STRATEGIC MANAGEMENT FOR SMALL AND MEDIUM ENTERPRISES

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ABSTRACT

A research was set out to evaluate strategic planning as a management tool for the small and medium enterprises, with a view to help them achieve a more predictable and stable growth, over the long term. By and large, the usual framework of analysis, choice and implementation of strategy was followed. Emphasis had been directed on the threat aspects, which most SMEs had taken for granted. SMEs are also urged to take a hard look at some of the strategic tools which had not gained much popularity or acceptance, such as the Government Assistance Schemes, KSFs-Competence Matrix, Baseline information, Impact Analysis etc. Discussions had been kept simple, while retaining the essence, with the SMEs in mind. Elaborate, abstract and overly academic perspectives had been sidelined, to ensure relevance.

Empirical evidence in the forms of survey findings, case study and views of senior business professionals were considered to reconcile the documentary research, in arriving at the final conclusions. Care was also taken to maintain objectivity, which could be easily affected with the writer's own 25 years of business experience and the resultant paradigms formed.

The conclusion is that strategic management is largely relevant to SMEs. And so long as due attention is paid to threats and crisis handling, the vulnerability of SMEs should be reduced. That leaves only the last problem to deal with – time constraint among the

SMEs, which is said to be limiting their application of strategic management. To partly solve the problem, stage-wise implementation had been proposed, along some priority and relevance guidelines, suiting to the operating reality of the SMEs. However, considering the universal laws of cause and effect, SMEs must recognize the inevitability to apply as many techniques as possible, in order to get the maximum results.
To use time and workload as a convenient excuse can often be a good justification for not strategizing; overcoming the temptation to do so leads to a more rewarding and satisfying venture for the entrepreneurs. The choice is up to each SME.

DECLARATION

I certified that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person where due reference is not made in the text.

CHIEW MING CHAK
October, 1998

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My thanks due to many people, whose experiences and knowledge I have drawn on over many years, on the subject on strategic management. Much inspiration was given to me by Dr Lim Shian Ghee who encouraged me to take up the challenge. Going into academic research at an unfavorable time of economic downturn required a special type of courage. On hindsight, it was the right decision after all. Instead of brooding away and reading the gloomy news on newspapers cover to cover which I have no control, spending the time to build up my capability seems more meaningful. Incidentally, capability building is an important message of strategic management.
I would also like to record my appreciation to all the entrepreneurs and business professionals whom I had the privilege to seek views from; without which this dissertation would not be able to complete.
I should add thanks to my wife, Irene, for guiding me to tame the computer, and spent immense hours personally to help me prepare the exhibits which undoubtedly are of the highest standards. Her moral support and patience for my absent-mindedness throughout the research period is greatly appreciated; without which the journey would certainly be much longer and harder.
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PART I

Introduction

CHAPTER 1
AIMS AND THESIS ORGANIZATION

1.1 Background

1.1.1 Importance of SMIs

Small and Medium Industries (SMIs) play a very important role in a nation's economy. This is true for both developed and developing countries. SMIs also constitute a high proportion of a nation's business activities and generate more employment opportunities than the large corporations in recent years.

Tajudin Ramli, chairman of Apec (Aisa Pacific Economic Cooperation) Business Council, emphasized the importance of SMI's in his recent remark in Australia: "SMIs represent 80 to 90 per cent of business in each Apec economy and are by far the largest providers of employment"1.

Admittedly, Apec is just an economic grouping with its own unique characteristics; and the above statement may not represent the global picture. Apec consists of affluent nations such as the United States, Japan, Canada, Australia, New Zealand, the newly industrialized economies of South Korea, Taiwan, Hong Kong, Singapore, Brunei and the 'Tiger Economies' of Malaysia, Thailand, Indonesia, China and The Philippines. The other nations in the grouping are Chile, Mexico and Papua New Guinea, which also happen to be the more affluent nations in their respective continents. Therefore, Apec is a rich trade grouping. What will the situations be in poorer nations then?

As a logical deduction, in the less developed economies such as those in the Pacific island of Africa, the importance of SMIs should be even higher; as there is practically no major corporations in place. It can therefore be concluded that the wealth of any nation depends much on the health of its SMIs.

1.1.2 Vulnerability of SMIs

On the other hand, SMIs are very vulnerable, and their failure rate is very high; so high that no nation can afford to ignore. The Business Statistics Office (UK) observed that "60 per cent [of small business] fail in the first three years of existence'2. In the United States, the picture is much the same with "eighty percent of all startups succumb within their first five years"3. With this being the case, greater efforts are urgently needed to reduce the fatality rate of SMIs, Ultimately, a more robust SMI sector helps to build a nation's wealth, without it having to woo investments of sophisticated technology. Although every nation has instituted assistance programs to aid its own SMIs, the entrepreneurs' efforts count most in determining the performance of this industry. After all, assistance programs are no more than tools available for the SMIs. It is the careful selection and correct application of such tools that determine entrepreneurial success.

1.1.3 Strategic Management as a Cure

It is felt that strategic management, a key pillar for corporate survival, may be adapted and applied to ensure better SMI performance, on a more consistent basis. Strategic management materials, on the other hand, appear to be written primarily for larger corporations. They suggest elaborate involvement, high cost and complex architecture as prerequisites. The reaction of SMIs is naturally one of being intimidated; and therefore they prefer to operate in the usual manner and mindset. Where there is no change, different results cannot be expected. Anthony Robbins, the most famous Neurolinguistic Programming specialist, once remarked: "To keep on doing the same thing and expect a different result is a form of insanity".

For reasons stated above, a research on strategic management techniques for SMIs, is therefore proposed.

1.2 Objectives and Methodology

The scope of research was intended to be extensive, to accomplish a few objectives:

? To appraise the value of strategic management concepts and techniques, as applied to SMEs.

? To provide some guidelines with which SMEs can apply the strategic management ideas and skills, in a time-saving manner

? To suggest methods that may prevent major crisis and business failures

The methods employed were varied, which included documentary research, interpretation of the survey and personal interviews (involving 50 SMEs and 10 senior professionals), and the detail study of a SME – Team Specialty Chemicals Sdn Bhd (called Team hereinafter). The background of the senior professionals were also varied: two bank managers, two public accountants, one leasing manager, a solicitor, a marketing manager, two human resource trainers and a production manager. Their views are recorded under "Views of Business Observes' of each chapter. The case being studied is the writer's employer, which he also part-owns. As a background to the case, a company brochure is enclosed as Appendix A.

1.3 Organization of Chapters

Part I is essentially an introduction, which includes this chapter. While Chapter 2 defines the SMEs (Small and Medium Enterprises), Chapter 3 gives an overview of strategic management. These three chapters provide the foundation needed to facilitate discussions on the ensuing chapters.

Part II consisting of six chapters, introducing the common techniques used for analyzing the external environment. Chapter 9 covers government assistance programs available for SMEs, which may appear a rather odd subject to include as an external analysis. Governments around the world provide a lot of assistance to SMEs; and these represent good opportunities that should not be ignored.

Part III consisting of four chapters, and they discuss the common techniques used for internal analysis.

Part IV presents analysis in another angle – in an interactive way. It sums up a firm's strategic position in the market place as things stand. Five simple, interactive matrices are used. Indeed, issues unfold from these matrices are highly useful, relevant and urgent.

Part V touches on the people aspects of strategic management: management vision, organization culture and values, business ethics etc. Human aspect of business had been steadily gaining attention over the last two decades; because it affects the choice and implementation of strategies.

Part VI is the first step in crafting a strategy. At this point, only a strategic direction is needed. Strategic directions are commonly presented as long-range objectives or mission statements etc.

Part VII explains the techniques available to generate specific strategies. To arrive at the best strategy, one must generate a pool of options or alternatives, to allow for short-listing and final choice.

Part VIII elaborates on techniques to evaluate and select the final strategies, in a scientific and logical manner.

Part IX, the last part, deals with techniques used in the implementation of a chosen strategy. Monitoring and corrective adjustment techniques are also included here.

Chapter 40 concludes the findings of the research, and suggests possible areas of further research. Each earlier chapter has a mini conclusion, which adds up to this main, overall conclusion.

REFERENCE

1. New Straits Time Malaysia, May 4, 1998
2. Paliwoda. S., International Marketing, 1993. Butterworth Heinemann Ltd, UK. p.118
3. Goldstein, A. S., Business Doctor, 1995, Golden Books Centre Sdn Bhd, Kuala Lumpur, by arrangement with Garrett Publishing Inc., Florida, USA. p.19

CHAPTER 2
SMALL AND MEDIUM ENTERPRISES

Despite of the all the glory bestowed onto the large companies, the fact remains that the SMIs are also significant. As stated in Chapter 1, SMIs account for 60 to 80 percent of the business activities in most countries. In Malaysia's case, the SMIs account for 84 percent of the total manufacturing establishments.1

This piece of statistic may mislead one to think that SMIs also contribute the same percentage to national growth, valued added and employment. It may not be so. Again, taking Malaysia as an example, the SMIs' contribution to total value-added and employment is approximately 28% to 33% respectively.2 The figures3 therefore suggest poor showing on the part of the SMIs. There is much room for improvement.

2.1 The Role of SMIs in an Economy

Many countries rely on the SMIs to assist in national development. In the case of Malaysia, it has a very clear expectation on the SMIs:4

SMIs assume a critical role in the country's industrialization programme through the strengthening of both forward and backward industrial linkage… It has also set in place policies and programmmes to further develop and integrate domestic SMIs as the critical and strategic link to develop and strengthen the cluster formation and to increase domestic value-added. The SMIs will assume these roles by complementing the activities of large-scale industries through integration into the mainstream of the industrial development through the provision of critical parts and components as well as expanding their market internationally. As the SMIs grow, their progress will strengthen and widen the industrial base as well as enhancing export-led growth.

2.2 Definitions

The terms of SMIs and SMEs are commonly used interchangeably. There is, firstly, a need to clarify whether there is indeed a difference. Second, every country seems to define a SMI or SME differently, and this needs be addressed too.

Exhibit 2-1
Definitions of SMI in Malaysia
Source: FMM Malaysia

? SMI is defined as a company with full-time employees not exceeding 150 and an annual sales turnover of not exceeding RM25 million.

The demarcation between small and medium companies:

? Small-scale company
"A company with full time employees of not exceeding 50 and an annual sales turnover of not exceeding RM10 million."

? Medium-scale company
"A company with full time employees between 51 to 150 employees and with an annual sales turnover of more than RM10 million to RM25 million."

"The aim of the new definition is to provide opportunities for more SMIs to obtain the various incentives provided by the Government for SMIs. The new definition of SMIs is in line with the definition adopted by most countries in the APEC region."

2.2.1 SMIs and SMEs
SMIs are business entities that involve manufacturing in their business activities. Those without manufacturing function are therefore excluded. A broader term had since been introduced and widely used – Small and Medium Enterprises (SMEs) – to include all, with or without manufacturing.
2.2.2 Some Definitions
There is no agreed, universal definition for SMIs. The Ministry of International Trade and Industry of Malaysia offered a new definition on January 18, 1998. See Exhibit 2.1. SMIs in other parts of the world could mean differently. For example5:
? In the United Kingdom, a small manufacturing firm is defined "as one employing 200 or less people".
? In France, where the small business account for about 60 per cent of all business activities, are defined as "entities that employs up to 500 employees, excluding the owner manager and his immediate families".
The meaning of SMIs in this research paper is based on the premises defined by the Malaysian authority.

2.3 Problems of SMEs
Small enterprises are unique as compared to the larger companies in many ways. One author6 neatly summed up the uniqueness as:
? They have only a small share of market,
? They are managed in a personalized way by their owners or part-owners and do not have an elaborate management structure,
? They are not sufficiently large to have access to the capital market for public issue or placing of securities
Due to the unique features, SMEs have some special problems and challenges. Failure rate had been identified as a concerned in Chapter 1; but that is not the whole story. Most of the surviving SMEs could be in mediocre performance levels. Additionally, even the good performers of today can fall tomorrow, as exemplified by Lou Platt, CEO of Hewlett Packard: "What makes us highly successful this year, could be our downfall next year"7. To identify those problems, SMEs are grouped into three types, purely for discussion convenience, as set out below.

2.3.1 The Profitable SMEs
These SMEs are good performers, with good sales, healthy profits and strong cash flow. They certainly look like stars of tomorrow.
Beneath the good exterior, there may be some problems brewing away, which are contingent to the business activities of the company and the ambitions of the entrepreneurs. Symptoms to the eventual problems could be:
? over-expanding and over diversification, leading to over-stretching of management and resources,
? over-dependence of a few suppliers, customers or products,

? power struggle, amongst employees or partners, and
? complacency and rendering of poor service.

2.3.2 The Mediocre SMEs

These SMEs are average performers. They generally do not possess any core competence and therefore exist mainly as low cost suppliers. Besides, they also do not possess the resources needed to improve themselves or carry out some strategic actions. Trading results are mediocre, with sales staying largely stagnant year after year.

To be competitive, a company must develop some core competence that appeals to the customers. The dilemma lies here: excellence-development programs require funding, which this class of SMEs lacks. Low performance leads to low morale, low employee remuneration and low quality workforce. To break this vicious cycle, one or more of the following programs should be attempted:

? Technology acquisition
? R & D and subsequent commercialization
? Human resource development
? Quality and linkages with larger companies
? Export leads, information and international exposure
? Information Technology
? Procurement of professional services to aid modernization

2.3.3 SMEs in Financial Distress

This range of SMEs is in acute financial position, either suffering from trading losses, or insolvency or both. These SMEs got into this predicament either through long-term mismanagement, or drastic external changes that turned into a crisis for the firm. Some common causes are:8

? Excessive owner's salary and expenses – "milking the company" is far and away the most common reason that privately owned businesses fail
? Too many employees, employees performing the wrong tasks, and/or incompetent employees in key slots
? Ineffective marketing strategies or incompetent sales personnel
? Too rapid expansion and inadequate financial planning
? Increased competition from much larger companies with more resources
? Product obsolescence
? Shrinking markets
? Obsolete equipment or facilities
? Labor problems

For this range of SMEs, the focus is to handle the deficit or cash flow problem. The actions or strategies to be taken are generally short term in nature. Optimization and long-range planning normally have to take a back seat. Three key alternatives are normally available: (a) to face bankruptcy proceedings, (b) to exit – to dispose off the firm, and (c) to turn it around.

2.4 Solutions

It is wrong to suggest that strategic management is the wonder medicine that can solve all conceivable problems faced by the SMEs. Any entrepreneur who had tried would know it is not true. Therefore an enterprise should not harbor all the hope on strategic management. It should keep a broader horizon and look beyond itself.

Solutions to an entrepreneur's problems are usually multi-pronged. While in rare occasions, strategic management can be used alone to improve a SME's position, most cases however require a integrated approach that combines strategic management with one or more of the problem solvers given below.

2.4.1 Government Assistance Program

Most governments provide assistance programs to help their SMEs. Such assistance could range from providing information to financial assistance to infrastructure building. This will discussed in greater detail in Chapter 9.

The survey conducted revealed that most SMEs seemed to be only keen to procure financial assistance, which could be government guaranteed loans without collateral and preferably at low interest. Although these loans are technically available, there seems to be hidden conditions attached. This phenomenon seems to be widespread in third world countries, where corruption is rampant.

As a result, entrepreneurs in developing countries do not pin much hope on the governments, save those with good connections. They instead explore other sources for funding, such as from family and friends, maximize supplier credit, or form strategic alliances to share out the operating costs.

2.4.2 Entrepreneurial Effort, Attitude and Motivation

There exists a correlation between company success and top managerial performance. Goldstein observed, "Ultimately, the failure of any business is the failure of the individual at the top". Too many entrepreneurs just did not have what it takes to succeed. He continued,

They [companies] fail because their owners are unwilling, unable or too undisciplined to put in the long hours, cope with the pressures or keep their hands out of the till. This is certainly true with small companies, whether the business is the owner and the owner is the business. These small companies are also frequently destroyed through death, sickness or other personal problems.9

Therefore, these areas should also be examined while trying to trouble-shoot a sick organization.

2.4.3 Contact Circle

It pays to increase one's life circle in order to succeed in business as the adept goes: "It is not what you know but who you know that counts". A technique on contact building called networking, has almost become a way of life in corporate America. Alrich and Brickman Elam10 commented on networking: "Network allows entrepreneurs to enlarge their span of action, gain success to resources and opportunities otherwise unavailable, and avoid obstacles".

In concluding the article, the authors suggested further benefits in the forms of efficiencies and control over uncertainties: "Effective networks are crucial to business success because they increase your span of action, economize on time and other resources, and possibly help you to control an unstable business environment."11 It is therefore suggested that entrepreneurs should also be looking into this technique to improve performance.

2.4.4 Crisis Management

It is certainly a welcome suggestion that business will be a success if strategic thinking is applied, especially coupled with government and friends' assistance and blessings. In reality, there is perhaps no proven way to totally avoid crisis. The following examples demonstrate the fact:12

? A. A. Robins used to be top 10 pharmaceutical firms until Dalton-Shield intrauterine contraceptive device spawned thousands of product liability claims, and had to apply for Chapter 11 re-organization.

? Manville and Eagle Picher both turned to Chapter 11 when they were slapped with asbestos claims.

? Texaco lost US$10.5 billion in a law suite with Pennzoil, and had to take refuge with Chapter 11.

Despite of all good planning, there is still a chance for an unforeseen event to turn into a crisis. Product liabilities, lawsuit or unforeseen macro-economical factors (such as the financial crisis sweeping Asia, Russia and Latin America now) may well be killing agent. Business management is therefore not complete without some knowledge on crisis management or contingency planning. This is discussed in Chapter 31.

2.5 Chapter Conclusion

By nature, a SME is generally short on resources; and this is the single greatest contributing factor to its vulnerability. Strategic management, while being useful, is not a cure-all remedy. There are other important factors that a SME must invoke to ensure continued prosperity. Entrepreneur and survival spirit often makes the difference between a healthy and a shaky company. Entrepreneurs should also look into expanding their life circle (networking) to augment their resources. Last but not least, they must not overlook the government’s supporting role; as the latter can offer plenty of assistance.

REFERENCE

1. Federation of Malaysian Manufacturers, Business Guide-SMI, PP 7969/7/97, p.1
2. Ibid
3. The statistics quoted are on SMIs as there was no data on SMEs. Consequently, the actual percentages of SMEs could be very much different.
4. FMM., OP. Cit., p.9.
5. Paliwoda, International Marketing, 1993. Butterworth Heinemann, UK. p. 117.
6. Ibid
7. Corporate Research Foundation, Corporate Strategies of the Top 100 UK Companies of the Future, 1995, Mgraw-Hill, Bershire, UK.., p.v
8. Tuller, L. W., Entrepreneurial Growth Strategies, 1994. Bob Adams Inc, Holbrook, USA. P. 278.
9. Goldstein, A.S., Business Doctor, 1995, Golden Books Centre Sdn Bhd., Kuala Lumpur, by arrangement with Garrett Publishing, Florida, pp. 34-35
10. In Birley, S., and Muzyka, D. F. (eds), Financial Times Mastering Enterprise, 1997, Pitman Publishing, London, p. 143
11. Ibid., p. 148.
12. Example quoted in Goldstein, Op Cit, p.20.

CHAPTER 3

STRATEGIC MANAGEMENT – AN OVERVIEW

3.1 Origin and Development of Business Strategy

Strategies had been used in military warfare for thousands of years. Sun Tzu's Art of War was reportedly written about 2400 years ago. In business, the application of strategies was much more recent, and came about in response to problems posed by a changing environment. The concept of business strategies evolved over four main stages since the 1950s, as observed by Craig and Grant1: financial planning, corporate planning, industrial analysis and competitive positioning, and exploiting firm-specific strategic advantage.

3.1.1 Financial Planning

By the 1950s, companies were increasing in size and diversity. A better form of control was needed and budget planning was introduced. Discounted cash flow was also devised for deciding investment proposals. Controls suddenly became more effective.

3.1.2 Corporate Planning

Corporate planning was a product of the capitalist market economies in the 1960s. At national level, economic policies were applied, which were based on macro-economic models to forecast economic cycles; and Keynesian demand management policies were used to correct them. At corporate level, planning became forecast driven. Medium-term demand forecast was used to draw up corporate plans, which would include strategic goals, projected sales and investment; and also to identify opportunities for developing new market, products and businesses.

3.1.3 Industry analysis and competitive positioning

When the first oil crisis struck in 1973-4, the economic forecasts were being severely upset. Corporate plans that were based on these forecasts also failed miserably. In search of a new approach, the focus shifted to 'positioning the firm to make a profit'. Firms started to look at industry attractiveness to reposition themselves, and to select strategies to realize the decisions made.

3.1.4 Exploiting firm-specific strategic advantage

Analysis of industries and market ended in a situation in which competitors adopted a similar strategy, e.g. oil companies going into coal and mineral mining as a diversification strategy. Profits plunged with over-investment and intense competition. A better answer was later perceived – firms should seek some unique positions of competitive advantage based on firm-specific resources and capabilities. For long-term competitive advantage, firms also started to upgrade and broaden their resources and capabilities.

3.2 Purpose and Benefits of Strategic Planning

Why would a company need a strategy, and in the process gives itself extra workload? The answer is that strategic planning seems to be a promising solution for a growing threat to businesses; which is brought about by increased uncertainties, deepening complexities and intensified competition. One self-consoling way, perhaps is to look at strategic planning as a necessary evil. For the sake of future prosperity and survival, strategic planning is the small effort needed which is worthwhile. Craig and Grant summed up the many uses of strategies2:

The need for a strategy arises because an organization must take account of thousands of external variables which affect it, and it must make choices over thousands of decision variables. These decisions are taken by many people under conditions of uncertainty and incomplete information. Only through the existence of a commonly understood strategy can an organization achieve consistency in the decisions it takes across different organizational members and across time. To this extent a strategy may be viewed as a heuristic, a set of guidelines or rules which assist day-to-day decision making…strategy is a form of discipline on management. The majority of business management revolves around dealing with immediate matters – short-term firefighting in the form of controlling unexpected disruptions in the smooth running of the organizations. Under these stressful conditions, maintaining a perspective with regard to long-term goals and the means by which the organization will be guided towards these goal is essential. The existence of a strategy, whether explicitly articulated or implicit within the minds of managers, can provide a reference point for the organization. Such a reference point is also a discipline over the unbridled pursuit of entrepreneurial opportunities. In a decentralized company with a strongly entrepreneurial culture, there is always a danger that by 'letting a thousand flowers bloom' the organization will collapse into chaos. The existence of a strategy can thus provide boundaries around business activities which are 'legitimate'.

Thomson and Strickland3 expressed much the same thought: "Without a strategy, a manager has no thought-out course to follow, no roadmap to manage by, no unified action program to produce the intended results." They went further to link the worth of management to strategic planning capability by saying: "Powerful execution of a powerful strategy is not only a proven recipe for business success but also the best test of excellent management."

3.3 Is Strategic Management Exclusive?

So far, the discussions seem to center around the large companies. Other type of organizations would invariably wonder if they too, can benefit from adopting strategic management. The answer is an affirmative and in fact being done already. Steiner4 observed that with the success recorded in the large business concerns, some smaller business houses were starting to use strategic management to enhance their performance. Johnson and Scholes5 noticed other types of organizations (such as the public sector and not-for-profit organizations) also showed signs of their increased application of the concepts.

Since the background, mission and problems of these organizations differ, it would be wrong to assume that all aspects of strategic management are equally important under all circumstances. To stay relevant, strategic concepts had been adapted for the application of such organizations. Since this paper is primarily concerned with the SMEs, discussions on public sector and non-profit organizations will be limited. As for application of strategic management in small business, Johnson and Scholes6 summarized its relevance as follows:

Small businesses are likely to be operating in a single market, or a limited range of markets, probably with a limited range of products or services. The scope of the operation is therefore likely to be less of a strategic issue than in larger corporations. It is also likely that, unless the firm is specialising in some particular market segment, it will be subject to significant competitive pressures: so issues of competitive strategy are likely to be especially important for the small firm.

Decisions on competitive strategies are likely to be strongly influenced by the experience of those running the business. It is unlikely that they will have central service departments to undertake complex analysis and market research; rather, it may be senior managers themselves, perhaps even the founder of the firm, who has direct contact with the marketplace and whose experience is therefore very influential. Indeed, in small firms the values and expectations of senior executives who may be in an ownership position are likely to be very important. Even when current management are not owners, it may be that the values and expectations of the founders still linger on.

Small firms are also likely to be private companies. This significantly affects their ability to raise capital. Combined with the legacy of the founder's influence on choice of product and market, this may mean that choices of strategy are significantly limited, The firm may see its role as consolidating its position within a particular market. If it does no, and is seeking growth, then the raising of finance for the development of strategy may become a key strategic issue; and in many such firms, relationships with finding bodies such as banks become a major resource issue.

3.4 Definitions

There are probably as many definitions on strategic management as there are writers on the subject. Different authors tend to place different emphasis on different elements of the strategic management process; and this could be the reason that led to the plethora of definitions. Johnson and Scholes who emphasized much on the importance of stakeholders, offered a version that clearly showed their bias:

Strategy is the direction and scope of an organization over the long term: ideally, which matches its resources to its changing environment, and in particular its markets, customers or clients so as to meet stakeholder expectations. 7

More examples on the definitions of strategy are given in Exhibit 3.1. As most SMEs are concerned with the practical aspect of strategic management, it probably serves little purpose to search for the 'best' definition. There is however a need to distinguish between strategies and tactics, which can be confusing sometimes. The next section deals with this important issue.

EXHIBIT 3-1

Definitions of strategy

Source: Craig and Grant (1993) p. 14.

STRATEGY. The art of war, especially planning of movements of troops and ships etc, into favourable positions; plan of action or policy in business or politics etc.
Oxford Pocket Dictionary

The determination of the long term goals and objectives of an enterprise, and the courses of action and allocation of resources necessary for carrying out these goals.
Alfred Chandler (1962) Strategy and Structure, MIT Press,
Cambridge, Ma.

The policies and key decisions adopted by management that have major impacts on financial performance. These policies and decisions usually involve significant resource commitments and are not easily reversible.
Robert D Buzzell and Bradley T Gale (1987) The PIMS Principles, Free Press, New York.

What business strategy is all about … is, in a word, competitive advantage … The sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way.
Kenichi Ohmae (1983) The Mind of the Strategist, Penguin Books,
Harmondsworth.

Strategy is the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in, and the kind of company it is or is to be.
Kenneth Andrews (1971) The Concept of Corporate Strategy, Irwin, Homewood, III.

3.5 Strategic and Tactical Decisions

To take a first step towards strategic thinking, one must be clear about what characteristics constitute a strategic decision, and what do not. As most day-to-day decisions encountered by managers are likely of operating or tactical in nature, there is a need to find a simple way to single out the minorities that are strategic. Stein8 offered a bald, but controversial rule:

To oversimplify, there are two types of management. That which is done at the top of an organizational structure is strategic management. Everything else is operation management… Everyone recognizes that Strategic and operational management are tightly linked. Strategic Management provides guidance, direction and boundaries for operational Management.

Johnson and Scholes differ in their views by differentiating the two types of management by their nature and characteristics, rather than by the organizational levels where they are being made9. Exhibit 3-2 summarizes the differences.

3.6 Who Makes Strategic Decisions?
There is no hard-and-fast rule as to who should be making what type of strategic decisions in a company. It depends on the company in question, its size and the capability of the people etc. Keith Glaister10 noted: “The responsibility for strategic management will fall to different individuals depending on the size of the organization. In a small business the owner will perform the role of the chief executive and will be responsible for the various facets of the strategic management process”.

EXHIBIT 3-2
Strategic management and operational management
Source: Adapted from Johnson and Scholes (1993), p.16.

Strategic
Management
Operational
Management

? Ambiguity
? Complexity
? Non-routine

? Organisation-wide
? Fundamental

? Significant change

? Environment or
Expectations driven

? Routinised

? Operationally specific

? Small-scale change

? Resource driven

In a large company, the business activities are unlikely run by one single individual. A division of responsibility in strategic decision is therefore quite logical. Management writers have split strategic decisions into three or four levels: (a) corporate decisions, (b) business decisions, (c) functional decisions, and (d) operational decisions. Most writers group (c) and (d) as one and called it either functional or operational decisions. (This is another confusing part, as operational decision is often used synonymously with tactical decision, and was labeled as a non-strategic decision in the earlier section. For clarity purpose, it is therefore proposed that the term functional decisions be used in this paper.)

The various levels of decisions correspond well with the structure of a large and diversified company, which usually consists of a corporate office, business units and functional departments. Consequently, the corporate headquarters would make the corporate decisions, the business unit management makes the business decisions and the functional heads make the functional decisions. This is largely irrelevant for the average SMEs, which are usually single business entities.

3.7 Planning of Strategy – Formalized or Intuitive?
Traditional view is that good strategies are products of highly structured planning exercises. This was particularly true before mid 1980s, when the favorable results obtained endorsed the formalized method. Prominent proponents of formalized planning are Igor Ansoff, George Steiner, Kenneth Andrews etc. Planners often claim the benefits for formal planning as11: (1) it coordinates activities, (2) it ensures the future is taken into account, (3) it is rational, and (4) it helps control.
Formalized planning also has its flaws, as evident from empirical studies in the post 1980s era. Many plans could not produce the desired results or simply inoperable due to circumstantial changes. This phenomenon prompted both academics and practitioners to re-evaluate the ‘good old’ intuitive method. Some prominent proponents of intuitive strategy formation are Henry Minzberg, Kenichi Ohmae, and Hurst el al. Minzberg wrote a whole book (The Rise and Fall of Strategic Planning) questioning the validity of formalized planning. He demonstrated under many circumstances, the most logical approach to strategy formation could be anything else except rational analysis (formalized). As a matter of fact, he found 10 schools of thought in strategy formation, which can be attributed to cognitive, political, cultural, visionary and information dominance. 12

It is also highly unlikely that there will be wholesale reversion to the intuitive method because it also has its weaknesses such as being unguided, irrational, and does not

required the process to be documented. This method can be easily abused by managers to cover up their incompetence, plain laziness or a refusal to change.
What seems to be the trend is a combination approach, with both the analytical and intuitive inputs reconciled. Writers from both the intuitive and formalized camps in recent years seem to recognize the merits of the arguments put forward by their opponents. For example, Steiner noted in his later book: 13 “Good strategies require imagination, innovation, intuition and the wisdom of experience. Analysis does not substitute these factors… Analysis and intuition must co-exist and inform one another.” Johnson and Scholes14 explained that there are at least five other methods with which strategy are made, besides formalized planning. They range from natural selection, logical incremental to an integrated approach. In other words, non-formalized planning also prevails in major corporations. As such, the notion that major corporations do their strategic planning ‘strictly by the rule’ needs a re-examination. Minzberg15 agreed when he quipped: “People called planners can sometimes do strange things, just as strategies can sometimes result from strange processes.”
With this understanding in mind, it is hoped that those SMEs without any formalized planning facilities should not be discouraged. There is much latitude in the ways to practice strategic thinking. Hence, a SMEs can begin at any level of formality to suit their own resources and the nature of their setup.

3.8 Management Strategic Models
One of the major challenges for the academics is to devise a framework or model, to facilitate discussions and learning, which must show the logical relationships between the various steps, while retaining the characteristics of a good strategy. Countless models had been proposed. A catchy version by Craig and Grant is called MOST, which stands for mission, objective, strategy and tactic (See Exhibit 3-3).

EXHIBIT 3-3
MOST strategic management model
Source: Craig and Grant (1993, p.25.)

Mission

Objectives
Strategy
Tactics

Description

Attitude

Growth/

Direction

Firm's ambitions

Performance yardstick
Resource deployment

Competitive advantage
design
Action

Battle Manoeuvres

The writer however found that MOST is too simplistic, downplaying the need for analysis and planning for implementation. He proposed the use of a model called AMGCI, which stands for Analysis, Mission, Strategy Generation, Strategy Choice and Strategy Implementation. The discussions in this thesis is based on AMGCI.

3.9 Chapter Conclusion
Strategic management has evolved over a half century or so. It is equally applicable in SMEs or public sector, but need some adaptation. Strategic decisions differ from the normal day-to-day tactical decisions, in that way they are geared for more fundamental changes and the work scope can be very encompassing.
Strategic management should always be a combination of formalized and intuitive planning, in order to have the best results. Therefore an SME without formal planning facilities should not be discouraged. It can start off with its own style, and incorporate formalized planning gradually.

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PART II

External Analysis

CHAPTER 4
CUSTOMERS ANALYSIS

Theodore Levitt, professor of economics at Harvard University streesed: “The purpose of an enterprise is to create and keep a customer.

Yet, many strategy theorists especially those of pre-1980s do not emphasize on customer analysis. This was so probably due to an assumption made (which was prevalent at that time) that so long as the customer needs are satisfied, customer response will be predictable and favorable; and the firm will get its fair share of the market.1 Of course, in today’s competitive market, managers know that the assumption may or may not be true. Lynch further noted: “Most literature emphasize competitive advantage, core competences, learning organisation and other matters. Yet it is the customer that has to choose the product and service. So customer is not part of the analysis. It demands a special place2”. Customer analysis is therefore a compulsory exercise that all business organizations must conduct, large or small. The writer is in total agreement with the observation; and that explains his reasons for naming the topic the first task in strategic analysis.

4.1 Concepts and Principles

There are three major approaches to customer analysis: a) unstructured, b) strategy-based, and c) by market segments. They are being examined below.

4.1.1 Unstructured Market Analysis

It is unthinkable to find an enterprise getting involved in a venture without having some clues of the target market, and the types of products or services which will appeal to the particular market. Although the degree of research differs from case to case, it is agreed

that some investigations will be done. Customer analysis is important not only when deciding on a new business, it is also important for keeping an ongoing business healthy. Outdated market information has a danger of being taken for granted. When it is not updated constantly, an enterprise can suffer due to two possibilities. First, product obsolescence can result from market shifts and changes in customer expectations, tastes etc. Second, an emergent opportunity may be missed, out of sheer ignorance.
Companies dealing with industrial products or services generally do not have much problem monitoring changes in the market, as there are frequent direct contact between their sales and service people with the customers. Such information are constantly relayed to the company via reports or during company meetings.
However, for companies dealing with consumer goods, they will find it substantially harder to acquire such information; since intermediaries exist between them and the consumers. Fortunately, there are techniques developed with which information and consumer feedback can be obtained. Anthony3 suggested ten possible avenues to monitor the market or customers, as given below:
? Census and other public data and information
? Using market research consultant
? In-house market research department
? Consumer panels and focus groups
? Consumer complains or hotline calls
? Get distributor feedback
? Compiling warranty registration information
? Feedback from sales and service people
? Feedback from other employees (judging as consumers)
? Customer observations
Some of the above options can be costly to apply, and an enterprise should consider its financial capability in choose an option, or a mix of them. For unstructured monitoring, there is no need to follow any particular search or filing method.

4.1.2 Strategy-Based Market Analysis
Strategy-based analysis is an improvement over the non-structured version explained above. There is no substantial additional effort needed, but every piece of feedback and information is matched with the current strategy being applied. An example is shown in Exhibit 4-1.
Every enterprise has a strategy, contrary to what some may otherwise think. Less organized enterprises tend to have their strategies formulated in an adhoc basis, drawing on common sense, personal experiences, training or education etc. Even non-innovative companies that offer ‘me-too’ products and services also have strategies, although most of these are copied, or modified from competitors.

EXHIBIT 4-1
A Sample of Documenting Customer Analysis Based on Strategy
Source: Writer

Customer Information

By _________________________ Date _____________________
Strategy pursue ____

Enhances Strategy

Contradicts Strategy

Analysis by strategies offers a firm the opportunity to interpret feedback in a more meaningful way. The customer feedback when compared with the strategies in use, tells if the latter is still appropriate. It is useful to briefly introduce at this point, the three

Generic Strategies advanced by Professor Michael Porter, to help illustrate the technique. (See Chapter 26 for more details of the theory)

Three basic strategies may be applied by any enterprise to attain competitive advantage: a) cost leadership, b) differentiation and c) focus. According to the theory, products meant for the mass market may either consider cost leadership or differentiation as a basic strategy. On the other hand, firms that cater for smaller markets (niche markets) should follow a focus strategy.

To illustrate how a firm should interpret feedback from the angle of the current strategy, a cost leader producing cheap shoes is used. Generally speaking, sales volume is a good barometer of customer acceptance. Other feedback in the forms of views, opinions, approvals and complaints are also important as they are the harbinger of what is to happen later. Favorable responses suggest the cost leadership strategy is still suitable. Adverse comments on quality, features, service etc may suggest a shift in the customer's preference. In this hypothetical case, the market feedback was generally negative, even when the economy was good and no other cost leaders were competing in the market. The poor sales may indicate a case of changing needs with increasing affluence; as more disposable income tends to drive the needs for premium products.

With such feedback, the shoe manufacturer can act in time. It can either start to change its strategy to suit the changing customer behavior, or use its cost leadership advantage to explore export markets to bridge the imminent shortfall in home sales.

