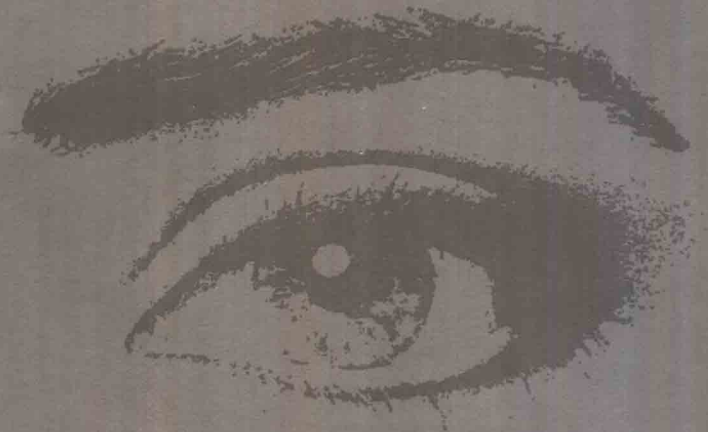


SALAVITABAR & FAIRWEATHER



Strategist

BUSINESS POLICY & STRATEGIC PLANNING

STRATEGIST

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PREFACE

I. What Is Strategic Planning and Management?

Efforts at comprehensive planning for a business firm are attempts to provide for the overall, long-term well-being of the firm. These plans usually include goals that specify the desired result sought by the firm, strategies (i.e., lists of actions in sequential order that are expected to achieve the goals), and tactics (i.e., the specific actions that make up a strategy).

Long-range planning efforts have often attempted to identify goals for the organization and design a specific, comprehensive strategy. The goals - along with the strategies and tactics intended to accomplish them - were usually assumed to remain unchanged throughout the life of the plan. In contrast, a strategic plan assumes that the environment is not stable but consists of other organizations whose behavior changes. These behaviors, in combination with other factors, may also change environmental conditions, causing existing strategies, or tactics to become ineffective. Given the dynamic nature of the environment, it is reasonable to separate goals, strategies and tactics. A strategy likely to achieve a goal under one set of environmental conditions may be unlikely to do so under a different set of conditions.

Strategic planning assumes the generic long-range goals for the firm as maximization of profit are set. But specific subgoals and strategies to achieve the long-range goals are adopted only after the firm has attempted both to estimate the ways in which the environment is likely to change and to identify the likely moves and responses made by competitors. The strategic planner adopts the strategy or strategies believed to be the most effective means to achieve the goals, given the likely moves made by competitors and other changes in the environment.

II. The Role of the General Manager

So far, we have referred to the "strategic planner" as a distinct officer within the firm. While some larger firms do have separate planning departments, in most cases, strategic planning is the responsibility of the general manager. That person is charged with bringing together the disparate specializations within the firm into a coherent, profit-making entity. With smaller firms, this effort can be done in an informal, seat-of-the-pants style.

However, as the firm grows, the task of generating long-term profit becomes more complex. The body of analytical techniques generally categorized under the rubric of "strategic planning" or "strategic management" have been created to help the general manager develop the information and ideas needed to set the overall direction for the firm. At this point, the general manager needs to know two things: he or she needs to know the specifics of the business in which the firm competes along with the techniques involved in creating and implementing strategic plans. The manager can learn his or her business only through experience, hard work and by paying close attention on a day-to-day basis. Learning the techniques of strategic thinking requires a different set of skills: the ability to take a comprehensive view, sophistication in a variety of analytical techniques, and a healthy skepticism about the value of those techniques. In short, the general manager must learn to think comprehensively and creatively while, at the same time, becoming a sophisticated consumer of expert information.

III. STRATEGIST as a Learning Tool

The techniques for strategic planning covered in this software package are not intended to reveal the correct answer to the strategic problems facing a firm. Their purpose is to guide and inform the user's thinking as he or she attempts to address these problems.

However, one of the major lessons to be learned from **STRATEGIST** is how to evaluate the quality of information used in the planning process. The users of this program should always keep in mind that the operation of a business firm is a fluid and ambiguous undertaking. Any data or computer-generated information will be static and unambiguous. Therefore, the picture they paint of the condition of the firm is bound to be incomplete. Given their incompleteness, these sources of information cannot provide definitive answers to strategic issues facing the firm. Results of any of these techniques should be assessed by the user for inconsistencies and unrealistic conclusions. If, after careful examination, no problems are found in the results, the user's strategic approach may be reasonably sound.

