

I. Coping with Uncertainty

Ben Franklin once said that the only sure things in life are death and taxes. Organizations are continually challenged to meet objectives in spite of general uncertainty. They meet this challenge through planning.

A. Organizational Responses to Uncertainty

Some organizations are better at responding to uncertainty than others due in large part to the ways they respond. They adopt one of four positions: defenders, prospectors, analyzers or reactors.

1. Defenders

- Highly expert at producing and marketing a few products in a narrowly defined market. Few adjustments to technology, structure and method of operation. Primary attention is devoted to efficiency of current operations.

2. Prospectors

- Primary attention is focused on finding new market opportunities. Frequent development and testing of new products and services leads to inefficiencies. Source of change and uncertainty for competitors.

3. Analyzers

- Simultaneous operations in stable and changing market domains. Efficiency achieved in stable market through formalized operations and copying competitors in changing domains.

4. Reactors

- Frequently unable to respond quickly to perceived changes in the market place. Change comes about only when forced to do so by environmental forces. Wait for adversity before taking corrective steps. Tend to be less profitable than others.

B. Balancing Planned Action and Spontaneity in the Twenty-First Century

Today's progressive managers see plans as general guidelines for action based on imperfect and incomplete information. Balancing planned action with flexibility allows the organization to take advantage of surprise events and unexpected opportunities. Planning should be a springboard to success not a barrier to creativity.

II. The Essentials of Planning

Plans are an objective with an action statement. There are personal or informal plans that give purpose and direction to our lives. There are also formalized plans, which enable managers to mobilize their intentions to accomplish organizational purposes.

A. Organizational Missions

Organizational missions help provide clear direction. It is necessary to periodically redefine these organizational missions in eras of rapid change. A clear, formally written and publicized statement of an organization's mission is the cornerstone of any planning system. An effective organizational mission defines your organization, creates an inspiring vision, outlines how the vision is to be accomplished, establishes key priorities, states common goals, creates a philosophical anchor, generates enthusiasm, and empowers present and future organization members to believe every individual is the key to success.

B. Types of Planning

There are three main types of planning, strategic, intermediate, and operational. They are differentiated by the level of management and the planning horizon they represent

1. Strategic Intermediate and Operational Planning

- Strategic planning is the process of determining how to pursue the organization's long term goals with the resources that are expected to be available. Intermediate planning is the process of determining subunits' contributions using allocated resources. Operational Planning is the process of determining how to accomplish specific tasks with available resources.

2. Planning Horizons

- Planning horizons are the elapsed time between planning and execution.

C. Objectives

Objective is a specific commitment to achieve a measurable result within a specified period

1. Writing Good Objectives

- A good objective is expressed in quantitative, measurable, concrete terms in the form of a written statement of desired results to be achieved within a given period

2. The Importance of Objectives

- Objectives provide managers with specific targets to coordinate decisions. Objectives also can be considered measuring sticks to measure how well an organization or individual is performing. Objectives also provide commitment and motivation of employees.
- Management by objectives is a comprehensive management system based on measurable and participatively set objectives.

3. The Means-Ends Chain of Objectives

- Supervisory-level objectives provide the means for achieving middle management objectives, which provide the means for achieving top level objectives.

D. Priorities

Play a special role in planning as the ranking of goals, objectives or activities in order of importance. The establishment of priorities is a key factor in managerial and organizational effectiveness as they give insiders and outsiders answers to questions such as what is important and reactions to crisis.

1. The A-B-C Priority System

- The first objectives are the “must do” objectives which are critical to successful performance. The second are “should do” objectives which are necessary for improved performance. The final are “nice to do” objectives which are desirable for improved performance, but not critical for survival.

2. The 80/20 Principle

- Also known as the Pareto analysis, it asserts that a minority of causes or inputs usually leads to the majority of the results.

3. Avoiding the Busyness Trap

- Managers should not confuse being busy with being effective and efficient. Results are what count and by slowing the pace down, having clear priorities and taking a strategic view of daily problems, busy managers can be effective and efficient.

E. The Planning/Control Cycle

Planning or control cannot succeed without the other. Planning gets things headed in the right direction, and control keeps them headed there. The cycle begins when top management establishes strategic plans. They formulate plans, carry out plans, compare preliminary and final results with plans and take corrective action. As the plans are being carried out is when the control function begins.

III. Thinking Strategically (Including E-Business Strategies)

A. Synergy

Synergy is explained as being the whole is greater than the parts. The variables acting independently are not as great of an effect as when they interact with each other. Managers are urged to achieve as much market, cost, technology and management synergy as possible when making strategic decisions.

1. Market Synergy

- When one product or service fortifies the sales of one or more other products or services, market synergy has been achieved. This involves selling multiple products to each consumer, rather than four products to four different consumers.

2. Cost Synergy

- When two or more products can be designed by the same engineers, produced in the same facilities, distributed through the same channels or sold by the same salespeople, the overall costs will be lower than if treated separately. It can also be achieved by recycling by-products and hazardous wastes that would normally be thrown away.

3. Technological Synergy

- Enables an investment in new technology to have multiple benefits and payoffs.

4. Management Synergy

- When a management team is more productive because its members have complementary rather than identical skills.

B. Porter's Generic Competitive Strategies

In 1980, Michael Porter, a Harvard University economist, developed a model of competitive strategies, including (1) cost leadership, (2) differentiation, (3) cost focus, and (4) focused differentiation. This model combined two variables, competitive advantage and competitive scope (refer to Figure 5.5).