4.1.3 Analysis by Market Segments

Analysis by market segments is most accurate. To use the approach, however, one must learn how to divide up a market into subgroups or segments. Market segmentation may be defined as the identification of specific groups (or segments) of customers who respond differently from other groups to competitive strategies4"

Market segmentation enables a firm to analyze the market with greater certainty, because each segment is relatively small and more homogeneous. Market segmentation leads to two major advantages. First, the firm can tailor-offer packages more accurately for the selected segments, to gain competitive advantage. Second, new and more profitable niche markets may be discovered; and when successfully exploited, can add to the firm's viability and profitability. As there is often a price to pay for good things, the most obvious penalty of this approach is the extra analytical efforts needed; since the market is now splintered into many sub-markets with varied characteristics. For routine monitoring, however, the workload is not as much as the initial stages. This is because no SMEs can pursue all the segmentations in a market. It is more normal for a firm to choose only a few market segments to get involved in. Hence only feedback on these few market segments are needed.

4.2 Procedures for Segmenting a Market

4.2.1 Segmenting Criteria

A market can be segmented in many ways. As a very simple example, the car market can be segmented into luxury, sports, family, passenger vans, small cars etc. From here, the firm should then examine the various market segments to determine their viability.

To segment a particular market, Johnson and Scholes5 provided a guide, as shown in Exhibit 4-2.

Exhibit 4-2
Some criteria for market segmentation
Source: Johnson and Scholes (1993, p.102)

Type of Factor

Characteristics of
People/organisations

Purchase/use situation

User’s needs and
Preferences for
Product
Characteristics

Consumer Markets

Age, sex, race
Income
Family size
Life-cycle stage
Location
Lifestyle

Size of purchase
Brand loyalty
Purpose of use
Purchasing behavior

Importance of
Purchase
Choice criteria

Product similarity
Price preferences
Brand preferences
Desired features
Quality

Industrial/Organisational Markets

Industry
Location
Size
Technology
Profitability
Management

Application
Importance of purchase
Volume
Frequency of purchase
Purchasing procedure
Choice criteria
Distribution channel

Performance requirements
Assistance from
Suppliers
Brand preferences
Desired features
Quality
Service requirements

4.2.2 Segment attractiveness
To decide as to which segments to enter, some of the factors below should be considered.
? Buying power of the segments
? Expected margin
? Size of the segments
? Key success factors

? Investment needed to beef up capability to serve the segments
? Barrier to mobility (affecting potential customers to switch)
? Competing forces other than direct rivals (substitute etc)

4.2.3 Pitfalls

Although market segmentation makes good sense in today's fast changing and demanding market, there are some words of caution: 6
? Segmentation should be of practical value and represents reality. A segment that defy reality or non-operable is counter-productive.
? There should also be a consideration as how fine a market could be segmented as market size and the operation constitutes part of the business viability.
Viewing from the strategic planning process, the findings obtained here can be further augmented using many other techniques (such as KSF-Competence Matrix, the BCG Matrix etc) to steer the firm to profitable businesses.

4.3 Application in SMEs

4.3.1 Survey Findings

All the 50 SMEs being surveyed indicated that they consciously analyze and get feedback about customers in a non-structured manner. When a disturbing trend develops, adjustments are then made in the operations accordingly,. As high as 68% of the interviewees also match the feedback against the strategies they are pursuing, although not on paper. An even higher percentage of 86% of the SMEs was found to think in terms of market segments. Therefore, it seems that it is a spontaneous nature of the SMEs to care about their customers and market.
In segmenting the market, they approach the exercise in a unique manner. Instead of segmenting the whole market into a finite number of segments, they merely construct a market segment on a need basis. All others are then piled back when they refer as the mass market. And when another need arises, they will go back to the pile and construct another segment. For example, a plastic resin supplier first made out a market segment consisting of the engineering plastic manufacturers. Later on, to increase sales, the entrepreneur then found it necessary to make out another market segment; which he chose plants who make laminated packaging materials. He still has a large remainder mass market that he can look into to create more market segments later. This is certainly a good way to expand the business, as it takes into account of a SME's own capability first, before looking for a suitable market to work on.

4.2.2 Case Study

Team operates largely on market segmentation. Fours sales departments had been created to handle four different market segments. Market and customer feedback are therefore very much along market segment lines. Analysis by matching feedback on strategy is currently being done only at the top level. Department managers are less clear on the strategies and hence do not always know how to deal with the feedback. For example, in the Poolcare department, where the strategy is on differentiation, complaints on price is only to be expected. Yet the department manager sometimes tried to meet competitors' low prices. To achieve total autonomy, the directors should be more open and explicitly inform the various departments of the strategies being pursued.

The company requires its salespeople to report on market changes, customer complaints etc, through weekly and monthly reports; but this is seldom compiled. Perhaps this is to be expected as salespeople generally do not want to report problems, which can be misconstrued that they are not doing a good job. As a result, many salespeople either do not submit their reports on time, or submit bland and non-indicative information. The management had to make use of the biannual meetings to seek information face-to-face. Sometimes, the management had also to go down to the field to gather reliable information.

4.2.3 Views of Business Observers

The business observers, while appreciating the usefulness of getting market and customer feedback, wondered if the exercise is self-paying. In the SME context, they feel that it may take too much of the entrepreneur's time from the other more productive work such as face-to-face with customers. The lone marketing manager is totally for the idea, probably due to his training and the results he had seen in his experience.

4.3 Chapter Conclusion

The views of strategic experts, survey findings and case study largely endorsed customer analysis as a useful tool of strategic management. However, at the SME level, the question of time availability complicates the issue. The writer holds the view that customer analysis is even more critical for SMEs, and therefore must be carried out. Most of the SMEs are tight on financial resources, so their operation depends on a continuous income stream resulting from customer purchases. They just cannot afford to be out of tune with their customers.

On resolving the time factor, the key is to stay simple to encourage participation. Feedback and interpretation can be made with or without any structure. Further they can be made verbally or in writing, as the people prefer. The substance is more important than the method.

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CHAPTER 5
COMPETITOR ANALYSIS

Ries and Trout argued that satisfying customer needs alone does not guarantee business success. If all competing firms were to rely on customer analysis alone in their strategic planning, it will result in all the competing firms producing almost identical products. No one then would have any differentiation.

Fortunately, this is not happening in the real world, otherwise it will be deprived of the varieties that it enjoys now. Every competitor tries to be different and pursue different strategies, in order to out-rival its competitors. The authors claimed, quite logically, that when a company fails in a market place, it is often its competitors who are responsible for it; and not so much the customers.1

This brings on another crucial point in strategic management – competitor analysis. While it is fruitless to spend time weighing the merits of competitor analysis against customer analysis, it would not be wrong to place an equal emphasis on both.

5.1 Concepts and Principles

In order that a firm is not out-maneuvered by it competitors, competitor analysis should be an essential part of strategic analysis. Thomson and Strickland described it well; "Unless a company pays attention to what competitors are doing, it ends up flying blind into the competitive battle".2 What the competitors are doing have direct impact on a company's own strategy, " whether it needs to defend against specific actions taken by rivals or whether the rival's moves provide an opening for a new offensive thrust."3

Large companies are particularly interested on this issue. It is important to them even it may not mean a matter of life and death. Maintaining a certain market position is nearly always given a top priority by major companies. Few corporation CEOs can accept a drop in market position caused by managerial ignorance.

Yet market position is increasing harder to maintain in the new world order. An avalanche of new opportunities and threats have surfaced especially in a global perspective due to:

a) increased competition all over the world, and

b) the opening up of new markets. Foe examples, growing privatization of many state-owned firms in Europe and Asia, and Eastern Europe. And China and the former Soviet Bloc adopting market economy

c) gradual removal of global trade barriers.

All these can upset the balance of power among the competitors. Hence, competitor analysis and constant monitoring have become a permanent routine in many companies. Special departments had been set up to carry out these tasks. A term has also been invented – competitor intelligence (C.I.) monitoring.

5.1.1 Competitors intelligence monitoring

Competitors intelligence is different from industrial espionage. Hitachi paid US$525,000 to an IBM employee for sensitive information is industrial espionage. It is unethical and illegal. In the case of C.I., it relies only on information available in the public domain. These information can be assessed legitimately through the internet, trade journals, wants ads, news articles, government fillings, stockbroker analyses, exhibition and trade fairs, annual reports, suppliers, distributors and competitors themselves.4

Motorola is said to spend US$250,000 per year on monitoring key competitors. Marriott's was said to have used it before committing to build Farfield Inns.5

What to Monitor

Competitor Intelligence is conducted with three major aims:

? Provides general understanding of an industry and its competitors

? Identify areas in which competitors are vulnerable and to assess the impact strategic actions would have on competitors
? To identify potential moves that a competitor might make that would endanger a firm's position in the market
A Competitor Intelligence program may not be elaborate; as it depends on a firm's requirement. Often, a simple program can be done without hiring specialized staff. A common tool to track competitors is a competitor profile. (See Exhibit 5-1) 6

Who to Analyze
If a firm has only a few competitors, it would be easy to monitor all of them. However, if the firm has many competitors, a problem would naturally arise. Mangy strategic commentators (Aaker etc) 7 suggested two options:
? Analyze those in the strategic maps (true competitors)
? Analyze the leader and a few others of similar size, including one or two new entrants (as they exemplify some new strategic issues)
EXHIBIT 5-1
Competitor Profile
Source: Adapted from Lynch 1997, pp.181-3

COMPETITOR PROFILE

Competitor: Source:
Date:
Source:

Objectives:
Rationale: If the competitor is seeking sales growth or market share growth, this may involve an aggressive stance in the market place. If the company is seeking profit growth, the company may choose to achieve this by investing in new plant or some other means that might take time to implement. If this is the case, there will be less of an immediate impact on others in the market place, but new plant may mean lower costs and a longer term impact on prices. Company Annual Reports and press statements may be helpful here in defining what the competitor says it wants to do. These need to be treated with some caution, however, since the company may be bluffing or using some other competitive technique.

Resources:
Rationale: The scale and size of the company's resources is an important indicator of its competitive threat – perhaps it has superior or inferior technology, perhaps over-manning at its plants, perhaps financial problems.

Past Record of Performance
Rationale: Although this may be a poor guide to the future, it is direct evidence that is publicly available through financial statements and stockbrokers' reports.

Current Products and Services
Rationale: Many companies buy competing products or services for the sole purpose of Tearing them apart. They analyze customers, quality, performance, after-sales service, promotional material and some even interview former employees – ethical perhaps, but it does happen.

Present Strategies
Rationale: Attitudes to subjects, such as innovation, leading customers, finance and Investment, human resource management, market share, cost, reduction, product range, pricing and branding, all deserve investigation.

Formidable competitors in neighboring countries may also be monitored, though less vigorously. Large international companies in developed countries are also to watch. These foreign competitors can suddenly enter a country without warning. This likelihood is getting higher with global barriers disappearing. What would be the likely motives for them to do so? Frequently, a competitor may decide to go global for three reasons: (a) international ambitions, (b) to achieve economy of scale and (c) to integrate worldwide presence and global strategies.8

5.1.2 Competitive Equilibrium
This concept concerns the balance of power of the competitors, the shifting of this equilibrium; and its impact on a firm. Market equilibrium upset is usually caused by strategic moves taken by a prominent competitor or a group of competitors. Two interesting indicators are commonly used to track such information.

Concentration Ratio
"The concentration measures the degree to which value added or turnover is concentrated in the hands of a few or a large number of firms in an industry." It is usually expressed as percentage of value-added or turnover controlled by the largest 4, 5 or 8 firms (known as C4, C5 and C8 respectively). For example, the C5 of manufacturing industry in UK is 55%.9 There are a few implications from this analysis: 10
? The total number of firms determine the industry's buying and price setting power
? The mix of firms making up the industry will also influence competitive intensity. If they are only a few competitors roughly equal in size, some tacit understanding can be achieved, thus improving profits. However, if a few giants exist along with some small companies, no tacit understanding can be achieved, and profit is expected to suffer.
The concentration ratio tells a SME quickly what to expect in a business, both in the short and medium term.
Cooperation among Competitors
It is getting common for competitors to cooperate, domestically as well as internationally. A few examples11 quoted are:

? Three largest computer companies in Europe worked together to linked up Europe's diverse computer systems recently. They are Siemens-Nixdorf Information System AG (Germany), Cie Des Machines-Bull (France) and Ing. C. Olivetti and Co (Italy).
? Corning formed 15 joint ventures with former foreign rivals. They include BIVV (UK), Ciba-Geigy (Switzerland), Cie Financiere des Fibres Optigues (France), Siemens (Germany), Finimi (Belgium), Asahi Glass (Japan), Beijing Electronic Glass Engineering Technology (China), NGK Insulators (Japan), Samsung (S. Korea) and Australian Consolidated Industries (Australia).
? Intel and Texas Instruments agreed to a 'cooperative mutual-gain strategy'. They swap semi conductor designs and manufacturing technology for developing computer chips and act as alternate suppliers for each other. The cooperation is primarily to exploit the burgeoning market for application-specific integrated circuits (ASICs).
This could likely be a future world trend, according to Kathryn Harrigan at Columbia University, to reduce the risks associated with high investment in hi-tech business in an otherwise uncertain market. 12 Acquisitions and mergers also are getting very common. Daimler Benz with Chrysler; Lybrant and Coopers with Price Waterhouse are some of the most recent mergers that hit world news in 1998. Such strategic linkups change the market equilibrium significantly, in favor of these companies; and at the expense of the weaker ones.

5.2 Applications to SMEs
5.2.1 Survey Findings
All the SMEs being surveyed conduct competitor analysis regularly. Their major emphasis is on changes in competitors activities, which may have an impact on them. Concentration Ratio was a totally new concept to most interviewees and the response was mixed. Those SMEs in huge and highly fragmented market showed no interest at all on the ratio. The argument being "There is enough for everybody. We will have our market whatever they may try to do." Companies with small markets e.g. niche marketers or the guerillas, monitor Concentration Ratios (not exactly the way it was described above), as changes can have a devastating impact on them.
5.2.2 Case Study
Team monitors the activities of key competitors regularly. The main feedback is from the sales force, distributors, customers and also friendly competitors (with whom it inter-trades). The recording of such information is not systematic nor along any structure. This practice is also common among the other SMEs surveyed. Concentration Ratio had not been a point of concern until recently, because it is the leader of a few market segments. This picture changed when the overall market leader suddenly acquired three smaller competitors. This move makes them a runaway leader, cornering about 70% of the market. The information therefore reveals a severe threat that the company must deal with, which is testimony of its merit.

5.2.3 Views of Business Observers
The observers could understand the need for competitor analysis in business, but they could not relate very well to their own professions or companies. The banks in Malaysia, for example, offer almost identical products, and pursuing the same strategies, so there is not much to monitor about. The accountants and lawyer are restricted to advertise or

promote their services by the code of ethics of their respective professions. The same restrictions apply to the other providers of such services. Therefore, they do not expect to find anything significant or heartstopping even if they try monitoring. However, in the SME context, they all agreed that it is an important tool.

5.3 Chapter Conclusions

This chapter introduces some interesting concepts and suggestions on competitor analysis. Despite of the lack of emphasis by traditional strategic theorists, this is an important element of strategic analysis. Recent works of strategic writers seem to lay greater emphasis in this area. Survey of SMEs also demonstrated of their interests in keeping tab of competitor activities. Of course, it is unclear if this is being done from the operational or strategic viewpoints. This distinction is probably not important, as the information is finally needed for strategic decision.

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CHAPTER 6
KEY SUCCESS FACTORS

6.1 Concepts and Principles

Key success factors (KSFs) refer to those elements that affect the chances of a firm succeeding in a given venture the most. The concept was first suggested by Kenichi Ohmae, the former head of McKinsey in Japan. He argued that, “when resources of capital, labor and time were scarce, it was important that they should be concentrated on the key activities of the business – that is, those most important to the delivery of whatever the organization regards as success.” Michael Porters and John Kay had also noticed the existence of such factors.1

Understanding this concept will be extremely helpful to the SMEs. As most of them are resource limited, the KSFs show them where to spend their precious money on, and where not to. There is a slight problem, however. The task of identifying KSFs is not all that easy, especially for someone who does not posses an intimate knowledge of a business. Key factors concern not only the resources of the firm, but also the prevailing competitive environment. Ohmae's three Cs, or sometimes called the 'strategic triangle', can be a useful guide to identify the KSFs, as explained below.2

? Customers. What do customers really want? What are the Segments in the market place? Can we direct our strategy towards a group?

? Competition. How can the organization beat or at least survive against competition? What resources and customers do they have that make them particularly successful? How does the organization compare on price, quality, etc. Does the organization have a stronger distributive network than its competitors.

? Corporation. What special resources does the company itself posses and how do they compare with competitors? How does the company compare on costs with its rivals? Technologies? Skills? Organizational ability? Marketing?

Perhaps it is more important to realize that it is the ability of the firm to satisfy the KSFs in order to succeed. "KSFs are therefore factors that every business must be competent at doing and or must concentrate on achieving in order to be competitively and financially successful." 3

Craig and Grant4 pointed out something very interesting, which Ohmae did not dwell in. There are KSFs which relate to the nature of the industry itself. Thomson and Strickland5 and Lynch6 had also mentioned this point. Every industry has its unique features and KSFs. Some examples are: 7

? In beer industries, the KSFs are to full utilize brewing capacity to keep manufacture cost low. Frequently, it must bee coupled with good advertising skills to induce demand

? In the apparel industry, the KSFs are designing and color combinations and low cost (to give attractive retailing profit margin).

? In tin and aluminium can industry, the KSFs are to locate plants close to end-users to cut transportation cost.

Thomson and Strickland provided a very comprehensive reference list, which a SME should find useful to identify its KSFs, in case Ohmae's guide is not user-friendly enough. See Exhibit 6-1.

EXHIBIT 6-1

Types of Key Success Factors

Source: Thomson and Strickland 1995, p 85.

Technology-Related KSFs

? Scientific research expertise (important in such fields as pharmaceuticals, medicine, space exploration, other “high-tech” industries)
? Production process innovation capability
? Product innovation capability
? Expertise in a given technology

Manufacturing-Related KSFs
? Low-cost production efficiency (achieve scale economies, capture experience curve effects)
? Quality of manufacture (fewer defects, less need for repairs)
? High utilization of fixed assets (imported in capital intensive / high fixed cost industries)
? Low-cost plant locations
? Access to adequate supplies of skilled labour
? High labour productivity (important for items with high labour content)
? Low-cost product design and engineering (reduces manufacturing costs)
? Flexibility to manufacture a range of models and sizes/take care of custom orders

Distribution-Related KSFs
? A strong network of wholesale distributors/dealers
? Gaining ample space on retailer shelves
? Having company-owned retail outlets
? Low distribution costs
? Fast delivery

Marketing-Related KSFs
? A well-trained, effective sales force
? Available, dependable service and technical assistance
? Accurate filling of buyer orders (few back orders or mistakes)
? Breadth of product line and product selection
? Merchandising skills
? Attractive styling/packaging
? Customer guarantees and warranties (important in mail-order retailing, big ticket purchases, new product introductions

Skills-Related KSFs
? Superior talent (important in professional services)
? Quality control know-how

? Design expertise (important in fashion and apparel industries)
? Expertise in a particular technology
? Ability to come up with clever, catchy ads
? Ability to get newly developed products out of R & D phase and into the market very quickly

Organizational Capability
? Superior information systems (important in airline travel, car rental, credit card, and lodging industries)
? Ability to respond quickly to shifting market conditions (streamlined decision-making, short lead times to bring new products to market)
? More experience and managerial know-how

Other Types of KSFs
? Favourable image/reputation with buyers
? Overall low cost (not just in manufacturing)
? Convenient locations (important in many retailing businesses)
? Pleasant, courteous employees
? Access to financial capital (important in newly emerging industries with high degrees of business risk and in capital-intensive industries)
? Patent protection

In conducting the KSF analysis, one can easily go overboard and generate a very long list, which serves no purpose but blurring the vision. Entrepreneurs should note the following:8
? They must really select important ones as KSFs, as misdiagnosis affects the effectiveness resulting from pursuing off target strategies.
? The number of KSFs chosen should be small, say no more than 3 or 4
? KSFs differ from industry to industry, and also from time to time in the same industry

6.2 Applications to SMEs
6.2.1 Survey Findings
None of the SMEs surveyed had ever heard of KSFs. Instinctively, however, about half (46%) strive to meet their KSFs to make their business more competitive. A small number of the SMEs however do not see the need to understand KSFs. These are market leaders because of certain unique features of their products. For example, a manufacturer of fish paste captured the local community market with products of unique textures and taste. He is a run away leader, and there is practically no close competitor in sight. Only a key employee, or a relative on defection may change the picture perhaps. The rest of the

respondents, in the opinion of the writer should not be entrepreneurs in the first place, given their complacent attitude. They are not succeeding and yet do not strive hard enough to achieve it either.

6.2.2 Case Study

Team started using KSFs only lately after being exposed to the idea. Each key market segments are being analyzed along this line; with the findings being used later in the KSF-Competence Matrix (Chapter 14). In some instances, where a customer is large enough, the company even goes to the extent of analyzing the KSFs specific to the customer. For example, it did a KSF analysis on a customer in Southern Thailand recently, because it constitutes 10% of the company's total turnover.

6.2.3 Views of Business Observers

This is generally a very well accepted concept, and makes much sense to the observers. The bankers and accountants find this very interesting because it guides an entrepreneur to spend more on 'areas that mattered'.

They pointed out that this is a good tool to re-vitalize a business, because they have a hunch that many entrepreneurs just do not know what the KSFs are for their businesses. The writer does not agree, from experience, with Thomson and Strickland on the use of only 3-4 KSFs. There should not be a limitation placed for the sake of achieving simplicity. In today's business, it takes quite many elements and factors to make up a good offer. Therefore 3-4 KSFs is too few and not practical, especially if one were to use the Ohmae's 3Cs as a guide. The writer found that he has to use about 8-10 factors to be truly representative of his line of business.

6.3 Chapter Conclusions

KSF analysis is very useful in the real business world. Kenechi Ohmae gave the justifications, which were met with acceptance by other strategic theorists. Others writers expanded on it. Managers and academics also found it practical. It can be therefore concluded that it is suitable for business application. In the SME context, this concept is equally applicable, if no more applicable. This is a short cut, a time-saving way to analyze what needs to be done.

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5. Thomson and Strickland. Op. Cit., pp. 83-4
6. Lynch, Op. Cit., p. 100
7. Thomson and Strickland. Op. Cit., pp. 84
8. Ibid

CHAPTER 7
FIVE FORCES ANALYSIS

The concept was introduced by Professor Michael Porter of Harvard Business School in 1970s. It is also known as structured analysis of competitive environment.

7.1 Concepts and Principles

This section draws heavily from the works of Porter1 directly or indirectly2. In short, the tool says that an industry's profitability and attractiveness are the result of five interactive forces: (a) internal rivalry (b) barrier to entry (c) buyer's strength (d) supplier's strength, and (e) presence of substitutes. The Five-forces Chart therefore views an industry's environment from a slightly broader perspective than just the competitors alone.

The Five-forces Chart is represented by the model given in Exhibit 7-1. The chart allows an entrepreneur to critically assess his/her chosen business in terms of profitability and degree of competitiveness. When applied on a new venture, an entrepreneur can objectively tell if the investment is worth consideration. When applied at a later stage of the business cycle, an entrepreneur can make vital decisions if it is worthwhile to continue investing or even to dispose off the business. There is also a third application – it can be used to pinpoint areas that needs building up, to improve a firm's competitive position.

The Five-forces Chart is concerned with the immediate environment (micro-environment), as opposed to the PEST analysis (explained in the next chapter), which deals with the macro-environment.

EXHIBIT 7-1
The Five-forces Chart
Source: Craig and Grant (1995, p.32)

Threat of new entrants
Bargaining Bargaining
power power

of suppliers of buyers

Threat of substitute products

7.1.1 The Threat of Entry

Threat of entry means the ease of new firms entering the business. Relating to this issue is the barrier to entry, which occurs naturally, circumstantially or being created. Barrier to entry simply makes it harder for any new player to come into the market. An entrepreneur wishing to enter a new market should carefully view the barrier to entry. If the barrier to entry is high, it means that he/she like any other new entrants, would find it hard to establish himself/herself to make a profit. For the existing players, it means they can count on the business to continue giving them a stream of revenue, all things being equal. A good example of high barrier to entry is a privatized highway, under a governmental concession scheme.

A low barrier to entry on the other hand is the reverse. Anyone can come into the picture and erode the attractiveness of the business. It therefore may not be a good investment if long-term revenue is expected. An example of low barrier business is the used-car business, whereby a new player can just rent a shop and with 2 or 3 cars and starts a business.

The seasoned companies may attempt to build barriers to stop new entrants in many ways. Some examples are: through product differentiation, by achieving scale economy, influence customers to accept high technology that only they can provide, solicit governmental protections (licenses etc.), control of critical raw materials, or distribution network, forming cartels or even adopt retaliatory or preemptive moves to block entry.

7.1.2 Threats of Substitutes

Many products can be substituted indirectly by other dissimilar materials. For example, plastics have effectively replaced many metal parts in the automotive industry. Price plays an important role in the consideration of substitutes. For example, pure drinking water can be produced by a variety of processes: demineralization, reverse osmosis or even distillation. Given the availability of options, a supplier of demineralization plants must also consider the cost of the substitutes in setting his price structure.

Johnson and Scholes3 mentioned three other ways a product may be substituted: (a) A new process may render a product superfluous e.g. more precise casting may reduce demand for cutting tools, (b) products that compete for discretionary expenditure are substitutes to each other. Example: furniture can turn out to be a substitute of electronics goods, and (c) ‘doing without’ is also a form of substitute, especially in the tobacco industry.

7.1.3 Rivalry among Existing Firms

The competitive activities among the existing firms also determine the attractiveness of a business. In fact, for most industries, the main determinant of the overall state of competition and the general level of profitability is ‘competition between the firms within the industry’. 4

The intensity of competitive activities therefore should be a prime concern to an entrepreneur. Many factors intensify the competitive activities. Some important ones are: 5

? when there is no dominant player, there would be a tendency for some firms to try to achieve leadership

? when market is entering a slow growth stage, and where competitors are keen to establish market leadership

? where high fixed cost is involved, probably coupled with excess capacity. A price war and low margin operation can ensue.
? new capacity addition by some competitors, especially in large increments. This short-term over-capacity can result in increased competition
? high exit barrier forcing the competitors to carry on with the business irrespective of profitability
? the absence of product differentiation may lead to buyers switching supplier easily
? acquisition of weaker companies by larger firms may see the former becoming keen competitors

7.1.4 Bargaining Power of Buyers

Buyers may be distributors, consumers or end-user organizations. Generally speaking , the more powerful the buyers, the less say a supplier has. A buyer's strengths are built on the ability to switch suppliers, its relative size, ability to integrate vertically, and availability of market information. Johnson and Scholes5 observed that the retailing chains were doing 55% of the national grocery sales. The bargaining powers of the suppliers are therefore significantly reduced.

Another extreme case of a buyer having absolute control over a supplier's fate is in the consumer electronics assembly business. Industries of big names like Sharp, Sony, Toshiba etc subcontract out most of their production. Many of such subcontractors are contract-bound to produce for these companies alone. In other words, they have only one customer. When economic downturn sets in, these contractors are faced with order reduction, and no other options to gain revenue. Many experienced business failures, as a result.

7.1.5 Bargaining Power of Suppliers

Sometimes suppliers 'call the shot' in a business. An example is the clove business in Indonesia (during the Suharto era) where it was in a monopoly situation. All the clove-cigarette factories throughout the country must get their supply through the monopoly at its mercy. The most ridiculous part being some of the clove-cigarette manufacturers owning their own clove plantations also need to buy their own clove via the monopoly. Franchise businesses like McDonalds and KFC should also be included in the category. Fortunately, there is legislation that ensures the fairness of such agreements.

In some businesses, where employee skills are highly important e.g. consulting business, hospitals, legal firms etc, employees should also be considered as suppliers. On the same basis the financial institutions may also be regarded as suppliers especially when they provided a critical portion of the finance to carry on the business. 6

Broadly speaking, a supplier's strength increases when there are few competitors, high 'switching cost' involved, holds a good brand or with the ability to integrate forward.

Three additional points should be mentioned of the Five-forces Chart: 6
? The real value of the Five-forces Chart lies in the prediction of profit in the future. There are also values, in using it to explain past performance and also identify structural changes, so long as they aid the task of looking into the future.
? The relative influence of these forces may change over time. Therefore an enterprise should periodically do a review to keep up with the times.

? Often, it “may take only one or two of the five forces to produce intensive competitive circumstances within an industry to result in dismal profitability.”

7.2 Applying the Technique

The principles of the Five-forces analysis had been explained in the foregoing paragraphs. It is now appropriate to focus on how to use it to interpret on a situation and make strategic planning based on the conclusions. As mentioned earlier, the five forces are part of the environment factors, and therefore a list of threats and opportunities can be drawn from them. However, the threats and opportunities are not obvious unless a brief description is made on each of the five forces, which serves as the basis for the interpretation. Exhibit 7.2 shows how a form that can be used to crystallize ideas and conclusions.

To ensure clarity, it is further recommended to use a fresh sheet for each force. As mentioned earlier, projections should always be reviewed t check against trends and actual events. An annual review coinciding with budget time would be most appropriate.

7.3 Application to SMES

7.3.1 Survey Findings

Only 26% of the SMEs being interviewed claimed that they have heard of the chart. But none bothered to analyze their position systematically using the chart. However, there are evidence that some of them could feel their vulnerability, especially when faced with a sole supplier or a few large customers. There are a few cases where the entrepreneurs play proactive role to avoid crisis, since they realize the danger. A good example was one who was supplying coconut oil and kerosene to restaurants in the 60’s. Due to the large-scale production of palm oil in Malaysia, and greater world demand of kerosene as aviation fuel, he knew the viability and margins of his business were declining. He was quick to change over to palm oil and cooking gas which prevented a business failure.

EXHIBIT 7-2
A Sample of a Five-forces Analysis
Source: Writer

Five-forces Analysis
Date _______________

Opportunities
Threats

Potential entrants

Buyer

Seller

Substitutes

Internal Rivalry

(See under competitor analysis)

(See under competitor analysis)

7.3.2 Case Study

Team does not conduct the environment analysis using the Five-forces Chart. Like most of the cases in the survey, the managers are aware of the threats and opportunities, at the back of their minds. As a result, none of the sales department works with a single supplier or with only a few large customers. However, what is seriously lacking is that managers in this company seem to be unconcerned of the threats by substitutes and new entrants. These blind spots, to be better handled, may require some adjustments or shifts in management attitude; since new inventions can be a serious threat to technological companies like Team.

7.3.3 Views of Business Observers

Only half of the observers gave their views on this subject, and they are the bankers and accountants. Their response is a strong affirmative, that SMEs should do this exercise for their own good.

The writer observed that there should be a another force that does not quite fit into the chart – price control by government.

In countries where the government fix the price of certain goods, industrial attractiveness and profits can be highly dependent on these governmental decisions, For instance in Malaysia, there are about eleven items (mainly basic essentials) where the prices are fixed by the government. The flour makers and vegetable oil refiners had been posting losses year after year.

It is rumored that the Malaysian government, in recognizing the difficulties, compensates such industries in special ways, e.g. granting special licenses for other lucrative business; or alternately giving them land at very low costs. This of course would tip the balance of business viability.

Even in developed nation, farm produce is often subsidized. The subsides are therefore a source of revenue for the enterprise. Therefore in considering the viability a business of this nature, the hidden payback – cheap land, lucrative licenses, subsidies – should be also be taken into account.

7.4 Chapter Conclusions

The Five-forces analysis makes good sense and easy to understand. There is no real resistance from the SMEs being interview to use the technique to analysis their strategic positions, although some felt that it is not so urgent to do this analysis. Perhaps it is because they have not even done the more urgent ones, namely customer and competitor analyses. It is therefore understandable that they do not want to look at this just now. It is the view of the writer that the exercise must not be spared. After all, business management is not supposed to be easy. The decision to get into business management should also come along with the willingness to do the needful. Therefore all SMEs should allocate some time to assess their business in this light, at the first opportunity.

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5. Johnson and Scholes. Op. Cit., p. 94
6. Craig and Grant. Op. Cit., pp. 38-9

CHAPTER 8

PEST ANALYSIS

Macro-economical factors affecting an enterprise’s existence and performance (indirectly) can be conveniently classified under four major groups: a) political / legal, b) economical, c) socio-cultural, and d) technological. The first alphabets of the four categories thus form the acronym PEST.

Chapter 7 concerns the immediate business environment, which naturally attracts the attention of entrepreneurs. PEST factors however area also important as they affect the five forces in turn. Some strategy theorists chose to superimpose the two sets the factors together, to provide a one-glance appreciation. (See Exhibit 8-1)

8.4 Concepts and Principles

Much of this chapter's facts are derived from the works of Johnson and Scholes1. These factors affect an enterprise in different ways, and by different magnitude, depending on the nature of the business. Exhibit 8-2 provides a checklist for each group of factors.

8.1.1 Political / legal

Political/legal factors include legislation on trade, taxation, employment and any other areas that can have a bearing on business. They can affect an enterprise's well being or even survival. For example, in 1998, the Malaysian government decided to promote large-scale transport companies in Kuala Lumpur. Thousands of individual mini bus operators lost their licenses as a result; and tens of thousands of minibus drivers were out of a job.

EXHIBIT 8-1

A Superimposed PEST/Five-forces Chart

Source: Hussey (1985, p. 68)2

Political

Social Demographic

Ecological Economic

Infra Legal

Structure

Technical

8.1.2 Economical

Economic factors include the economic cycles, the national GNP, interest rates, money supply, inflation, unemployment and disposable income etc. As obvious, they affect an enterprise. For example, a sharp increase in interest rates dampens trade, affecting especially enterprises that rely on borrowed funds and with low profit margins.

EXHIBIT 8-2

PEST analysis of environmental of influence

Source: Johnson and Scholes (1993, p.82)

1. What environmental factors are affecting the organization?
2. Which of these are the most important at the present time? In the next few years?

Political/legal Economic
Monopolies legislation * Business cycles * GNP trends * Interest
Environmental protection laws * rates * Money supply * Inflation
Taxation Policy * Foreign trade Unemployment * Disposable income *
Regulations * Employment law * Energy availability and cost
Government stability

Socio-cultural Technological
Population demographics * Government spending on research *
Income distribution * Social Government and industry focus of
Mobility * Lifestyle changes * technological effort * New
Attitudes to work and leisure * discoveries/development * Speed of
Consumerism * Levels of technology transfer * Rates of
education obsolescence

8.1.3 Socio-cultural
Socio-cultural factors include such indicators like population demographics, income distribution, social mobility, lifestyle changes, attitude towards work and leisure, level of education and consumerism etc. They also affect an enterprise. For example, where there is a tendency for middle-class growth, there may be a rising demand of premium products. The dramatic rise of bottled-water sales in Malaysia since early 90's is a good case in point; when the treated water from government mains would serve the same purpose.

8.1.4 Technological
Technological factors covers such things as technological discoveries and breakthrough coming through from research, the government emphasis on R & D, and rates of obsolescence etc. A technological change can shift the business landscape. For example, with desktop publishing made possible by PCs, the printing industry was losing lucrative businesses in printing product brochures, catalogs, instruction literatures etc. Some proactive printing companies, however found a fortune in supplying computer forms, taking advantage of the growing trend in information technology.

8.2 Forecasting of Pest Factors Movements
As mentioned in Chapter 18, external events and changes affect industries differently. Indeed, they affect different firms in the same industries differently. Therefore, it is

difficult if not impossible, to provide accurate guidelines. Entrepreneurs must interpret the upcoming events in the light of the nature of their industry. A meaningful exercise, however, is to first complete a prediction of events. Exhibit 8-3 is a sample forecast for a modular home manufacturer, which was used later as a basis for strategy development.

EXHIBIT 8-3
A Sample of PEST Analysis
Source: Adapted from Anthony (1991 pp. 46-6)3

Environmental Forecast
Sector

Economy Prime interest rate increasing to 14 percent over next two years, then declining to 11 percent range for two-year period. Inflation increasing to 12 percent annual rate within 12 months and remaining at the level for 12 to 18 months. GNP increasing this year at 4 percent level then declining to 2 percent and 0 percent two years from now. Unemployment holding steady at 8 percent for 2 years then increasing to 9.5 percent for 1 to 2 years.

Legal/Political Possibility of some rent-control legislation affecting lot rental in some states (e.g. Florida). More monitoring of hazardous chemicals and substances in factories by OSHA. Zoning law changes in key states (e.g., Arizona and California). More lenient regulations on transporting homes on highways.

Social Increased acceptance of modular home as acceptable housing because of lower price and lower home maintenance. Increased acceptance of modular home parks in communities because of larger homes and improved landscaping. Greater desire for luxury in modular homes.
Increased in sunbelt population states where modular homes sold. Increase in over 62 age group. Increase in first home buyer age group. Smaller families.

EXHIBIT 8-3 (continue)

Technology Greater use of automated assembly line manufacture, including robotics, automated staplers and nailers. More efficient hauling from plant to sites involving both trucking and rail. Project site maintenance technique from retailer to location site of home.

