique set of societal forces, some of which are very similar to neighboring countries and some of which are very different.

### **Monitoring of social trends**

Large corporations categorized the social environment in any one geographic region into four areas and focus their scanning in each area on trends with corporate-wide relevance. Trends in any area may be very important to the firms in other industries.

Trends in economic part of societal environment can have an obvious impact on business activity. Changes in the technological part of the societal environment have a significant impact on business firms. Demographic trends are part of sociocultural aspects of the societal environment.

### **International society consideration**

For each countries or group of countries in which a company operates, management must face a whole new societal environment having different economic, technological, political-legal, and Sociocultural variables. This is especially an issue for a multinational corporation, a company having significant manufacturing and marketing operations in multiple countries. International society environments vary so widely that a corporation's internal environment and strategic



management process must be very flexible. Differences in social environments strongly affect the ways in which a multinational company.

### **Scanning of the task environment**

A corporation's scanning of the environment should include analysis of all the relevant elements in the task environment. These analyses take the form of individual reports written by various people in different parts of the firms. These and other reports are then summarized and transmitted up the corporate hierarchy for top management to use in strategic decision making. If a new development reported regarding a particular product category, top management may then sent memos to people throughout the organization to watch for and reports on development in related product areas. The many reports resulting from these scanning efforts when boiled down to their essential, act as a detailed list of external strategic factors.

### **Identification of external strategic factors:**

One way to identify and analyze developments in the external environment is to use the issues priority matrix as follows.

1. Identify a number of likely trends emerging in the societal and task environment. These are strategic environmental issues: Those important trends that, if they happen, will determine what various industries will look like.
2. Assess the probability of these trends actually occurring.
3. Attempt to ascertain the likely impact of each of these trends of these corporations.

### **Industry analysis: Analyzing the task environment**

#### **Michael Porter's approach to industry analysis**

Michael Porter, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry. Basic competitive forces determine the intensity level. The stronger each of these forces is, the more companies are limited in their ability to raise prices and earned greater profits.

#### **Threat of new entrants**

New entrants are newcomers to an existing industry. They typically bring new capacity, a desire to gain market share and substantial resources. Therefore they are threats to an established corporation. Some of the possible barriers to entry are the following.

1. Economies of scale
2. Product differentiation
3. Capital requirements
4. Switching costs
5. Access to distribution channels
6. Cost disadvantages independent of size
7. Government policy

#### **Rivalry among existing firms**

Rivalry is the amount of direct competition in an industry. In most industries corporations are mutually dependent. A competitive move by one firm can be expected to have a noticeable



effect on its competitors and thus make us retaliation or counter efforts. According to Porter, intense rivalry is related to the presence of the following factors.

1. number of competitors
2. rate of industry growth
3. product or service characteristics
4. amount of fixed costs
5. capacity
6. height of exit barriers
7. diversity of rivals

### **Treat of substitute product or services**

Substitute products are those products that appear to be different but can satisfy the same need as another product. According to Porter, “Substitute limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge.” To the extent that switching costs are low, substitutes may have a strong effect on the industry.

### **Bargaining power of buyers**

Buyers affect the industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other.

### **Bargaining power of supplier**

Suppliers can affect the industry through their ability to raise prices or reduce the quality of purchased goods and services.



## **Strategy Formulation**

### **Corporate Strategy:**

Corporate strategy is primarily about the choice of direction for the firm as a whole. This is true whether the firm is a small, one-product Company or a large multinational corporation. In a large multi-business company, however, corporate strategy is also about managing various product lines and business units for maximum value. In this instance, corporate headquarters must play the role of organizational “parent” in that it must deal with various product and business unit “children”. Even though each product line or business unit has its own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the marketplace, the corporation must coordinate these different business strategies so that the corporation as a whole succeeds as a “family”.