If evaluated skeptically and used as a means to raise other important questions, these tools can be invaluable aids to the general manager. For example if the analysis produced by **STRATEGIST** is inconsistent with the user's understanding of the strategic situation, this does not represent a failure on the part of either the user or the program. In fact, such inconsistency presents an opportunity for the user to develop a better understanding of the firm and its environment. This is possible if the user is willing to trace the inconsistencies back to their root causes (e.g., What assumptions or calculations produced these

unlikely results? How should these assumptions or calculations be revised?). Used in this fashion, these techniques can help the user enrich and refine his or her understanding of the strategic issues facing the firm. It is with this in mind that we encourage users to develop a "playful" approach to **STRATEGIST**. The program provides maximum benefit when the user immerses himself or herself in the routines, repeating them several times under different scenarios to compare and contrast the varying results. Such attentive, disciplined play sharpens one's critical faculties. And the ability to think clearly and critically is one of the marks of an outstanding strategist.

STRATEGIST does not require any knowledge of computer programming or computer experience. It is designed as an easy-to-use menu driven program. A user with no knowledge of DOS commands should be able to perform the necessary file operations using the utility functions. The **STRATEGIST** program also provides the user with many other functions (such as help screens, file status, F-functions, and error messages) that make the use of this program much easier and more exciting.

Table 1 may be used as a guide to coordinate **STRATEGIST** with leading business policy textbooks. Table 2 presents complete information about these business policy textbooks.

Table 1
Using STRATEGIST with Leading Textbooks
STRATEGIST Chapters

TEXTBOOKS	3	4	5	6	7	8	9	10	11	12	13	14
Bower et al.	B 1			B 1	B 1	B 1	B 1	B 1	B 2	B 2	B 2	
Boseman et al.	1				2	2	2	4	3	5	5	5
Certo et al.	1	10	10,4	1	2	2,4	2,4	4	4	5	5	5
David	1			2	4		6	3		5,8	7,8	9
Higgins et al.	1			2	3	4		6		8	8,9	10
Hill et al.	1			2	3	3	4	5,6,7		9,10		
Jauch et al.	1			1	3	4	5	6,7,8	8	9	10	11
Montanari et al.	1	App B	App B	1	2	2	3	4	4	4	5,6	8
Pearce et al.	1	6		2	3,5	6			8		9,13	11
Quinn et al.	1				4	4	4	5			6	7,8,15
Rowe et al.	1	7		3	4,5	6	9	9	11	11	11	11
Ryans et al.	2				1	1	4	4	3	3	3	3
Smith et al.	1			4	2,3	2,3	4,5,6,7	4,5,6,7	7	7	7,8	9
Thomas	1			2	4	4	5	6,7	6,7	8	9	10
Thompson et al.	1			1	2	3,5	4,6	7	2		9,10	
Wheelen et al.	1			5	4	4	6			7,8	9	10
Wright et al.	1			3,6	2	4					7,8	9

Table 2

LEADING TEXTBOOKS

- Bower, Joseph L., Christopher A. Bartlett, C. Ronald Christensen, Andrall E. Pearson, and Kenneth R. Andrews, Business Policy: Text and Cases, Seventh Edition, Irwin, 1992.
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Wright, Peter, Charles D. Pringle, and Mark J. Kroll, Strategic Management: Text and Cases, Allyn And Bacon.

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Hadi Salavitabar and Peter Fairweather

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OVERVIEW

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FIGURE 1	Schematic Diagram of Relationship of Chapters

GENERAL DESCRIPTION

Three factors make business policy very different from other courses in the business curriculum. First, business policy is intended to promote a generalist perspective among users, encouraging them to integrate the information and techniques learned from the specialized fields within business, (including accounting, financial management, and marketing). Second, business policy is still much more an art than a science. Success depends on the exercise of informed judgement rather than on the mastery of a series of precise algorithms. Unlike accounting or market research, analysis is only the beginning of the planning process. The user must be taught to use the analysis as a springboard to innovative ideas. Finally, a policy course should promote the transformation of ideas into action. A brilliant strategist will succeed only insofar as he or she is capable of implementing newly developed plans or policies.

This computer software package is designed to promote such disciplined creativity. The routines used in this package are not normative. They do not presume that there is only one correct solution to a planning effort. Rather, the package is intended to provide structured opportunities for the user to reflect on the MEANING of the data he or she encounters. At every stage in the planning process, the user will be assessing the firm's strategic position in light of a detailed understanding of the condition of the firm.