1. Cost Leadership Strategy

- Managers pursuing this strategy have an overriding concern for keeping costs, and therefore prices, lower than those of competitors. Normally, this means investing in extensive production or service facilities that offer efficient “economies of scale”. Productivity improvement is a high priority for managers who follow this strategy.

2. Differentiation Strategy

- For the differentiation strategy to succeed, a company's product or service must be considered unique by most of the customers in its industry. This is accomplished by advertising and promotion. Since brand loyal customers will usually pay more for what they perceive as a superior product, the differentiation strategy can yield larger profit margins than the low-cost strategy.

3. Cost Focus Strategy

- The cost focus strategy attempts to gain a competitive edge in a narrow (or regional) market by exerting strict control.

4. Focused Differentiation Strategy

- This generic strategy involves achieving competitive edge by delivering a superior product and/or service to a limited audience.

C. E-Business Strategies for the Internet

The recent boom-and-bust cycle for dot-coms, although painful for many, has been an excellent learning laboratory. We now see the Internet, not as some sort of miracle but rather as a powerful business tool requiring thoughtful application.

1. Evolving Internet Technologies

- The internet is not a fixed thing. It is a complex bundle of emerging technologies at various stages of development and extremely hard to forecast where these technologies will be X years down the road.

2. There Is No One-Size-Fits-All Internet Strategy

- Michael Porter, whose generic competitive strategies were just discussed, sees two major categories of Internet strategies: dot coms and established companies. Dot coms must develop real strategies that create economic value and realize that current ways of competing are destructive and futile. Established companies must stop deploying the Internet on a stand-alone basis and use it to enhance the distinctiveness of their strategies.

3. There Are Lots of Ways to Make Money on the Internet

- A business can make money via the Internet through one or a combination of the following revenue sources: collecting fees from subscribers (online newsletters), selling advertising space, selling goods and services directly to other businesses or end consumers, collecting transaction fees (online banks and stockbrokers), and collecting commissions for bringing together buyers and sellers (auctions and real estate).

IV. The Strategic Management Process

A. Strategic Management Process

SMP is the ongoing process of ensuring a competitively superior fit between an organization and its changing environment. Plans are formulated with identifiable steps.

1. Strategic Management Process

- Formulation of a grand strategy
- Formulation of strategic
- Implementation of strategic plans
- Strategic Controls

2. Corrective Actions

- Corrective action based on evaluation and feedback throughout the entire strategic management process to keep things headed in the right direction.

- Henry Mintzberg states that the importance of the notion as “The strategy represents fundamental congruence between external opportunity and internal capability.”

B. Formulation of a Grand Strategy

A general explanation of how the organization’s mission is to be accomplished. Derived from a careful *situational analysis* of the organization and its environment. A clear vision of where the organization is heading and where it should be headed is the gateway to competitive advantage.

1. Situational Analysis

- A technique for matching organizational strengths and weakness with environmental opportunities and threats to determine the organizations right niche. Also known as SWOT analysis
- SWOT analysis
- Strengths, Weakness, Opportunities, and Threats.
“The task is to find a match between opportunities that are still unfolding and resources that are still being acquired.”
- Environmental scanning includes the economy, recent innovations, growth and movement among competitors, market trends and forecasts.
- Environmental opportunities and threats need to be sorted out carefully. A perceived threat may turn out to be an opportunity, or vice versa. To turn negatives ones to positive ones.

2. Capability Profile

After scanning the external environment for opportunity and threats, management’s attention turns inward to identify the organizations strengths and weaknesses. This sub process is called a *capability profile*.

- *Capability profile* identifying the organization’s strengths and weaknesses.
- Quick response to market trends
- Rapid product development
- Rapid production and delivery
- Continuous cost reduction
- Continuous improvement of processes, human resources, and products
- Greater flexibility of operations

C. Formulation of Strategic Plans

The second step in the strategic management process, general intentions are translated into more concrete and measurable strategic plans, policies and budget allocations.

1. Strategic Plan Criteria

- Top level management specifies “action plans” to turn intention into action. The criteria should include a shorter run intermediate operational plan and the following.
- Develop clear, results-oriented objectives in measurable terms
- Identify the particular activities and required to accomplish the objectives.
- Assign specific responsibility and authority to the appropriate personnel.
- Estimate times to accomplish the activities
- Communicate and coordinate these elements or steps and complete the action plan.

D. Implementation of Strategic Plans

Top management needs to facilitate the implementation of the process while considering building broad commitment. Strategic plans require translation into successively lower-level plans. Top management strategies ensure that filtering down processes occurs smoothly and effectively. Planners need to address these critical organizational factors: organizational structure, people, culture and control systems.

1. Building Middle-Manager Commitment

- Resistance by middle managers can kill excellent strategic management.
- If general management decides to go ahead and impose its decisions in spite of lack of commitment, resistance by middle made can drastically lower the efficiency with which the decisions are implemented.

E. Strategic Control

Strategic control systems need to be care fully designed ahead of time. The ultimate goal of strategic control systems is to detect and correct downstream problems in order to keep strategies updated and target, without stifling creativity and innovations in the process.

F. Corrective Action Based on Evaluation and Feedback

Corrective action makes the strategic management process and dynamic cycle. The key is to detect problems and initiate corrective action, such as updating strategic assumptions, reformulating plans, rewriting policies, making personnel changes or modifying budget allocations, as soon as possible.

Reference:

Kreitner, Robert (2005) Foundations of Management: basics and best practices, Houghton Mifflin Company, New York.