Corporate strategy, therefore, includes decisions regarding the flow of financial and other resources to and from a company’s product lines and business units. Though a series of coordinating devices, a company transfers skills and capabilities developed in a one unit to other units that need such resources. In this way, it attempts to obtain synergies among numerous product lines and business units so that the corporate whole is greater than the some of its individual business unit parts. All corporations, from the smallest company offering one product in only one industry to the largest conglomerate operating in many industries in many product must, at one time or another, consider one or more of these issues.

### **Directional Strategy:**

Just as every product or business unit must follow a business strategy to improve its competitive position, every corporation must decide its orientation towards growth by asking the following three questions:

- Should we expand, cut back, or continue our operations unchanged?
- Should we concentrate our activities within our current industry or should we diversify into other industries?
- If we want to grow and expand, should we do so through internal development or through external acquisitions, mergers, or joint ventures?

A corporation’s directional strategy is composed of three general orientations towards growth (sometimes called grant strategies):

- Growth strategy expands the company’s activities.
- Stability strategies make no change to the company’s current activities.
- Retrenchment strategies reduce the company’s level of activities.

### **Growth strategies**



By far the most widely pursued corporate strategies of business firms are those designed to achieve growth in sales, assets, profit, or some combination of these. There are two basic corporate growth strategies: concentration within one product line or industry and diversification into other product and industries. These can be achieved either internally by investing in new product development or externally through mergers acquisitions or strategic alliances.

A merger is a transaction involving two or more corporations in which stock is exchanged, but from which only one corporation survives. Mergers usually occur between firms of somewhat similar size and are usually “friendly”. The resulting firm is likely to have a name derived from its composite firms.

An acquisition is the purchase of company that is completely absorbed as an operating subsidiary or division of the acquiring corporation. Acquisitions usually occur between firms of different sizes and can be either friendly or hostile. Hostile acquisitions are often called as takeovers.

A strategic alliance is a partnership of two or more corporations or business units to achieve strategically significant objectives that are mutually beneficial.

### **Concentration strategies**

#### **Vertical integration**

Growth can be achieved via vertical integration by taking over a function previously provided by supplier (backward integration) or by distributor (forward integration). This is a logical strategy for a corporation or business unit with a strong competitive position in a highly attractive industry. To keep and even improve its competitive position through backward integration, the company may act to minimize resource acquisition costs and inefficient operations, as well as to gain more control over quality and product distribution through forward integration. The firm, in effect, builds on its distinctive competence to gain greater competitive advantage. The amount of vertical integration can range from full integration, in which a firm makes 100% of key supplies and distributors, to taper integration, in which the firm internally produces less than half of its key supplies, to no integration, in which the firm uses long term contracts with other firms to provide key supplies and distribution. Outsourcing, the use of long-term contracts to reduce internal administrative costs, has become more popular as large corporations have worked to reduce costs and become more competitive by becoming less vertically integrated.

Although backward integration is usually more profitable than forward integration, it can reduce a corporation’s strategic flexibility; by creating an encumbrance of expensive assets that might be hard to sell, it can thus create for the corporation an exit barrier to leaving that particular industry.

#### **Horizontal integration**

It is the degree to which a firm operates in multiple geographic locations at the same point in an industries value changed growth can be achieved via horizontal integration by expanding firm’s product into other geographic locations or by increasing the range of product and services offered to current customers.

#### **Stability strategies:**



The corporation may choose stability over growth by continuing its current activities without any significant change in direction. The stability family of corporate strategies can be appropriate for a successful corporation operating in a reasonably predictable environment. Stability strategies can be very useful in short run but can be dangerous if followed for too long.

Sum of the more popular of these strategies are

1. Pause and proceed with caution strategy
2. no change strategy
3. Profit strategy

### **Corporate parenting:**

Corporate parenting views corporation in terms of resources and capabilities that can be used to build business value as well as generates synergies across business units.

The corporate parenting strategies can be developed in following ways.