8.4 Application to SMEs

8.3.1 Survey Findings

Only 26% of the SMEs surveyed have heard of the analytical technique. None of them constructs the analysis in any structural forms. There are some evidence however that they respond to major changes in the environment. Example, an exporter / importer took advantage of the lower Malaysian Ringgit value in 1997/8 to increase his export; thereby increasing his profitability. Another case is a vegetable farmer taking advantage of the government incentives (such as easy loans and land availability) to enlarge his planting acreage.

8.3.2 Case Study

Team has been constructing PEST analysis as early as 1991, for its five-year plan. At the conclusion of the period, the company achieved up to 75 percent of what is set out to do, and also established a firmer market position. That was a great showing when considering the fact that the company was at a crossroad at the time of the planning. On hindsight, there were many contributing factors such as the blessings of good people joining the organization, tenacious execution of the chosen strategies, marketing efforts etc. What was perhaps more important was the correct forecast of new markets, such as leisure industry, and the spray painting industry, which the company invested in to develop products, technology and other offerings. When these markets emerged as planned, the company was ready to provide the service demanded.

8.3.3 Views of Business Observers

There was a mixed response on this tool. Those who are marketing based or close to the customers generally felt there are merits to analyze the environment. The majority of the others are in jobs that do not require a marketing orientation, and they had thought this should be the risk part of the business. They do not think projections can be accurate, especially in today's business climate. This is a departure from the views of traditional strategic theorists who invariably start off their planning process with environmental analysis.

The skeptics further thought that the exercise is a waste of time and also the SMEs would not be disciplined or knowledgeable enough to do the analysis or projection. SMEs themselves believed that there is always ample time to react even when a PEST factor were to change. Hence, most SMEs tend to spend more effort to focus on their internal strength. This is not without logic, and many large companies do the same. Companies like 3M, Cannon, Marks and Spencer, Honda reportedly approach their strategic decisions first from their capabilities and core competence; then only looking at the environment for markets.4

The writer differs in his views. Environmental factors affect all enterprises, large or small, as demonstrated in the many examples given above. Some of the small business gained while others failed, s a result of changes in the PEST factors. Therefore PEST analysis is relevant to both the large companies and the SMEs.
A prevalent excuse for business failure is always due to the actions of others: unfair laws by insensitive government, times have changed to favor only the major players, uncommitted employees, bad luck etc. Many of the cases however could have been rescued if only there was sufficient time given. The time will be there if only the entrepreneurs took heed of all the warnings in the air and acted ahead. The PEST analysis is such an instrument a failed entrepreneur could have used to save his/her company.

8.3 Chapter Conclusion
This is one technique, despite of its common discussions in all strategic management texts, that has a clear doubt for application in SMEs. Given a tug-of-war situation for time, it is perhaps better to spend it on analyzing the company's internal strength and weakness. Developing core competence and capabilities are perhaps a better bet to survive a turbulent economic climate from now on, as predicted by Peter Drucker in his book, Managing in Turbulent Times. He declared: "Predicting the future can only get you into trouble. The task is to manage when there is and to work at creating what could and should be."5
For those who believe in it, the question of time constraint still exists. The recommendation is to make things simple, and compromise on the details needed and assumptions used. PEST analysis carried out in major corporations can be highly detail and appear intimidating to a small firm. They justify the need for more accurate statistics and realistic projections, because;
? the operations are far more complex
? the decision makers need extensive and accurate facts, since they are normally away from the front line of the operations.
Any wrong decision can be costly and takes a lot of effort to correct, given the sluggish way a giant moves. All these do not stop a small businessman to question if all the work is really necessary; and is not a waste of company resources. As a matter of fact, it could be very well be, according to Minzberg4. The McGill University professor even suspected much of these work are carried out by staff trying to justify their existence. Since the SMEs are agile and flexible, they can do the analysis in a much simpler way, omitting the trivial details. In addition, a lot of intuition can also be used, since the entrepreneurs are often equipped with hands-on knowledge of the market and business. It is worth repeating that PEST analysis should be for the future. It is usual to see companies forecasting PEST factors five years down the road, to coincide with their five-year plan. Any other time period can be used, so long it suits the company's requirement. Some companies prepare two charts, one for the current and one for the future. The writer finds this a good practice, since prediction of the future must nearly always consult the present.

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CHAPTER 9
GOVERNMENT ASSISTANCE PROGRAMS

SMEs generally have greater hurdles to clear than large corporations in establishing themselves and building competitive edge. One of the main reasons being acutely short of resources, especially financial resources. In the real world, building capability, quality and market do not come free. Much financial resources are needed. Sometimes, the requirement can be so great that it is simply beyond the dreams of SMEs. Fortunately, most governments realize such difficulties of the SMEs; and have taken steps to bridge this gap for the benefit of the latter.

9.4 Concepts and Principles

Government assistance may differ from country to country. A comprehensive package would include many aspects. An typical package is illustrated below. This chapter is written based on the information from the Federation of Malaysian Manufacturers1.

9.1.1 Financial Facilities and Funds

There may be many types of funds, financial assistance and credit facilities made available specially for SMEs. These could either be given out as grants, or low interest loans with or without securities. They may be approved for purchase of assets, plant and machinery, or for the development of strategic capabilities. For example, the Malaysian Government provides four types of grants to SMEs for the purpose of: a) hiring the services of consultants, b) product development and design, c) quality enhancement and certification, and d) market development.

9.1.2 Human Resource Development

There may be various schemes available for tax incentives on training provided for employees. Depending on the government’s prevailing policy, the incentives given may favor certain industries or skills. For example, when a agrobased nation decides to get industrialized, it may give more emphasis to industrial skills. Beside incentives, the government may also set up training institutions and centers to conduct such courses. In fact, most government have vocational schools to train up young people who have the inclination to be skill workers. To foster cordial working relationship, a good government will also enact fair laws governing the terms of employment and industrial relations.

9.1.3 Research and Development

Besides giving out grant, the government would generally set up research institutes to help industries in the areas of R&D, specialised material testings, product endorsement and quality conformance, such as those for ISO9000. Another common feature in technology development is the construction of science or technology parks. More sophisticated plans may even include the developing of linkages between SMIs and the MNCs, in which a Ministry and financial institutions may be involved in the arrangement.

9.1.4 Services by Foreign Government

Some industrialized countries, as part of their commitment to aid developing nations, provide opportunities and funds to train the workforce of these developing nations. Germany, Britain, Sweden, Japan, Canada and APEC provides a host of programs to Malaysian companies, to help train their employees and managers on a wide range of subjects from technology to management.

9.1.5 Export Assistance

Through some state agencies, the government will make available information on potential export markets, bilateral and preferential trade arrangements, market identification (through trade offices based in foreign countries) etc. It is also common for trade ministers to lead trade missions overseas to help establishing links with foreign trade markets. Exhibitions and trade fairs are also often organized by the government directly, or in conjunction with some trade organizations such as chamber of commerce etc. Sometimes, there may also be government-to-government arrangements to guarantee payments, making it easy to increase bilateral trade.

9.2 Application in SMEs

9.2.1 Survey Findings

All SMEs being surveyed realize the availability of such programs. However, only 12% make use of such facilities in their strategic plans. Malaysia is a unique country where there is a policy that favors the indigenous people, the Bumiputras. Most non-Bumiputra SMEs hold the views that these facilities are not meant for them; and do not try hard enough to apply for such facilities. To complicate matters, there are preferences for the politically connected, and the ruthless traders who resort to graft practices to ensure allocation. This leaves very little for the honest, genuine SMEs. Therefore, their distrust on the government scheme is understandable. This is not an easy problem, which can only be solved through political means.

9.2.2 Case Study

Team had naively tried to apply financial assistance from the banks under special government-sponsored schemes such as the CGC. The response was negative, giving the reasons that the quota is used up. In the end, the company had to settle for normal bank loans, with higher interests and securities. On human resource training, it does not come free either. To qualify for tax deduction, the company must join a scheme and contribute 1% of its annual payroll to the scheme. As evident, such schemes only encourage abuse.

Companies wanting to use up their allocation just send their employees for any courses, so long as they are paid for by the fund. In short, the impression of Team managers with regards to government schemes is also one of great doubts.

9.2.3 Views of Business Observers

The bankers were rather silent about this subject especially relating to the issue of special bank loans. The human resource managers are familiar with the training schemes and tax incentives of the government, which also apply to large companies. Th observers in general, found that larger companies are more spontaneous when comes to interacting with government and financial institutions. The SMEs seem to be more reserved in this respect. While the 'bargaining power' may not be in favor of the small businesses, they are not at all unnoticed.

9.3 Chapter Conclusions

There is a huge gap to reconcile between the beauty of the designed government assistance programs and their implementation, in many developing countries. While this is not an easy problem to solve unless through political means, SMEs should not just give up and do nothing. There are other ways. SMEs should join trade associations, as connections and group association will help. In some countries, joining the ruling party promise privileges. Above all one should not give up trying.

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PART III

Internal Analysis

CHAPTER 10

BASELINE INFORMATION

Using baseline information as a strategic tool was proposed by Thomson and Strickland1. Naturally, much of the facts are derived from the works of the authors. At first glance, it appears unavailing to use baseline information as a strategic tool; but on deeper consideration, one will agree that it makes good sense, and it is potentially very powerful concept.

Other strategy writers did not mention it probably due to two reasons: a) it should be a subject matter of operational management and not strategic management, and b) it is taken for granted that managers should be aware of the performance date. The writer holds the views that both reasons cannot justify its omission, especially in the SME context. Small businessmen are often so involved in the day-to-day operation that they can easily overlook the numbers, especially the past ones. Additionally, there are some important ratios that are not readily available from the final accounts; some deliberate although simple calculations, are needed.

10.1 The Concepts and Principles

So far, the external factors had been examined from Chapters 4 to 9. This chapter leads the analysis into a firm's internal situation. Collecting baseline data and information is always the first step of all planning and problem solving. In strategic planning, it is therefore no different. With the current picture in perspective, one can decide if it is satisfactory. If it is not, what then would he/she want the company to be, and how to get there. For instance, if the current picture shows that a firm is only returning a 5% on investment, while the bank prime rate is 8%, the company is obviously not performing well. Unless there are other good reasons, the firms should consider to improve this position, say to aim for 8% for the coming year, and slowly work up to a 15%. To achieve the stated goal, there are many options available e.g. to improve on margin, to cut cost, to reduce purchase price, to reduce distributor margin and perks, to increase productivity etc. The final choice of strategy requires further analysis into the cost areas and pricing strategic etc.

In essence, baseline numbers represent the effectiveness of the set of policies, strategies and practices currently adopted by the firm.

10.2 Collecting the Data

Most of the data or ratios needed as baseline data or information are extractable from the annual accounts of a firm or through some simple calculations. Some important performance indicators and ratios are given in Exhibit 10-1. It certainly enhances decision making when data can be provided for a few years rather than for just one single year.

There are many ratios given in Exhibit 10-1, but not all are needed. Ratios are generally secondary in nature, in the sense that they help to further explain the current performance results obtained. Therefore an entrepreneur must make his or her own list of what is useful. The formulas for deriving the ratios are given in Exhibit 10.2.

EXHIBIT 10-1
Performance Indicators
Source: Student

19___ 19___ 19___
Accounting Data
Sales turnover
Sales growth

Net profit margin
Return on equity

Ratios
Current ratio
Acid Test
Gearing
Interest cover
Profitability
Return on capital employed
Earnings per share
P/E ratio
Earnings yield
Dividend per share
Stock cover
Debtor days
Creditor days
Fixed asset turnover

Contrary to popular belief, even the absolute numbers such as net profit, return on investment, turnover mean very little on their own. They need to be compared with something else. For example, a pharmaceutical company making 15% return on investment is actually bad, while a steel mill returning 5% is rather good. This is because pharmaceutical companies in general return above 15%, while steel mills could never guarantee profits due to the nature of the business.2

EXHIBIT 10.2
Financial Ratios
Source: Lynch (1997, p.345)3

Note: It is important to obtain comparative data for competitors and to analyse the trends over several years.

Liquidity – measures the ability to survive and avoid default.

Current ratio = Current assets
Current liabilities

Acid test = Current assets – Stocks
Current liabilities

Gearing – examines the financial strength and the different forms of finance

Gearing = Long-term borrowing
Capital and reserves

Interest cover = Earnings before interest and tax (EBIT)
Interest

Profitability

Profit margin = EBIT
Sales

Return on = EBIT
Capital employed Capital employed

Investor ratios – measures the earnings available to those who own the company

Net profit margin = Net profit
Sales

Earnings per share = Net profit margin
Number of shares

P/E ratio = Price per share
Number of shares

Earnings yield = Earnings per share
Price per share

Dividend per share = Dividends
Number of shares

Trading activity

Stock cover = Cost of sales
Stock

Debtor days = Debtors X 365
Sales

Creditors = Other creditors X 365
Sales

Fixed asset turnover = Sales
Fixed assets

Therefore to be meaningful, an entrepreneur must make sense of the numbers by comparing them with some useful yardsticks, such as:
? Corporate objectives
? Annual budget
? Historical performance levels
? Industrial norms
? Best practices including those across industries
? Shareholder expectations
Decisions must then be made if these results are good enough and / or likelihood to be maintained. If not, some modifications are needed which are represented by the new strategies taken. The quantum for improvement levels again must be in line with market reality, business climate and management ambitions.

10.3 Application to SMEs
10.3.1 Survey Findings
Many SMEs being interviewed felt very much at home with this suggestion. However, only four (8%) of the SMEs monitor baseline information more than what the annual accounts provide. These four SMEs happened to have accountants or MBA holders at the helm. In other words, the SMEs in general monitor very narrowly of their performances. When comes to benchmarking, most of them ‘compete with themselves’ using the historical basis. Comparing with the industry norm or best practices is not done, mainly due to the lack of reliable information. An interesting revelation is that entrepreneurs seemed happy to compete with rival firms on market share only, rather than any other forms of measurement such as profit margin, return on investment etc.
10.3.2 Case Study
Team had been using the baseline data alone to set annual objectives, especially during the formative years. Thorough strategic planning could have perhaps yield better results, with more analyses being carried out. In reality, the writer finds it difficult to update the various analyses on a yearly basis, due to lack of time. The question then is – how reliable are these dated analyses? To compare with, the baseline data approach though narrower, is more current. In Team, baseline data had always been the beacon and source of inspiration to plan for each year, although the other analytical data are also consulted. Traditionally, the company had been tracking financial information such as gross profit,

net profit, revenue, expense and some non-financial indicators such as revenue per sales person, stock to sales ratios, debtor to revenue ratios etc. In the last two years, return on investment had also been added to the list.

10.3.3 Views of Business Observers

All the observers agreed that this is a good tool for strategic management. The bankers and the accountants gave a lower rating than the other managers, which was puzzling. On checking, this is so because they realize the prevalence of SMEs fiddling with their accounts to 'dress them up or down' according to their requirements. To reduce taxation, the accounts will be made to look poorer. However, if the company is preparing for public listing, entrepreneurs will pad up the profits; and willingly pay taxes on profits they did not made. While it is not the place of these observers to judge the SMEs on the morality of this issue, they do discount the usefulness of non-factual data.

Since objective setting can take place at this stage, the writer finds it necessary to add some thought on benchmarking. There is an inherent danger with benchmarking without considering the reality, the broader environmental factors or the macroeconomics. Following others blindly can also lead a firm to a strategic drift or even a crisis. A true case happened in the banking industry in Asean recently. When the economies of the region was booming for a continuous streak of a decade, the banks were racing with one other in performance, using the concept of benchmarking. This led to imprudent lending. When the economy bubble burst, all the aggressive banks were in trouble. Fifty-four banks in Thailand and sixteen in Indonesia were directed by their respective governments to wind up. Perhaps the only consolation these banks had while filing their bankruptcy paper was that they were not alone. Hopefully, the example can help to convince entrepreneurs to be realistic and most of all, to be themselves and not trying to 'keep up with the Jonesses'.

10.4 Chapter Conclusions

Although baseline information looks too mundane to be used as a strategic tool, it is indeed a legitimate, and a powerful one at that. Instead of running amok with wild ambitions, a SME is often forced to tone down by the baseline information. This is good because unnecessary risks are avoided by staying realistic. For the first time user of strategic management, baseline information review is a good start. He/she can use this alone without any other tools for planning and yet will not be far wrong. With more experience gained, the entrepreneur can later try more of the other strategic tools.

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3. Lynch, R., Corporate Strategy, 1997. Pitman Publishing, London

CHAPTER 11
STRENGTH AND WEAKNESS REVIEW

The writer was tempted to name this chapter Resource Audit, like what many other strategy writers had done. However, a company's resources should include the value chain and competitive advantage, which are separately discussed in Chapter 12 and 13. This chapter was decided to restrict the discussions to mainly tangible assets, some intangible assets (such as human resources, trade marks, patents) and employee skills only. Hence the use of a less encompassing title.

11.1 Concepts and Principles

The purpose of the analysis is to assess a firm's strength and weakness, which can help to formulate strategies directly on its own. The analysis may also be used as an input to other strategic tools (SWOT analysis, competitive advantage etc) for more comprehensive identification of workable opportunities and the attendant strategies. Exhibit 11-1 showed how the strength and weakness make up a SWOT analysis.

In identifying strengths, one must not consider only the tangibles that carry a price tag, such as equipment or building. Intangibles are just as important if not more important. Craig & Grant1 claimed that the most strategically important items in the resource pool is the intangibles. It is also important to note that a resource may not be something currently owned by the company. It may be acquired, leased, or obtained through some strategic alliance, in the future.

In grouping the strengths and weaknesses, it is important to realize that there is a small distinction to understand between resource and capability.

? Resource refers to the individual assets of the firm e.g. capital equipment, employee skills, patents, brand names etc.

? Capability refers to what the firm can do – the results of resources working together to achieve the productive tasks.

Both these can combine to constitute competitive advantage for the firm.2 For this chapter, the main purpose is to find out the resources and skills.

When comes to generating ideas for strategies (Chapter 22), there are two basic ways to strategize into the future – market-based (starting from environmental opportunity) and resource-based (starting from corporate strength). It appears that most managers follow the second method, more from habit than by choice. Nevertheless, both approaches work. Marks and Spencer discovered a successful strategy with its corporate strength.4 It realized that it has certain strengths: a) corporate and brand names, b) ability to motivate its employees, c) efficient in managing supplier relation and d) ability to manage and control cost. It also realized that they could be transferred easily from retailing clothes to retailing food. They went on to execute the plan and made it a success.

Given the potential benefit, it is highly important that managers should know what resources they have, at their disposal. The strength and weakness review is one good source for such information.

EXHIBIT 11-1
A SWOT Analysis
Source: Lynch (1997, p.263)3

Internal
Strengths Weaknesses

? Market dominance
? Core strengths
? Economies of scale
? Low-cost position
? Leadership and management skills
? Financial and cash resource
? Manufacturing ability and age of equipment
? Innovation process and results
? Architecture network
? Reputation
? Differentiated products
? Product or service quality
? Share weakness
? Few core strengths and low on key skills
? Old plant with higher costs than competition
? Weak finances and poor cash flow
? Management skills and leadership lacking
? Poor record on innovation and new ideas
? Weak organization with poor architecture
? Low quality and reputation
? Products not differentiated and dependent on few products

External
Opportunities Threats

? New markets and segments
? New products
? Diversification opportunities
? Market growth
? Competitor weakness
? Strategic space
? Demographic and social change
? Change in political, economic environment

? New takeover or partnership opportunities
? Economic upturn
? International growth

? New Market entrants
? Increased competition
? Increased pressure form customers and suppliers
? Substitutes
? Low market growth
? Economic cycle downturn
? Technological threat
? Change in political or economic environment
? Demographic change
? New international barriers to trade

11.2 Identifying the strengths and weakness

It is customary to approach this identification exercise by three major ways:
? By major functional areas e.g. management, production R & D, marketing, finance etc,
? Along the value chain
? By the nature of resources e.g. physical (plant and machinery), human, financial and intangible resources.
Whichever the format, the list can get very long and detail. Therefore to be practical, most strategic writers (e.g. Ohmae,5 Porters6 and Kay7) recommended to focus on the market expectations, or the key success factors (KSFs).
There is a need to be objective in listing the strength and weaknesses. It is not a matter of being dishonest but the interpretations are much influenced by the prevailing business climate and cognitive makeup of a person. Example, in good times, it is easy to look kindly at all the strategies in place. Conversely, when times are bad, even the best strategies will be doubted upon. Then there is always the personal bias, between the optimists and the pessimists.8

11.3 Applications to SMEs
11.3.1 Survey Findings
There is so much of common sense in this analysis that no SME needed an explanation. All of them know their own strength and weakness 'at their fingertips', so they claimed. The writer doubts so. Unless an attempt is made to list them down, many points will never surface. Only two respondents list down their strength and weakness formally.
11.3.2 Case under Study
Team analyzes its strength and weakness in its five-year plans. These are reviewed one a year and updated accordingly. It was useful because the managers were evidently working hard to eliminate the weakness. At the close of the first five-year plan in 1996, 70 – 75% of the weakness had been eliminated or reduced.

11.3.3 Views of Business Observers

All the observers agreed that this is a useful strategic tool. They found it full of common sense and not difficult to apply, even by the SMEs. Some felt that SMEs that do not carry out this exercise deserve to fail. They however would caution that the SMEs should attempt to arrive at a true assessment. Misdiagnosis leads to wrong strategy and pathetic results.

11.4 Chapter Conclusions

Listing of an enterprise's strength and weakness is the most basic method of assessing its own strategic capability. It is through this first step that other analysis such as SWOT and Core Competence can be made. This exercise should be equally valuable to both large corporations and SMEs.

For SMEs, the advice is always to make things simple, and keep the list short but truthful. Quantity does not equate quality. In fact, too long a list can be counter-productive as it tends to obscure the important facts and elements.

Preparing the list can also be fun and results in greater benefit, if they key managers and staff can be involved. The writer's personal experience is that key staff not only help to identify strength and weakness accurately, they also provide competitors' information as a comparison. Depending on the culture of an organization, managers and staff can also be a source for good strategies and solutions.

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CHAPTER 12
PRICE AND COST COMPETITIVENESS

Price and cost competitiveness may sound too trivial and mundane to be considered as a strategic topic but it rightfully is. Recent strategic works such as those of Thomson and Strikland1 and Lynch2 discussed extensively on this issue.

12.1 Concepts and Principles

Price is an important consideration in the internal assessment of a firm. A well-determined pricing policy ensures adequate margin while not stifling sales. Price is important for all types of sales, not only for commodity goods. Even in differentiated products, there is still a need to set it within an acceptable range, as there are always competitors that can supply similar products.

Therefore price is a consideration in every business deal. To be viable, a price set must reflect on the cost. Although very much used synonymously in the business world, there is a great difference between these two terms – low price and low cost. A low cost company may not price its products low. Similarly, a low price product may not be due to a low cost. (There are many reasons for a company to sell cheap even the costs do not justify it e.g. dumping, market penetration, defense against competitive assault etc). However, to have low price as a sustainable competitive advantage, a firm must achieve low cost.

This chapter focuses much on the costing aspect of a product or service, and principally to examine the techniques to improve costing. There are a few ways to examine and identify areas for cost reduction, as set out below.

12.1.2 Strategic Cost Analysis

To gain understanding how well a company performs against the key competitors, some breakdown costs are needed to be gathered. The following headings are suggested3

? Raw materials, energy, components

? Technical difference, age of plant and equipment

? Internal operating costs, economy of scale, learning and experiences curves, wages, productivity, operating practices, organization structure, staffing levels, taxation rates etc

? Difference in rival firms exposure to inflation rates and changes in foreign exchange rates

? Marketing, sales and promotional expenses, advertising expenses

? Difference in inbound transportation and outbound shipping cost

? Difference in forward channel, distribution costs (commission or margin for distributors etc)

Strategic cost analysis is a straight forward manner to trace the various cost elements. From there, decisions can be made to work down cost areas that appear high or unreasonable.

12.1.2 Value Chain Analysis

A very well accepted tool for cost examination is the value-chain analysis, which is a graphical representation of a firm’s activities, arranged in such a way as to show the sequence of these activities (See Exhibit 12-1). By placing the cost figures obtained in the above section, the chain also tells where the major cost elements are.

This techniques was originally devised for complex manufacturing plants to identify and control their costs. Value added used in this context is equivalent to the margin. “Value added is defined as the difference between the market value of output and the cost of input.”4 A company basically adds value by cost reduction or building core competence. Porter suggested to extend its application to strategic management5. A company’s value activities are identified and separated into two major types – primary and support activities.

Value chain analysis also attempts to understand what goes on between a certain resource profile and the performance level obtained. “The first step in moving from a resource audit to an understanding of strategic capability is to find a way of relating an organization’s resource profile to its strategic performance: that is, to identify how the activities of the organization underpin its competitive advantage.”6

EXHIBIT 12-1
Porter’s Value Chain
Source: Lynch (1997, p.247), in turn from Porter (1985)

Support Firm infrastructure
activities Human resource management Margin
Technology Development
Procurement
Inbound Operations Outbound Marketing Service
Logistics Logistics & Sales Margin

Primary activities

To apply the tool, a manager must first construct a value chain for his company. This becomes the blueprint to trace the value added and cost of each value activity. Proter further suggested the construction of a value chain for each business line, if a firm has more than one.

The costing of each value activities unfortunately is not easy to retrieve as the normal accounting conventions do not give data in this light. Some management accounting has to be done, to generate numbers to suit this purpose. This is therefore a hurdle to clear in many companies. In order that administrative work can be contained, it would be best to look at value activities that represent significant or growing proportion of costing. Alternatively, one may focus on important areas revealed by the KSFs.

As mentioned earlier, the value chain breaks down the costs of each value activity of a firm. If the value chains of the direct competitors are also known, a firm can compare how efficient each activity can be performed. This leads to the concept of benchmarking. For example, if the firm is spending 8% on administration while the leading competitor id doing only 4%, it could be an area to work on to achieve better economy. Most likely, in a situation like this, the administrative function is overstaffed or the people here are overpaid in relation to their contributions. A rational exercise on resource deployment such as layoffs could be the remedy. The Glaxo-Wellcome merger with the plan to cut 7400 jobs is an example of resource deployment review. In this case, Glaxo-Wellcome is looking to achieve a new economical level in the value chain.8 In a SME, this could also mean that a critical mass has not been achieved to justify a fully staffed administrative department. The logical answer could be to increase the turnover, layoff people and outsource some services.

Juggling with employment to achieve better performance is often sensitive issue. Prescriptive school of strategists does not have a second thought about the option as they treat human just like any other resources such as a machine, a building or a vehicle.

Emergent type of strategists however, is quick to point out the shortcomings of such narrow visions, in that people can make or break a strategy.

12.1.3 Value System

A value chain refers to the internally performed activities of a firm. Frequently, some services are performed outside the company such as transportation and distribution. These outside activities rightfully form part of the whole value chain. Indeed this is being considered in the value chain analysis. To indicate the difference, the term of value system is used to denote the total value activities of the firm in the value system, or the downstream value chain. When the distributor draws its own value system, the firm becomes a value activity to the distributor as is supplier, or the upstream value chain. This is very interesting fact that underscores today's business, in which much interdependence exists. It also says business as a whole is getting increasingly complex. A value system is shown in Exhibit 12-2.

It must not be thought that the value chain or value system can only be used to reduce cost. Companies especially those that adopt a differentiation or focus approach can also apply the value chain to improve their competitiveness. These firms have a need to establish competences other than cost reduction. These competences may be product quality, service, convenience, user friendliness or understanding of customer's processes etc. Under such circumstances, the value chain can serve as a guide to allocate expenditure. For instance, if a company decides to improve its distribution network as a core competence, it naturally

EXHIBIT 12-2
Value System
Source: Johnson and Scholes (1993, p.123)

Supplier Channel value Customer
value chains chains value chains

cannot hope to reduce its costs on the activity. Instead, it has to provide a cost higher than the industry norm. The value chain can also help to plan new organizations routines, which may required a new coordination of resources and capabilities etc., to produce the desired core competence.

12.1.4 Structural Drivers7

Within a given value chain, cost reduction is achievable through productivity increase. This is mainly accomplished through the work and behavior of the employees, e.g. commitment, continuous improvement, flexibility, attitudes, organizational capabilities, relationship with suppliers and customers etc. This success much depends on the skills and effectiveness of the management. Such factors are commonly called executional drivers.

There are other factors that can reduce operating costs without directly curtailing operating costs. This are sometimes called the structural drivers. Some of them are explained below:

? Economy of scale. It is believed that an increased output can reduce costs mainly through lowering of overheads, more favorable purchasing and market power. All these will eventually be translated into better margins.

? Economy of scope. This refers to an increase in product lines. Economy of scope reduce the cost of sales, distribution and service since the revenue gets bigger while the cost margin largely unchanged.

? Technology. Unique technology often commands better price and margin, which can help to justify higher operating cost. Technology can also revolutionize manufacturing processes which can increase production at a lower cost.

? Improve linkages. Efficiencies can improve significantly if the linkages between value activities can be improved. Example: instead of behaving bureaucratically, the different functions decide to work smoothly in processing an order, more orders can then be processed per day.

? Re-configuration of value activities. Many steps can be shortened to reduce costs. Example: building an aluminium can plant next to a beverage plant makes it possible for cans to be delivered in overhead conveyors directly to the canning lines. This saves a lot of costs e.g. packaging, inventory, transportation. Another example is to increase capital intensity (e.g. automation) to increase yields and quality.

? Re-emphasis of the value activities. VCR machines used to cost US$1300 to make each in 1977. Due to better designs, manufacturing, wastage an rework costs significantly reduced, making a new cost to only US$300 each in 1984.

? Experience curve. This is a concept of cost reduction through increased experience with a certain process (not restricting to production). In production, it has been established that a 15% reduction in cost is achieved every time the overall output doubled.8 This can be extended to other activities as experience allows work processes to improve in speed, accuracy and costs. There is no figure revealed in any study however.

? Capacity utilization. In high capital processes, high fixed cost is a key consideration. Increase of plant utilization significantly reduces product cost. This is the key approach adopted by petrochemical plants all over the world.

This section demonstrates that there are other ways to save cost besides firing employees, reducing wages or suppressing other direct operating costs.

12.1.5 Tear-down Analysis

The Japanese (especially the automotive and electronic industries) practice a type of pricing policy called target pricing.9 It works by first deciding at what price level must a product be sold at. Once agreed, ways and means are being studied to achieve an intended cost level that will still yield a margin acceptable to the organization. One of the ways to achieve this lower cost is called Issue Analysis, or tear-down analysis.
Kenichi Ohmae10 explained the process, with which a product is dissected into its components and compared with key competitors in terms of quality and cost. A directional guide as what needs to be done is given in Exhibit 12-3.

12.2 Application to SMEs

12.2.1 Survey Findings

Cost and pricing are always important consideration in commercial transactions. Therefore there is not one SME interviewed who claimed that he/she does not have to look into this area. To control costs, all the SMEs look into the strategic costing and strive to get the highest value for an expense. Fifty-eight percent of the SMEs look into ways to leverage their business; thus invoking the concept of using structural cost drivers. Most of these SMEs only look into economy of scale or scope and not beyond. None of the SMEs had used or is ready to use the tear-down analysis.

EXHIBIT 12-3
Tear-down Analysis
Source: Ohmae, 1988, in Booth (1993, p.66)

No excuse We are more Closer examination
expensive

- value engineering - reconsider price
- switch to competitor's - value engineering
parts

For each
We are inferior corresponding We are better
component

Cover it up Leave it alone
- upgrade
- no change

We are cheaper

12.2.2 Case Study

In Team, the managers also look into the strategic costing as the major control of cost. Starting this year, the value chain concept is experimented. Team now operates a variable budget with which the cost allocation of each department is calculated from the invoice values (See Exhibit 12-4).

EXHIBIT 12-4
Cost Allocation in Team's Variable Budgeting in %
Source: Writer

Budgets Center, PC	1	2	3	4
Gross profit	65	40	70	20
Direct sales and service	19	8	28	4
Material handling	5	4	5	4
Marketing	10	8	8	3
Administration	5	4	5	3
General management	15	1	12	1
Net profit	11	6	12	5

The allocations for each function depends on the overall margin and the actual direct costs and effort involved in performing the job. The actual figures were derived through past records and some arbitration. With the exception of the direct sales and service departments, other functions get an assortment of percentages from different types of sales, which add up to be a composite budget. This method takes a lot of administrative work, but it proving very useful and fair. In the past, there had always been a problem in allocating overheads fairly, since the various business lines differ so much in the gross profits. Secondly, it allows the company to gradually reduce the cost allocations, to result in higher net profit in the future. This can be accomplished by reducing the allocations, say by a reasonable percentage point off the current allocations each year. The company is now looking to design incentive schemes for the various departments based on this system.

12.2.3 Views of Business Observers

Pricing and costing are important issues to all companies, including those of the business observers as well. The observers were interested to see how this can be applied to their business as well. Their frustration was that there are always pressure to reduce price, justified or otherwise. They were therefore keen to find out if there is a reliable pricing formula, that gives the firm an optimum profit and yet not pricing itself out of the market. Consequently, they commented that the information given in this chapter is incomplete without touching on the pricing mechanism. The works of Lynch11, Paliwoda12 and Simons13 should provide the needed information, and some other related issues such as terms and forms of payment etc.

12.3 Chapter Conclusions

Pricing and costing are important to large corporation as well as SMEs. Perhaps more so for SMEs. Being small, SME are forced to sell at lower prices, even when their quality justified higher ones. Achieving low cost for SMEs not only assures a sustainable low price advantage, but also gives a good return for the company, which can be used in turn to improve production for even better cost advantage.

Given the importance of cost in business, all SMEs should be aware of their cost structure. The least they can do is to monitor their strategic costing. If time permits, the value chain should also be constructed to assist in cost reduction or build capability. Structural drivers should be understood, as in many instances substantial savings can be made without having to reduce manpower or wages etc. Tear-down analysis is generally not useful in SMEs, unless it is in the manufacturing area, and when competition is particularly keen on cost and pricing.

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CHAPTER 13
CAPABILITY, CORE COMPETENCE AND COMPETITVE ADVANTAGE

Strictly speaking, this subject should be a part of company's strength and weakness, as discussed in Chapter 12. But because of the highly important nature, they are being singled out and discussed separately in a new chapter. In the 60s to 70s, the emphasis was on portfolio planning approach. Companies make profit through buying up other businesses, instead of building their own strength. It had not worked well in practice; and as a solution, diversified companies were advised to sell off their peripheral businesses and re-concentrate on their core business. What is a 'core business' then? A core business is one that the firm has the capability, core competence, and competitive advantage to compete effectively in the market.

13.1 Concept and Principles

This chapter discusses the concepts of capability, core competence and competitive advantage, which are abstract and intangible assets of a firm. The demarcation lines of these three terms are faint; and the terms had been used synonymously in the business circle. Therefore a discussion on each term is needed to clear the confusion.

13.1.1 Capability

Chapter 11 was to identify the resources that a company has. However, resources can achieve very little on their own. What is needed is to interpret the resources in terms of what they can do in the business – the capability. One easy way to do this is to by extrapolating from the list of resources. However, this may not be complete and some other supplemental methods may also be needed. Some capabilities are derived from some special skills, market position and the combinations of resources in a particularly way. Therefore it may be useful to also run a capability audit based on a functional guideline. An example is given in Exhibit 13-1.

13.1.2 Core Competence

Core competence or competencies refer to the special capabilities; something a company has in doing certain business activities, in a way that is better than others. Thomson and Strickland1 offered more insights to this concept, “Core competence is something a company does especially well in comparison to its competitors. … it relates to a set of skills, expertise in performing particular activities, or a company’s scope and department of technological know-how; it resides in a company’s people, not in assets on the balance sheet.”

As it shall be explained in the next section, core competence is the fundamentals to competitive advantage. For example, Cannon’s competence lies in microelectronics, optics and precision engineering. These competences are then used in combinations to produce electronics cameras, video cameras, laser printers, fax machines, laser imagers, copiers etc that have a market demand.2

EXHIBIT 13-1

Capability Identification by Functions

Source: Craig and Grant, (1985, p.53)

Functional Capabilities Exemplars

Corporate

Strategic control GENERAL ELECTRIC

UNITED BISCUITS

Multinational management UNILEVER

Acquisitions management BTR

Marketing

International brand management GUINNESS

Building customer trust J SAINSBURY

Market research and segment-targeted AMERICAN EXPRESS

Marketing CAMBELL’S SOUP

Human resource management

Building employee loyalty and trust MARKS & SPENCER

Management development SHELL

Design

New product design capability TETRA PAK ALFA-LAVAL

APPLE COMPUTER

R & D
Research capability IBM, 3M
New product development capability DU PONT
SONY
CANON

Operations
Efficiency in volume manufacturing NUCOR
Manufacturing flexibility TEXAS INSTRUMENTS
Quality manufacturing HEWLETT-PACKARD
TOYOTA

Management information systems
Timely and comprehensive communication THE GAP
of information AMERICAN AIRLINES

Sales and distribution
Efficiency and speed of distribution WAL-MART
Order processing efficiency LL BEAN

Core competence is useful, in fact getting critical as a market gets more sophisticated. Thomson and Strickland found some of the reasons:3

? The added capability it gives a company in going after a particular market opportunities
? The competitive edge it can yield in the marketplace
? Its potential for being a cornerstone of strategy. It is always easier to build competitive advantage when a firm has a core competence in performing activities important to market success, when rival competitors do not have offsetting competencies, and when it is costly and time consuming for rivals to match the competence. Core competencies are thus valuable competitive assets, capable of being the mainsprings of a company's success.

