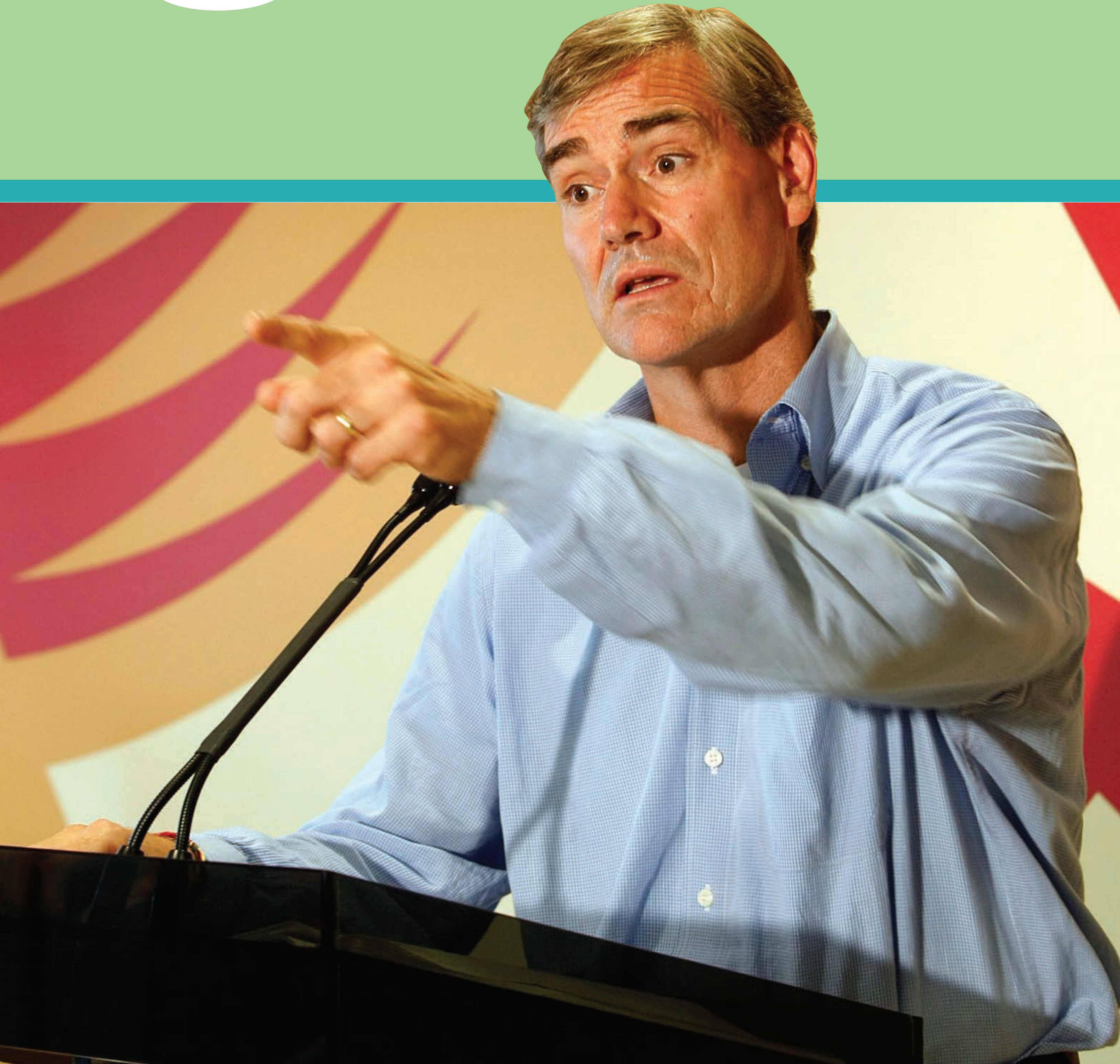
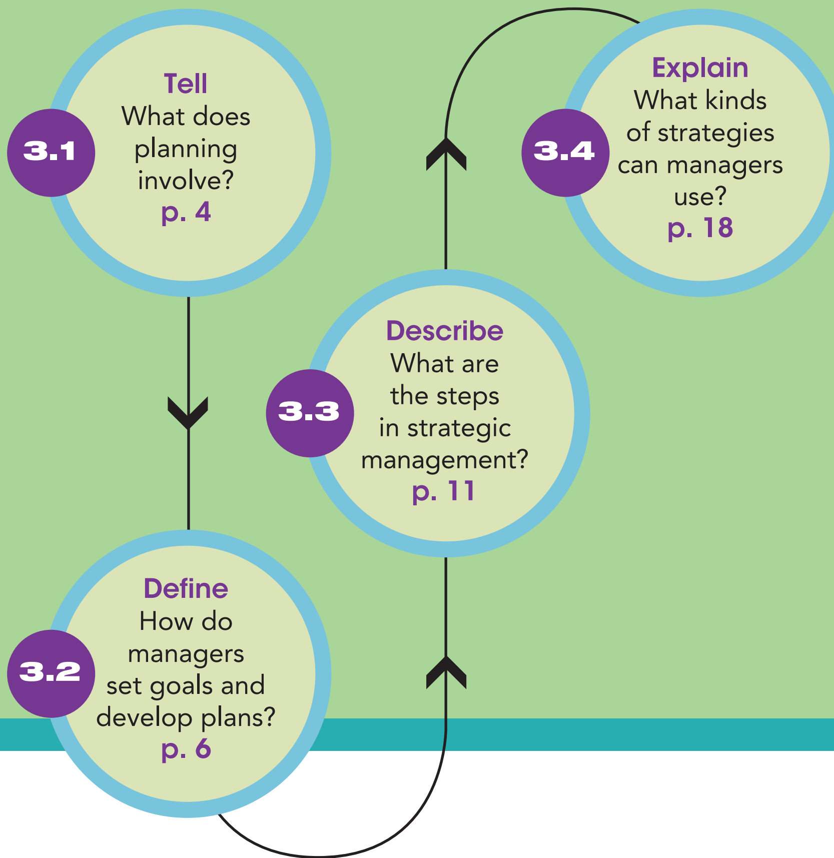
CHAPTER 3 Planning and Strategic Management