1. Examine each business unit in terms of its critical success factors.
2. Examine each business unit in terms of areas in which performance can be improved

### **Chapter 5: Strategy formulations: Functional strategy & Strategic choice**

A functional strategy is the approach a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concern with developing and nurturing a distinctive competence to provide a company or a business unit with a competitive advantage.

### **Core competency:**

A core competency is something that a corporation can do exceedingly well. It is a key strength. When this competency is superior to those of competition, they are called distinctive competencies. To be consider a distinctive competency, the competency must meet three tests

1. Customer value
2. Competitive unique
3. Extendibility

### **Outsourcing:**

Outsourcing is purchasing from someone else a product or a service that had been previously provided internally. The key to outsourcing is to purchase from outside only those activities that are not key to company's distinctive competence.

### **Selection of strategy:**

After the pros and cons of the potential strategies alternatives have been identified any evaluate one must be selected from implementation. The most important criteria is the identity of the propose strategy to deal with the specific strategic factors developed earlier in SWOT analysis.

### **Corporate scenario:**



Corporate scenario are pro forma balance sheet and income statement that forecast the effects that each alternative strategy and its various programs will likely have on division and corporate return on investment. Corporate scenario is extension of industry scenario.

### **Development of policies:**

The selection of the best strategic alternative is not the end of the strategy formulation. Management now must established policies that define the ground rule for implementation. Flowing from the selected strategy, policies provide the guidance for decision making an action throughout the organization. Policies tend to be rather long lived and can even outlast the particular strategy that created them.



## **Strategy implementation: Organizing for action**

Strategy implementation is the sum total of the activities and choices required for the execution of strategic plan by which strategies and policies are put into action through the development of programs, budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation is a key part of strategic management. Thus strategy formulation and strategy implementation are the two sides of same coin.

### **Implementing strategy**

Depending on how the corporation is organized those who implements strategy will probably be a much more divorced group of people than those who formulate it. Most of the people in the organization who are crucial to successful strategy implementation probably had little to do with the development of corporate and even business strategy. Therefore they might be entirely ignorant of vast amount of data and work into formulation process. This is one reason why involving middle managers in the formulation as well as in the implementation of strategy tends to result in better organizational performance.

### **Developing programs, budgets and procedures**

The managers of divisions and functional areas worked with their fellow managers to develop programs, budgets and procedures for implementation of strategy. They also work to achieve synergy among the divisions and functional areas in order to establish and maintain a company's distinctive competence.

#### **Programs**

A program is a statement of the activities or steps needed to accomplish a single use plan. The purpose of program is to make a strategy action oriented.

#### **Budgets**

A budget is a statement of corporation's program in monetary terms. After programs are developed, the budget process begins. Planning a budget is the last real check a corporation has on the feasibility of its selected strategy. An ideal strategy might found to be completely impractical only after specific implementation programs are costed in detail.

#### **Procedures**

Procedures are system of sequential steps or techniques that describe in detail how a particular task or job is to be done.



## Synergy achievement

One of the goals to be achieved in strategy implementation is synergy between functions and business units, which is why corporations commonly reorganize after an acquisition. The acquisition or development of additional product lines is often justified on the basis of achieving some advantages of scale in one or more of company's functional areas.

## Stages of corporate development

Successful Corporation tend to follow a pattern of structural development called stages of development as they grow and expand. Beginning with the simple structure of the entrepreneurial firm, they usually get larger and organize along functional lines with marketing production and finance department. With continuing success the company adds new product lines in different industries and organizes itself into interconnected divisions. The differences among these three stages of corporate development in terms of typical problems, objectives strategies, reward systems and other characteristics as specified in detail in table.