Core competences as explained earlier, are the special capabilities a company posses that can be capitalized into a competitive edge. Therefore, at least theoretically, they can be found by combing through the list of capability prepared by methods outline above. What if there is insufficient capabilities in the list that can really be considered core competence? It simply says that the company does not have much competitive edge and is expected to lose its market position, if it has not occurred already. Fortunately, core competence can be built up deliberately and strategically.

In any organization, there are countless areas where improvement can be done. And no company has infinite resource to handle all at the same time; and that spells the need to choose. What criteria should an entrepreneur base on to choose areas to build core competence? Areas of concern to the customers of course! It has been mentioned that it is a good practice to enhance a company's competitiveness by focussing on customer satisfaction or what the market expects. Therefore, there is no point to develop competence that a customer does not perceive to be useful. "Managers should concentrate company resources and talent on those skills and activities where the company can gain dominating expertise to serve its target customers,"4 In evaluating market expectations, it is also necessary to be future oriented, since the factors governing a business is in a constant change.

The discussions on core competence had been long, and at times may appear repetitious. This was necessary so, as a clear understanding of core competence is vitally important. It helps an entrepreneur to appreciate that being good is not good enough. He/she must strive for being among the best in a few critical areas to derive long-term competitiveness. To do so, investments of time, effort and finance may be needed. It requires an entrepreneur to also think along the line of qualitative goals besides the financial numbers. That is the essence of true strategic thinking.

13.1.3 Sustainable Competitive Advantage

"But a distinctive capability (core competence) becomes a competitive advantage only when it is applied in a relevant market."5 In other words, core competence is worth nothing if it cannot be applied to a market. Example: Exxon's competence in petroleum exploration, production, refining and petrochemical and retailing cannot be applied in office equipment business. To ensure relevance, it is recommended in the last section to begin the search with the end in mind – from the view of customer or market expectation.

Competitive advantage may be temporary or sustainable. It is the sustainable ones that are of interest over the long haul, which is why a term Sustainable Competitive Advantage (CSA) is coined. SCA depends on three criteria:6

? Durability. How fast does the competitive advantage deteriorate. obsolescence, patent expiry, key people retiring or departure all contributes to sustainability.

? Transferability. Can the competitive advantage be duplicated or leapfrogged? Competitiveness established in equipment, employee skills are transferable. On the other hand, reputation and linkage are more specific to firms and therefore not easily transferred.

? Replicability. How easily it for competitors to copy from scratch? Complexity is one competitive defense. Other more subtle factors include concepts such as JIT, QCC or organization cultures.

According to JB Quinn7, products and services normally are not basis for developing SCA because they are too easily copied. Most SCAs or their building blocks (core competence) emerge from the company's experience, learned skills and focussed efforts. Kay added three more elements that make competences difficult to imitate: architecture (the organization's structure and relationship with its employees and the outside world), reputation and innovative ability to the list.

13.2 Application to SMEs

13.2.1 Survey Findings

All the entrepreneurs interviewed understood the concept of core competence somewhat. Some interpreted it unique selling points (USP) while others regarded as competitiveness. The sad discovery is that not many invest to build core competence. They do not spend enough on R & D, quality, training, or develop user-friendliness. They rather spend on something more direct e.g. marketing or entertaining of clients. For a long time to come, these SMEs will continue to play second fiddle; and cannot expect above-average profits.

13.2.2 Case Study

The writer's company had been systematically building on core competences to match with the international competitors. Admittedly it was not easy, as its resources had been limited. It has been investing on quality, manpower, training and facilities since the company was formed 13 years ago. Some noticeable effects are: that the company had dominated in some business segments, the future becomes more predictable and life becomes easier for the salespeople. The price for all these is a stagnant profit. In actual percentage, it actually went steadily downwards. In other words, uncontrolled capability-building actually destroys company value in the short term.

Another disturbing trend developing is that the salespeople are now over-relying on the company to assist them to bring in the sales and solve all their problems. Instead of stretching themselves to handle some of the objections and complaints, they now take the easy way and pass the problems back to the company. It appears that they have got into a habit of watching the company taking strategic moves to solve a lot of their problems. And now they want more! A clear message from these lessons is that there must be a suitable balance. In the new, turbulent business environment, impatient entrepreneurs can invest themselves into crisis, if they are not careful.

13.3.3 Views of Business Observers

All the observers agreed that capability, core competence and competitive advantage are important for companies, large or small. It is such things that make a company stand out and give a legitimate reason for customers to support them. They realize that building such strengths takes time, effort and money. This is one area that SMEs must start to change their concept on investments.

Trying to win without core competence is quite a tall order. Yet many giants, especially in US, made that mistake in the 60s and 70s.9 In the name of diversification, they acquired unrelated companies with no synergies whatsoever. In a word, they were getting involved in business that they din not have core competence in. Exxon getting into office automation, Goodyear trying their luck in petroleum, BP messing around cosmetics and personal care products etc. These are now all history as the 'toy' had all been divested, i.e. after writing off billions of dollars of losses. If careless diversification can hurt a giant, it can kill an SME.

This point is emphasized because SMEs are also fond of diversification. Given the first opportunity, SME will look at diversification, instead of digging deeper into their main business and build core competence. They always have good reasons for doing so. "You can't pull all eggs in one basket" seemed to be a good argument.

Another reason is that they are sheer optimists. Dr Goldstein10, a turnaround specialist in US, has this to say about these optimists: "It amazes me how many people have never worked in a business and know nothing about it, and yet, with a refreshing mixture of chutzpah, enthusiasm, and sheer optimism, throw their life's savings into the venture. What's more amazing is that some people actually make it. They're the fast learners. The slow learners inevitably find their way to my office."

13.3 Chapter Conclusions

Successful companies build their strength through some unique package of products and services and other capabilities. This is the basis of core competence. This is true of all companies, irrespective of size.

On the prudent side, it pays to get involve with businesses that one has certain core competence. If the venture is already ongoing, it is time to ensure it has the needed competence. Therefore the concept of core competence is extremely useful to guide a SME.

In order that a company does not go off-balanced in the investment for core competence and capability, is should plan them in phases. Using the value chain, KSFs or BCG or the GE screen, an entrepreneur can select the most needed areas for improvement or exploration. These should then be attempted for a planned period. New ones should not be initiated, until the first batch starts to produce results or abandoned. A cautious progress this way will ensure core-competence is being built, and yet not lowering the company value at the same time.

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PART IV

Interactive Analysis

CHAPTER 14
KSF-COMPETENCE MATRIX

Johnson and Scholes1 suggested the need to match client requirement and organization in order to analyze the effectiveness of an offer package. In the author’s own words, “The assessment of effectiveness is essentially related to how well the organization is matching its product/services to the identified needs of its chosen client groups, and the factors which underpin this effectiveness.” The argument was perfectly logical.

It was Thomson and Strickland2 who took it further and advocated the application of the concept by using a matrix., which is called Competitive Strength Assessment. It is essentially a grid of two sets of variables – the Key Success Factors and the competence of the firm. To serve a better purpose, more than one company can be evaluated in the same chart, to give a comparison effect. Therefore it is commonly used to compare a firm with its rivals to determine its market competitiveness.
The writer not only found this tool interesting, but had actually used a variation of it for about a year in his company, and had been naming the tool KSF-Competence Matrix (KCM), a name adopted for this paper.
14.1 Concepts and Principles
As will be demonstrated in the following paragraphs, this tool is one of the most potent tools of strategic management. It is a pity that not many strategic writers gave it much importance. In essence, it helps a firm to optimize the use of the resources by focussing on things perceived to be most important by the customers. It is based on the KSFs, which are factors needed to do the business successfully, customer expectations and other subtle influences. See an example in Exhibit 14-1. To construct the matrix, the first set of important data needed are therefore the KSFs. See Chapter 6 for more details on how these information are derived.
The next thing to do of course is to draw up the chart. The KSFs are listed on the left hand side, from top to bottom. The firm and a few key competitors are placed from left to right on the top of the chart. All the little boxes formed by this grid are for scoring purposes. It should be borne in mind that due to the limitation of space, the number of competitors and KSFs to be used must be small. Hence only the highly important and relevant ones should be chosen. There are many uses for the KCM.
? For an existing business, it may be used to review and improve its market competitiveness
? For building a new market segment, it can also be used as a blueprint to attain market leadership.
? For investors, it can be used as a guide to gauge if a business is worth investing.
? For a business consultant, the analysis can be used to plan for achieving competence or for turnaround purposes.
? Sellers can sell the analysis to guide their negotiation with the buyers.
? Buyers can use the analysis to guide decision making when the offers from vendors look very similar.
? For a market leader, the analysis can be used to trigger off further investment to build competence. (It is not possible to fulfill KSFs to perfection and make a profit at the same time. The analysis serves as the basis for the market leader to maintain a certain 'leading distance', beyond which new capabilities must be built.)
? For the market follower, the analysis serves as a benchmarking exercise. Areas can be selected to match or even surpass that of the competitors, or to reposition itself.
KCMs can be constructed semi-quantitatively (non-weighted) or quantitatively (weighted). The weighted version is believed to add realism into the analysis. See Exhibit 14-2 for a weighted matrix. As evident, the results obtained between methods are different.

14.2 Application to SMEs

14.2.1 Survey Findings

Most of the SMEs understand the need to match their core competence with the Key Success Factors, in order to be efficient. Only three SMEs did not seem to know the KSFs of their businesses. They also happened to be those experiencing the lowest profits, and operating with constant fear and a gloomy future. None of the 50 SMEs interviewed physically constructs the chart. They claimed that they can do that in their heads.

14.2.2 Case Study

Team had started doing this analysis and constructing the chart beginning this year. The idea surfaced in a meeting in which three key managers explored the possibility to get into the steel mill water treatment business; thus requiring the company to compete with the international brands. When the weighted chart was constructed, it was found that Team Chemicals was simply not competitive, with a huge gap existing between it and the international players. Team lost because it could not satisfy the most critical KSF – a well-known international name. The

EXHIBIT 14-1
A Sample of Unweighted KSF-Competence Matrix
Source: Adapted from Thomson and Strickland, (1995, p.110)

KSF/Strength Measure	Max	Firm	Rival 1	Rival 2	Rival 3	Rival 4
Quality/product performance	10	8	5	10	1	6
Reputation/image	10	8	7	10	1	6
Manufacturing capability	10	2	10	4	5	1
Technological skills	10	10	1	7	3	8
Dealer network	10	9	4	10	5	1
Marketing/advertising	10	9	4	10	5	1
Financial strength	10	5	10	7	3	1
Relative cost position	10	5	10	3	1	4
Customer service	10	5	7	10	1	4
Unweighted overall strength rating	100	61	58	72	25	32

EXHIBIT 14-2
A Sample of Weighted KSF-Competence Matrix
Source: Adapted from Thomson and Strickland, (1995, p.110)

KSF/Strength Measure	Max	Firm	Rival 1	Rival 2	Rival 3	Rival 4
Quality/product performance	10	8	5	10	1	6
Reputation/image	10	8	7	10	1	6
Manufacturing capability	10	2	10	4	5	1
Technological skills	5	5	0.5	3.5	1.5	4
Dealer network	5	4.5	2	5	2.5	0.5
Marketing/advertising	5	4.5	2	5	2.5	0.5
Financial strength	10	5	10	7	3	1

Relative cost position 30 15 30 9 3 12
Customer service 15 7.5 10.5 15 1.5 6
Weighted overall strength 100 59.5 77 68.5 21 37
rating

Conclusion was therefore to abandon the plan. The manager in-charge did not agree to the decision and went ahead to approach some prospective customers. In the end, the result was as predicted; the company was disqualified on the grounds that it is an international unknown. As mentioned in Chapter 6, the company has found the tool so useful that it had even gone down the level to analyzed KCM on an account basis, if the customer is large and important enough.

14.2.3 Views of Business Observers

The consultants interviewed are quite excited about this strategic tool. They site the optimization of resources as the primary advantage when approaching business this way. They are also in unison that SMEs should conduct the KCM for all their major business lines. The analysis would not take much time if it is carried out in a brain-storming manner.

14.3 Chapter Conclusions

KCM is the single most powerful weapon in the strategic tool kit. It is a short cut to strategic management when one does not have all the time to carry out the whole range of analysis. In any event, KCM helps to clear the cobwebs in an entrepreneur's mind to focus on the critical aspects of the business. All SMEs are recommended to do this exercise, and as soon as possible, and for all the major business lines. From this point, the entrepreneur can look forward to be a better future or starting to get out of a trouble. As the saying goes, "Knowing the problem is half the battle won."

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CHAPTER 15
THE BCG CHART

The BCG chart was an invention of the Boston Consulting Group, thus the initials. It is meant to be a strategic tool, to guide a complex and diversified enterprise in making decisions of investment. It is also called the growth/share matrix.

15.1 Concept and Principles

15.1.1 SBU and Portfolio

To use the tool, two key terms frequently encountered must first to be understood: SBU and portfolio. SBU stands for strategic business units. Originally, SBU was supposed to mean a huge cluster of business lines in a company. For example, a SBU in General Electric consists of a few divisions.1 However, with the chart being increasing applied in business and industry, the meaning of SBU was slowly changing. Today, it could be used just to mean a section of the company's total business. For example, in an airline, the cargo business can be classified as an SBU, as opposed to the normal passenger transport business. A SME can therefore use this concept to classify his/her business lines.

In truth, most companies do not have clear-cut SBUs set up physically, especially in the case of the SMEs. This may lead to the notion that concept of SBU is not valid for SMEs. Therefore, to apply the strategic tool, SMEs must at least thing along SBU line, even though in reality, the same people could be handling all the SBUs. SBUs can be classified along product lines, geographical division, market segments or a hybrid of these. Unless an enterprise starts to divide up its business in terms of SBUs, it cannot effectively use the BCG chart.

The BCG and GE matrices are often called portfolio matrices. Portfolio is a concept introduced by Harry Markowitz in 1952 for the stock market.2 Simply stated, a portfolio of stocks means a mix of stocks with different risks and returns. When applied to a holding company, the portfolio of business means the assortment of companies it possesses, with different risks and returns. For a single-business company, the portfolio can be interpreted as the different business activities (or SBUs) it has, again with different risks and returns. The portfolio concept is sound business strategy to reduce the risk of companies in face of an uncertain environment and future. The BCG chart is for strategist to plot his/her portfolio of businesses (or SBUs) on the four cells. Then, the strategies should balance the risks and returns as well. The objectives is to gain stability over the long haul; and not leading the company through a roller-coaster of profits or fate.

15.1.2 The Chart

The BCG matrix display two sets of factors – the market growth rates represented by the vertical axis, and the market share (or market strength) represented by the horizontal axis. Each factor is further divided into two situations – high and low. Four boxes therefore emerge, with each characterized by an icon – a cow, a star, a question mark and a dog. See Exhibit 15-1.

The cows

The cows (or cash cows) are the SBUs that are commanding a high market share but experiencing slow growth due to market saturation. Therefore, as the logic goes, there is no point in pouring more funds to develop it further. Instead, the revenue generated from here can be used to develop stars and question marks.

The stars

Stars are SBUs that are growing fast while the market is also expanding a the same time. BCG recommended investment in this area, as it believed it is easier to establish market leadership in a growing market.

The question marks
Question marks (sometimes called problem children) are SBUs that exist in a growing market sector but somehow their market shares are low. Investment just did not, and may not, produce enough results to pay for itself.

The dogs
Dogs are SBUs that represents pets (no economic value). They have low shares in stagnant or even declining markets. Logically they should have been dropped. But for some reasons, they were allowed to carry on, becoming a cash-drain.

The SBUs are then placed on the grid of four squares according to their status. They can be simply recorded as words on the respective cell, or more accurately placed in circles and positioned in such a way as to represent their unique characteristics. See Exhibit 15-1.
15.1.3 Practical Consideration
Johnson and Scholes however cautioned that an enterprise should not be too rigid in interpreting the findings. It should look at business in more holistic manner, and consider the non-obvious4. For example, a dog may have value if its existence aids other SBUs, and therefore should not be dropped. Mazda 929 is said to play this role and had continued to exist, despite its dismal sales. The car however, is the flagship of Mazda that provides an image to Mazda to compare with Honda's Acura, Toyota's Lexus or Nissan's Infinity. The sales of its lower series such as the 626s and 323s may be improved as a result.
Similarly in many industries, many products and services provided are merely to add convenience and value to customers, to support some major sales items. The same writers also warned of thoughtless dumping of dogs or question marks, as the exercise could strengthen a competitor' relative position; which can be used for aggression later.5

EXHIBIT 15-1
The BCG chart
Source: Adapted from Thomson and Strickland, (1995, p.219)

RELATIVE MARKET SHARE POSITION

High Low
Stars

Question Marks
Cash Cows

Dogs

15.1.4 Flaws

A fair amount of criticisms have been leveled at the technique. The BCG chart operates on a few assumptions and premises, which are points of controversies, especially in the light of modern experiences and practices in marketing. These assumptions are:

? Market share equals market power

? Market attractiveness equals market growth

? Market dominance must be gained when a market is at its growing stage

? Customers in matured market tend to loyal to their suppliers and reluctant to change

? To gain share in a matured market, an enterprise needs to engage in heavy investment e.g. price reduction and marketing etc.

Other matrices had been devised in view of the above controversies. The most prominent one being the GE Business Screen (see Chapter 16).

15.2 Applications to SMEs

15.2.1 Survey Findings

About 30% of the SMEs interviewed had heard of the technique. More than half of the interviewees showed keen interest on this, probably it is graphical. What seemed to strike them most is the way their business can be split and analyzed as cash cows and cash hogs. For long range planning, an entrepreneur says he likes the idea, because he can now see some of his business are actually question marks and dogs, which drain cash. Generally, SMEs seemed to have one or two of these excess baggages on their portfolios. They also begin to look at the stars differently. Instead of expecting them to self-sustain, they are now prepared to take a longer view of making them a future cash cow.

15.2.2 Case Study

Team used to do this a few years ago but has been discontinued when the GE Business Screen idea is introduced to the company.

15.2.3 Views of Business Observers

Many observers have been exposed to this technique and agreed this is a good strategic tool. All business houses, the bankers pointed out, should be more prudent with their cash position. It is always advisable to grow on shareholder funds than borrowed funds because it is cheaper and incur less risks. The chart serves to limit careless investments and spending, which will set off a viscous cycle for more borrowed funding.

15.3 Chapter Conclusion

The BCG chart allows an SME to place all its business lines (SBUs) neatly over a chart of 4 boxes. So a general, helicoptic view can be formed. An entrepreneur knows where he/she is, and what the direction to take. What remains is the choice of strategies to get there. Therefore a portfolio analysis is useful for both an MNC or a SME.

The position taken by the candidate is that BCG is a still a useful analytical tool despite its non-perfect status. For one thing, an entrepreneur can see at a glance on how the cash generators (cash cows) balances with the cash users (stars, question marks and dogs). This is one good way to warn an entrepreneur on the danger of over expanding. The GE Business Screen clearly lacks this perspective. Therefore, although more practitioners seem to prefer the GE Screen, the BCG should also be constructed to give a different perspective. SMEs must be very clear of the meaning of the stars, as their first impression is that they are the money makers. In reality, as shown above, stars are not cash generators; not until they are approaching the stage of being cash cows. Having many stars can lead a company to liquidity problem.

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3. Reference. Thomson and Strickland., Op. Cit.
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5. Ibid
6. Thomson and Strickland., Op. Cit., pp. 223-5

CHAPTER 16
GE BUSINESS SCREEN

The GE Business Screen came about when many quarters felt that the BCG chart was not practical enough. Example: BCG treats market share as equal to market strength which was incorrect. BCG also considers the attractiveness of a business as equal to its growth rate, which was doubtful. Relying on such assumptions led to poor investment decisions.1

The GE Business Screen was created by General Electric in conjunction with a consulting firm, McKinsey and Company in the 70’s; and today it has many other names: Directional Policy Matrix, Attractiveness-industry matrix (ASM), Market attractiveness-strength matrix or GE matrix. Shell International had issued a booklet on its application, principally to guide its subsidiaries and managers on planning.2 The GE Business Screen is shown in Exhibit 16-1.

16.1 Concept and Principles

GE Business Screen plots long-term industry attractiveness against business strength / competitive position, much like the BCG. However, there is a whole new way to determine the two variables, to give a truer picture. Example: market attractiveness is a function of growth rate, profitability, competition intensity etc. With more sub-variables introduced, a problem also arise on how to use them, to decide on the final standing of each variable. To solve this problem, Thomson and Stickland3 provided a method to mathematically calculate the weighted rating of the two variables, using their sub-variables. See Exhibit 16-2.

Based on these ratings obtained, the variables are then transferred to the GE Screen in the appropriate slots.

EXHIBIT 16-1
A GE Business Screen
Source: Thomson and Strickland, (1995, p.226)

BUSINESS STRENGTH
COMPETITIVE POSITION

Strong Average Weak

Low priority for investment
Medium priority for investment
High priority for investment

16.1.1 Quantifying the variables

The procedures used to quantify the variables can illustrated by the example below; when is direct extract of Thomson and Strickland.4

The criteria for determining long-term industry attractiveness include market size and growth rate; technological requirements, the intensity of competition; entry and exit barriers, seasonality and cyclical influences; capital requirement; emergent industry threats and opportunities; historical and projected industry profitability; and social, environmental, and regulatory influences. To arrive at a formal, quantitative measure of long-term industry attractiveness, the chosen measures are assigned weights based on their importance to corporate management and their role in the diversification strategy. The sum of the weights must add up to 1.0. Weighted attractiveness ratings are calculated by multiplying the industry's rating on each factor (using a 1 to 5 to 10 rating scale) by the factor's weight. For example, a rating score of 8 times a weight of 0.25 gives a weighted rating of 2.0. The sum of weighted ratings for all attractiveness factors yields the industry's long-term attractiveness. The procedure is shown below, using the example tabulate in Exhibit 16-2.

To arrive at a quantitative measure of business strength/competitive position, each business in the corporate portfolio is rate using the same kind of approach as for industry attractiveness. The factors used to assess business strength/competitive position include such criteria as market share, relative cost position, ability to match rival firms on product quality, knowledge of customers and markets, possession of desirable core competencies, adequacy of technological know-how, caliber of management, and profitability relative to competitors (Exhibit 16-3). Analysis have a choice between rating each business unit on the same generic factors (which strengthens the basis for inter-industry comparisons) or rating each business unit's strength on the factors most pertinent to its industry (which gives a sharper measure of competitive position than a generic set of factors.) Each business's strength/position rating determines its position along the horizontal axis – that is, whether it merits a strong, average or weak designation. Attractiveness ratings are calculated for each industry represented in the corporate portfolio. Each industry's attractiveness score determines its position on the vertical scale, [illustrated in Exhibit 16-3.]

EXHIBIT 16-2
Example of Weighted Rating Calculation
Source: Thomson and Strickland, (1995, p.225)

Industry Attractiveness Factor	Weight	Rating	Weighted Industry Rating
Market size and projected growth	0.15	5	0.75
Seasonality and cyclical influences	0.1	8	0.8
Technological considerations	0.1	1	0.1
Intensity of competition	0.25	4	1
Emerging opportunities and threats	0.15	1	0.15
Capital requirements	0.05	2	0.1
Industry profitability	0.1	3	0.3
Social, political, regulatory, and environmental factors	0.1	7	0.7
Industry Attractiveness Rating	1		3.9

16.1.2 Superiority

The GE Screen is generally recognized as being more practical than the BCG chart. Each factor is given three grading – high, medium or low. That makes a total of nine cells in the GE Screen, instead of four in the BCG. With the intermediate grades, the chart is therefore more realistic; as not all things can be tightly classified as high or low. To make it even more user-friendly and useful,

EXHIBIT 16-3

Sub-variables of Business Strength/Competitive Position

Source: Thomson and Strickland, (1995, p.226)

Other innovations had been introduced, including the examples below:

? Each SBU may be represented as a circle and placed on the screen in a position most represents its actual market standing.

? The difference in market sizes may be indicated by circles of varying sizes.

? Market shares can be further indicated as wedges to the circles.

? A directional guideline for investment, is also given (see Exhibit 16-1).

The GE Business Screen is an obvious improvement over the BCG chart. A lot of the BCG weaknesses had been overcome. Perhaps the most outstanding role it plays is in guiding investment decision.

… the nine-cell matrix stresses the channeling of corporate resources to business with the greatest probability of achieving competitive advantage and superior performance. It is hard to argue against the logic of concentrating resources in those businesses that enjoy a higher degree of attractiveness and competitive strength, being very selective in making investments in businesses with intermediate positions, and withdrawing resources from businesses that are lower in attractiveness and strength unless they offer exceptional turnaround potential.5

16.2 Application to SMEs

16.2.1 Survey Finding

Only about 30% of the SMEs surveyed had ever heard of the matrix. None ever constructed this matrix for analysis purposed. This is probably due to the fact that they have not split their businesses into SBUs yet, or possess the accurate information on the market etc. When shown an example, the entrepreneurs seemed to appreciate the usefulness. Some of them, who were encouraged to construct a chart for themselves quickly picked up some opportunities. Some dismissed even the obvious opportunities because they did not have the capabilities to tap the market. They had to be reminded that capabilities may be built up, as outlined in Chapter 13.

16.2.2 Case Study

This is the first year Team Chemicals applied the matrix, to plan the year. A qualitative and consensus approach was used to rate the two variables. From the moment it was done, a few advantages were noticed almost immediately:

? There was no problem in deciding what type of business to go for.

? With the consensus arrived, sales effort by all will be more focussed, further improve implementation.

? More market segments were created, which serve as a reserve of opportunities for future applications.

16.2.3 Views of the Business Observers

In general, the business observers recommended this analysis to be done, as an improvement over the BCG chart. However, they see it being too complicated especially with the method of quantifying the ratings. They endorsed the way Team goes about doing the analysis, which was not exactly accurate. They argued that entrepreneurs should know how to rate the variables correctly, however unscientific it may appear, since most of them are hands-on managers. A simple method is always preferred for SMEs.

16.3 Chapter Conclusions

Although not originally designed for the single-business companies, the GE Business Screen had been successfully adapted for their use. Except for the difference in size and magnitude, the concept is largely valid for SMEs, the same way as it is for the MNCs. One of the greatest benefits is that it allows a company to place all its business lines neatly over a matrix. The company can then examine if it should get involved with some new business, or should it divest from some others. It also can decide if it can maintain or even improve its strategic position, with the current lucrative businesses.

The writer also discovered that when analyzing the chart, potential lucrative businesses surfaced easily, which can be exploited now or later. In conjunction with a BCG chart, the GE screen makes a company prudent by selecting only those opportunities that give the highest returns. The argument should be in line with the thoughts of Reginald Jones, “No company can afford everything it would like to do. Resources have to be allocated. The essence of strategic planning is to allocate resources to those areas that have the greatest future potential.”

REFERENCE

1. Booth, S., Crisis Management Strategy, 1993. Routledge, New York. p.78

2. Hussey. D., Corporate Planning. 1985. Gee & Co London in association with the British Institute of Management. P. 70
3. Thomson, A. and Strickland, A, Strategic Management – Concepts and Cases. (9th Ed) 1996, Richard D. Irwin, USA., pp.225-7
4. Ibid. pp.225-6
5. Ibid. pp.227-8
6. Ibid. pp. P.216

CHAPTER 17
SWOT ANALYSIS

SWOT is an acronym of the first alphabets of strength, weakness, opportunity and threat. A simple SWOT analysis is usually presented in a grid of four cells showing the key strengths, weaknesses, opportunity and threat. An example of the SWOT analysis is given in EXHIBIT 11-1.
A SWOT analysis sums up an enterprise's strategic situation. It provides a quick overview of the enterprise's internal strengths and weaknesses, while taking into consideration of the environmental opportunities and threats. Alternately, it can also be used to identify realistic opportunities and threats, in relations to the firm's strengths and weaknesses.

17.1 Concepts and Principles
A strength refers to something a company has or good at, that makes it more competitive. It could be a skill, a special piece of equipment, a strong brand, a proven technology, a good customer service program etc. Access to such excellence through strategic alliances can also be considered as part of an enterprise's strength.
A weakness on the other hand is something a firm lacks or does poorly, as compared with others. Not all weaknesses render a company vulnerable, because it depends on the market perception, industrial standards and trade practices. For example, a company without field support technicians may not be viewed as a weakness, if it is in the do-it-yourself type of business. All is expected could be an office-based service center.
A SWOT analysis should not be a mere 'listing' exercise. In fact, it is more important to keep it brief. Endless listing is often counter-productive as it tends to obscure the important facts and important deductions. The chart should be studied carefully to gain an understanding on how a company score in the "strategic balance sheet". A few benefits should emerge from the study:1
? an entrepreneur would be able to select an opportunity to explore which has a fit with its strength
? in the event that there is no strength to capitalize on an opportunity, the enterprise can choose to develop the needed capabilities.
? to deal with a threat, the chart would tell if the company's capability can cope with it. If not, what the company must work on a strategy to neutralize the threat in question.
? in pinpointing the weak areas that are causing a weak competitive position, an enterprise can decide to transform them to a level at par with its competitors, or even to surpass them.

To use an example how SWOT helps an entrepreneur, the predictions on the UK economy by John Hawsworth of Corporate Research Foundation is used.2 The analysis unveiled the following:
? High growth sector will be the hi-tech computer related, aerospace, healthcare, biotech and insurance businesses
? 'Middle-ground' will be banking, retailing, leisure services, mechanical and electrical engineering, and transport types of businesses. (There used to be called matured businesses)

? ‘Slow lane’ will be the traditional sectors of construction, steel and metal production, bulk chemicals, textile, food, drinks and tobacco, government services. These types of businesses are actually on the decline or stagnant.

A British entrepreneur should then consider the above, as well as its own capabilities (internal strengths) before exploiting the opportunities. For instance, an entrepreneur trading in bulk chemicals could be approaching hard times, for not knowing this scenario. For those who want to get involved in the aerospace industry must also not jump in hastily. They should search to see if they have what it takes to capitalize on the opportunity. They of course can bridge the gap of resource deficiency through strategic partnership.
David3 provided a more structured approach, with which the internal and external analyses are placed interactively over a grid. Recommended strategies are also given. An example is given in Exhibit 17-1.

17.2 Applications to SMEs
17.2.1 Survey Findings
About 30% of the SMEs surveyed had heard of this matrix; and only 14% used this in some intuitive ways. Most entrepreneurs felt that it is tedious and academic. None is keen to do the exercise, especially the way shown here.

17.2.2 Case Study
Team Chemicals first did this about eight years ago for the first five-year plan. The information was reviewed once a year. Yet it was done more of a listing exercise. Some conclusions were drawn form the data and information in a non-systematic manner. If the chart shown in Exhibit 17-1 was available then, it would have been more helpful.

EXHIBIT 17-1
SWOT Diagram with Recommended Strategies
Source: David (1997, p 182)

Always leave blank

STRENGTHS – S

1.
2. List strengths
3.
4.

5.
6.

WEAKNESS – W

1.
2. List weaknesses
3.
4.
5.
6.

OPPORTUNITIES – O

1.
2. List opportunities
3.
4.
5.
6.

SO STRATEGIES

1.
2. Use strengths to
3. take advantage of
4. opportunities
5.
6.

WO STRATEGIES

1.
2. Overcome
3. weaknesses by
4. taking advantage
5. of opportunities
6.

THREATS – T

1.
2. List threats
3.
4.
5.
6.

ST STRATEGIES

1.
2. Use strengths to
3. avoid threats
4.
5.
6.

WT STRATEGIES

1.
2. Minimize
3. weaknesses and
4. avoid threats
5.
6.

17.2.3 Views of the Business Observers

In general the pool of observers agreed that SWOT analysis is a useful strategic tool, not only for business start up, but also to keep a business current. A bank manager observed: “It is an early warning system to tell a enterprise to change course before it is too late.” There is danger in offering the same old, traditional package, when the customers are expecting something else. Sooner or later, business suffers. Even a strength possessed currently may become a weakness relative to the competitors over time. Lou Platt, CEO of Hewlett Packard once said: “What makes us highly successful this year, could be our downfall next year. Kill complacency.”4 SWOT analysis forces an entrepreneur to plan for the future.

The accountant-based observers find that the SWOT analysis is useful in preventing wastage, simply by correct choice of opportunities. Being resource constraints, SMEs cannot afford the luxury of careless trial and error, which drains resources on unfruitful projects. Or more frustratingly, abandoning projects midway, due to fund shortage.

17.3 Chapter Conclusion

Although the tool is very well researched and taught, its acceptability to the SMEs is doubtful. It will of course be best if the SMEs can find the time to do this matrix. As for those new to strategic management, and do not have the needed data and facts ready, SWOT analysis may be delayed.

Most writers appear to be happy in describing the use of SWOT to identify opportunity. The threats revealed in this exercise were seldom mentioned which makes it incomplete. SMEs should take note of this point while developing strategies.

REFERENCE
1. Thomson, A. and Strickland, A, Strategic Management – Concepts and Cases. (9th Ed) 1996, Richard D. Irwin, USA., pp.94
2. Corporate Research Foundation., Corporate Strategies of the Top 100 UK Companies of the Future., 1995. McGraw Hill UK. p.6
3. David. F., Strategic Management.(6th Ed) 1997. Prentice Hall, Inc. p. 182
4. Corporate Research Foundation. Op. Cit., p.3

CHAPTER 18
IMPACT ANALYSIS

This technique was briefly introduced by Johnson and Scholes.1 No other strategy theorists had even mentioned it in passing. The writer however, found the tool extremely useful and therefore decided to draw attention to it. Mastery in this analysis, in the writer's view, should help prevent the onset of crisis, or at least have contingency plans ready.

Impact analysis is an examination of the 'differential impact' on firms by an external influence or change. The key point to make is that a certain external issue or change affects different firms differently. A credit squeeze, for instance, makes it harder for a cash-strapped company to operate; a cash-flushed company can capitalize on the situation to drive the cash-strapped company out of business.

18.1 Concepts and Principles

A typical impact analysis matrix is shown in Exhibit 18-1. The external factors are given from top to bottom, while the firm and its close rivals are given from left to right. The authors mentioned using "key trends and influences" for the prediction.2 It appears they see its application on foreseeable circumstances, issues and factors.

The writer sees that it can also be used when the circumstances are unpredictable, for instance, during a economic flux. In such cases, scenario building would be needed. One must never lose sight that the main purpose of this concept is to compare how the competitors will fare against him or her, under a similar set of new circumstance.

EXHIBIT 18-1
Impact Analysis
Source: Johnson and Scholes (1993, p.84)

KEY EXTERNAL
INFLUENCES

COMPETITORS

A
B
C
Shorter
Technological life
Span

++
Track record in
R & D and high
volume share --
Lowest investment in R & D and
lowest market
Share +
Track record in
R & D and
substantial share
Convergence of
Customer
Requirements
++
Central product
planning --
Diverse products
from many SBUs ++
Central product
Planning
Access to
Supplies and
Skills
Internationally
-
Centralized
Procurement
policies +
Widest networks of operating units --
Centralized
procurement
policies. Staffing
traditionally from
one national SBU

The following account which interprets Exhibit 18-1, is extracted from the original work of Johnson and Scholes.3

Exhibit 18-1 shows a simplified example of such an analysis, which builds on the trends towards globalization of markets. Here, the shorter life span of technology, the convergence of customer requirements and the need to access supplies of skills internationally are the three key forces identified. The three competitors, A, B and C have been assessed in terms of their differential ability to cope with these three key forces. The analysis shows that firm A is best placed to deal with technological change, given its track record and investment in R & D and its high market share, allowing the cost of R & D to be readily offset. Like C, it is also well placed, given its centralized product planning, to cope with the development of more convergent customer requirements. However, both A and C are not so well placed as B when it comes to accessing supplies, and particularly technical skills worldwide, because A and particularly C, are much more centralized in procurement; and C, in particular, has a tradition of recruiting and promoting from within its own national boundaries.

Where would a SME get the inspirations to run impact analysis? There are two major sources: from strategic analysis and from emergent events. Strategic analysis especially on the changing trends in KSFs, SWOT and the Five-Forces Chart would provide many clues on the key issues. Emergent issues and major events are normally carried in the news, such as trade liberalization, deregulation, exchange controls, currency devaluation, buy-national movement etc.

As for the competitors to be chosen for comparison, it is usual to include the most active two or three of the business sector.

18.2 Application to SMEs

18.2.1 Survey Findings

Of the 50 entrepreneurs the writer spoke to, only 15 have heard of this technique. Most claimed that they are capable of linking events to impact on their firms and the industries, or even the competitors. None try to do this on paper. What also seems to be lacking is forward looking. Only a handful peer into the future, building scenarios of what might come, say in three years' time.