LEARNING OBJECTIVES

Planning provides companies an opportunity to focus their resources on their key priorities. In 2011, Maple Leaf Foods Inc. announced the third and final phase of a multiyear restructuring plan, spending $560 million on a new plant in Hamilton and on upgrades to three other plants. They also closed five plants, which eliminated 1500 net jobs.

The parity of the Canadian dollar with the US greenback has exposed manufacturing inefficiencies at many Canadian firms, making it hard for them to compete against larger, more productive US food companies. Maple Leaf, one of the country's largest food manufacturers, is an example of why companies need to change to become more competitive.

Maple Leaf will close most of its aging meat-processing factories in Canada in a bid to slash costs, including the Kitchener meat-processing and distribution centre, which dates back to 1890. Approximately 2500 jobs are being cut overall, while the new Hamilton plant will create 1000 new jobs.

"The final phase of this plan will establish Maple Leaf Foods as a more streamlined and profitable company, well positioned to deliver significant and sustainable value to its shareholders," said Michael McCain, President and CEO. "We are creating, through one of the largest single investments in the Canadian food industry, a highly efficient, world-class prepared meats production and distribution network that will markedly increase our competitiveness and close the cost gap with our US peers."[1]

Think About It

Maple Leaf Foods has faced many challenges in its business environment that have necessitated a review and change of its strategy. As you learn more about this company, its business, and the challenges it has faced in recent years, think about all the different aspects of the business that the company's managers and Board of Directors have to consider when they are making their plans for the future. In the example above, what factors did the Board of Directors take into account when they analyzed the strategic, financial, and operational elements of their plan?

Managers everywhere need to plan. In this chapter, we present the basics of planning: what it is, why managers plan, and how they plan. We will also discuss the importance of strategic management and choosing effective strategies to develop a competitive advantage.

3.1 **Tell** What does planning involve?

WHAT IS PLANNING?

As we stated in Chapter 1, **planning** involves defining goals, establishing an overall strategy for achieving those goals, and developing a comprehensive set of plans to integrate and coordinate the work needed to achieve the goals. It is concerned both with ends (what is to be done) and means (how it is to be done). For example, you and your classmates may want to organize a large graduation dinner dance. To do so, you would set goals, establish a strategy, develop plans, and assign committees to get the work done.

Planning can either be formal or informal. In informal planning, nothing is written down, and there is little or no sharing of goals with others. Informal planning is general and lacks continuity. Although more common in smaller organizations where the owner-manager has a vision of where he or she wants the business to go and how to get there, informal planning does exist in some large organizations. At the same time, some small businesses may have very sophisticated planning processes and formal plans.