## Factors differentiating stage I stage II and stage III companies

Function		Stage I	Stage II	Stage III
1	Sizing up: major problems	Survival and growth dealing with short term operating problems	Growth, nationalization and expansion of resources	Trusteeship in management and investment and control of large increasing and diversified resources
2	Objectives	Personal and subjective	Profits and meetings functionally oriented budgets and performance targets	ROI, profits, earnings per share
3	Strategy	Implicit and personal	Functionally oriented, exploitation of a basic product or service	Group and product diversification
4	Organization	One man show	Functionally specialized group	Multiunit general staff office and decentralized operating divisions
5	Measurement and control	Personal, subjective control	Assessment of functional operation	Complex formula system geared to comparative assessment of performance measure
6	Reward punishment system	Informal, personal, subjective	More structures	Companywide policies usually applied to many different classes of managers and workers



## Organizational life cycle

The organizational life cycle describes how the organization grow, develop and eventually decline. The stages of organization life cycles are

1. Birth
2. Growth
3. Maturity
4. Decline
5. Death

The impact of these stages on corporate and structure are summarized in the table

### Organizational life cycle

	Stage I	Stage II	Stage III	Stage IV	Stage V
Dominate issue	Birth	Growth	Maturity	Decline	Death
Popular strategies	Concentration in a niche	Horizontal and vertical integration	Concentric and conglomerate diversification	Profit strategy followed by retrenchment	Liquidation or bankruptcy
Likely structure	Entrepreneur dominated	Functional management emphasized	Decentralization into profit or investment centers	Structural surgery	Dismemberment of structures

### Advanced types of organizational structures

The matrix and the network are two possible candidates for a fourth stage in corporate development; a stage that not only emphasizes horizontal over vertical connection between people but also organizes work around temporary projects in which temporary projects in which sophisticated information system supports collaborative activities.

#### Matrix structure

Most organizations find that organizing around either functions or around products and geography provide an appropriate organizational structure. The matrix structure may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms are right for their situations. In the matrix structure, functional and product forms are combined simultaneously at the same level of organization. The matrix structure is to be used when

1. cross fertilization of areas across projects or products is needed
2. resources are scarce
3. the abilities to process information and to make decisions need improvement



## **Network structure**

Network structure is an example of a non-structure because it virtually eliminates in-house business functions and replaces them with long-term contracts with suppliers and distributors. It becomes most useful when the firm's environment is unstable and is expected to remain so. It gives a company the increased flexibility.

## **Chapter 7: Strategy implementation: staffing and leading**

### **Staffing**

Staffing focuses on the selection and utilization of employees. The implementation of new strategies and policies often calls for new human resource management priorities and a different utilization of personnel. This may mean hiring new people with new skills and/or training existing employees to learn new skills.

### **Hiring and Training Requirements Change**

Once a new strategy is formulated, either different kinds of people may be needed or the current employees may need to be retrained to implement the new strategy. Training and development is one way to implement a company's corporate or business strategy. Training is also important when implementing a retrenchment strategy. As suggested earlier, successful downsizing means that the company has to invest in its remaining employees.

### **Company Match the Manager**

The most appropriate type of general manager needed to effectively implement a new corporate or business strategy depends on the strategic direction that firm or business unit desires. A certain type may be paired with a specific corporate strategy for best result.

### **Selection and Management Development**

Selection and development are important not only to ensure that people with the right mix of skills and experiences are hired initially, but also to help them grow on the job and prepared for future promotion.

### **Executive Succession**

It is the process of replacing a key top manager. Given that the typical large U.S. Corporation changes its chief executive every 8 years firms need to plan for his eventuality. Prosperous firms tend to look outside for CEO candidates only if they have no obvious internal candidates. Boards realize that the best way to move to a new strategy and to ensure its implementation is to hire a new CEO with no connections to the current strategy.



## **Abilities Be Identified and Potential Developed**

A company can identify and prepare its people for important positions in several ways. One approach is to establish a sound performance appraisal system, which not only evaluates a person's performance, but also identifies promotion potential.