18.2.2 Case Study

Team do not normally do this either. There was once, in July 97 when a complete impact analysis was done, in the face of the Asian financial crisis. The company even built three scenarios taking into consideration of the exchange rates of the Ringgit to the US Dollar, stock market indices, business and political climate. The key competitors were also assessed as how they will be affected. The conclusion was that the international competitors would be affected worse. So long as the company managers its affairs well, there was no danger. As it turned out the first 12 months, the events tally with the most probable scenario; after which it became better than expected. The greatest benefit was that immediately after settling with the impact analysis and scenario building, the sales force could get back to work with a firm price (set basing on the most probable scenario) while the competitors were still unsure. Within four months, the company went ahead with price increase twice amounting to 22.5% (needed to cover the higher material costs), with only two customers lost. This could be done without much protest because it was well programmed. Other competitors were still frozen and stuck with the old prices. Some haphazardly increase their prices but suffered heavy business losses.

18.2.3 Views of Business Observers

The production manager was all thumbs up for this technique; because in his job, lead time is important. “Production is like a supertanker, it takes seven kilometer before it can stop even if you jam the brakes.” He continued, “Crisis or not crisis, life goes on and you need to plan your work!” The rest of the observers find this quite a difficult task and require a lot of imaginations on the part of SMEs. They were not certain if most SMEs were up to it.

The writer feels this is an important tool. In this thesis, crisis management is part of the substance of strategic management, especially addressing the question of the high failure rates of SMEs. Crisis management, as explained in Chapters 31, begins with awareness of critical threats and risks. Impact analysis, helps to surface such risks and threats as circumstances change. Much of such risk and threats are not straightforward interpretation. The impact differential on the various competitors can lead to manipulation, which are indirect threats, which can be even more potent. The revelations in the impact analysis give the entrepreneur a headstart to take corrective, or preventive actions.

For the forward-looking entrepreneurs, they can take an aggressive stand to improve their company performance. Through the impact analysis, they can take advantage of a situational change to launch an offensive against an unfortunate competitor.

18.3 Chapter Conclusions

Impact analysis is one good thing to do when an entrepreneur claims that he/she has no time to do the SWOT analysis. Impact analysis is done generally in response to major change in the environment. With a simple chart that takes probably less than an hour to complete, it will help to prevent crisis, and allow an entrepreneur time to prepare contingency plans against unfavorable development.

REFERENCE

1. Johnson, G. and Scholes, K. Exploring Corporate Strategy, (3rd Ed) 1993. Prentice Hall Europe, Hertfordshire, UK., p. 84
2. Ibid
3. Ibid

PART V

Stakeholder Wishes and Expectations

CHAPTER 19
MANAGEMENT VALUES

Chapters 4-18 presented a series of investigations covering internal, external and interactive analyses. Strategies of the 50s, 60s, 70s and even 80s would have found them sufficient to set goals and plan for strategies. The numerous strategy failures and shortfalls had prompted both academics and practitioners to trace the causes. There seemed to be some missing links. It was later discovered that the human factor was contributing to these difficulties. Subsequently, strategists of the 90s generally take into the consideration of the human aspects in strategic planning. Beginning with this chapter on management values, the two following chapters are also devoted to expectations and wishes of other stakeholders.

19.1 Concepts and Principles

George Steiner is the only strategic writer who had explored management values from the strategic planning point of view, yet it was rather limited in scope and depth. Irrespective, his insight serves as a good starting point to include this consideration into the strategic planning process. Much of the material therefore is derived from the works of the author.1

Management values refer to the value system of a management, which includes its aims, aspirations, interests, expectations, attitudes and personal philosophies of the managers. The importance of management values in strategic planning had been recognized by many strategy theorists.

Steiner tried to pointed out the difference of the values of a manager and his/her value system. “The values of an individual are, similar to attitudes but are more stable and ingrained than attitudes. At any rate, values and beliefs derived from them can and often do determine managerial choices throughout a planning system.2

Values are settled habits of regarding, and attitudes toward, events or phenomena. They are fundamental beliefs and ideas held by an individual. 3

Implications

Values are important in strategic management because they affect the selection of strategies. “A value established for a person a standard upon which basis important decisions are made. Value concern not only the ends a person considers to be preferable to another state but also the preferred means to achieve them.”3 In other words, values are also used as criteria for choosing among alternative methods to realize a strategy. Specific values are integrated and ordered in priority in a person, and that is a person’s value system . Since managers differ in value systems, they tend to make different decisions even when faced with the same set of facts. Some examples illustrating how values can affect decisions (including strategic decisions) are:

? CEOs who values growth and economic value may not be too concerned about social values and employment welfare
? CEOs who have strong prejudice against long-term debt would not be keen to embrace borrowing to expand operations
? A deeply religious CEO may insist on stricter moral codes rather than profit maximization
? An aerospace CEO may only decide to diversify into high tech and airborne products, due to his experience, interest and mindset
? An sales-aggressive CEO may sacrifice profits for growth
? A CEO with an international outlook may prefer to build worldwide organizations.
Therefore the choice of the management tends to reflect its basic values. Entrepreneurs should know their own values so they can be objective in considering strategies. Perhaps more importantly, the entrepreneur should understand the values of the key managers or his/her business partners. This is needed for three major reasons:
? To anticipate the likely decisions and directions of the key managers and business partners when they are given the role to decide.
? To appreciate the management reactions when a certain strategy is to be taken, and to reconcile these with goals of the strategy
? To determine the extend of conflicts existing between the entrepreneur and his/her key managers and business partners, and the assess the implications of such conflicts
Management Values in Strategic Planning
In large companies, the inappropriate type of management values can be the beginning of the downfall of these companies. This is so because the management is the most powerful stakeholder group, who will make decisions on behalf of the companies.4 A wrong decision made out of ignorance, inapt paradigm, or one that suites its own interests etc can lead to a lot of problems e.g. strategic drift, conflict among stakeholders or incur heavy losses.
In the SME context however, the decision-makers are usually the entrepreneurs themselves. Management value here will naturally mean primarily that of the entrepreneurs. In a way, things become easier – they only have themselves to deal with. However, when the management or decision making is shared with key managers or lesser partners, it would be of advantage to learn of their values, as explained above.
Can values of individual be changed to suit the desires or the good of the firm? Technically speaking, yes; but in practice it is easier said than done. Basic values are enduring and change very slowly.5 Instead of trying to change the values of people to suit the organization, it might be better to employ people with values suitable to the intended strategy. For example, if the enterprise selects a growth strategy, it should logically employ managers or salespeople who have the inclination to get sales. Whereas if the enterprise intends to maximize profits, managers and salespeople who are cost conscious may serve a better purpose.
As for changing the values of an individual, it is a subject for the psychologists. Anthony Robbins6 had dwell into this from the Nuerolinguistic programming perspective, which suggests that a person can help himself to change his/her own values, and to match values with goals etc. There had not been, however, evidence of endorsement from the psychological or psychiatric circles.
19.2 Application to SMEs

19.2.1 Survey Findings

All the SMEs surveyed had the owners at the helm. Some are in direct management of the business activities; while others have another partner or key managers to help them. The entrepreneurs generally claimed they know their own values and the values of their partners or key managers. In most of the cases, their values are not the same, sometimes in conflict. They were keen to know how to handle such situations.

19.2.3 Case under Study

Team have two partners managing the business together. The writer is the dominant partner, being more senior. The problem of discord due to differences in values also exists. The partners tried hard to accommodate each other's views; but the basic problem is still there and probably will be for a long time. It might have been better to have an odd number of working partners, where votes can be taken for issues that cannot be resolved through consensus.

19.2.3 Views of Business Observers

The observers noticed that successful companies seemed to have a commonality – the existence of a dominant (sometimes not very democratic too) partner. In the interview conducted, the writer was often told of dismal company performance caused by constant squabbles resulting in dissimilar views between business partners. This difference in views can also be traced back to the difference in value. One partner may be pushing for bank borrowing to expand the business, while the other may be risk averse and prefer to stay debt-free. One partner may be people-oriented and liberal with incentive schemes to promote greater productivity; while another may object strongly as he or she sees a dollar given out to the employees represents a dollar less for distribution to the shareholders. Perhaps this kind of conflict is one of the hardest problems to solve, as it is impossible to find two persons identical in the values. Improved communications, open discussions and the willingness to compromise may help to some extend. In times of crisis, however, there may not be the luxury of time to thrash things out to the satisfaction of all.

19.3 Chapter Conclusions

Management values can affect the success of a strategy. Therefore, it must be considered while formulating strategies. When there is a conflict between the objectives and the management values, it is the latter that will prevail.7 To ensure the objective is met, it is imperative that the objective be modified or a paradigm shift is needed on management thinking. In the case of a key manager with a different value standing in the way of an objective, it might be better to take action to get him/her out of the way. The safest way perhaps is to recruit people of values compatible with the intended goals of the firm.

REFERENCE

1. Steiner, G., Strategic Planning – What Every Manager Must Know. Paperback Edition 1997.
2. Ibid., p.119
3. Ibid
4. Johnson, G. and Scholes, K. Exploring Corporate Strategy, (3rd Ed) 1993. Prentice Hall Europe, Hertfordshire, UK., p. 178

5. Steiner. Op. Cit
6. Robbins. A., Awaken the Giant Within. 1991. Simon & Schuster, New York. pp. 341-68
7. Ibid

CHAPTER 20
ORGANIZATION CULTURE

Organization culture can be defined as "a pattern of behavior developed by an organization as it learns to cope with its problems of external adaptation and internal integration, that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think and feel."1

20.1 Concepts and Principles

Organization culture is important to strategic management as it can either help or hinder the implementation of strategies. "It is the filter and shaper through which the leaders, managers and workers develop to implement their strategies." Strategies that threaten employees' well being logically arouse suspicion and defiance. A good case is the re-organization program adopted by Royal Dutch Shell. The intended strategy was to cut 900 jobs, and trim the powers of regional 'barons'. It took much longer to implement, with resistance coming especially from Netherlands, and did not result in a saving as earlier anticipate.2

Very small SMEs are often personally managed by the owners, often autocratically, and not much leeway given to employees in decision making or express their preferences. Hence, in such organizations, the cultural influences on strategies are not pronounced. Even then, culture can sometimes turn antagonistic, and eventually lead to their downfall. This is most obvious where the employees are in possession of critical skills. Example: mass resignation, or sabotage by chefs of a restaurant can quickly destroy the business. Some understanding of organization culture is therefore needed in strategic management. In larger SMEs, it is impossible to effect a strategic change without the blessings of the employees, customers and sometimes suppliers. In these SMEs, especially those managed by a non-owner, cultural influence increases.

It is heartening that cultural rituals (rites) can be used as levers to implement strategic change.3 Cultural products are the physical manifestations of the organization culture as given in Exhibit 20-1. The concern of this chapter is to draw entrepreneurial attention to the need to consider organization culture before deciding on a strategy; and where possible to use cultural products to help realize such a strategy.

What contributes to form an organization's culture? There are two broad groups of factors: the environmental type and the organization-specific type. The first group is more macro in nature, consisting of the type of people involved, their national culture, business, religion and social practices, labor policies and current political issues. Organization-specific factors have to do with the firm in question only such as its history, ownership, the size, technology, leadership, mission and the paradigm of the organization.4

Prescriptive strategists such as Chandler and Porter tend to consider cultural implications only after the strategy has been formulated, as they feel that the strategy should be arrived in the most rational way. Emergent strategists, however disagree, as they tend to relate a strategy's success or failure to organization culture.5 As far as the SMEs go, there should be no hard-and-fast rules on the type of approach to follow, as it much depends on the current accepted practices.

EXHIBIT 20-1

Types of Rites and their Role in Culture Change

Source: H. M. Trice and J. M. Beyer in Johnson and Scholes (1993, p.402)

Type of rite

Rites of passage

Rites of degradation

Rites of enhancement

Rites of renewal

Rites of
Integration

Rites of
conflict reduction

Social consequences

Facilitate transition of
people into social roles
and statuses that are new
for them

Dissolve social identities
and their attendant power

Enhance social identities
and their attendant power

Refurbish social structures
and improve the ways
they function

Encourage and revive
shared feelings that bind
people together and keep
them committed to a
social system

Reduce conflict and
aggression Role in promoting/
Consolidating culture change

Consolidate ways for people carry
out social roles
Promote new ways of social
interaction

Provide public acknowledgements
that problems exist
Defend group boundaries by
redefining who belongs and who
does not
Reaffirm social importance and
value of role involved

Spread good news about the
organization
Provide public recognition of
individuals for their
accomplishments and motivate
others to similar efforts
Emphasis social value of
performance of social roles

Reassure members that something
is being done about problems
Focus attention on some
problems and away form others
Legitimate systems of power and
authority

Permit venting of emotion and

temporary loosening of various norms
Reassert and reaffirm, by contrast,
Moral rightness of usual norms

Re-established equilibrium in disturbed social relations
Compartmentalise conflict and its disruptive effects Examples

Induction of
New recruits

Firing and
replacing top
executives

Award
ceremonies at
company conferences

Problem
centred/
projects
taskforces
Appointment
of consultants
on specified
projects

Office
Christmas
parties

Internal appeal
systems
Union-management
committees

Where organization culture is critical, it is the duty of the entrepreneur or its key manager to determine early the predominant culture in the firm. Lynch categorize organization culture into four mains types. Each type is different in its ability to deliver SCA or resist change. See Exhibit 20-2. A good understanding of a firm's culture can screen out controversial strategies without having to go through the whole cycle of implementation only to witness their failure. There are of course situations where no compromise are possible. Realizing a potential conflict ahead allows an entrepreneur to take the necessary actions to win cooperation, through dialogue, discussions etc.

EXHIBIT 10-2
Culture-Competitive Advantage Relationship
Source: Lynch (1997, p.284)

Prescriptive or Delivery of Ability to cope with
Emergent strategy competitive strategic change
advantage

Power culture Prescriptive Enhance but Depends on
Individuals may individual or group
miss competitive at centre

Role culture Prescriptive Solid, slow and Slow, will
substantive resist change

Task culture Emergent Good where Accepted and
Flexibility welcomed
Is important

Personal Possibly emergent Depends on Depends on
culture individual individual

20.2 Application to SMEs

20.2.1 Survey Findings

There were 18% of SMEs surveyed operating as a one-actor show, with the spouses running the offices. Surprisingly their turnover were not little, as they are in the import/export business or in high volume deals. Among this group, there were only four entrepreneurs who were startups. These group of SMEs therefore would not be facing problems arising from organization culture.

The rest of the SMEs reported that they often have to tone down their plans and expectations to stay in line with the limitations of the employees. Some of them had to tone down so much that they were questioning the meaning of staying in business. There were three cases where the entrepreneurs just manage with an autocratic manner. Employee morale seemed to be low in these three companies.

20.2.2 Case Study

The writer had attended a special training course in Sydney – Interactive Management some years back. As a result, he became very people-orientated in management. His associate felt that he had been too considerate to employees and the organization culture. This could be part of the reason for the slow growth. This seemed to be true and not much of pressure is applied to the work force. On the other hand, the companies could retain the key people; some had been with the companies for seven to ten years.

20.2.3 Views of Business Observers

The business observers found the point valid. Observation of organization culture will result in minimum disruption to the organization, which in the long run can be translated to organizational strength and profit. They argue that an organization is no more than its people.

On the other hand, they also recognize the SMEs can often get away with violation of this principle because people coming to work for small companies would not expect a well run management. It is a bonus if it happens to have one.

20.3 Chapter Conclusions

Observing organization culture in strategic management is not much of a arguable issue, as most strategy theorists nowadays advocate it. The empirical evidence from the survey, views of business professionals and the case study all concur that it has merits. However, there may be a tendency to let this dominate over the better judgment of other analyses, thus leading to a sub-optimal performance. Entrepreneurs should realize that organization culture can be changed to suit a strategy. In any event, entrepreneurs must get used to the idea to introduce some degree of stress and urgency in business, which is needed for business success.

REFERENCE

1. Edgar Schein in David. F., Strategic Management. (6th Ed) 1997. Prentice Hall, Inc. p.143
2. Lynch. R., Corporate Strategy. 1997. Pitman Publishing, London. p.271
3. Johnson, G. and Scholes, K. Exploring Corporate Strategy, (3rd Ed) 1993. Prentice Hall Europe, Hertfordshire, UK., p. 401

4. Lynch. Op. Cit., p. 279
5. Ibid pp. 274-5

CHAPTER 21
BUSINESS ETHICS

Increasingly, business houses are faced with the issue of business ethics. Just what is business ethics? "Ethical and moral standards go beyond the prohibitions of law and the language of 'thou shalt not' to the issues of duty and the language of 'should do and should not do.' Ethics concerns human duty and the principles on which this duty rests. Each business has an ethical duty to each of five constituencies: owners/shareholder, employees, customers, suppliers, and the community at large. Each of these constituencies affects the organization and is affected by it."1 Some examples would be:

? To provide a decent return or profit to the shareholders or owners for their investment and risks taken
? To remunerate the employees fairly e.g. in terms of salary, career opportunities, job security, and overall working conditions etc., for their devotion in the company
? To ensure product performance and service commitment to the customers
? To avoid reveal a supplier' intimate information to another or bargain so hard that the supplier cannot make a decent profit
? To the community, it should pay tax, contributes to community projects, refrain harming the environment or carry out activities that infringe onto the local family values etc.
Business ethics is therefore more than just social responsibility. It covers the ethical behavior of the management as well. There are three levels of business ethics, according to Downs2, to consider in deciding a strategy.

Macro Level
This concerns ethical issues at national and international levels. It may include consideration of a national/social system to international relations.

Corporate level
At corporate level, a company should be concerned with how some of its strategies affect ethical issues e.g. products that cause environment problems, or scheme that encourage employee exploitation etc.

Individual

This only applies when the individual is of influence e.g. a senior manager. Decisions that have business ethics implications made by such managers are made personally accountable.

In some countries like the United States, the question of business ethics is longer confined to large companies. Managers are to take personal responsibilities for breach of business ethics. New laws introduce in US allow the firm to report their own managers for wrong doing without itself being prosecuted. On the other hand, firms covering up for their managers will be prosecuted. 3

Naturally, the US situation does not represent the rest of the world. There is no necessity for organizations in other countries to abide by all the US laws. SMEs are already facing a lot of hardships trying to establish itself. Additionally, SMEs do not get the same kind of treatment from government or financial sector, as compared with a large organization. Therefore, most of the time, they are operating handicapped. It is the view of the writer that they should not and could not emulate the large corporations in taking lead in business ethics, which undoubtedly is costly. By this statement, it is also not to suggest SMEs should flounder the laws.

They should consider more carefully before committing themselves. Limited community service can be justified as they may have a return in the form of publicity, public relations or advertising value. Higher-plane ethical issues such as supporting human rights, environment protections etc are not games for most of the SMEs.

21.2 Application in SMEs

21.2.1 Survey Findings

Surprisingly, 42% of the SMEs surveyed reported they are regulatory involved in social services, either as members of, or sponsoring service clubs, religious and charity organizations. None takes any earth-shaking activities such as giving up a business line because it is not ethical, or refuse to trade with China over its human rights records.

21.2.2 Case Study

Team tries its best to be fair to all the stakeholders. It can be frustrating as there is never enough to share around, and to everybody’s satisfaction. The expectations of stakeholders seemed to be growing all the time.

For community service, it is also done on a limited scale, such as providing free chemicals to a spastic home, or making a donation for a worthy cause. It had never been able to stop dealing with chemicals, which in a way pollutes the earth. Instead, it justifies its chemical activities on the ground that chemical treatment is also a form of pollution control, used to clean up waterways and restore dead ponds etc.

21.2.3 Views of Business Observers

The observers concur with the views of the SMEs that full compliance with business ethics, though noble, is not necessary. They also feel that some form of community service is worthwhile as they increase a company’s visibility and public relations, which may in turn help business in some ways.

They were not unduly worried about treating employees fairly because the entrepreneurs have little choice, if they want to retain good people. However, they noticed that the shareholders, especially those ‘sleeping’ ones do not normally get their fair share.

Conflicts developed from here can have negative effects on the company, which can even threaten the company's existence.
At any rate, balancing returns to stakeholders is the job of the management. Although delicate, it is their responsibility to find a suitable formula.

22.3 Chapter Conclusions

Business ethics is a wide-range consideration. It is not only about the commonly understood notion of environment protection, refraining from corrupt practices or care of the local community. It also concerns giving fair returns to the employees and shareholders etc. In practice, it is difficult to achieve an equal and fair distribution of returns to satisfy all without endangering the company. The skill in balancing the distribution is expected of the management. An awareness of this obligation is a good beginning.
Considering ethical issues on a higher plane such as Bodyshop's anti-cruelty to animals or Levis' refusal to invest in China for its human rights records are not meant for small players. Even large companies not concerned with such issues can defend themselves by quoting the Milton Friedman' maxim of "the business of business is business". 4

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2. Downs in Johnson, G. and Scholes, K. Exploring Corporate Strategy, (3rd Ed) 1993. Prentice Hall Europe, Hertfordshire, UK., p. 191
3. David. F., Strategic Management. 1997. Prentice Hall. P. 42-4
4. Johnson, G. and Scholes, K. Exploring Corporate Strategy, (3rd Ed) 1993. Prentice Hall Europe, Hertfordshire, UK., p. 191

PART VI

Establishing Strategic Directions

CHAPTER 22
TACTICAL IDEAS FOR STRATEGIES

This chapter leads the discussions into setting a strategic direction for the firm. And the direction will first take place in the forms of disjointed tactical ideas which may surface from any area. A lot of time would have been spent on conducting the various analyses: internal, external, interactive analysis, stakeholder expectations and wishes etc. All these effort will be wasted unless conclusions are drawn from them to form the necessary strategies. In fact, if the analyses had been probably done, the actions and directions needed are so obvious that they practically screamed out to be adopted.

22.1 Concepts and Principles

Extracting ideas from the analyses is only logical. And it will not be a difficult task. The only problem is – there are too many ideas and options available. No organization can possibly adopt all of them at the same time. Which are the ones to adopt? The answer will be revealed in this chapter.

22.1.1 Four Lists of Strategy Options

The first task is to form as many tactical ideas as possible. As indicated above, the list is expected to be astonishingly long. To facilitate short-listing later, four separate lists should be prepare from:

? Internal analysis
? External analysis
? Interactive analysis
? Stakeholder wishes and expectations

Besides listing down the ideas, it is also recommended to attach a short comment as the rationale to each idea. At this stage of idea generation, as in the case of brain storming, it should be allowed to proceed in a 'no-holds-bar' manner. If each list has to run into many pages, it should be allowed to do so. A recording format is shown in Exhibit 22-1.

EXHIBIT 22-1
A Format for Recording Tactical Ideas from Analyses
Source: Writer

Ideas generated from

Internal analysis
External analysis
Interactive analysis
Stakeholder wishes and expectations

No

Ideas
Rationale

EXHIBIT 22-2
A Format for Recording Tactical Ideas from Intuition
Source: Writer

Ideas generated from

First four lists
Discussions
Brainstorming
Hunches

No.

Ideas
Rationale

22.1.2 Intuitive Inputs
The four lists represent ideas generated from the various analyses. This, incidentally is the basis of formalized strategic planning. As mentioned in Chapter 3, strategic planning should include some intuitive inputs, in order to have the best effects. Managers who have done strategic planning will no doubt, understand the meaning of this statement. Strategies formed solely from analysis often fail to produce the desirable effects, even though they appear so logical.
Where would the intuitive ideas come from? Anywhere else except the four original lists mentioned above. Four avenues are recommended:

? Read and reread the four lists and allow at least a week for the ideas to settle and new and secondary ideas to germinate
? Seek suggestions and views from managers, employees, customers, suppliers, other associates and even friends. Using the findings in the original lists to guide discussions is optional. Unguided and wild ideas can be extremely useful as a form of lateral thinking.
? Consider a brainstorming session with key staff (not necessarily managers). This technique effective in problem solving and idea generation.
? Read or seek assistance on some nagging but unsure ideas. Chapters 26 to 31 contain proven strategies developed for special circumstances. They can be invaluable should be consulted. This is referred to as the 'learning-based route' to advance to firm.1
? Get away alone to some secluded spot for a retreat of two to three days. Bring along a notebook but not any of the strategic management materials. Such ambience is a said to conducive for developing creativity and receptivity of the mind. Thomas Edison said, "When you become quiet, it just dawns on you." 2

The intuitive ideas generated from the five avenues should be also listed, e.g. from discussion, from brainstorming, from consultation, from hunches etc. See Exhibit 22-2 for a recording format.

22.1.3 Brainstorming Techniques
Brainstorming is sometimes called Nominal Group Technique (NGT). Anthony summarized the benefits of the technique: 3

This is a way to structure the input of people … It is especially useful to overcome the reluctance of some people to provide opinions in group settings. The technique generated independent views and a greater degree of meaningful participation. It can be used with the strategic planning group either in the planning workshop or outside of it. It can also be used with subcommittees of the group or with staff or line management groups helping to formulate the forecast.

The basic steps in the brainstorming process are as follows: 4

1. Identify those who are to be involved in the brainstorming. Set a time frame for the meeting.
2. The group facilitator stands at the front of the room with a flip chart and writes out the issue or problem, which require solutions or input. Example: How are we to handle the situation if Competitor A hits us with a 20% cut in price?
3. Silent generation of ideas. Each person in the group writes down three major responses to the issue/problem.
4. In a round – robin fashion each person reads one item from his or her list. The facilitator records the item on the flip chart for all to see. There is no discussion of items at this time. This continues until each person's list is exhausted.
5. Discuss the list of items on the chart. Allow clarification, support, and disagreement. Combine similar responses as appropriate.
6. Each member ranks the items in writing in terms of preference. A scale of 1 to 5 to 10 could be used with the higher number being the best choice.
7. The facilitator tabulates the results and selects those items that have some consensus. These re then discussed further.
8. These are then incorporated as part of the plan.

This method is an excellent way to structure pooled opinions of experts and to allow everyone to have their say without one or two vocal people dominating the discussions.

22.1.4 Condensation

With nine long lists of ideas, there is never going to be an excuse of not knowing what to do. The problem becomes one of having too many ideas to choose. At any rate, only a few major ideas can be chosen for a year, or even for a long planning horizon e.g. five years. This is to ensure focus and not spreading the effort too thin to have any effect. The exact number of ideas to be chosen depends on the gap between now and the desirable position at the end of planning period, the ambition of the management and the resources available.

In most cases, the choice is quite clear as one consults the eight or nine lists of strategic options. The selected ideas can then be decided and one can proceed directly to formulate long-range goals, or strategies for the coming year. Note the unorthodox way of strategy development proposed here. Usually, the strategy is formed first, and tactics are later developed basing on the strategy. The writer proposed a reverse of the order, with is concurred by Al Ries and Jack Trout, in their book Bottom-up Marketing.

Sometimes, however, the choice is not so clear between two or three ideas, or where the investment is expected to be heavy and therefore a more careful selection is needed, more evaluations would be needed to make the final choice. Chapters 32-35 provide some of these evaluation techniques.

22.2 Application to SMEs

22.2.1 Survey Findings

All the SMEs surveyed claimed that they are using mainly the intuitive and non-structured planning methods, similar to the second set of lists introduced here. Therefore, the suggestion on idea generation was quite compatible with the SMEs. They only have to add the first four lists to making the process more complete, effective and reliable. However, the majority of them showed a reluctance to conduct those analyses in the first place.

22.2.2 Case Study

When strategic planning was instituted eight years ago, Team managers viewed through the first four lists to derive the tactical ideas. These ideas were then recorded on file. The long-range goals were set from these ideas. From the second year onwards, the long-range goals were used to determine the annual goals and activities. Yet the stockpile of ideas were not to be forgotten; they were further consulted to ensure the original ideas had not been deviated.

However, in actual implementation, many ideas had to be dropped due to ineffectiveness or circumstantial elements. Team plans to include in the other five lists in the coming year in the hope that plans can be better adhered to.

22.2.3 Views of Business Observers

The observers generally accept this suggestion as a practical and effective way to generate strategic ideas. That should be the logical progression of having done all the strenuous analytical exercises. They found that the method elaborated in this chapter is much clearly expressed than any other texts or seminars they had attended. They also lauded the accommodation of intuition and stakeholder interests as part of strategy development.

22.3 Chapter Conclusions

The technique is proven method in problem solving and planning. It is found to be applied in all the SMEs being surveyed and the case study. The observers were also in favor of its adoption. There is again the time constraints problem of SMEs – they just could not find time to do the various analyses which are needed to produce the lists. The writer is of the view that if the entrepreneurs are looking forward to improve the performance of their firms through strategic management, they must find a way to do the needful. Perhaps, they should try out a stage-wise program; starting with one or two lists, and then increasing the application later.

REFERENCE

1. Lynch, R., Corporate Strategy. 1997. Pitman Publishing, London. p.606
2. Quoted in Holland. Ron., Talk and Grow Rich. Thorsons Publishers, UK. p. 1
3. Anthony, W., Practical Strategic Planning. 1991. Toppan Co. Ltd., Tokyo. p.47
4. Ibid.

CHAPTER 23
LONG-RANGE OBJECTIVES

Other terms synonymously with long-range objectives are: strategic thrusts, key goals or key objectives. According to most strategist texts, long-range objectives are normally developed from the mission as a logical progression. However, there are no rules prohibiting them from developing form other origins. The theme of this thesis is that the long-range objectives should be set before the mission statement, at least for the first time. And that the long-range objectives should be developed from the tactical ideas generated by methods explained in Chapter 22. Where the mission is expected to outlive the long-range objectives, the subsequent set of long-range objectives developed must take into consideration of the mission. In either case, the objectives must be in harmony and contributory to the fulfillment of the mission.

Long-range objectives serve as a unifying role to ensure people in the organization "understand exactly what it is they are supposed to be trying to achieve. Only then they are able to develop specific strategic and tactical plans to achieve the objective set for them and the company."1

23.1 Concept and Principles

23.1.1 Meaning of Long-range Objective

Steiner defined long-range objective as "The desirable or needed result to be achieved by a specific time".2 Another author offered further explanation, "In order for the strategic plan to become reality, it must be made operational. This means becoming quite specific about the element of the planning by dealing with three basic questions: Who? Will do what? By when?"3 Some examples are given in Exhibit 23-1.

EXHIBIT 23-1
Some Examples of Long-Range Objective
Source: Thomson and Strickland (1996, p.32)4

McDonald's
? To achieve 100 percent total customer satisfaction…everyday…in every restaurant…for every customers

Rubbermaid
? To increase annual sales from $1 billion to $2 billion in five years
? To have 30 percent of sales each year come from products not in the company's product line five years earlier
? To be the lowest cost, highest quality producer in the household products industry
? To achieve 15 percent average annual growth in sales, profits, and earnings per share

McCormick & Company
? To achieve a 20 percent return on equity

? To achieve a net sales growth rate of 10 percent per year
? To maintain an average earnings per share growth rate of 15 percent per year
? To maintain total debt-to-total capital at 40 percent or less
? To pay out 25 percent to 35 percent of net income in dividends
? To make selective acquisitions which complement our current businesses and can enhance our overall returns
? To dispose of those parts of our business which do not or cannot generate adequate returns or do not fit our business strategy

One regretful observation in that none of the strategic literature offered specific meaning of being long-range, as opposed to that of short-range. Anthony was a little more specific when he wrote, “Strategic thrusts [the term he used in place of long-range objectives] are the important or key goals that we wish to accomplish during the planning horizon…”5
The writer proposes that long-range objectives should be those that last five years or longer. Short-range objectives then should last shorter than five years. This is a very neat arrangement that should prove useful to the SMEs. As mission in a SME is expected to last about five years, the longer-range objectives can therefore be seen as the more specific interpretation of the mission.
Anthony brought up a very useful idea of attaching a rationale to each objective. “A rationale for objective helps us to better understand why we have the objective in the first place. This rationale should relate to the strategic thrust, an identified problem to be corrected, an expected environmental opportunity or constraint, or a change in mission focus.” For very obvious ones, he conceded that they may be omitted.6

23.1.2 Must It Be Only Financial?
Many objectives can be pursued at the same time but most in financial terms e.g. return in investment, net profit. It is also getting more common for organizations to include non-financial goals nowadays e.g. to be number one in a certain market; to increase the company’s visibility in the community. Objectives may not be just business and profits. “It is becoming increasingly recognized that there should be formal statements of objectives to be met on behalf of a variety of stakeholders, including customers, suppliers, employees and the community at large.” 7 Objectives whether in financial or non-financial terms are important as they provide direction, aid in evaluation, allow coordination and are necessary for effective planning, organization and controlling of activities.

23.1.3 Criteria For Good Objectives
Steiner offered ten characteristics of good objectives: 8
Suitable
A good objective must relate to the basic purpose or mission. “An objective that makes no contribution to purpose is non-productive. One that conflicts with purpose is dangerous.”

Measurable over time

It should be stated what is expected to happen in concrete terms and when.

Feasible
A good objective must be achievable. Unrealistic or impractical objectives serve no purpose and should therefore be avoided.

Acceptable
A good objective should be acceptable by stakeholders, especially the key ones. An objective that does not have stakeholder blessings are bound to fail.

Flexible
A good objective should have an element of flexibility built in, that it can be modified in the event of unforeseen circumstances. However, it must not be done in a “wishy-washy’ manner. It must be firm enough to provide a direction.

Motivating
Drucker’s research27 showed that objectives that are set a little more aggressive and “a little higher that likely to be reached” lead to better performance.

Understandable
Objectives should be written in forms that are easily understood. Furthermore, managers should take proactive stand to ensure complete understanding.

Commitment
There should be a commitment by all, especially the managers, to see the objectives being realized. They also should be prepared to do what is needed.

People participation
“Best results are achieved when those who are responsible for achieving objectives have some role in setting them. This is less true for a very small organization than, say, for large decentralized companies.” Lower managers and staff have “detail, intimate and substantive” knowledge that can be used in reliable planning.

Linkage
Many linkages are involved. First, there should be a linkage of the objective to the basic purpose. Second, the objectives in different parts of large, decentralized company should be consistent with the top management objectives. Third, even within a division, the various objectives should have some linkages with one another.
23.2 Application to SMEs
23.2.1 Survey Findings
Only 20% of the SMEs interviewed set a long-range objective. They also happened to be those with business that is profitable and possess enough resources. The rest feel its way into the future, in a trial and error manner.
23.2.2 Case under Study

Team Specialty Chemicals plan in medium term of five years. The first five-year plan (1992-1996) ended quite predictably. Those where the years where events are predictable. If Peter Drucker's prediction were to be right, the environment and business climate is not going to be stable anymore. The second five-year plan ended up in trouble, only after a year's implementation, whit the Asian financial crisis blowing up. Suddenly everything changed. The plan carefully put together lost all its value.

23.2.3 Views of the Business Observers

The observers while recognizing the merits of setting long-range objectives, doubt if the SMEs will ever get used to the idea. They had been so used to close-range management, setting long-range objectives requires a paradigm shift on the part of the entrepreneurs. However, if the entrepreneurs are aiming to get big one day, it is not too early to start changing their management style and start to manage by long-range planning. At any rate, whenever heavy investment is needed, long-range planning and bold moves had to come into the picture.

23.3 Chapter Conclusions

Close range management is not completely useless. If at all, it gets the entrepreneurs this far, and it is not easy to convince them to change their style. Formalized planning on the other hand can also fail, as shown in the case study above. In today's uncertain environment, striking a balance is necessary. It may be best to plan formally as far as possible, and be prepared to modify and adjust the approach in response to the prevailing conditions. If an SME can afford the time, formal planning can be made to be more realistic but incorporating the concept of scenario building.

REFERENCE

1. Steiner, G., Strategic Planning, a Step-by-step Guide., Free Press Paperback. 1997. P.163
2. Ibid
3. Anthony, W., Practical Strategic Planning., Toppan Co. Ltd. Tokyo. 1991., p.85
4. Source: Thomson. A., and Strickland A. J. Strategic Management. Irvin (Times Mirror) USA. 1996
5. Ibid., p.77
6. Ibid., p.88
7. Johnson. G. and Scholes. K., Exploring Corporate Strategy, (3rd Ed), Prentice Hall., p.189
8. Steiner. Op. Cit., pp. 164-8

CHAPTER 24
MISSION STATEMENT

The hierarchy of purpose shows the organizational purpose in many levels: mission, corporate objectives, unit objectives and functional objectives.1 See Exhibit 24-1. Some strategic writers break down the objectives in other manner, e.g. mission, strategic thrust, sub-objectives, and goals etc. Sometimes, some of these terms were used interchangeably. Steiner2 was of the opinion that it does not matter much whatever terms are used, so long they are well defined and understood throughout the organization. Therefore an entrepreneur can use a term with different meaning form this paper.

EXHIBIT 24-1
Organizational Purpose
Source: Johnson and Scholes (1993, p.187)

Type of purpose Common characteristics
1. Mission General
Visionary
Central and overriding Open
Often unwritten

2. Corporate Often expressed financially
Objectives Express stakeholder expectations Open or
Formulated by senior management closed

3. Unit objectives Specific to units of organization
Operational Open or
Often multiple close

24.1 Concepts and Principles
24.1.1 What is a Mission Statement?
Stated simply, a mission statement is the 'most generalized statement of purpose – the expression of its raison d' etre".5 Anthony4 regards mission as "It sets out the purpose of the organization, it is an overriding or all encompassing goal."
It is important to note that a mission statement is not "designed to express is the ultimate rationale for the existence of the organization." Concrete ends, but to provide motivation, general direction, an image and a philosophy to guide the enterprise"5 Thomson and Strickland considered a strategic vision is an integral part of the mission statement: "The management's view of the kind of company it is trying to create and its intent to stake out a particular business position represent a strategic vision for the company." 6 Exhibit 24-2 shows some examples of mission statements.