When we use the term *planning* in this book, we mean *formal* planning. In formal planning, specific goals covering a period of years are defined. These goals are written and shared with organization members. Then a specific action program for the achievement of these goals is developed: managers clearly define the path they want to take to get the organization and the various work units from where they are to where they want them to be.

Setting goals, establishing a strategy to achieve those goals, and developing a set of plans to integrate and coordinate activities seem pretty complicated. So why would managers want to plan? Does planning affect performance? We address these issues next.

Purposes of Planning

Are you a planner or a doer? Do you prefer to make plans or just act?

We can identify at least four reasons for planning:

- *Planning provides direction to managers and nonmanagers alike.* When employees know where the organization or work unit is going and what they must contribute to reach goals, they can coordinate their activities, cooperate with each other, and do what it takes to accomplish those goals. Without planning, departments and individuals might work at cross purposes, preventing the organization from moving efficiently toward its goals. This would also be true if you and your friends were planning your grad party— if you did not coordinate and cooperate, you might not actually get the party organized in time.
- *Planning reduces uncertainty by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses*. Even though planning cannot eliminate change or uncertainty, managers plan in order to anticipate change and develop the most effective response to it. This increased preparation for change helps develop managers' skills and provides flexibility to the organization.
- *Planning reduces overlapping and wasteful activities.* When work activities are coordinated around established plans, redundancy can be minimized and time management is enhanced. Furthermore, when means and ends are made clear through planning, inefficiencies become obvious and can be corrected or eliminated. For a look at your personal planning skills, see *Self-Assessment—How Good Am I at Personal Planning?* on pages 00 at the end of the chapter.
- *Planning establishes the goals or standards that are used in controlling.* If we are unsure of what we are trying to accomplish, how can we determine whether we have actually achieved it? In planning, we develop the goals and the plans. Then, through

controlling, we compare actual performance against the goals, identify any significant deviations, and take any necessary corrective action. Without planning, there would be no way to control outcomes.

Renato Zambonini, board member of Ottawa-based Cognos, notes that planning went out of fashion during the dot-com years. He found that in both California and Ottawa, entrepreneurs worked "90 hours a week, but the whole goal [was] not to build a business or a company. [All they really wanted was] someone to buy them out."[2] Unfortunately, many of those companies were not bought out, but folded. Planning might have helped them be more successful.

Planning is definitely not just for managers. When families in the *Vancouver Sun's* distribution area were asked to take the newspaper's "car free challenge" for a month, they learned that planning became a much greater part of their lives. The three families pictured above took the challenge and found that figuring out how long a journey took and the best way to get there required being more aware of their schedules than when they could just grab their car keys and drive off. Planning provided the families with a better understanding of scheduling, which allowed them to make improvements.

Planning and Performance

Is planning worthwhile? Do managers and organizations that plan outperform those that do not? Intuitively, you would expect the answer to be a resounding yes. While results from studies examining performance in organizations that plan are generally positive, we cannot say organizations that formally plan *always* outperform those that do not plan.

Numerous studies have looked at the relationship between planning and performance.[3] We can draw the following four conclusions from these studies. First, formal planning is generally associated with higher profits, higher return on assets, and other positive financial results. Second, the quality of the planning process and the appropriate implementation of the plans probably contribute more to high performance than does the extent of planning. Third, in those studies in which formal planning did not lead to higher performance, the external environment was often the culprit. Government regulations, powerful labour unions, and other critical environmental forces constrain managers' options and reduce the impact of planning on an organization's performance. Fourth, the planning/performance relationship is influenced by the planning time frame. Organizations need at least four years of systematic formal planning before performance is affected.

Are you skeptical of planning? Do you wonder whether planning really pays off?

Criticisms of Planning

Formal organizational planning became popular in the 1960s and, for the most part, is still popular today. It makes sense for an organization to establish its direction. But critics have challenged some of the basic assumptions underlying planning. What are the primary criticisms directed at formal planning?

What if you really don't like to make plans?

- *Planning may create rigidity.*[4] Formal planning efforts can lock an organization into specific goals to be achieved within specific timetables. When these goals are set, the assumption may be that the environment will not change during the time period the goals cover. If that assumption is faulty, managers who follow a plan may face trouble. Rather than remaining flexible—and possibly throwing out the plan—managers who continue to do the things required to achieve the original goals may not be able to cope with the changed environment. Forcing a course of action when the environment is fluid can be a recipe for disaster.

planning
A management function that involves defining goals, establishing a strategy for achieving those goals, and developing plans to integrate and coordinate activities.