Many large organizations are using assessment centers, a method of evaluating a person's suitability for an advanced position. Because each is specially tailored to its corporation. These assessment centers are unique. They use special interviews, management games, in-basket exercises, leaderless group discussions, case analysis and oral presentations to assess the potential of employees for specific positions. Many assessment centers have proved to be highly predictive of subsequent job performance.

Many large corporations use job rotation, moving people from one job to another, to ensure that employees are gaining the appropriate mix of experiences to prepare them for future responsibilities.

## **Retrenchment Create Problems**

Downsizing refers to the planned elimination of positions or jobs. Companies commonly use this program to implement retrenchment strategies. Because the financial community is likely to react favorably to announcement of downsizing from a company in difficulty, such a program may provide some short-term benefits such as raising the company's stock price. Following are some guidelines for successful downsizing.

1. Eliminate unnecessary work instead of making across-the-board cuts
2. contract out work that others can do cheaper
3. plan for long-run efficiencies
4. communicate the reasons for action
5. invest in the remaining employees
6. develop value-added jobs to balance out job elimination

## **Leading**

Implementation also involves leading: motivating people to use their abilities and skills most effectively and efficiently to achieve organizational objectives. Leading may take the form of management leadership communicated norms of behavior from the corporate culture or agreement among workers in autonomous work groups.

## **Company Manage Corporate Culture**

Because an organization's culture can exert a powerful influence on the behavior of all employees, it can strongly affect a company's ability to shift its strategic direction. An optimal culture is one that best supports the mission and strategy of the company of which it is a part. This means that, like structure and staffing, corporate culture should follow strategy. A key job of management is therefore to evaluate

1. what a particular strategy change will mean to the corporate culture
2. whether a change in culture will be needed
3. Whether an attempt to change the culture will be worth the likely costs.



Communication Be Used To Manage Culture. Communication is crucial to effectively managing change. Companies in which major cultural changes have successfully taken place had the following characteristics in common:

1. The CEO and other top managers had a strategic vision of what the company could become and communicated this vision to employees at all levels.
2. The vision was translated into the key elements necessary to accomplish that vision.

### **Diverse Cultures Be managed In an Acquisition Growth Strategy**

When merging with or acquiring another company top management must consider a potential clash of cultures. The four general methods of managing two different cultures are integration, assimilation, separation and enculturation. Integration involves a relatively balanced give –and –take of culture and managerial practices between the mares and no strong imposition of culture change on either company. Assimilation involves the domination of one organization by another. Separation is characterized by a separation of the two companies' culture. Deculturation involves the disintegration of one company's culture resulting from unwanted and extreme pressure from the other to impose its culture and practices.

### **Action Planning**

Activities can be directed towards accomplishing strategic through action planning at a minimum an action plan states what actions are going to be taken by whom during what timeframe and with what expected results. Actions serve as a link between strategy formulation and evaluation and control. The action plan specifies what needs to be done differently from the way operations are currently carried out. The explicit assignment of responsibilities for implementing and monitoring the programs may improve motivation.

### **Management by Objectives (MBO)**

MBO is an organization-wide approach to help assure purposeful action toward desired objectives by linking organizational objectives with individual behavior.

The MBO process involves:

1. Establishing and communicating organizational objectives.
2. Setting individual objectives that help implement organizational ones.
3. Developing an action plan of activities needed to achieve the objectives.
4. Periodically reviewing performance as it replace to the objectives and including the results in the annual performance appraisal.

### **Total Quality Management (TQM)**

TQM is an operational philosophy that stresses commitment to customer satisfaction and continuous improvement.

It has four objectives:

1. Better, less-variable quality of the product and service
2. Quicker, less-variable response to customer needs
3. Greater flexibility in adjusting to customers' shifting requirement
4. Lower cost through quality improvement and elimination of no value-adding work.

The essential ingredients of TQM are:



1. An intense focus on customer satisfaction
2. Customers are internal as well as external
3. Accurate measurement of every critical variable in a company's operations.
4. Continuous improvement of products and services.
5. New work relationships based on trust and teamwork.