24.1.4 Benefits of a Mission Statement
More and more companies are observed to issue statements of company purpose or mission although sometimes they are called by other names such as creeds, company purpose, business philosophy or business strategies. "These statements generally express the basic purpose of a company and the beliefs of the chief executives." Steiner7 observed.

There had also been criticisms leveled at missions statements; that they are at best over-generalized and being bland, and at worse, no more than 'public relations beguilement'. Steiner defended the practical value of a mission statement in these words "Although it may be true that many written creeds or philosophies are designed to improve public image of a company, they can be, and often are, the cornerstone of a company's direction and method of operation." 8

EXHIBIT 24-2
Some Examples of Mission Statements
Source: Adapted from Thomson and Strickland (1996, p.5)

Otis Elevator
Our mission is to provide any customer a means for moving people and thins up, down and sideways over short distances with higher reliability than any similar enterprise in the world.

Avis-Rent-a-car
Our business is renting cars. Our mission is total customer satisfaction.

McCormick & Company
The primary mission of McCormick & Company is to expand our worldwide leadership position in the spice, seasoning, and flavoring markets

The Saturn Division of General Motors
The market vehicles developed and manufactured in the United States that are world leaders in quality, cost and customer satisfaction through the integration of people, technology, and business systems and to transfer knowledge, technology, and experience throughout General Motors.

Eastman Kodak
To be the world's best in chemical and electronic imaging.

A well-defined mission also helps planning 'down the line' easier. "Mission statement, aside from providing general guides for strategic planning, have specific relevance to the formulation of program strategies and the nature of a business. Mission statements determine the competitive arena in which a business operates. They determine how the resources will be allocated to different demands. They determine the size of company. They make much easier to identify opportunity and threats… If devised appropriately, missions or revisions of missions can turn a company around."9
24.1.3 Characteristics of a Good Mission

Johnson and Scholes10 had identified five major characteristics of a good mission statement, as follows:
1. It should be visionary and "last for a significant period of time"
2. It clarifies the main purpose of the organizations and the reasons why the organization existed
3. It describes the organization's main activities and the position it wishes to attain
4. It mentions the key values of the organization, especially towards the stakeholders
5. The organization should have the intention and capability to live up to the stated mission.

24.1.4 Who Should Set the Mission?

It is possible the mission of an organization was set even before the organization became a reality. This is especially true in public sector, not-for-profit organizations and even subsidiaries of diversified multinational companies. In such cases, it would not be much problem identifying the mission, as they are normally contained in legislation creating the agency, the organization constitution etc. For a subsidiary to a multinational or a large company, its basic purpose would be contained in some communications document such as minutes of board meetings or special project report etc.

Where there is no existing mission in place, the responsibility generally lies with the top management. On the question of employee participation on mission formulation, it is a frequent subject of argument. The traditional practice is for the top management to decide on the mission and key objectives. Middle and lower managers would then formulate the strategies and tactical plans to realized these objectives and mission. In the case of small companies, "the CEO an and often does establish basic missions without much reference to others." 11 This practice is consistent with the student's experience and the survey of 50 entrepreneurs.

In companies that are operated in a very democratic manner, there is a tendency for increased employee input in mission setting or revision. In the SME context, this is probably not expected nor should it be encouraged, as employee turnover is a problem. A mission set by earlier employees may not be acceptable to the succeeding ones anyway. In addition, there is a attitude and aptitude problem in that the employees may not be willing or capable to set a challenging mission. The furthest a SME should go perhaps is just to consult or solicit feedback on the mission, with the final say still in the hands of the entrepreneurs or their key managers.

Irrespective on the way missions are formulated, a fact remains that they are "highly dependent on the chief executive officer's value. They are not likely to change without direct intervention of the chief executive officer."12

24.1.5 Problems in Mission Setting

It would not be true to assume that any organization can set a mission, at any time and under all circumstances. Booth13 pointed out that under certain circumstances, a mission just cannot be easily formulated:

? In a diverse organization, defining a mission for the whole organization may be difficult
? There exist conflicting objectives among different stakeholders; which may mean difficulties in getting members to agree on one common mission
? A rapid changing environment may make it impossible to agree on a specific mission

Then there is also the human resistance factor. Some mangers prefer to use methods less rigidly; in the words of Booth14, “unconscious strategy of perspective or pattern”. Some managers are convicted to their ‘play-by-ear’, or intuition method. There are also those risk-averse type who would not decide without reliable information.

In the writer’s company, the company mission was not done until its tenth. The main reason being an unwillingness to commit onto some directions that may turn out to be wrong. The operation was guided by an unconscious definition of the business lines and markets the company would deal with changes and opportunity exploitation handled in a case-to-case manner. The method of operation, on hindsight, was sub-optimal with much resource wasted on disjointed mini projects and investments that do not turn out right. In the survey, the student discovered that most new startups hold the same attitude. Besides relying on their own efforts and planning, the entrepreneurs also avail themselves to opportunity and luck.

Therefore, in real-life situation, strategic planning cannot be implemented full-scale in a short time, even in the well-organized, large organizations. SMEs should therefore be even more conservative in implementing strategic planning. In the writer’s experience and views, it would be more desirable to set a mission simple, less ambitious and last a shorter period, say for five years. Give sufficient time for the organization to digest and assimilate the message, while the entrepreneur should also gather comments and feedback. Depending on the achievement level and other operating conditions, the mission can be modified or changed later.

24.1.6 Communicating the Mission

Booth declared, “The mission statement has no value if once established it is not communicated and used as a guide throughout the organization. The mission statement should represent the values and aspirations of most members of the enterprise and as such it sets the stage within which the ethics and approach to crisis preparation and management will be set.” 15

Booth’s view brings on the problems of communications in organizations. In a very small organization with the owner or a handful of employees, daily contact and conversation can often fulfill the role of communicating the message. As the organization gets larger, and especially with employees situated outside the main office, communication problem takes on a new dimension. Although telephone conversation is a viable means of communication, cost is a discouraging factor.

It appears that putting information down on paper is needed somewhere along the line. Once a mission is carefully worded, communications can begin. They can be circulated by mail, e-mail, fax, or distributed by hand during a briefing etc. To have a lasting effect, there is a need to raise the visibility of the mission. In which case, it can be hung on office walls, or appearing on company brochures, newsletters, being frequently quoted in staff meetings etc.

Another advantage of a written mission is that it helps an entrepreneur to crystallize his or her thought. Employees frequently complained about no knowing what the management wanted, that accounted for paralysis or lack of unity in effort. This is understandable when entrepreneurs approach business in a haphazard manner. A moving target is always harder to hit. The experience and observation of the writer is that once a mission can be decided upon, a sense of calmness and piece of mind set in that makes business management much easier.

24.2 Application to SMEs

24.2.1 Survey Findings

Of the 50 SMEs surveyed, only one has a mission statement. This particular SME is an independent analytical lab, but later acquired by a foreign public listed company. The mission statement of the latter is simply adopted for the local company as well. Most SMEs felt that it is not practical to develop a mission overnight because a) their business has not settle to a pattern yet, b) they do not have time to analyse the market opportunities yet, and c) they do not know what they really want out of the company.

24.2.2 Case Study

Team developed its mission only in 1996, after ten years in business. The main benefit is that it helps the company to focus its efforts and in the quest for opportunities. Due to this charted course, many opportunities had to forego because they do not fall in the classification.

Managers in the company sometimes wonder if the mission is a blessing or a curse, especially when they notice less capable companies making huge profits by simply grabbing opportunities, totally without having to refer to some missions.

24.2.3 Views of Business Observers

The observers are not against having missions. However, they do not see much practical value of having them either. They observed that missions by SMEs are generally done for three purposes: a) to suggest the company is not a 'fly-by-night' outfit, b) as a necessary part of some brochures such as company profile, and c) getting the company ready for floatation. Except for the third reason which is done for another market (the stock market), a mission has little marketing value to assist in consuming a sale.

24.3 Chapter Conclusions

The real value of a mission is the unity of objective it provides to the entire organization. It is hoped that through this unity, maximum effectiveness and efficiency can be achieved, since the principle of focus or minimization of wasteful experimentations are applied. To pass it off as a marketing tool is only cheating oneself, as the mission of a small company is seldom given any weight or trust.

Irrespective of size, a well developed and truthful mission help to unite the effort of all company employees to be more focus. The company will see a noticeable improvement of its performance with less friction. So long the mission is developed for the purpose of improving operation and direction, it is a useful tool for a SME. The writer recognizes, both from experience and appreciation, the difficulty for young companies to develop a mission. It is the position of the writer that in such cases, it is actually more beneficial to such companies to operate without a mission for a few years. Allow the company to settle to some business pattern, and also for the key managers to open up their horizon on the opportunities available, before deciding on a mission.

On the other end of the spectrum, there are also established companies that refuse to decide on a mission, citing the reason that they do not want to get themselves committed but rather flow with the market changes and opportunities. The penalty of such indecision is the lack of unity, frequent friction through misunderstanding. Perhaps it is worthwhile to remind such entrepreneurs that mission are not irrevocable. They can be changed when circumstances changed. Therefore, they should really give it a try.

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PART VII

Strategy Generation

CHAPTER 25
ANNUAL OBJECTIVES AND ACTIVITIES

The long-range objectives are still difficult to be translated into actions, as they are of longer time frame of many years. They naturally cannot be achieved overnight. If they do, it is either they were set too low or the implementers are exceptionally capable. The more logical thing to do is to break the long-range objective down into components of shorter duration. These shorter-term objectives are also known as operating objectives, sub-objectives, goals or even simply objectives.

25.1 Concepts and Principles
25.1.1 How to Develop Operating Objectives

There are three broad schools of thought on how to break up long-range objectives into shorter-term ones. The first type is to break them up equally over the planning zone. The second is have any suitable combinations so long as the end results are the same. The third is to plan out only the current year and the last year, with the second, third and fourth years to be decided as thing progress. Exhibit 25-1 illustrate a simple case using the three approaches. As not all long-range objectives are quantifiable, their division can take the form of a ‘task plan’. See Exhibit 25-2 for an example.

EXHIBIT 25-1
Options to Split Up Long-Range Objectives
Source: Writer

Long-range Objective
? To raise net profit from 5 percent to 13 percent in 5 years

Annual objective

Year	Option 1	Option 2	Option 3
1	5%	5%	5%
2	7%	6%	?
3	9%	8%	?
4	11%	10%	?
5	13%	13%	13%

Option 1 – Equal distribution
Option 2 – Unequal distribution
Option 3 – Flexible distribution

EXHIBIT 25-2
Splitting Up Long-Range Objectives as Task Plan
Source: Adapted from Anthony (1991, p.91)

Company: A manufacturer of Home Computers

Strategic Thrust: To strengthen our overburdened manufacturing operations.

Objectives:

1. To install manufacturing and financial controls throughout all plants by end of 1986
2. To improve coordination and cooperation of internal units now competing with one another
3. To fill all product orders from both mass merchandisers and smaller accounts by increasing production 25% by end of 1986
4. To bring out a new computer by June 30, 1986
5. To increase value of inventory by 20% by September 1, 1986

Once the approach is decided, it can proceed to the actual splitting up of the long-range objectives. There are again a few methods of developing short-term or objectives; which are discussed below:1

Autocratic announcement

This is a poor method because people do not like to be told what to do. One “can buy short term compliance at the expense of long term commitment.” However, there are times when autocratic decision making is tolerable. “If time is of the essence or if there is a true crisis, then unilateral setting of specific objective by a higher level group is acceptable.”

Consultative

This is a method with which the subordinates are given the opportunity to have some input in the objective set by their bosses or work group. They do not determine the objective, but review and offer suggestions for modification. The problem is it “creates expectations that the option will be considered or taken. Often they are not.”

Participative

This method is often recommended as it gets the group involved and enhances commitment. There are also some advantages to be recognized such as being time consuming, requires open discussions, participants must take part and intelligent enough to do so. Generally speaking, the advantages outweigh the disadvantages.

Steiner classified the approaches differently as top down, bottom up, combination and team approach.2 He also observed there is a tendency for different company to prefer an approach. For example, he found that in very small companies, top down approach seemed common. Most other enterprises use a combination of top down and bottom up or the team approach. Strategic business units of large corporations seem to favor team efforts. Most literatures recommend some form of participatory approach.

25.1.2 Criteria For a Good Operational Objective

There are several important points that characterize a good operational objective.3

? Relate directly to a strategic thrust
? Relate to mission of the organization
? Clear, concise and understandable
? Stated in output or results terms
? Begins with ‘to’ and an action verb (e.g. to reduce, to increase, to implement, to meet, to develop, to replace etc.)

? Specify a date for accomplishment
? Deals with one major subject or outcome
? Ties in with upper and lower objectives
? Ties in with lateral objectives
? Is quantifiable

25.1.3 Developing Activities

Technically speaking, the short-term objectives derived are good enough to guide an enterprise to conduct its business activities through the year. There are the micro-planning advocates who believe planning should not stop here, if the best results were to be expected. A further step is recommended to identify all the activities (tactics) that are needed for achieving the objectives. Developing the activities is not difficult, but best done by operational people as intimate knowledge of the business and operation is needed. An example on how this is done is shown in Exhibit 25-3.

EXHIBIT 25-3
Developing Activities from Objectives
Source: Adapted from Anthony (1991, p.98)

Objective: To reduce employee turnover from 50% to 25%.

Activities:
1. To increase wage rate by 10% to make them competitive with the local labor market
2. To improve selection procedures to screen out better those likely to leave employment after a short period
3. To improve working conditions in the dip room where temperatures are high and ventilation is low
4. To implement an exit interview program to determine why people are leaving
5. To hire a consultant to determine if supervisory practices are contributing to high turnover.

25.2 Application to SMEs

25.2.1 Survey Findings

All the SMEs being surveyed recognize the merits of having objectives, and especially the short-ranged ones to guide in the business activities. Up to 78% of the SMEs surveyed are quite clear of the short-range objectives they wish to pursue. Such objectives may be kept in their heads, or exist as a short list; but seldom as an elaborate document. Objectives are always flexible things for the SMEs. They are changed or dumped if they are no longer relevant.

The rest of the 22% surveyed are either the ‘happy-go-lucky’ who take each day as it comes, or that they are complacent. Many of them are actually make good money, defying all the logic.

25.2.2 Case Study

Team compiles the short range objectives not as an end, but a means to prepare a comprehensive and coordinated annual budget. The tentative short term objectives are first derived from the long-range objectives and communicated to the key managers.

There are two parts to this invariably. First they is the resource allocation needed for some new strategy, and second arrange the funds to be available.
Taking a first example to illustrate a qualitative goals. The company decided to run an inhouse course on sales management, consisting of 11 modules. The sales managers are informed of this objective. A timetable is set for the modules to be covered, so the sales managers concerned must make themselves available at the stipulated days. An allocation of fund is made for this purpose, which is added to the operating budget. This is a simple task of fulfilling an objective without direct return.
The second example is to illustrate fulfilling an objective with direct return and expenditure. Supposed that the company is aggressively looking for sales increase for the coming year to help achieve economy of scale. The sales managers were asked to produce tentative expense and capital budgets basing on say, 20%, 25% and 30% increase in sales. Upon a definite increase decision by the top management, the managers are then asked to compile details such as products to be sold, intended gross profit, manpower requirement, new operating expenses and other capital expenditure needed. If accepted, those details will be used to compiling the master budget.

25.2.3 View of Business Observers

Annual objectives are expected of a good company. The business observers themselves are required to do them by their companies. However, the observers also doubt that many SMEs will agree to this due to discipline and complacency. To the bankers amongst the group, annual planning is the most basic hallmark of a good management. They are trained to consider such things in granting bank loans etc. The production manager in the group claimed that it is impossible to run a factory without annual planning, as many raw materials require lag time that can run into 3 to 6 months.

25.3 Chapter Conclusions

In this thesis, the annual objectives and activity list is designed to be the threshold to a finalized budget. For companies with simple operations, the annual objectives and activity list alone can guide the company along the year, without the budget. Annual objectives and activities not difficult to prepare. All one has to do is to consult the long-range objectives, and break them up systematically. It is always the objectives first, then the activities needed to fulfill the objectives.

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CHAPTER 26
GENERIC COMPETITIVE STRATEGIES

This chapter leads the discussions into some proven strategies that may be used in specific circumstances. Porter's observation of the industry led him to study the effective strategies being used. He concluded that the exact strategies used depends on the industrial situation. For example, a market leader will adopt strategies different from the underdogs. A new company will also pursue strategies differently from an established company. However, on the broadest level, there are only three basic strategies to apply. They are used alone and sometimes in combinations "to create successfully with the five competitive forces and thereby yield a superior return on investment for the firm."1

26.1 Concepts and Principles

The generic strategies are cost leadership, differentiation and focus (which is sub-divided into cost-based and differentiation). Exhibit 26-1 diagrammatically summarizes the concept.

26.1.1 Cost Leadership

In essence, cost-based is a strategy for a firm to strive to produce a product or service at the lowest possible cost. This was very prominent in the 70s as the concept of experience curve was very popular then. Japan in the 60s and 70s successful build a huge world market with its low price products. With this distinction today, a firm can use low price to satisfy a certain segment of the market – the price sensitive segment. Often this market segment is commodity based and volume is high. Substantial profit can still be obtained through good control on operating and material costs. Cost control is discussed in greater detail in Chapter 12.

EXHIBIT 26-1
Generic Strategies
Source: Porter. M.E. in Johnson and Scholes (1993 p.206)2

COMPETITIVE ADVANTAGE

Lower cost Differentiation

1
Cost
Leadership

2

Differentiation

3A
Cost focus

3B
Differentiation
focus

26.1.2 Differentiation
Differentiation refers to a strategy where a firm emphasizes value added to a product or service to appeal to a market that is not price sensitive, but demanding benefits such as performance, service, quality, esteem etc. Differentiation is value-added to the product or service. Often this strategy can result in a premium price being chargeable, leading to better-than-average return on the company.

26.1.3 Focus
Focus refers to strategy caters for “a particular buyer group, segment of the product line or geographical market.”3
A firm then endeavors to serve the target market well, engineer its products and service to suit this market etc. All functional departments and policy are made to help achieve this aim. For example, a computer soft-ware company interviewed developed special package to the weigh bridge operation and provide after-sales services.
Focus can be differentiation as the above example. It can also be cost-based e.g. a car wash company that specialize on service to cabbies at a low price and with a cafeteria cater for such crowds.

26.1.4 Stuck in the Middle
Porter is of the view that when a firm tries to achieve two of these strategies simultaneously, it will get stuck in the middle. It will experience low profitability. General Motors was quoted as a case of exploiting low cost while Mercedes going for differentiation. Both made good profit. Chrysler was said to get stuck in the middle and resulted in low profit. 4 While this made sense as Porter’s put it, there are more evidence that it can be done, however. The Japanese consumer electronics industry was one of the glaring example on how they can produce a differentiated product at a lower cost. Among the prominent critics were Kay, Stopford and Baden-Fuller, and Miller. 5 Thomson and

Strickland went a step further to accept it the fifth generic strategy, and called it overall best, that emphasize on value for money. 6

26.2 Application for SMEs

26.2.1 Survey Findings

All the SMEs being surveyed have heard of and understand the various options to create a competitive advantage. Most of them learned of this not in the formal way, but from everyday business experiences. A detail analysis showed that only 15% of the SMEs chose low cost as a strategy. Most of them could market their products or services around the market prices by using a hybrid approach. It was particularly common that they chose a comparable price range with good service, relationship plus some forms of differentiation where available. In general, what these SMEs had to offer was not out of the world. It was a combination of personalized attention the buyers needed, and that these SMEs happened to be in a fragmented market where branding was not particularly important.

26.2.2 Case Study

Team started out imitating the strategies of the big players and ended up nowhere. Later it had to settle for low cost, which made it meaningless to trade without a decent profit. It was through the suggestion of a friend that the company should follow a focus strategy, since it is small. The change of course was also inspired by the works of Al Ries and Jack Trout. 7 The first project was to turn the general chlorine business into a specialized business serving the public and swimming pool. Public pools with its obligation to the public, are not so cost conscious; but they expect reliability and assurances. To satisfy these KSFs, the company devised a system of backup consisting of: a) monthly visit and water testing by a qualified technical representative, b) generating booklets to guide pool supervisors and operators, and c) testing of harmful bacteria and pathogens at cost. Within six months, the company became a top supplier for this kind of business.
The company went on to restructure the rest of the sale departments to suit the new market segments, which was based on industries. Today, the company serves and rank top in the swimming pool market, the palm oil mills, the paint spraying market and private labeller marker. Focus strategy had worked for the company. It gives it prestige, dignity, profit and lots of peace of mind.

26.2.3 Views of Business Observers

The observers found the options interesting and make good sense. The concept helps an SME to realize the proven strategies are available. They can choose one to suit its own operating conditions. A problem that the observers see is the SMEs are reluctant to make decisions. To decide on a strategy out of five will not be welcome. So long as there is no firm direction set, employees find it hard to operate smoothly. The bosses had to be consulted on every little small operating decisions. Often, because of it, the bosses become a bottleneck, hindering the growth of the company.

26.3 Chapter Conclusions

The various options on competitive strategy is applicable for both large and small companies. Those SMEs principally involved in manufacturing generic products invariably must look into cost leadership. Manufactures of differentiated products, on the other hand, should pursue a different strategy such as differentiation. Differentiation can be any thing ranging from high quality, to quick delivery, to custom making of the products. For SMEs that are cash-tight and with a small market, focus perhaps is the better strategy. The overall best strategy may also be considered for a sure-fired success.

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CHAPTER 27
DIRECTIONS FOR DEVELOPMENT

Most of the time, an enterprise may concentrate on penetrating the same market to increase business. However, this is not the only way and there are other avenues that can be explored. In any event, a firm has to consider some fundamental decisions on business e.g. what business lines to get involved in, what products mix to sell, what market to serve etc. Directions for development can be summed in a matrix, as shown in Exhibit 27-1. This chapter is discussed along the framework provided in the works of Johnson and Scholes.1

27.1 Concepts and Principles

Discussions on directions for development are normally based on the Ansoff Matrix (Exhibit 27-1) which involves a choice between products and markets. Lynch proposed an improved versions – called Market Options Matrix – which is more comprehensive and includes such options like demergers and privatization.2 Demergers and privatization have not relevance and in SMEs and are omitted from the discussions in this thesis.

27.1.1 Withdrawals

Withdrawals means getting out of the market. It may be complete or partial depending on the situation. This option is often overlooked as a viable alternative. Many a time, this course of action could be the most sensible one involving a

EXHIBIT 27-1
Directions for Business Development
Source: Adapted from Ansoff in Johnson and Scholes (1993 p.222)

PRODUCT
Present New

Withdrawal
Consolidation
Market
penetration

Product
Development

Market
Development

Diversification

business line or even the whole company. Some situations where withdrawals are common or justifiable are:

? In property types of companies, where buying selling properties, land etc are common, much guide by the prevailing prices

? Commodity sector where product prices can fall to non-viable level e.g. petroleum, mining etc, it may be better to mothball the whole operation until a better time
? In some conglomerates, the center may decide on a mix of activities which require emphasis on some and curtailment of others
? In some diverse companies, buying and selling subsidiaries is common in the overall corporate portfolio
? For an entrepreneur who wants to sell off the company to harvest his effort. He can also wait to float the company, which in reality is very difficult
? Unprofitable business may be sold off, killed or licensed out to free management time for better business
? Non-core business may be sold off, and often via Management-buy-out arrangement, to allow the company to focus on their core activities
? An extreme case of withdrawal is to allow the company to be liquidated if it cannot be saved
? A rare case will be sell good business lines to raise cash for some other purposes. Example: Union Carbide had to sell Eveready Batteries to raise cash to pay for compensation following the Ballapur incident in India.

27.1.2 Consolidation

Consolidation means keeping the market share and the activities needed depend on the prevailing market conditions:

? In growing market, to consolidate, the firm should grow with the market. Argument is that if a firm does not grow while the industry is expanding, it will be much more difficult later when the industry has matured. Secondly, if the firm does not grow, it will loose market share which will become disadvantage due to higher cost structure
? In matured market, consolidation requires a firm to defend its market. To this end, it may have to improve its quality, increase marketing activities, achieve productivity gain and build barriers
? In declining market, consolidation may require a firm to buy up ailing competitors
? In a market which is translating from matured to declined, consolidation may be in the form of selling off the operation to get the maximum value

27.1.3 Market Penetration

Market penetration simply means to increase the market share for a firm. Strategists believe it is easy to penetrate the market while the market is expanding.3 They also believe that penetration in a static market is difficult unless the market leader slacks. In a declining market, the opportunity to increase business is still there, due to exit of some competitors.

27.1.4 Product Development

This method keeps the security of present market, but change or add new products. This seems to be common for companies in consumer products, those good in R & D and those structured on product basis. There is a danger however with this approach. Creating a broad product line can be “expensive, risky and potentially unprofitable.” Most new products actually failed, and some do not even made it to the market.4

27.1.5 Market Development

Market development maintains the security of its present product but venture into new markets. New markets may be in the form of new market segments, new uses or new geographical areas. Often, market development requires product development at the same time, as variants. Companies that prefer this form of development are:

? Capital intensive companies, which must achieve economy of scale for its products
? Global products that rely on heavy R & D

27.1.5 Related Diversification
Related diversification refers to new venture that is still within the broad confines of the industry within which the company operates. An example is, if Nestle decides to go into the bakery business, which is still considered food industry. There are generally three ways related diversification can take place:

? Backward: when a firm gets involved into the input area as well, e.g. raw material
? Forward: when a firm gets involved further forward into the value activities such as transport or distribution
? Horizontal: when a firm gets involved into activities that compete or directly complimentary. Example, when a taxi company decides to operate a bus company as well.

27.1.6 Unrelated Diversification
Unrelated diversification refers to a new venture that has no clear relationship to the present product or market. A plantation company getting involved into electronics is an example.
Diversification has been a subject of many study and research. One of the commonly claimed benefits is synergy which occurs in "situations where two or more activities or processes complement each other to the extent that their combined effect is greater than the sum of the parts"5 Empirical evidence however does not support the proposition. Greater emphasis in recent years is placed on improving the value system, linkages, relationship and management of the various parties.

27.2 Application in SMEs
27.2.1 Survey Findings
All the SMEs surveyed understood the various forms of directional moves a company has to advance its wellbeing. They seemed to learn this from experience, common sense, training and from the business environment. The survey shows that the interviewees apply penetration the most. A few looked into consolidation and diversification. Only a minority considers selling a company to realize a good gain. In fact there were two cases where the entrepreneurs just let their hopeless businesses die a natural death. In both cases, the entrepreneurs could have salvaged some value, if only they could bring themselves to sell their companies.

27.2.2 Case Study
Team had been spending three years during startup period just to firm up its footing, before considering anything else. It could not be helped, as a new company is never

capable or credible enough to grow in all directions. Progress was slow and agonizing. In desperation, the company tried diversification. It just took on a new product (chlorine) and started to approach a new industry. It went on to become a winner. This success actually helped the other business lines to build up as well.

27.2.3 Views of Business Observers

Only three observers had no prior knowledge of this technique. Most however, agreed that the tool is useful because it offers some logical guide to business development, rather than relying on inspirations or some other non-scientific methods. There may be a reason for the overwhelming optimism of these professionals, as most of them are accountant or bankers who tend to be more comfortable with numbers and things more concrete. Four members reserved their comments.

27.3 Chapter Conclusions

Although the matrix offers some firm guidelines on business development, it however should not be taken as the ultimate truth. The case of Team demonstrated that sometimes a different approach may work better.

SMEs, being small, have certain disadvantages. Small size is sometimes perceived as a lack of creditability. There are many real life stories of companies who have problems establishing in their own country, but could do so in a foreign country. Riding on their overseas success, they subsequently become successful in their home market. Perhaps the saying is true that ‘prophets are seldom welcome at home.’ The moral is therefore: while the theories are good starting points, SMEs should not be afraid to try something different.

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CHAPTER 28
EXPANSION METHODS

This is a continuation of the discussions that began in Chapter 27, and will end at next chapter. This chapter explores the supplementary options after a decision is made for business directions. When the direction for development selected is expansion, there are three common methods to realize the chosen strategy. The framework of this chapter is based on that of Exploring Corporate Strategy1 and much of the facts are derived from there.

28.1 Concepts and Principles
The three methods to pursue expansion strategies are: a) internal development, b) mergers and acquisition, and c) joint-development and strategic alliances. Lynch provided a matrix to guide the choice of the options. In the matrix, international expansion is also included2 (See Exhibit 28-1). However, the subject will not be discussed in this thesis for being irrelevant to SMEs.

28.1.1 Internal Development
This is by far the most common strategy for most companies. Internal development means a firm will use its own resources to expand. This is sometimes also called organic growth. Cash-rich companies try to avoid this method because it requires time to see results. However, there may be no other choice in some situations but to pursue this method. Examples are: 3
? The project is highly technical in design or manufacturing method
? When there is a need to learn up the product or market while
? Launching the products or service
? Small companies with limited finance. Internal development allows the firm to grow at its own pace
? The project is breaking new ground nature
? When a suitable company cannot be acquired, e.g. in Japan
? When a firm wants to avoid cultural shock needed when integrating two firms

EXHIBIT 28-1
Expansion Methods Matrix
Source: Lynch (1997 p.504)

Company
Inside Outside

Internal development
Merger
Acquisition
Joint venture
Alliance
Franchise

Exporting
Overseas Office
Overseas manufacture
Multinational operation

Global operation

Merger
Acquisition
Joint venture
Alliance
Franchise
Turnkey
Licensing

28.1.2 Mergers and Acquisition
Mergers and acquisition had been happening in waves. Example in the UK: 1898-1900, 1926-9, 1967-73, and 1985-7. There are a few obvious advantages with acquisition:4

? Speed. In some industries, the changes in the product and market could be so rapid that the only way to gain entry into a market is via acquisition
? Bridging the lack of a specialized knowledge. All industries have their own peculiarities in the way business is done. Buying up a company allows a firm to possess the needed knowledge
? Minimum disruption to the market. It can avoid a retaliation on pre-empting of the existing players. In fact, for a static or steady market, this is a better way to gain entry into a market
? There could be financial incentives to do so. A company with high PE ratio may be tempted to buy another with low PE ratio, hoping for a overall increase in the share value. In some cases, as have been common in the US, companies are bought cheaply and its assets are stripped and sold piece-meal to realize an attractive profit
? Take advantage of a company deep into the experience curve. This allows the acquiring firm to tap into the advantage immediately

Mergers are similar to acquisition except that both parties come together willingly for mutual benefits, by exploiting synergy or economy of scale etc. Lynch added that mergers usually arise because “neither company has the scale to acquire the other on its own.” 5
28.1.3 Joint Development and Strategic Alliance
Since the 70s, companies are finding it harder to cope with the increasingly complex environment alone. Strategic alliances had been explored as a solution. Many varieties of alliances exist in the market place. They may range from the formalized relationship to the informal loose arrangement. Some of these are discussed below: 6

? Joint venture: usual for two or more companies to team up to exploit a certain market, with each partner contributing some strength. This has been a very popular arrangement with the Eastern and Western Europe with the East Europeans contributing land, work

force, local market and the West providing technology, finance and sometimes management
? Consortia: usual for infrastructure, project specific venture such as the Eurotunnel, or ongoing mega industries such as Airbus Indutrie
? Network: without a formal relationship but through a "mechanism of mutual advantages and trust"
? Other opportunistic alliances: normally focus around particular ventures or arrangement. Examples are the airline strategic alliances to serve the global market. Such arrangement may involve a simple agreement or formalized by purchase of stock, one sided or mutual

28.1.4 Intermediate Arrangement
There are also other forms of strategic alliances tied up along the value chain or value system. Some of theses are discussed below: 7

? Franchise: McDonalds, Kentucky Fried Chicken and Pizza Hut are operating this way to extend their fast-food restaurant chain worldwide. It is common that the franchise holder provides the venue, the staff and working capital, while the franchiser provides central support such as advertising, product development, business systems and human resource training etc.
? Licensing: quite similar to the franchise arrangement except it tends to be product based. A highly technical or scientific product may be licensed out to be manufactured and marketed by operators in other countries in return for a licensing fee and other forms of payments.
? Subcontract: certain parts of the process or a particular service may be subcontracted out instead of being performed in-housed. Subcontracting is normally contractual in nature, with no ownership of the subcontractors.

As a guide, where assets may be misappropriated, it is better to have formalized, contractual type of arrangements. Where the assets appropriation is unlikely to occur, or trade secrets or advantages are protected by patents, trademarks etc, a looser arrangement is preferred.

28.2 Application in SMEs
28.2.1 Survey Findings
The interviewees generally have heard of the various methods explained in the foregoing paragraphs. Strategies alliance does not seem to go down well with the SMEs interviewed. Only 7 out of 50 of the SMEs actively pursue strategic alliance. This phenomenon seems to be common among oriental companies. Mergers and acquisition are also not considered generally. That boils down to internal development as the only preferred methods.
Relating to this issue, acquisition may also be viewed from the other side – being acquired. There was one case of the entrepreneur selling off the entire operation before it failed, which was a smart move. There were, however, at least other five cases of business jeopardy, yet the owners had never allow the thought of selling to cross their minds. This should a point enterprises should be made to accept. It is always better to

salvage something out of a failing business, than to keep one's face and watch the business go up in smoke.

28.2.2 Case Study

Team is a firm believer of strategic alliance. It was decided by the management to overcome the low capitalization problem.

The results after introduction of the alliance scheme (called associate scheme in the company) higher caliber people and firms were attracted to the company. The company in fact had even tried the method of contracting out the manufacture and transport (Benetton's famous method). The re-organized company structure has only a few key managers whose duties are to overall manage the company and support the associates. The sales grew much faster, as a comparison to the past. However, the profit seems to dip probably due to the higher payout needed. In terms of ROCE, it can achieve between 30-40%, which is considered superior. Substantial risks had been shared, which is visibly appreciated during the current economic downturn. With most other companies forced to sell to the market leader, the company is standing strong.

28.2.3 Views of Business Observers

Generally all the observers agreed that the methods to accomplish expansion are very sensible, and frequently practiced. They expect most of the SMEs to use internal development as the first choice, and strategic alliance as the second. Mergers and acquisitions are less common for SMEs because of financial constraints. The two human resource managers felt that the expected integration problem and possible value destruction are also discouraging factors to consider mergers and acquisitions.

28.3 Chapter Conclusion

Although internal development is the preferred method for expansion among the SMEs, it is not the only way and entrepreneurs should be acquainted with the other options. Strategic alliance to jointly explore new opportunities can be a mutually rewarding. They simply reduce the risks, competition, cost and stress. The views of academics and theorists all hail it a viable route to business success. While the writer and a small fraction of the SMEs interviewed favored exploration of strategic alliances, most SMEs frown at the idea, probably due to fear or distrust.

SMEs are urged to give the various routes a try when the opportunity arises. With experience and proficiency gained, more complex types of strategic alliances can be pursued.

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CHAPTER 29
STRATEGIES TOWARDS BUYERS AND
SUPPLIERS

The powers of buyers and suppliers from part of the five forces of competition, which in turn determine the attractiveness of an industry. A discussion on strategic management would not be complete without looking into ways to deal with buyers and suppliers powers. This chapter explores some of the available methods with which a firm can apply to reduce its vulnerability when facing powerful buyers and sellers. This chapter draws heavily on Competitive Strategy.1

29.1 Buyer Handling Strategies
Buyer management begins with proper selection. There are a few guidelines for selecting good customers that are profitable and yet the firm's capability can be sustained.
29.1.1 Purchasing Needs Relative to a Firm's Capabilities
With this method, a firm should match purchasing needs with its own capabilities. When a firm chooses a buyer who has needs that the firm is in a strong position to supply, a good fit exist. This is how the effect of a firm's capabilities are perceived as really useful. Another advantage is that there are less development work the firm has to do, to exploit and service such customers. To select customer groups, it must first segmentize the market and then review the key factors for success of each group. The customer selection is based mainly on the strategic fit. As for individual customer selection, it is expected to be harder, which invariably requires the assistance of the sales force.

29.1.2 Buyer's Growth Potential
Selecting customers with growth potentials make good sense, since most companies expect business growth to cover cost increases or produce better profits. Growth in customers can come from three possibilities: a) the industry is growing as a whole, b) their own customers are growing, and c) they are able to increase their market share. Conversely, customers with negative growth may present the seller with problems at a later stage.

29.1.3 Intrinsic Bargaining Power of Buyers
Generally speaking, buyers are relatively weak and not likely to pose a threat if they:
? Purchase only small quantities relative to the firm's capacity. Hence they are not in a bargaining position to negotiate better deals
? Lack qualified alternative source. Example: for some specialized items, it is not easy to get exact equivalents.