By its very nature, a computer program can use only quantitative data. However, successful planning and policy-making take place under conditions of ambiguity and uncertainty, drawing equally upon both thorough analysis and thoughtful intuition. This package is designed to provide a rigorous, disciplined context in which the user may actively exercise imagination and informed judgement.

PART ONE: INTRODUCTION

This portion of the STRATEGIST package will serve to introduce the user to the operation of the software and to the general field of business policy. In Chapter 3, "Why Plan?" the user will be given a sense of the importance of strategic planning to the health of the firm. The user will be exposed to two short case studies in business policy and asked to make decisions to improve the position of the firm. In the first situation, the user will confront the problems associated with a firm with long-standing success in a now-saturated market. Should the firm diversify? If so, into what kind of business? The purpose of this exercise is to make the user appreciate the fact that a firm can only build upon success if it is fully aware of the causes of success. The

exercise will also point out that such awareness is one of the major benefits of a strategic planning effort.

In the second situation, the user will be asked if a firm should stay with or abandon a losing venture. The purpose of this exercise is to make it clear to the user that such a judgement is made much more easily if the firm has a strategic plan in place which establishes clear criteria for success and failure for any new venture.

The substantive work begins with Chapter 2. This is where the user creates "datasets" or data files on the particular firms and industries he or she will be examining through the remainder of the STRATEGIST program.

Before the user begins to create datasets with the package, he or she will be required to read a section of the text which discusses the uses and misuses of data in strategic planning. Most of the data the users will be working with come from the case studies they are using. The user will use the STRATEGIST's "Create-a-Dataset" routines to assemble the database used to evaluate the firm(s) under study and develop new policy recommendations. The datasets will include financial ratios for the firm and, if available, the industry. In addition the user will complete a "company profile" dataset, in which he or she will answer 36 multiple choice questions describing the current condition of the firm. In later chapters, the user will be asked to support the evaluations he or she makes of the firm by referring to appropriate variables in the ratio or company profile datasets. In addition, some routines will evaluate the user's responses by comparing them with variables in the datasets.

There are rare occasions when the general manager or the strategist can arrive at a clear, consistent image of the firm. But, more often than not, the strategic perspective is ambiguous, and the firm will not fit neatly into any preconceived classifications. This set of routines has been deliberately structured to reflect the ambiguity always involved in making these judgements. As described below, at the beginning of Chapters 6 and 7 in Part three, the user is given a stake of 1000 points. He or she loses points for inappropriate interpretation of datasets when reaching conclusions about the firm.

PART TWO: FINANCIAL ANALYSIS

The income statement and balance sheet datasets will be used to conduct analyses of the firm's finances. These analyses will include computation of liquidity, activity, debt, and profitability ratios. These ratios and, if available, comparable industry averages will be stored in datasets for use in later parts of the

package. Chapter 5 contains routines that will enable users to construct pro forma income statements and balance sheets as required during the latter stages of the planning process.

PART THREE: OVERVIEW OF THE FIRM

Following these analyses, the user will then be asked a series of questions to characterize the marketing, operations, finance, and administration of the firm. Before proceeding, the user will have the opportunity to request a printout of the preceding analyses and other data from the firm's dataset.

In Chapter 6, the user will be introduced to various methods which he or she may use to make judgements about the internal capabilities of the firm. This transformation of quantitative information into qualitative judgements may be the single most important step in successful strategic planning. It also provides users with an unparalleled opportunity to take a broad overview of the firm that derives from a detailed examination of the firm's basic data.

The user will examine the coherence of the firm's present activities from three perspectives: scale of operations, market approach, and production technology. None of these perspectives is intended to provide a definitive characterization of the firm. Their purpose is to promote a comprehensive overview of the firm, to force the user to integrate the various data into a reasonably coherent picture of the firm's overall condition. In a sense, they are intended to serve as devices to enrich one's overall perspective on the firm. Do your firm's four functional areas of marketing, operations, finance and administration conform to each model? Where do the discrepancies occur? What does this tell you about the general competitive posture of your company?

The first framework will ask the user to evaluate the finance, marketing, operations, and administration of the firm in terms of its ability to support large-scale operations. The second framework used to assess the firm's capabilities will be made based upon the ability of the four functional areas to support various strategic approaches to the market. The routine will explore the extent to which the firm's marketing, operations, finance, and administration configured to support a cost leadership approach or product differentiation when competing in the market. The final framework examines the extent to which each functional area is configured to support a production/service technology that is stable or dynamic in nature. Again, these results will be aggregated by the four functional areas.

The general approach to Chapter 6 is that the user must be able to make characterizations on the internal condition of the