### **Evaluation and Control**

It is the process of by which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. This process can be viewed as a five step feedback model.

1. Determine what to measure.
2. Establish standards of performance.
3. Measure actual performance.
4. Compare actual performance with the standard.
5. Take corrective action.

### **Evaluation and Control in Strategic Management**

Evaluation and control information consists of performance data and activity reports. Top management need not involved. If however, the processes themselves cause the undesired performance, both top managers and operational managers must know about it so that they can develop new implementation programs or procedures.

Evaluation and control information must be relevant to what is being monitored. One of the obstacles to effective control is the difficulty in developing appropriate measures of important activities and outputs.

### **Using of measures**

Returns on Investment (ROI) are appropriate for evaluating the corporation's or division's ability to achieve profitability objectives. This type of measure, however, is adequate for evaluating additional corporate objectives such as social responsibility or employee development. A firm therefore needs to develop measures that predict likely profitability. These are referred to as steering controls because they measure those variables that influence future profitability.

### **Differing of behavior and output control**

Controls can be established to focus either on actual performance results or on the activities that generates the performance. Behavior controls specify how something is to be done through policies, rules, standard operating procedures and orders from a superior. Output controls specify what is to be accomplished by focusing on the result on the end result of the behavior through the use of objectives or performance targets or milestones. They are not interchangeable. Behavior controls are most appropriate when performance results are hard to measure and a clear cause-effect connection exists between activities and results. Output controls are most appropriate when specific output measures are agreed upon and no clear cause-effect connection exists between activities and results.

### **Value of activity-based costing**



Activity based costing (ABC) is a new accounting method for allocating indirect and fixed costs to individual products or product lines based on the value-added activities going into that product. This method is very useful in doing a value-chain analysis of a firm's activities for making outsourcing decisions. It allows accountants to charge costs more accurately because it allocates overhead far more precisely. It can be used in much type of industries.

### **Corporate performance**

The most commonly used measure of corporate performance is ROI. It is simply the result of dividing net income before taxes by total assets. Return on investment has several advantages. It is a single comprehensive figure that is influenced by everything that happens. It measures how well a decision manager uses the division's assets to generate profits. It is a common denominator that can be compared with other companies and business units. It provides an incentive to use existing assets efficiently and to buy new once only when it would increase profits.

### **Stakeholder Measures**

Each stakeholder has its own set of criteria to determine how well the corporation is performing. Top management should establish one or more simple measures for each stakeholder category so that it can keep track of stakeholder concerns.

### **Shareholder value**

It is defined as the present value of the anticipated future streams cash flows from the business plus the value of the company if liquidated. The value of corporation is thus the value of its cash flows discounted back to their present value, using the business cost of capital as the discount rate.

Economic value added (EVA) is after tax operating profit minus the total annual cost of capital. It measures the pre-strategy value of the business.

### **Responsibility Centers**

Responsibility centers are used to isolate a unit so that it can be evaluated separately from the rest of the corporation. The center resources to produce a service or a product.

Five major types of responsibility centers is used

1. Standard cost centers.
2. Revenue centers.
3. Expense centers.
4. Profit centers.
5. Investment centers.

### **Guideline for Proper Control.**

Measuring performance is a crucial part of evaluation and control. Without objective and timely measurements, making operational, let alone strategic, decisions would be extremely difficult. Nevertheless, the use of timely, quantifiable standards does not guarantee good performance.

The following guidelines are recommended:



1. Controls should involve only the minimum amount of information needed to give a reliable picture of events.
2. Control should monitor only meaningful activities and results, regardless of measurement difficulty.
3. Controls should be timely.
4. Control should be long term and short-term.
5. Control should pinpoint exceptions.
6. Controls should be used to reward meeting or exceeding standards rather than to punish failure to meet standards.