? Have to spend much time to shop, transact or negotiate. A buyer may then stick to the current firm because of the hassles
? Lack the capability to integrate backwards. As a result they have to purchase the item from outside
? Have to incur high switching costs such as modification, testing, certification, retrain staff, acquire new equipment, establish new logistical arrangements etc, to facilitate a new source of supply

29.1.4 Price Sensitivity of Buyers
A firm’s profitability depends among other things, on the price it sells its products or services. Therefore it pays to understand the circumstances under which a buyer can tolerate higher prices. Some are given below:

? When the cost of the product is a small part of the cost of the buyer’s product cost, or purchasing budget
? The penalty for product failure is high relative to its cost
? Effectiveness of the product (or service) can yield major savings or improvement in performance
? The buyer is using a high-quality strategy for his/her products, which the purchased product helps to achieve
? The product in use is custom-designed or differentiated
? The buyer is very profitable, or the extra cost can be readily pass on the cost of final products
? The buyer is ignorant of the existence of substitutes

29.1.5 Costs of Servicing Buyers
The costs of servicing buyers can be an important factor that influence profitability. Yet the servicing costs can be quite subtle; and many seemingly profitable deals turn out not to be so. Some factors that increase service costs are given below:
? Small order size. Many cost items relating to processing an order remain the same irrespective of its size. Therefore small order cost much more to process by unit

? Selling through a distributor adds costs in the form of commission, when direct sale is possible
? Short lead times may add cost. It interrupts machine running schedule, thus affecting the economy of scale and add costs
? Irregular order pattern can be costly. Production and logistics cost may escalate as a result
? Shipping (transport) costs can add up to quite a substantial percentage. Therefore it is a factor to consider in pricing
? Selling and after-sales service costs can be substantial. Products that require much canvassing and technical service must carry adequate margin, in order to be profitable
? Requests for customization or modification can add substantial cost over standard offers. A factor must be added to the standard price when asked to do so

29.2 Strategy for Purchasing

There are many purchasing strategies, procedures, and methods that are practiced in the real business world with great success. This chapter explains the more usual ones. A broader framework is first discussed, followed by more specific techniques in Section 29.2.5.

29.2.1 Stability and Competitiveness of the Supplier Pool

Under this perspective, a buyer should not only look at the competitiveness of the supplier's prices. From a strategic point of view, the efforts of the supplier in maintaining or improving their competitive position is also important. A weakly positioned supplier may be forced to increase prices or reduce quality, which in turn can cause a spinoff effect on the buyers. To change suppliers, it will also cost the buyer time and money.

29.2.2 Optimal Degree of Vertical Integration

A firm must not only be thinking of procuring all inputs from the open market alone. Sometimes it may be cheaper or strategically better to integrate vertically. Example, Petronas, the national petroleum company of Malaysia decided to take over MISC, a shipping company. The rationale was that MISC is making 70% of their profit by shipping LNG of Petronas to Japan. Acquiring the company therefore ensures the service is not being jeopardized in any way. Besides, Petronas can now retain profit in their own group. Of course, not all products and services can be integrated. There are many instances where the inputs just have to be procured; in which case smart purchasing strategies will ensure good returns.

29.2.3 Allocation of Purchases among Qualified Suppliers

As a rule, if there is a choice, the purchaser is in a better bargaining position. Therefore, unless it is absolutely necessary, one should not let himself or herself end up with only one supplier. This may not be possible at all times. A good example is the franchiser only. Another example is sole agent for a foreign company. Sole agents are normally prohibited no parallel represent another supplier. Still, business people refused to put all the eggs in one basket. Innovative methods to reduce the vulnerability have sprung up. A franchiser for McDonald may open another shop (using some relatives' names perhaps), representing Pizza Hut. The sole agent for a product line may represent other non-competing products.

29.2.4 Creation of Maximum Leverage with Chosen Suppliers

The principle may actual run contrary to the principle explained above. Creating maximum leverage with a supplier may require the company to place sufficient order in exchange for deeper commitment. This has been a strategy used in the US in 90s, with which the number of vendors were reduced, in return for greater service and sometimes better price. Some companies are reported to even go into vendor training, to help upgrade quality or service capability, which will eventually benefit the company.

29.2.5 General Purchasing Tactics

In all the purchasing strategies stated above, some smart purchasing tactics can help bolster effectiveness and results. Some proven ones are:

? Special purchases. Purchases of an item should as far as possible be spread among a few suppliers. This is basically to increase the firm's bargaining position. However, one

should exercise some caution not to spread the purchases too thinly, to the point that no supplier is concerned about losing it. Balancing the two extremes is the key.
? Avoiding switching costs. To apply this principle, a firm should not over-rely on a supplier for engineering assistance or training. Further, it should also resist a supplier's efforts to create a custom-designed system or the installation of specialized ancillary equipment etc. This may not be easy in present-day situation, where many products are so proprietary.
? Encourage alternate sources: It may be a good practice to encourage new suppliers to come into the picture. The writer has seen some special brochures printed by companies explaining their product lines and what raw materials and services are needed in the company. These brochures are placed in the reception area, to be freely taken by visitors. Other companies such as those in the automotive industries have vendor development program to assist small companies to establish themselves to be credible vendors. The canning industry in the UK reportedly encouraged US can makers to set up operation in the UK, when Metalbox was dictating the market in a monopolistic way.
? Promote standardization: In some instances, especially when the buyers have substantial volume to offer, own product specifications reduce suppliers' product differentiation and undercuts the erection of switching costs. Hyper-markets organized many products in their own brand is such an example.
? Create a Threat of Backward Integration: This can be useful when the suppliers are not receptive to normal negotiations. A company that is getting its supply from a local importer may threaten to import directly, fulfilling the role of an importer. Even for proprietary products, this option can be used in the form of parallel imports
? Use of Tapered Integration: This method refers to the arrangement with which the company integrate partially backwards by producing some of an item itself. However, it will continue to purchase some or even the bulk of it from outside suppliers.

29.3 Applications in SMEs

29.3.1 Survey Findings

All the SMEs appreciate the logic to manage the buyers and sellers through some strategies. On buyer management, there is only one SME foolish enough to rely on a single buyer; and the SME was lucky to be sold off before it went bankrupt. All other SMEs have multiple buyers, which is smart management.
On top of that, they apply a range of other strategies (tactics) such as delivering the commitment, providing some differentiation, ensure good services, price competitiveness and maintaining good relationship with the buyers. The Indonesian SMEs admitted that they even have to resort to bribery to keep a buyer happy, which is more likely a norm in that country.
On supplier management, only a few of the SMEs surveyed are stuck with a single supplier. For those cases, the arrangement is perpetuated through contracts, relationship and delivering performance level expected. Some also try expansion into approved unrelated business lines to ensure their income stream is not being jeopardized with the loss of agency.

29.3.2 Case Study

Team started out as a sole distributor of an American company for Malaysia. The agency was lost four years later, due to disagreement and mind chemistry between a new principal representative and a Team partner. Sparing the details, it was hardship of the aftermath. It took two to three years to repair the damage. Today, the company does not act for anyone on an exclusive basis to prevent a repeat of the history. As for customers, Team always had a multiple customer approach, never to put it entire fate on one or two huge customers. The downside of this phobia is that the managers unconsciously avoid the major accounts. With mostly average-sized accounts in its stable, the profitability cannot be substantially improved.

29.3.3 Views of Business Observers

The observers find the strategies interesting and in fact express admiration that strategic management can be so relevant. They would advise their SME friends to learn up the techniques.

29.4 Chapter Conclusions

Buyers and sellers are part of the industry structural analysis, which determine the profitability and competitiveness of a firm. When threatened by the power of sellers or buyers, something must be done before it becomes too late. In the first place, when one considers to get into business, he/she should avoid getting into such a situation without some firm assurances of continued business such as a contract.

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CHAPTER 30
RIVAL-DRIVEN STRATEGIES

Of the five forces that determine a firm's competitiveness, its direct rivals are usually the most menacing. Therefore in business, it is often referred to as warfare. To survive, a firm always finds itself having to strategize by watching its competitors. This chapter suggests some strategies a firm can use in dealing with its direct competitors. The framework and much of the materials are based on the works of Johnson and Scholes.1

30.1 Concept and Principles

The two broad strategies a firm has in dealing with its competitors are either offensive or defensive. Of which, offensive is normally preferred, as the adept goes: "The best defense is offence.” Thomson and Strickland added: “Competitive advantage is nearly always achieved by successful offensive strategic moves; defensive strategies can protect competitive advantage but rarely are the basis for achieving competitive advantage.” 2 Six offensive strategies followed by the defensive strategy are discussed in the following paragraphs. Offensive strategies are particularly important for two reason: 3

? To understand the strategies competitors may undertake
? To assist in planning appropriate counter-measures

30.1.1 Matching or Exceeding Competitor Strength
This is a direct reference to the concept of building competitive advantage. This method will firstly allow gaining of market share by out-competing weaker rivals. Secondly, it helps to narrow up the gap with a stronger rival, and allow the firm to compete more on equal footing. Capability building can aim at low cost, differentiation or focus. There are disadvantages too as this method involves direct challenging with strengths of competitors. It could turn out to be severe resource draining with slow gains. The strategy then becomes a war of attrition in which the stronger one financially will win.
Lynch particularly caution attacking a market leader as a high risk strategy, because of the strength of such a competitor. 4

30.1.2 Capitalize on Competitor Weaknesses
This method involves directing competitive attention to the weaknesses of rivals. By competitor’s weaknesses, it could mean any of the following:

? A neglected geographical region
? A neglected segment of the market
? An inferior product line
? Poor service
? Weak brand recognition
? Some unfulfilled market segments

Thomson and Strickland felt that this method stands a better chance of succeeding than directly challenging competitor strengths. 5

30.1.3 Multi-frontal Attack
By this method it means a firm may attack the market with a combination of advantages and appeals to the customers. Example: price cuts, increased advertising, new product introduction, free samples, coupons, in-store promotions, rebates etc, all at the same time. The purpose of this method is to throw a rival off-balance, forcing it into confusion, panic and scrambling. It also aims to gain a sizeable chunk of a rival’s market quickly, thus threatening their viability.

30.1.4 End-run Offensives
This is sometimes called franking by the marketing people. Essentially, it seeks to avoid head-on clash with the market leaders. “It maneuver around competitors and be the first to enter unoccupied market territories.” 6

An example is to move aggressively into geographical areas where there is no strong competitive presence. Another example is to develop new features of products or get into new technology ahead of the rivals. End-run offensive forces the competitors to play catch-up.

30.1.5 Preemptive Strikes
This is quite similar to end-run offensive, where a firm moves first to secure an advantageous position, thus foreclosing or discouraging to a rival to do the same time. Some examples are
? Expand production capacity well ahead of market demand
? Tie up the best material sources
? Secure the best geographical locations
? Obtaining the business of the best and most lucrative customers
? Create a psychological image in the minds of the customers
? Secure the best distributors in an area

Many well-known companies have done that ver successfully. Debeers in diamond trade, Dupong in Titanim oxides. 7 The one thing to remember is that one does not have to totally block rivals from following or copying; it merely needs to give the firm a ‘prime’ position.

30.1.6 Guerrilla Attack
This form of strategy is best suited to small firms who have “neither the resources nor the market visibility to mount a full-fledged attack on industry leaders. 8
A guerrilla attack uses the hit-and-run principle to “selectively attacking where and when an underdog can temporarily exploit the situation to its own advantage.” 9 There are some suggestions given below:

? Go after customers that are not important to the rival
? Pick customers who are not very loyal to the rival
? Focus on areas where the rivals are overextending themselves to the point of slacking in service
? Catch some odd orders which the rival may miss
? Slam rivals with legal proceedings should they use unethical tactics

30.1.7 Defensive Strategies
It is all very comforting to think of attacking others and reaping new businesses. In the real world, the competitors are also thinking of the same thing. All firms are therefore subject to challenges from rivals. They may be new entrants in the industry or established firms. The purpose of defensive strategy is to lower the risk of being attacked, weaken the impact of any attack that occurs, and influence challengers to aim their efforts at other rivals. Some suggestions by Porter10 are:
? Close off vacant niches and gaps
? Introduce products close to the rivals
? Keep price low, at least temporarily
? Tie up distributors exclusively

? Matching the offers by rivals
? Protect proprietary know-how
? Purchase up critical raws
? Signal to the rival that retaliation will be strong if attacked

30.2 Application to SMEs
30.2.1 Survey Findings
All the SMEs understand the need to defend their business and if possible gain new businesses. Only 30% of the SMEs surveyed are aggressively involved in offense, mainly due to the intense need to cover cost or as part of the strategic plan to grow. The other 70% are preoccupied with defense due to increasing competitive pressure. They cannot reverse the position, because they do not have much of core competence that they can rely on to attack.

30.2.2 Case Study
Team applies rival-based strategies a lot in building a place in the market. In the past, the strategy was more on the defensive than offensive. In the last two years, with more manpower, the company is involved with more offensive work now, partly because of the need to cover rising costs. Defensive strategies are needed just like anywhere else, as there is no way to stop competitors knocking on customers' doors. By any large, the company gained more accounts than losing them in the last 12 years, with a compounded 20% growth per year.

30.2.3 Views of Business Observers
The observers were surprised that warfare methods are being used for strategic management. Nevertheless, they agreed that the information is useful; an that SMEs should understand it to apply it as the situation dictates. In their views, nothing is more menacing than the direct rivals in business. If there is no firm direction or method to handle competitors, it is likely going to a war unprepared. Heavy casualties are naturally expected.

30.3 Chapter Conclusions
It is therefore clear that SMEs like any other business entities must possess the knowledge to handle competitors. Pretending that they are not there would not help the situation. While in many situations it is better to remain status quo or operate with a certain understanding among rival firms, the options of offense can defense must always be on standby. That makes the need for warfare tactic all the more necessary.
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CHAPTER 31
THREAT-DRIVEN STRATEGIES

So far, strategies seem to be all good news: capitalizing on opportunities, or building capabilities to drive the company forward. This is hardly the true picture. Besides looking forward, a company must also look for possible pitfalls, threats and crisis to avoid. Otherwise strategic planning is not complete. This chapter looks into the key threats, pinpoint sources and finding suitable strategies to deal with them.

31.1 Concepts and Principles

Threats may arise from the broad environment, the activities and behavior of competitors and customers. They are also brought about by the actions of the company or its strategies; in other words, self-inflicted. A good example is an overly ambitious strategy ended in heavy losses that the company can ill-afford. A firm can identify threats by examining the various analyses given in Chapters 4 – 8 and 10 – 18. In fact, the list can come up to be very long; more that a normal company can handle. The strategies relating to threats are either to avoid them or provide contingency plans to handle them as they occur. Avoiding threats may mean not incurring unnecessary risk through ignorance, over-ambition or simply being hard-headed.

31.1.1 Insurable Risks and Proper Housekeeping

There are many common risks that can be managed through insurance policies or proper housekeeping. Examples:

? Taking the necessary insurance policies to cover the fire, burglary, infidelity, key people accidents, hospitalization, industrial accidents, product liability, product damage in transit etc. Any of such incidents can be devastating to a company’s liability and financial position. Companies heavily involved with foreign trade and investments, should also consider hedging their fund flows etc.

? Protecting key business information against fire, computer system data corruption, industrial espionage or other acts-for-god calamities. Accounts and other financial statements should be duplicated in and kept in a fire-proofed safe or better still, in a different premise

? Although insurances make good for losses in a fire etc., they are seldom adequate to fully compensate for new facilities and inconveniences sustained. Therefore some proper housekeeping should be undertaken to avoid causing and sabotage. Some companies prohibiting more than two key members on the same flight is such a measure.

31.1.2 Other Risks

Many types of risks are directly relating to environmental uncertainties or a misjudgment on the part of the company. Most of these are not insurable. In fact the chances for their occurrence are not great. The only problem is that if they do occur, serious difficulties would be created for the company. Therefore good strategic planning should include planning for such mishaps through contingency plans. “Very simply, contingency plans are preparations to take specific actions when an event or condition not planned for in the formal planning process actually does take place.”1

As mentioned earlier, the list of probable problems and threats can be very long. It is almost impossible to provide answers to all. It calls for a framework on what needs to be catered for and what not to.

EXHIBIT 31-1

Alert System Matrix Environmental Issues

Source: Anthony (1991 p.39)

IMPACT ON FIRM

High
Priority

Medium
Priority

Low
Priority

High Medium Low

31.1.3 Selection
The selection is mainly based on the degree of probability and degree of critically. A highly probable event should have a clear contingency plan and that is easy to understand. Some events that have low probability also should be catered for, due to the high critically. General Electric has a matrix called Issues Alert System Matrix2 which can be used for this purpose. See Exhibit 31-1.

EXHIBIT 31-2
Example of Format for Writing Contingency Plans
Source: Adapted from Anthony (1991 p.232)
Contingency Plan # 1
“If sales drop 10 percent below expectations our net income will decline by $10 million. In order to reduce this loss by 50 percent it will be necessary to defer the programmed expansion of plant Y, to reduce the number of employees to 1,000 and to cut variable production costs in proportion to the sales decline.” Anthony 232
Contingency Plan # 2
“If the union go on strike, our products would not be available to meet orders. The orders from USA carry penalty clauses that cause the company to lose $500,000 for a month’s delay. Must start to look for some outside contractors to toll make our products, starting with small quantities first, say 10% of our total output.”

31.1.5 Trigger Points
The best contingency plans drawn is useless it is invoked to utilization when the need arises. The question is when? When would the plan come into effect? This brings the focus to the concept of establishing trigger points. A trigger point is one that brings on the contingency plan when event has reach a certain, pre-stated stage. Trigger points normally work on warning signals. For example, the company will be in serious financial problem if its sales drop below 30%. The trigger point for this case may be: if the cumulative sales go below 20% for two consecutive months. Sometimes, the trigger point will be the event itself. For example, a contingency dealing with fire will have the fire itself as the trigger point. Two other important points of contingency plans are the appointment of the person to declare the enforcement, and a continuous monitoring system on the warning systems.

31.2 Application to SMEs
31.2.1 Survey Findings
All the SMEs surveyed accept the logic of taking up insurances to cover any untoward eventualities. However, on detail discussions, they take up only very basic policies such as those for fire, burglary, vehicle and worker insurances. There are still significant events uncovered such as goods in transit (especially within the country, product liability or key man insurances). There are many SMEs reduced to zero value, or becomes a legal stigma to settle the dead man’s share, when the founder died unexpectedly. With the key

man insurance, the proceeds can be used to settle partnership problems or buy time to rebuild the company to carry on or for sale.

Only three of the SMEs prepare some form of contingency plans while the rest live on a positive attitude that bad things will not happen to them. Many of these are encouraged by years of crisis-free operation.

31.2.2 Case Study

Team is equally guilty of under-insuring. This is so partly due to lack of time and partly due to the unwillingness to spend the extra money. Therefore the company is still taking more risks than necessary. This is an issue the company must, and indeed have the intention to, address soon. For the other risks, the company keeps a backup copy of the accounts (in diskette) in a fire-proof safe and updating it every month. Should a fire breaks out, the records are still intact. It had also identified the toll manufacturers available to blend the chemicals, should the blending plant be destroyed in a fire.

31.2.3 View of Business Observers

The business observers showed keen interest on this subject, with a view to apply it in their large companies too. On second thought, they expect it to be taken care of at the head office. As for the SMEs, the observers feel that they should not take unnecessary risks, at least not with those insurable ones. The observers however, feel that the information given in this chapter is insufficient to assist an entrepreneurs and recommended to provide more information. Crisis management unfortunately is a very wide subject by itself and not intended to be included in this thesis. Useful information however can be obtained from the works of Booth 4, Goldstein5, Slatter6 and Goddard7.

31.3 Chapter Conclusions

Threat-based strategies are meant to cater for the undesirable side of events. Most of the risks and crisis are not exactly unforeseeable, but rather taken for granted. Many of the risks can be managed through taking up insurance premiums. There are other risks that cannot be insured and an internal program to manage these risks is needed. The Issues Alert Matrix introduced by GE is a tool that can be used. Of the four components of risk management – identification, estimation, evaluation and management8 – the matrix provided the first three. The last part is unique to all situations and must be provided for by the enterprise. Insurance costs should not be saved as far as possible. Adequate coverage is encouraged, but not to the point of being wasting. They are part of the operating costs. On the other types of risks which are not insurable, contingency should be planned to lessen the devastating effects, or allow the steps to implement the proper housekeeping to avoid a crisis in the first place, as in a crisis, the losses are never fully recovered.

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PART VIII

Strategic Choice

CHAPTER 32
RETURNS ANALYSIS

32.1 Concepts and Principles
This chapter sees the discussions now being shifted to the choice of strategies. Returns or profits are by far the greatest influence in decision making for commercial organization. However, it is not to suggest that the final choice of an economic decision is based on the most profitable option. Sometimes, other strategic consideration may take precedent than mere profits. There are a few approaches to the analysis of returns, as listed below. This chapter is based on the framework and information of Exploring Corporate Strategy.1

32.1.1 Returns on Capital Employed (ROCE)
This is a very sensible way to determine returns for one's investment. Using a benchmark such as government bond rate, or bank prime rate, one can assess the relative attractiveness of each investment. It can also be usefully applied to assess the merit of an intended strategy. Example: a sales department suggested a price reduction that will result in an increase in turnover. By constructing a proforma Profit and Loss account, it was found that although the net profit dropped, the absolute dollar profit actually increased. Since this can be achieved without having the shareholders to add more capital, it is resulted in a higher return on the capital employed. The suggestion is therefore a good strategic move. This example shows how an option can be decided on its returns on capital employed. Where there are more than one options, their respective ROCEs can be compared to make the final decision.
Although the above technique can be useful, it should not taken as the biblical truth. There are some obvious assumptions made which must be considered: 2

? “These methods were developed for the purposes of capital investment appraisal and therefore focus on discrete projects where the incremental costs and cash flows are easily predicted.” In strategic development, these conditions are usually different. Firstly, the decision may be integrated with operation and therefore accounting for incremental cost and revenue becomes difficult. Secondly, strategic development may involve things that have no clear revenue, e.g. building a brand name or corporate image.
? The over-relying on cost of capital (COC) as the hurdle to assess strategic options may result in selecting options that are not really best for the firm. Maximum dollar return may not be always the objective, for example, if what the firm needs this year is building of capability to ensure better future profits.
? There are quite many assumptions made in using the techniques. Wrong assumptions can lead to erroneous results and final selection.

32.1.2 Payback Period
This is a very simple evaluation method on economic options. Simply stated, it attempts to find out “the time at which the cumulative cash flow becomes zero”. 3 See Exhibit 32-1. Decision is then made with reference to these periods. Example: a machine is proposed to increase the output as a strategic option and the payback period is found to be 5.5 years. A company with fast profit in mind would most likely reject this option. There is no hard and fast rule on what are the acceptable payback periods. The acceptable magic number depends very much on the industry, the management values and ambition etc. For highly capital intensive industries, it is usual to accept investments of payback periods of over five years. Infrastructure projects can take extremely long payback periods of 20-60 years.

32.1.3 Discounted Cash Flow (DCF)
DCF is the most widely prescribed investment appraisal technique. This is an extension of the payback period analysis, except that the ‘time value’ of money is taken into consideration. In other words, at a 10% discounting rate, a dollar profit a year from now is worth only 90 cents in today’s term. The 90 cents is called the present value or PV. DCF analysis requires the addition of money tie up in the project, and the annual discounted cash flow (after taxation) for the entire expected life of the project. Those projects with positive present values are said to have net present values (NPVs). The choice can then be based on the NPV differentials. Calculation of DCF is not difficult especially with the assistance of a spreadsheet program. See Exhibit 32-1 for a DCF in graphical form.

32.1.4 Shareholder Value Analysis
Shareholder value analysis, which attempts to measure returns in terms of real value creation, generally represented in the movement of the share prices. Mathematical models had been devised to derive share values more accurately. The factors (value drivers) normally taken into considerations are: the planning horizon, the growth rates, operating margins, cost of capital, taxation rates, further capital investments needed, incremental working capital etc.
EXHIBIT 32-1
Profitability analysis

Source: Johnson and Scholes (1993 p.283)

(a) Return on capital employed

(B) Payback period

NPV: Y0 = -10 Y1 = +2 (1.82) Y2 = +5 (4.13) Y3 = +6 (4.5)
Y4 = +6 (4.1) Y5 = +5 (3.1) Y6 = +2 (1.37)

(c) Discounted cash flow (DCF)

* Using a discounting rate of 10%
Figures in brackets are discounted by 10% annually

This had been a subject of great interest in the 80s both for corporate raiders and potential victims. The value drivers are often tested in a 'what if' manner to determine the optimum combinations. Strategies can logically flow from here. Therefore, the shareholder value analysis provides a quantitative method upon which strategic options can be ranked in terms of value creation.
These techniques are very much in financial terms and it is difficult to simplify them into a few paragraphs and yet be information. For further details, corporate finance materials such as that of Brealey and Myers4 would be helpful.

32.2 Application in SMEs
32.2.1 Survey Findings
The SMEs being survey made investment or strategic decisions much on intuition or gut feelings. In fact, seldom are the SMEs encountered with more than one option. The situation therefore becomes whether to go or not to go. There are only a handful who do some payback period calculations. Most would take the breakeven analysis as the starting point of decision, and then look into the extend of the risks if things go wrong. So long they can afford to lose, decision is often made much easier. Even the accountants in the survey do not employ ROCE, DCF or shareholder value analysis at all in their strategic decision process.

32.2 Case Study

The writer's company also does not do payback period analysis as we find them meaningless. A shareholder value analysis has been done choosing the right combination of the value drivers. Incidentally, this analysis now largely guides our overall corporate plan. For one thing, the company has stopped being sales oriented but more profit conscious, which is needed to deliver the desired share value.

32.2.3 Views of Business Observers

All the observers are professional managers who are more comfortable with numbers, except the two human resources managers. Therefore it is not surprising that they endorse strongly of these techniques to evaluate projects. The bankers pointed out that these exercised must be done in order a loan can be processed. They feel that the exercises should not be done to satisfy the bankers, but rather themselves, so even for in-house financed projects, these calculations should be done. Four observers did not offer opinions as they claimed they are not competent enough in this areas to offer any advice.

32.3 Chapter Conclusions

The above techniques were devised for investment decisions. They also serve as useful measurement of intended strategies. Different companies will view each tool differently. Simple and small companies may find the payback period analysis good enough. More sophisticated companies may look into the ROCE, DCF or even SVA. The survey was disheartening as it underscore the tendency of SMEs not to use the correct tools for investment or strategic decisions. Therefore, there is a need to introduce the concepts to the SMEs, in order that they will benefit.

REFERENCE

1. Johnson. G. and Scholes. K., Exploring Corporate Strategy, (3rd Ed), Prentice Hall, 1993
2. Ibid., pp.284-5
3. Ibid., p.282
4. Brealey. R.. and Myers. S., Principles of Corporate Finance. McGraw Hill, 1996

CHAPTER 33

RISKS ANALYSIS

33.1 Concepts and Principles

Options with good returns can lead an entrepreneur to failure because of the attendant risks they carry. Risk analysis attempts to reconcile the optimistic projection with a possibility of events going wrong. Decisions of major investment should never be put into force without passing through the test of risk analysis. Risk can be viewed from a few angles:

33.1.1 Financial ration projection

The financial ratio would change with a strategy. Some of these ratios can increase a company's vulnerability e.g. cash flow analysis, gearing ratio, breakeven point, liquidity ratio etc. Changes in these numbers can affect the health of a firm. For examples:1

? Cash flow analysis. This is essential. An organization can report decent levels of profitability at the same time as going bankrupt through a lack of cash. Each option needs to be assessed for its impact on cash flow in the organization

? Breakeven analysis. This is often a useful approach: it calculates the volume sales required to recover the initial investment in the business. It is important to explore whether this volume is reasonable or not.

? Company borrowing requirements. The impact of some strategies may severely impact on the funds needed from financial institutions and shareholders. This represents a real area of risk for strategic analysis.

? Financial ratio analysis. Liquidity, asset management, stock holding and similar checks on companies can be usefully undertaken. It might be argued that these analyses are not needed since the company should already have this information. But what about key suppliers? And key customers? The knock on effects of bankruptcy in one of these, when the company itself I stretch financially, deserve consideration.

The enterprise must ask itself whether it can manage such change in the company's financial position.

33.1.2 Sensitivity analysis

"This is a most useful form of analysis and would be regarded as part of the basic strategy process in many organizations. Essentially, it explores the 'what if…?' questions for their impact on the strategy under investigations."3 Some of the key assumptions (economic growth, pricing, sales growth, currency fluctuation, raw materials price etc.) should be questioned and the consequences understood. Example: an enterprise assumes it will grow at 20 percent in revenue. It must ask itself what if the revenue for some reasons, turn out to be only 10 percent. The probability of such eventuality may also be forecasted to add realism into the forecast. Computer spreadsheet packages render this kind of testing very simple, using the 'what if' approach.

All the changes will invariably affect the company in terms of ROCE, cash flow and other company objectives. Clearly, the purpose of all sensitivity analyses is to provide those selecting the strategies with a useful estimate of the risks involved. But what are the factors to be used for sensitivity tests. Lynch recommended to use the key success factors (KSFs).4

33.1.3 Decision Matrices

This is applicable only when the few choices are just different methods of a similar strategy. Take the example of an enterprise's strategy is to enter a new geographical market. A few choices would come to mind: a) build new premises, b) converting some existing ones, or c) lease.

The final selection can again be guided by a number of 'rules':

? Optimistic decision rule – pick the best outcome

? Pessimistic decision rule – pick the best of the worse

? Regret decision rule – pick the one with minimum lost opportunity (opportunity cost)

? Expected value decision rule – pick the one with the least problems

For risk management, the downside should matter most whichever rule is used.5

33.1.4 Simulation modeling

A strategic option can be screened by computer simulation models, to assess possible danger and pitfalls. Obviously, this cannot be applied under all circumstances and situations. Lynch's view on the worth of simulation modeling is worth nothing as he has been both an academic and corporate figure. "Simulation modeling involves the use of statistical and other econometric techniques on the variables involved in strategy to predict the outcomes of future strategy options. With the complexity that is evident in much of corporate strategy, it is unlikely that simulation modeling will be able to produce major evaluative results at the present time." He added, "However, these represent issues to be resolved over time. There are already some useful models in economic and financial modeling that provide evidence of what may be possible. The PIMS Database has also been used in recent years to investigate these areas using multiple regression analysis on up to 20 different factors. For these reasons, there is a case for using simulation modeling in some circumstance alongside other methods in the assessment of business risk."3

33.2 Application in SMEs

33.2.1 Survey Findings

Most SMEs being interviewed had not come across the techniques nor attracted to them. The way they evaluate risks is highly unstructured, relying on gut feelings. The little bit of circulation they do is how much they would lose if the project fails. And if they can stand the losses, they would go for it. Only about 10% of the SMEs surveyed plan in longer and larger terms. They explore bank borrowing and run higher risks. Invariably, these SMEs seek more views and research deeper before making decisions, with or without the use of any of the techniques introduced in this chapter.

33.2.2 Case Study

Team did not use any of the techniques introduced here. Probably it was because the investments were not substantial. Also the strategies did not involve a significant departure from its core activities that suggest new uncertainties.

33.2.1 Views of Business Observers

Again the accountants and bankers were very happy with these techniques and they used it commonly to quiz entrepreneurs to make them take another look at their pet projects. However, they doubt if the entrepreneurs are equipped and knowledgeable or even objective enough to carry out the exercises. They felt that the SMEs should seek consultants' help; but again they doubt they are willing to pay. A banker suggested to advise SMEs to treat such expenses as fire-insurance; something that protects his/her money in another way.

33.3 Chapter Conclusions

Much as they make good sense, risk analysis techniques do not appear very popular in SMEs. It is perhaps a matter of exposure and people can get used to doing such exercised. Using risk analysis should encourage SMEs to undertake larger projects and strategic moves with greater confidence.

REFERENCE

1. Lynch. R., Corporate Strategy. Pitman Publishing, London. 1997, p.565

2. Ibid.
3. Ibid.
4. Case quoted in Johnson. G. and Scholes. K., Exploring Corporate Strategy, (3rd Ed), Prentice Hall, 1993, pp. 292-6
5. Lynch. Op. Cit., pp. 566-7

CHAPTER 34
FEASIBILITY ANALYSIS

34.1 Concepts and Principles

A strategic option cannot be considered safe when even if it passes the tests of returns and risk assessment. It must be achievable or adopted in resource terms. In other words, there must be sufficient resources and facilities available to support the strategic options. To do this, a feasibility analysis is needed. There are a few techniques can be use:

34.1.1 Funds Flow Analysis

This analysis is to identify the funds which would be required for the strategic option and the likely sources of those funds. Exhibit 34-1 helps to illustrate how the analysis is being used in a case with the strategy to increase its sales.

1. Determine the capital investment needed (e.g. new buildings, machines or vehicles. In this case, it is $13.25m)
2. Forecast the profit for the year. In this case, it is $15m. Depreciation has to be added back as it is a non-fund item.
3. Estimate incremental working capital needed. This is normally a fraction of the sales receipt, which is needed to finance stocks increase and increase in creditors. A pro rata figure will do. In this case, it is $0.55m.
4. Tax and dividends can be estimated based on the anticipated sales.
5. The calculation shows a shortfall in funds of $0.5m, but this is not all. As a new loan is intended to cover this shortfall, interest is incurred. In this case, a 10% interest is used which works out to be $0.05m. The new loan has to be minimum $0.55m.

EXHIBIT 34-1
A funds flow analysis
Source: Johnson and Scholes (1993 p.301)

Sources

Uses

* Funds from operations = profits corrected for non-fund items such as depreciation

The next question to ask is whether the company can raise the $0.55m of loan from the existing banker, or other banks or capital market. If the answer is yes, the strategic option can be adopted, from the feasibility viewpoint. Otherwise, the company must explore if this can be funded via new share capital. Failing which, the company must adopt other options, e.g. at a smaller increase in business, get a joint venture partner etc.

34.1.2 Breakeven Analysis

Breakeven analysis is commonly used by companies, big and small alike. In small companies, the breakeven analysis can be done very simply by looking at the gross profit and the expenses. In larger companies, it will be done in a more sophisticated manner, as shown in Exhibit 34-2. The case is about a company planning to move into a new market using two options, Strategy A and Strategy B. The breakeven analysis as shown, reveals many important things which may require further investigation e.g.

? The likelihood of achieving the levels of market penetration required for viability
? The existing player's likelihood to block entry
? Whether the cost and quality are, in fact, achievable
? Whether funding would be available to provide the required capacity and skilled labor to operate the plant

EXHIBIT 34-2
Breakeven analysis
Source: Johnson and Scholes (1993 p.303)

Case background

A manufacturing company was considering the launch of a new consumer durable product into a market where most products were sold to wholesalers who supplied the retail trade. The total market was worth about $4.4m (at manufacturer's price) – about 630,000 units. The market leader had about 30 percent market share in a competitive market where retailers were increasing their buyer power. The company wished to evaluate the relative merits of a high-price/high quality product sold to wholesalers: strategy A or an own-brand product sold directly to retailers (strategy B). The table below summarizes the market and cost structure for the market leader and company would require about 22 percent and 13 percent market share respectively for strategies A and B to break even.

Breakeven analysis
Market and Market Strategy Strategy
Cost structure leader A B

Price to retail ?0 ?2 ?
Margin to wholesaler 30% 30% -
Wholesaler buys at ? ?.40 -
Variable cost/seller
Raw material ?.50 ?.90 ?.50
Marketing/selling ?.50 ?.60 ?.20
Distribution ?.20 ?.20 ?.20
Others ?.30 ?.30 ?.20

Total ?.50 ?.00 ?.10
Contribution/unit ?.50 ?.00 ?.90
Fixed cost ?00,000 ?00,000 ?00,000
Break-even point (units) ?00,000 ?00,000 ?00,000

?.50 ?.40 ?.90
Market size =142,857 =136,363 =81,633
Break-even point
(market share) 630,000 630,000 630,000
Actual share 22.6% 21.6% 13%
30% 0 0

34.1.3 Resource Deployment Analysis
This technique goes a step further to tell if the organization capability and resource match the intended strategic options. The degree of mismatch can indicate the likeliness of the strategy being realized without prior effort to bridge the mismatch. The mismatch also helps an organization to plan for activities that are required to enhance the chances of strategy success. When a few strategic options are evaluated side-by-side this way, a ranking is obvious.
1. Lay out the resource requirement of alternative future strategies
2. For column b), allocate a rating of 0-5 for the degree of possession of the resources, with 0 being weakness and 5 strongest
3. For column c) the strategic options, another rating is given on the degree of requirement of the resources, also in 0-5 in the same manner
4. The mismatch is calculated and noted in parentheses just next to the ratings of (3) above

34.2 Applications to SMEs

34.2.1 Survey Findings

The techniques given in this chapter are new to the SMEs being survey except for the breakeven analysis. None conducts the fund flow analysis, probably there is no need in the current operation where strategic decisions are carried out in an incremental manner. Since deadlines are not important, the progress of strategic moves can be haphazard, whenever funds are available.

EXHIBIT 34-3
Resource deployment analysis
Source: Johnson and Scholes (1993 p.304)

(a) (b) (c) Resource implications
Key resource Present Strategy Strategy Strategy
areas company A B C
situation (extend (extend (sell
product home overseas)
range) market)

Financial
Available cash 2 3 (1) 4 (2) 4 (2)
High stocks 3 2 (1) 4 (1) 4 (1)

Physical
Modern machines 5 5 (0) 3 (2) 3 (2)
Distribution 0 1 (1) 5 (5) 5 (5)

Human
Skilled engineers 5 5 (0) 1 (4) 2 (3)
Marketing expertise 0 2 (2) 5 (5) 5 (5)

Other
Reputation for quality 5 5 (0) 5 (0) 5 (0)
Overseas contacts 0 0 (0) 0 (0) 4 (4)

Degree of mismatch 0 (5) 0 (19) 0 (22)

(a) This would be produced from a strength and weakness analysis
(b) From previous resource analysis; 0 = major weakness, 5 = major strength
(c) 0 = unimportant, 5 = critical to success of strength

Breakeven analysis is commonly done, but in a slightly different way. The expenses relating to a strategic move is estimated on an annual basis, or a trial period. The revenue is then calculated on an assumed gross profit. The breakeven point is calculated in term s of sales volume. There is no sensitivity tests being carried out. A safety margin may be provided by adding another 10% to 15% to the purchase or lease payments to the expense to ensure positive cash flow.

34.2.2 Case Study
Team follows much the same approach with the SMEs being surveyed. It probably should change its position, and start to evaluate these techniques especially the Resource Deployment analysis, to ensure better success with strategic moves.

34.2.3 Views of Business Observers
The observers generally approve the techniques introduced in this chapter. They find the SMEs are unduly over-optimistic when pursuing a new project or a strategic move. This loss of objectivity, they suspect, is the main reasons for the high failure rates. When resources are too tightly stretched, a constriction can cause a total breakdown of operation, leading to business failure.

34.3 Chapter Conclusions
The techniques given in this chapter as a final check on proposed projects or strategic moves are highly logical and useful. However, as evident in the survey feedback, they are not being done by SMEs in general. They should be seriously considered for application, especially if a strategic project carries a high investment.

REFERENCE
1. Lynch. R., Corporate Strategy. Pitman Publishing, London. 1997

CHAPTER 35
STAKEHOLDER REACTION CONSIDERATIONS

Stakeholder reactions must always be kept in mind by a strategist and considerations made in this light as early as the strategy formulation stages. It is important because the most noble strategy can fail when stakeholders are against it. Stakeholder consideration has been gaining popularity in the 80s. The wishes and expectations of stakeholders had been covered in Chapters 19-21. As stated earlier, it will be ideal to design strategies with the stakeholders in mind. However, it is also not possible to please everyone all the times. In his book Leading Projects, Trevor Young1 commented, "The stakeholders have their own individual strategy, mission and strengths and weaknesses. Each has his own hidden agenda… who as individual have aspirations to personal gain from their involvement." For the sake of progress and improved performance, strategies adopted would invariably contains some unpopular elements. This chapter takes another look at a chosen strategy from the stakeholders' viewpoint, before clearing it for implementation.

35.1 Concepts and Principles

Every organization has stakeholders. They may be the shareholders, management, employees, bankers, suppliers, customers, local community and the government. All these stakeholders have certain expectations of the company. Generally the more powerful the group, the greater influence it exerts. A strategy however noble or sensible can be frustrated without the blessings of the key stakeholders.

This chapter may be seen as an investigation on how each group of stakeholder will react to a chosen strategy. It is widely accepted that by far the most powerful stakeholders are the management. A defiant department head can be problematic, and able to solicit support through coalitions with other key staff, or lead his own department into rebellion. For this reason, it is suggested to assess all key managers individually, while the employees of their functional department are assessed as a group. See Exhibit 35-1 for a simplified analysis of stakeholder reactions. This evaluation can be done by reflecting through the anticipated reactions of all the stakeholders. This is not recommended because they are based on guessing. The best effects will be obtained if the entrepreneur can meet the
various stakeholders in separate groups and hear their views.

EXHIBIT 35-1
Stakeholder Reactions towards a Strategy
Source: Writer

Department

In favour Neutral Against Remarks

1. Key Manager 1
2. Key Manager 2
3. Key Manger 3
4. Department Staff

If an intended strategy meets with very little opposition, the strategy may be expected to enjoy a greater chance to succeed. A different situation would emerge if strong or formidable opposition is envisaged. Often a company may have to abandon or modify a strategy to appease the stakeholders in order not to create discord in the company. This can be a source of conflict. Strategy is often required to fundamentally change certain organizational routines, which will make people feel uncomfortable. To compromise in face of objections would deny the opportunity to improve a company. Other preferred options are:

? win the stakeholders over to accept the strategy and participate actively for its achievement. This could include explaining to the stakeholders, convince them and provide training sessions and facilities to help make the changes more acceptable
? Negotiate and modify strategy in such as way stakeholders do not feel uncomfortable, yet retaining the salient characteristics of the original objective
? Bulldoze through. Remove or preempt troublemakers. Prepare for crisis.

Whatever may be the final decisions, the findings here must be considered in planning the budget and activities for the year. If training is needed to effect a change, then the time, effort and funds must be made available for its execution.

35.2 Application in SMEs

35.2.1 Survey Findings

Every SME being interviewed does some analysis before implementing new strategies. However, none really go the structural or systematic way. There are only a few cases where the owner-managers discuss the intended strategies with their employees. The general view of owner managers seems to be that “I am the boss, I decide.” Surprisingly, this seems to be accepted by the employees. Only when things are grossly wrong or unfair would one expect to see an oxodus.
It appears the owner is accepted as the employer. An employee is employed to work for him/her, and not the company. He/she is the source for all business decisions, the fountain of culture. So long as the leader is ready to change, the organization follows. SMEs do not consider much the interests of other stakeholders such as suppliers, bankers or local community, or government. However, some degree of concern is placed on customers since they are the obvious source of income or even likelihood for the SMEs.

35.2.2 Case Study

In Team, people-first philosophy is being adopted from the day business commences. This is a legacy of the founders’ previous training. The company believes in exploring, explaining and lobbying for the intended strategies. When comes to implementation, both the management and employees work together closely, especially in the beginning stages. We also make it a challenge and recognize the employee’s effort. Throughout the 10 years, there were many changes, people learned to accept changes are normal and had also been cooperative to engineer the changes needed.

35.2.3 Views of Business Observers

The observers were pleasantly surprised that such things are being considered in strategic management. It indicates that the most people still regard strategic management is void of feelings. Although they do not have much say in the large organizations they work for, the observers agree in total the stakeholder expectations should be considered before finalizing a strategy. Otherwise, the most brilliant plan can be fail without the blessings of the people. Of course, much of the conflicts and fears are derived from misunderstanding or a lack of information. The observers felt that the least the management can do is to explain and try to compromise in areas that are of deep concerns to the stakeholders.

In the SMEs context, the stakeholder issue is also important. But in this case, it is more of the managers, employees and the shareholders. Without the blessings and understanding of these three groups of stakeholders, strategies will remain on paper and being talked about only. At any rate, this is also an issue relating to business ethics, a fair consideration to the contributors.

35.3 Chapter Conclusions

At first glance, stakeholder issue is not an issue for SMEs, as people who work for small companies know what they are in for – a family business where the owner is the king. There is probably no other shareholder except the boss himself. In theory, the boss can bulldoze anything through. This may be true in the 60s, the 70s or even the 80s. It is different in the 90s.

Business is getting more complex and the environment more hostile. Employers now need the best from their employees or there will be no tomorrow. Hence, there must be mutual trust and care between the two parties. The employers in many cases depend on the employees for the continuation of their business. So it will be suicidal if the employees do not consider them in any strategy. Even in the extreme case of selling off the company, it will be worth little if the current managers and employees refuse to stay. Therefore any strategy should be checked against stakeholder expectations before it is being launched.

REFERENCE

1. Young. T. L., Leading Projects., Pelanduk Publications (M) Sdn Bhd, Kuala Lumpur 1994, p.22

PART IX

Strategy
Implementation

CHAPTER 36
PLANNING AND RESOURCE ALLOCATION

Chapter 25 shows a simple way to decide on a strategy to use, especially for the first-time practitioners. From there, the activities needed to realize the objectives or strategies can then be developed. It is rare that only a single strategy is needed for the entire year. The more usual situation is the need for a few strategies. More strategies means more activities. There is therefore a need to consolidate the various lists, and prepare for the resources and logistics needed, which is the subject matter of this chapter.

36.1 Concepts and Principles

It is always good to begin with listing down the objectives of the strategies. From here, a comprehensive list of activities is prepared. These activities, besides their role to bring about the desirable results, also incur effort, time, money and other form of resources. Therefore it serves as a good checklist to count the resources needed.

Resources needed may be tangible assets such as vehicle, machinery, or buildings. They may also be intangibles such as skill, relationship, technology, business systems etc. The requirement for resources is briefly discussed below.

36.1.1 To Execute Activities

Besides the strategic activities, a company has its normal, operational tasks and activities. And the people carrying out strategic activities are commonly those with operational duties. In practice, both types of activities are interwoven and handled together, to save time and money. What if of concern here is the incremental activities pertaining to the intended strategy. These are singled out for the purpose of resource provision, since each incremental activity may incur expenses and other forms of resources. A strategy may incur:

? Implementation expenses, e.g. for market penetration, it may incur a higher sales and marketing expenses

? Capability building expenses e.g. to computerize the data base of customers to provide real time information requires investments on new software etc

? Reorganization expenses e.g. combining two departments into one requires many involvement: executive and managerial time and effort, re-arranging office space and equipment etc. All such tasks incur expenses, directly or indirectly

36.1.2 Cultural Shift

This is not a direct expense and is therefore often neglected. Strategy requires changes which make the people involved feeling uneasy. Blessed are the situations where the prevailing culture is conducive or encouraging to changes. Most cases however witness an antagonistic attitude towards the intended change. Because some elements of organizational cultures are not changeable, an entrepreneur should avoid strategies that knock on such touchy areas. In the event that a chosen strategy must proceed even in face of a conflicting culture, a cultural or paradigm shift is needed in order that the strategy succeeds. Effecting a change in an organization is not easy and requires much leadership. Often a detail program is mapped out to bring about the change, which may involve briefings, convincing, lobbying and other forms of communications. All this activities do not come free and therefore an expense should be budgeted for.

EXHIBIT 36-1
Activity Planning and Resource Preparation
Source: Writer

Resources needed for
Execution
Paradigm shift
Rewards

(Activities)

36.1.3 Re-organization

To facilitate a strategy to move forward smoothly, the organization structure must support it. Somehow along the way, the organization structure and the chosen strategy will try to fit each other. Chandler observed that changes in organization structure followed the strategy. New strategy invariably involves new administrative procedures that run at loggerheads with the current structure. As a result, breakdowns may occur affecting the operation or the strategy. The organization structure then starts to change to facilitate operation.

A proactive stand may also be taken to alter the organization structure to suit the strategy. How is this being done in practice? One good way is to look at the major activities and construct a value chain out of that. Next, to look at the work flow in the intended strategy. To avoid breakdowns, ‘handoffs’ arrangement should be limited to minimal. Closely related activities should be grouped together and performed by the same people or report to the same supervisor. Whatever the case, a more horizontal structure is preferred which is more efficient and responsive, according to studies in the 70s.

Types of organization structure1

There are various types of organization structures commonly used by companies, to suite their strategies, as follows:

Simple: This form of organization normally has no formal structure. The company usually consists of the owner with a partner or a few assistants. Division of management responsibilities is usually unclear.

Functional: This form of structure is based on the primary functions or tasks found in a company such as production, finance, engineering, marketing and personnel. This is rather a widely used structured especially for smaller companies.

Multi-divisional: This structure is for large companies with diversified business lines. The businesses are then broken down into divisions. Each division manages its own business and may have functional structure within its jurisdiction.

Holding company: In this structure, the controlling body becomes a holding company. Instead of having business units existing as departments or divisions, they exist as separate companies.

Matrix structure: In very large, global organization there may be a need to combine the dimensions of product, geographical, function and division together, in order to be effective and remain adherent. Royal Dutch Shell is a case in point with four dimensions in its structure.

Multinational structure: Many forms of structures may be adopted by international organizations. Overseas operations could be managed as branches (where local laws permit), subsidiaries or affiliates, reporting the control center. Transnational companies are a group of companies that work without a clear control center, with each company championing certain roles.

36.1.3 Recognition and Rewards

A good strategy should include the elements of recognition and rewards, as the lack of these leads to a breakdown of the system. A good reward program on the other hand, helps to motivate people to contribute towards the objectives. Designing the program can be problematic. It should be designed to be attractive, fair and without too many loopholes for abuse. Thomson and Strickland2 recommended a ratio of high as 1 : 1 (salary : incentives) to get maximum effects.

Whatever the good intention, a reward scheme itself can be a point of objection, as there are always powerful employees who prefer to take things easy, and do not like to be judged or compared. A incentive scheme is often seen as a violation of their privileges and expectations.

36.2 Applications to SMEs

36.2.1 Survey Findings

All the SMEs understand that new activities require new resource such as direct expenses etc. These will be planned for when adopting a new strategy, quite automatically. Only 10% of the SMEs considers the need to spend money and time to change people’s thinking or mindset. The rest do not mind spending on technical training, if that is needed for the new strategy. The majority therefore seems to have the notion that once a strategy is decided, it will be accepted by the people.

Most of the SMEs (58%), will automatically alter their organization structure to support the new strategy. New duties and new reporting relationships will be assigned accordingly, via either word-of-mouth or some forms of written communications. Eight out of 50 (16%) of the SMEs rewarded or recognized the contributions of their employees in making a new strategy a success.

36.2.2 Case Study

Team is generally competent in planning activities to support a strategy and also provide resources accordingly. A fair amount of time is spent to train people on the new duties and expectations of a new strategy being pursued. Lobbying for support was done formally such as during meetings, or informally such as over a drink and other social interactions. Paradigm shift usually could be achieved without much conflict.

Organizationally, Team always has a formal organization structure which facilitates business operation. This is also proving to be a hindrance when a new strategy conflicts with it (the structure). To prevent problems, adjustments on the organization structure are done accordingly. At times, the employees felt that changes were occurring too frequently; and causing confusion.

36.2.3 Views of Observers

The observers felt the information is getting theoretical and too formalized for the SMEs. While they recognize it is a good business practice to plan, it is also a lot of trouble for the SMEs. Too much involvement may force them to abandon the whole idea of strategic management altogether.

36.3 Chapter Conclusions

The strategic management process comes to the implementing stage with this chapter. The best strategic plan means nothing if it is not implemented well. Admittedly, there is tedious work to be done; like all other worthwhile things in life. The position taken by the writer is that SMEs should learn the planning skills and practice it in order to gain benefits out of it. If they are too busy, they should consider the service of reliable assistants, to plan on their behalves. A haphazardly or short-circuited plan will most certainly meet with obstacles and problems during execution.

REFERENCE

1. Johnson. G. and Scholes. K., Exploring Corporate Strategy, (3rd Ed), Prentice Hall, 1993, pp. 345-56

2. Thomson. A., and Strickland. A. J. Strategic Management. Irvin (Times Mirror) USA. 1996, p.289

CHAPTER 37
BUDGETING AND CONTROLS

This chapter concerns the preparation of tactical plans and activities to guide current decisions and actions to implement strategic plans. Budgets are the primary techniques used in this process. Steiner's A Step-by-step Guide – Strategic Planning offers the most practical approach on this issue and is therefore used as the format of discussions in this chapter.1

37.1 Concepts and Principles

Budgets are integrating methods to translate strategic plans into current actions. They are the guides to action and set standards for coordinating actions to provide a basis for controlling performance to see that it is in conformance with the plans. 2

Budgets are financial plans of some future periods. It is common to distinguish them as either long-term or short-term. Short-term budgets normally cover a period of one year, although any other periods up to three years can be classified short-term. 3

37.1.1 Budget System

Budgets must be fitted to the unique characteristics of an organization. Since all organization differ, so will be the budget system used in each organization. The most common items in budgets however include income and expenses.

The annual budget on income and expenses are first derived. In a simple case, these figures are derived from the guidelines given Chapter 36. In more democratic systems, the tentative budgets may be passed down the line, for each functional heads to review and comment. Modifications may be needed to reflect a true picture of what is possible and what is acceptable.

Once agreement is reached, each function is then asked to work down the details, the sub-budgets. Example, a marketing department after knowing the expectations and expense, has then to break the total expense budget into subdivisions such as advertising, sales force, distribution and promotion. There should also be budget done on the income – where the sales are coming from, what products and at what margin to sell etc. The budgets from each function are then consolidated into a master budget. Exhibit 37-1 is a guideline on what a master budget consists of, and the sequence of constructing it.

In some companies, budgets are submitted by each function to the top managers for compilation. And all the top mangers have to do is to add them up. This method, the writer felt is not satisfactory as the budgets formulated are based on the old paradigm and mindset without incorporating the strategy.

37.1.2 Linkage

In this dissertation, annual budget are constructed from the annual objectives and activities, which are in turn drawn form the long range plan. Therefore the annual budgets should contribute to the realization of the long-range plan. One obvious question is – how closely the annual budget must link to the long-range plan? Managers are divided on this issue. Some prefers a tight linkage while others prefer a loose linkage. 4

Tight linkage means that the numbers in the annual budget will be divided equally over the planning horizon say, five years. Loose linkage allows some variations but by the end of the planning period, the figures will add up. Those advocating tight linkage argue it gives realism to plans, as the managers must be committed and the plans credible. Example, if the company attempts to increase net profit from a current 5% to 15% annually, the annual budget should show a 2% increase each year, beginning with the first year at 7%. Opposers to tight linkage claim this may produce budget myopia, leading planning fixation in the short range. In other words, with tight linkage, manager may cease to think long term, which may have detrimental effects on the company later on.

37.1.3 Flexibility

The essence of budgeting is to put a dollar sign on an activity and freeze it. But frozen budget is not practical as environment changes, which in turn affects business performance. On the other hand, constant revision to budgets is not acceptable, because of the cost, effort, time and confusion involved. An answer has therefore to be found to solve this problem. There are four methods generally used in industry.

Supplementary budgets
This method is usually for budgets that cap expenditure. If a department found that the original budget is insufficient, it can apply for a supplement, perhaps giving a reason to justify the request.

Alternative budgets
This method requires a few budgets to be done at the outset, with the most probable one being used as the operating budget. The other ‘shadow’ budgets can be constructed as probable variations to the operating budget, for example: 10% below budget, and 5% above budget.

EXHIBIT 37-1
A Flow Chart to Prepare a Master Budget
Source: Steiner (1979, p.217)

Flexible budgets
In this method, the original budget is used as a guide. Overruns are allowed but will be considered for appraisal of management performance. This form of budgeting is very common in commercial organizations.

Variable budgets
This is a rather complicated method. Fixed, semi variable and variable costs have to be first worked out. Constant changes to the budget figures are needed based on the actual results obtained.

37.1.4 Qualitative Objectives
Much has been said of developing capabilities as a competitive edge that will eventually be translated in quantitative results such as sales turnover, net profit, return on equity, share value appreciation etc. In practice it is not so certain or straightforward. Capability building activities consume costs, and can never guarantee to work. Even if they do, they not immediately translated into revenue. Since most companies look at numbers and figures for appraisals and the rewards determination, capability-building activities do not get much emphasis from managers. In the long run, such practice is detrimental to the company’s future position in the market.
Beginning with 80s, there are more and more companies realized the shortcomings of using only quantitative budgeting, and started to include qualitative objectives. In other words, the expectations on employees are now not restricted to fulfilling some numbers but on a wider scope of work, some of which cannot be mathematically quantified. Management by Objective, a concept advanced by Peter Drucker in 1954, helps to explain this kind of hybrid planning.
Each manager, from the ‘big boss’ down to the production foreman or the chief clerk, needs clearly spelled-out objectives. These objectives should lay out what performance the man’s own managerial unit is supposed to produce. They should lay out what contribution he and his unit are expected to make to help other units obtain their

objectives. Finally, they should spell out what contribution the manager can expect from other units toward the attainment of his own objectives. Right from the start, in other works, emphasis should be on teamwork and team results.5

To apply this in the annual budget, there should be a supplement section showing the list of other duties and expectations needed of each manager. Example: a sales manager is not only expected to turn in the sales, but also include other expectations and duties such as:

? Run sales training on a quarterly basis
? To institute weekly planners and weekly reports by sales staff
? Participate in regular marketing meetings
? Train up an assistant sales manger

To get the best effects, these qualitative activities should be tied to the appraisal and reward schemes.

37.2 Applications to SMEs

37.2.1 Survey Findings

Only three of the SMEs surveyed operated with a budget, which is needed by their head offices or their sleeping partners. The rest do not have a budget even for the current year, leave along a long-term budget. All the SMEs seemed happy with the current method, which they claim serves the function. They know exactly what they are looking for, and when things are wrong, they will step in to correct them. Some of these companies have bottom lines much better than the writer’s company, which is supposed to be very systematic. It is mighty hard to argue with results!

37.2.2 Case Study

Team carries out the budgeting exercise every year without fail. The sales budget is first compiled by the salespeople, after which expenses are allocated for the sales departments and other budget centers such as the administration, the material handling, marketing and so on. Along with this quantitative budget, a list of qualitative goals and activities are also prepared, indicating the other expectations of each department.

For controls, the company generates monthly sales figures (by customers and by departments) early the following month and sent to all salespeople by express. The writer in the capacity as the general manager prepares a company report later, detailing the sales, expense, collection and any other information along with the relevant comments, for circulation to the various budget centers. This is meant to keep the various budget centers informed if they are on track. If not, something should be done before it becomes too late. Every six months, the gross profit of each sales department is calculated and matched against the expectation.

Theoretically, all these information is supposed to help the company to be more effective and efficient. In reality, the people do not care too much even to read the information. It appears that information overload has occurred in the company.

37.2.3 Views of Business Observers

The observers were shocked to realize so few SMEs actually operate a budget, which is a compulsory exercise in large organizations. They doubt a budget carried in the head can really constitute excellence. They reasoned that although some SMEs can end up making handsome profit for the year, the question is continuity. Unless the SMEs start to get use to budget operation, they should forget working towards becoming a large company, or be listed in the stock exchange in some future date.

37.3 Chapter Conclusions

Budgeting is an integral part of efficient and effective management, be it strategic or operational. People who try to manage in their heads are settling for sub-optimal results. A budget in the head is a moving target, which is hard to fulfill and unfair to the employees. Appraisals and rewards cannot be given fairly without a budget and the subsequent control figures. Budgets should not be only concerned with numbers. Adding some qualitative objectives helps to make the approach to corporate building more holistic.

REFERENCE

1. Steiner. G., Strategic Planning, a Step-by-step Guide. Free Press, 1997.
2. Ibid., p215
3. Arnold. J., and Hope., Accounting for Management Decisions. Prentice Hall, 1983,, p.280
4. Steiner. Op. Cit., p.218
5. Ibid., pp. 359-62

CHAPTER 38
SCHEDULING STRATEGIC TASKS

The list of activities of each objective is already decided, after the stage explained in Chapter 36. They are further made more concrete by the budgeting process. The next logical task should be the scheduling of the "specific steps and the timetable required for the accomplishment of each objective… the 'how' and 'when' of the process.1 Work scheduling is very well established, and can be very elaborate, in the construction industry and project management. The works of Anthony2 is found to be concise and yet comprehensive, and therefore reproduced here.

38.1 Concepts and Principles

Before scheduling can take place, two things have to be resolved first. One, the completeness of task – all activities needed to bring about the must be identified. Incomplete listing of tasks can lead to inferior results or even failure. Two, to know the sequence of these activities – what must come ahead of the others and what can take place concurrently. Once these two requirements are fulfilled, scheduling can begin – using scheduling tools to derive a timetable. The tools available are a) calendars, b) Gantt or Bar Charts, and c) PERT Charts.

38.1.1 Calendars

Calendars are excellent tools for scheduling of work. There are many types of calendars, desktop, wall charts, handheld 'diaries' and pocket calendars. Anthony recommended something that shows the whole week in a glance. Steven Covey3 also specified this type of calendar for personal organization. A weekly schedule is more realistic than day-specific ones because there are always unforeseen events that require some flexibility.

Too rigid a planning leads to frequent academic delays and missing ‘deadlines’. The resultant frustrations and conflicts are not worthwhile as the deadlines are not true ones. The various action steps are then scheduled into the calendars. Color codes are also recommended to denote deadlines etc. This is a very simple form of scheduling which all SMEs can use.

38.1.2 Gantt or Bar Charts

This tool was originally developed for production scheduling. An example is given in Exhibit 38-1 for a major consumer-product manufacturer desiring to expand its market share. Gantt chart requires the beginning and ending dates for an event to be provided. The events are sequenced as they are included, indicated by a color bar. In the exhibit, a solid black bar is used. As the action steps are achieved, another bar of different color is used to indicate their completion. In this case, shaded bar is used.

The accomplished bar can stay on top or below the designed bar in the chart, although it is shown on top in this case. It must be emphasized that one chart is usually needed for each objective, which in turn consists of a multiple of activities. Therefore, many charts may be needed for a chosen strategy, which may be made reference clumsy. One solution is to have all these charts combined into a summary chart. See Exhibit 38-2.

38.1.3 PERT Chart

The PERT chart, sometimes call critical path analysis is more complex than the Gantt Chart. PERT stands for Program Evaluation Review Technique. It was developed in the aerospace industry during the decades of the 50s and 60s. In PERT, the tasks are linked up in sequence and in relationship terms; and its final appearance looks like a network. See Exhibit 38-3.

EXHIBIT 38-1
Sample of a Bar Chart
Source: Anthony (1991, p.106)

OBJECTIVE: To increase market share by 25 percent by June 30, 1987.
Action Steps:

EXHIBIT 38-3
A Sample of PERT Chart
Source: Anthony (1991, p 109)

OBJECTIVE: To complete the merger of the Devcor and Ryner Division by August 1, 1987

38.2 Application in SMEs

38.2.1 Survey Findings

Only 20% of the SMEs surveyed were familiar with the Gantt Chart and used it for project planning. However, it had not been used to schedule strategies, probably strategic planning had not been formalized in these SMEs. PERT chart seems to be too complex to them and not used.

38.2.2 Case Study

Team also finds the Gantt Chart very useful, and had been using it to schedule projects such as product or market developments. The writer understands and had tried to use to PERT Chart but find it complicating and served no additional advantage over the Gantt Chart. Therefore it was dropped from the planning toolkit.

38.2.3 Views of Business Observers

Most of the observers felt that budget is good enough as a start. It would be better to allow the entrepreneur to slowly graduate. The production and marketing managers however felt it is not that much work associated with scheduling. Therefore they felt it should be adopted. Scheduling is done only once, i.e. at the beginning of the project, after which the tasks are mainly associated with execution. With a well-thought out schedule, time saving can be expected.

38.3 Chapter Conclusions

If an entrepreneur has come this far, it would not make much difference to complete the process, by formalizing the schedule. If the entrepreneur finds this is too much work, he/she can delegate it to a reliable assistant or secretary. However, one important role for the entrepreneur is to supply the plan and timetable to guide the employees. He/she can ensure compliance and progress kept to the designed pace. Scheduling tools help to achieve exactly that.

REFERENCE

1. Anthony W., Practical Strategic Planning., Toppan Co. Ltd. Tokyo. 1991
2. Ibid
3. Covey. S. R., The Seven Habits of Highly Effective People. Fireside (Simon and Schuster Inc) USA

CHAPTER 39
LEADING IMPLEMENTATION

So far, the discussions on implementation centered around preparing the systems, facilities and logistics needed to implement strategies. This is not enough because "companies do not implement strategies, people do"1. People respond better to people, especially leaders; not stacks of instruction manuals and memos. The entrepreneurs as the leaders of their respective organization, should take up the role of the chief strategy implementers. Ideally, implementing strategies should be a 'companywide crusade', involving middle managers and all the employees. But the key role still lies in the chief executive.

39.1 Concepts and Principles

The role of the chief executive and the process of leading strategy implementation are the concern of this chapter. Having done all the analysis, making the choice and preparing for the launching, the leader must how actually implement the strategy. In Chapter 36, providing the necessary facilities, resources and logistics to support the strategy had been discussed. The role of the chief implementer goes beyond that. He has to conceptualize the whole implementation plan. The problem is formidable as Thomson and Strickland remarked "Unfortunate, there are no 10-step checklists, no proven paths, and few concrete guidelines for tackling the job – strategy implementation is the least charted, most open-ended part of strategic management. The best evidence on do's and don'ts comes from personal experiences, anecdotal reports, and case studies – and the wisdom they yield is inconsistent." 2 Therefore each case has to be unique and customized.

39.1.1 Management by Walking Around

This is a system with which the key manager develops "a broad network of contacts and sources of information, both formal and informal." 23 By walking around does not mean the chief implementer is given the liberty to move around aimlessly. What it means is to establish contacts with the front line people, gathering information, giving encouragement, clearing constrictions, solving problems etc. in the process. The work therefore include talking with key subordinates, reviewing their reports, going down to the frontline to meet the rank-and-file, meeting customers and even suppliers to understand the marketplace first hand. Many CEOs of large companies are said to do this regularly – Hewlett Packard, IBM, McDonalds, Walmarts, United Airlines and Marriott Corp etc.

"When executives stay in their offices, they tend to become isolated and often surround themselves with people who are not likely to offer criticism and different perspectives. The information they get is secondhand, screened and filtered, and sometimes dated." 4 Management by walking around is an excellent way to evaluate if a strategy is going to work as planned. The chief implementer will base on the feedback to decide his next course of actions.

39.1.2 Favorable Response

When a positive response is obtained, it means that the strategy is going down well and no adjustments needed. It is still important to maintain contact or else complacency and disinterest may set in. In any event, a smooth progress still needs monitoring to ensure the pace is maintained. Often, a 'no-problem' situation can turn out to be problematic and therefore can be a warning sign. In project management, project meetings are regularly conducted. For strategy implementation, the idea can also be borrowed to ensure all the activities are progressing well, as scheduled.

39.1.3 Hiccups Situations

Hiccups refer to situations where there are some teething problems but otherwise, the strategy is progressing. To make things better, the leader should take some corrective actions to ensure smoother implementation in the future. He/she does so by either adjusting the strategy or the implementation process. How drastic should the corrective moves be taken?

According to Thomson and Strickland, "strategy managers seem to prefer a process of incrementally solidifying commitment to a response." 5 In other words, the adjustment should be gradual since there is no real urgency. The corrective and adjustment process recommended by the authors consists of the following steps: 6

? Staying flexible and keeping a number of options open
? Asking a lot of questions
? Gaining in-depth information from specialists

? Encourage subordinates to participate in developing alternatives and proposing solutions
? Getting the reactions of many different people to proposed solutions to test their potential and political acceptability
? Seeking to build commitment to a response by gradually moving onward a consensus solution

39.1.4 Crisis Situations
In a crisis, time is usually of the essence. A leader must display his leadership crisis management skills. He is expected to be resourceful, courageous, decisive and above all solves the problem within the tolerable timeframe. The two authors advised: “The typical approach is to push key subordinates to gather information and formulate recommendations, personally preside over extended discussions of the proposed responses, and try to build a quick consensus among members of the executive inner circle. If no consensus emerges or if several key subordinates remain divided, the burden falls onto the strategy manager to choose the response and urge it support.” 7

39.1.5 Symbols and Visibility
Symbols plays a very important role to effect a change needed for a strategy. A company embarking on a courtesy campaign may require every employee including the CEO to wear a smiling-face badge. A CEO wanting more open working relationship in a car company ordered all doors to his manager’s rooms to be removed, in the full view of the employees. Symbols may appear mundane and sometimes childish, but enhances the implementation of strategies and are therefore widely use.
Visibility is another tool to aid strategy implementation. It refers to the constant reminder to the employees on the strategy. This may involve pinning up the objectives on walls of the office, shop floor and canteens. To reduce industrial accident, a steel mill put up a huge board in the compound adjacent to the main office indicating the target, and the daily updates on accidents occurring in the company. There are many other forms of visibility tools that may be employed, such as to:
? print the objectives onto stationeries
? feature them constantly in the company newsletter
? include them as a fixed item for discussions on meeting agendas

39.2 Application to SMEs
39.2.1 Survey Findings
Nearly 90% of the SMEs survey claimed that they do the Management by Walking around. This seems to be a encouraging characteristic of SMEs. The boss walks around and talks around, without much formality and hierarchical constraints. They all felt that they learn a lot about the business this way, much more than from a meeting room or some reports. As for the monitoring and corrective part, the SMEs found the information in this chapter interesting. Many express their keenness to use it in their work.
39.2.2 Case Study
All the managers in Team are very much hands-on. Therefore walking around is part of the routine. The managers have similar findings that moving around the company and market gives them more reliable information. The company is also quite competent in

results tracking. The only problem is that when the boss shows too much interest on a subject, the employees tend to abdicate decision making on the issue in favor of him. This defeats the purpose and therefore had to be approached discretely.

39.3 Chapter Conclusions

After all the planning, a strategist must make sure the plan is carried out diligently. There are many roles an entrepreneur must play in strategy implementation. They must lead the implementation, encourage the people, clear bottlenecks, solve problems, track results and modify the strategies or the implementation process where necessary. All these tasks cannot be done effectively by confining oneself to the office. Feedback is important and it is all there with the people in the shop floor and the field. If these people would not come forth with information, then the boss must go to them. If "Mohamed wouldn't come to the mountains, then let the mountains go the Mohammed" may be sage advice to strategy leaders. Ensuring compliance is the job of the boss, he/she must play the role, and walk the extra mile.

REFERENCE

1. Thomson. A., and Strickland. A. J. Strategic Management. Irvin (Times Mirror) USA. 1996
2. Ibid., p.241
3. Ibid., p.308
4. Ibid., p.309
5. Ibid., p.315
6. Ibid., p.317
7. Ibid., p.315

CHAPTER 40
CONCLUSIONS

Many of the tools described in the last 35 chapters are useful and applicable to SMEs. The notable exceptions being the PEST and SWOT analyses, and the mission statement. However, only a small percentage of these tools had been attempted by SMEs and met with approval. In other words, there is a huge gap existing between the ideal situation and the reality. Given the picture, to expect speedy adoption of these tools by SMEs is almost impossible. In fact, most of the entrepreneurs became more confused after exposing to the various techniques.

Herein lies an important question: how can the SMEs apply strategic management then? This is indeed a great challenge – to take them from where they are now, to a level of strategic planning comparable to that of the large corporations. The writer offers some suggestions, which took into considerations of the feedback, as outlined in the last 35 chapters.

For those SMEs with some experience on strategic management, and can also afford the time, they should try to understand the whole process of strategic management by reading up materials similar to that given in this dissertation. From there, the entrepreneurs can select an assortment of the tools to add on to their current configurations. The addition must be done to suit their needs, time availability and of course the bill.

As for the first time user, it is good to start off with the baseline information (Chapter 10), KSF-Competence Matrix (Chapter 14), and together with Threat-driven Strategies (Chapter 31). Those three tools should be a relevant and powerful way to kick off the strategic management process. With benefits coming through as a result of the approach, entrepreneurs can then extend the application, by using more of the building blocks given. Again what additional tools are needed will depend on the situation of each case; which only the entrepreneurs or their employees can tell.

With a piece-meal addition to current operation, one must not expect perfect results. It is believed that by using the right combination, noticeable results can be safely expected. At any rate, something is always better than nothing. This incremental approach may take several years before the whole process can be incorporated into a company's strategic planning methods. There is no danger of disjointed approach (that may harm the whole operation), as it was obvious from the survey that all entrepreneurs have some basics of business management. They could have picked these up from experience, through general reading, attend courses, utilize common sense, or simply watching other entrepreneurs including their competitors in action. There should be litter doubt that the entrepreneurs can link up the new and the old implementation to achieve an improved performance.

The writer estimates that a normal entrepreneur will probably take five to eight years to complete the entire steps of strategic planning. Strictly speaking, it is not too slow or late, if one were to consider that it takes a company 10-20 years to be matured. So long if a company keeps improving which should also results in better returns, the quest for early completion of the strategic planning has no real economic value.

To apply the various strategic tools, it is believed that this dissertation contains sufficient guidelines, through the information outlined in the 'concepts and principles' and the exhibits given in the various chapters. Incidentally, the information had also been abridged and simplified to suite SMEs. For those who are weak in self-study, attending a course of this nature may be the only way to adopt strategic management. The writer intends to develop such a training course in the near future, for this category of entrepreneurs. For entrepreneurs belonging to the other end of the spectrum, who need more in-depth information, they can consult a wide range of book, journals, and magazines available in the local library or bookstores.

The dissertation does not provide sufficient information to assist SMEs that are currently in the ebb of financial trouble or other forms or crisis. However, the writer realizes there is such a need to show distressed SMEs out of trouble, if the objective of reducing the SME failure rates were to be achieved. Initial reading around the subject of crisis management and business turnaround showed that it is a whole subject by itself, which cannot be possibly abridged and included into this thesis. For this reason, a research on this area is suggested.