- *Plans cannot be developed for a dynamic environment.*[5] Most organizations today face dynamic environments. If a basic assumption of making plans—that the environment will not change—is faulty, then how can you make plans at all? Today's business environment is often chaotic at best. By definition, that means random and unpredictable. Managing under those conditions requires flexibility, which may mean not being tied to formal plans.
- *Formal plans cannot replace intuition and creativity.*[6] Successful organizations are typically the result of someone's innovative vision. But visions have a tendency to become formalized as they evolve. Formal planning efforts typically involve a thorough investigation of the organization's capabilities and opportunities, and a mechanical analysis that reduces the vision to some type of programmed routine. That approach can spell disaster for an organization. Apple Computer learned this the hard way. In the late 1970s and throughout the 1980s, Apple's success was attributed, in part, to the innovative and creative approaches of co-founder Steve Jobs. Steve Jobs left Apple in 1985 due to a power struggle with Apple's Board of Directors. With his departure came increased organizational formality, including detailed planning—the same things that Jobs despised so much because he felt that they hampered creativity. During the 1990s, the situation at Apple became so bad that Jobs returned as permanent CEO in 2000 and spearheaded the iPod and iTunes, the iPhone, and eventually the iPad—changes that led Apple to become one of the world's dominant players.
- *Planning focuses managers' attention on today's competition, not on tomorrow's survival.*[7] Formal planning has a tendency to focus on how to capitalize on existing business opportunities within an industry. It often does not allow managers to consider creating or reinventing an industry. Consequently, formal plans with long timeframes may result in lost market share and high catch-up costs when other competitors take the lead. In contrast, companies such as Intel, General Electric, Nokia, and Sony have found success by forging into uncharted waters, spawning new industries as they go.
- *Formal planning reinforces success, which may lead to failure.*[8] Changing or discarding previously successful plans is hard. It means leaving the comfort of what works for the anxiety of the unknown. Successful plans, however, may provide a false sense of security, generating more confidence in the formal plans than is warranted. Many managers will not face the unknown until they are forced to do so by environmental changes. By then, it may be too late!

Interpret

How valid are these criticisms? Should managers forget about planning? No! Although the criticisms have merit when directed at rigid, inflexible planning, today's managers can be effective planners if they understand the need to be flexible in responding to environmental change.

HOW DO MANAGERS PLAN?

3.2 **Define** How do managers set goals and develop plans?

Planning is often called the primary management function because it establishes the basis for all the other functions that managers perform. Without planning, managers would not know what to organize, lead, or control. In fact, without plans, there would not be anything to organize, lead, or control! So how do managers plan?

Planning involves two important elements: goals and plans. **Goals (objectives)** are the desired outcomes for individuals, groups, or entire organizations.[9] Goals are objectives, and we use the two terms interchangeably. Goals provide the direction for all management decisions and form the criteria against which actual work accomplishments can be measured. That is why they are often called the foundation of planning. You have to know the desired target or outcome before you can establish plans for reaching it. **Plans** are documents that outline how goals are going to be met and that typically describe resource allocations, schedules, and other necessary actions to accomplish the goals. As managers plan, they are developing both goals and plans.

In the next section, we consider how to establish goals.

Approaches to Establishing Goals

Goals provide the direction for all management decisions and actions, and form the criteria against which actual accomplishments are measured. Everything organizational members do should be oriented toward helping both their work units and the organization achieve the goals that have been set. Goals can be established through a process of traditional goal setting or management by objectives.

TRADITIONAL GOAL SETTING In **traditional goal setting**, goals are set at the top of the organization and then broken into subgoals for each organizational level. This process works reasonably well when an organization is hierarchically structured. This traditional perspective assumes that top managers know what is best because they see "the big picture." Thus, the goals that are established and passed down to each succeeding level serve to direct and guide, and in some ways constrain, individual employees' work behaviours. Employees work to meet the goals that have been assigned in their areas of responsibility.

In traditional goal setting, if top management wants to increase sales by 10 percent for the year, the marketing and sales departments need to develop action plans that will yield these results. The manufacturing department needs to develop plans for how to produce more product. An individual salesperson may need to make more calls to new clients or convince current clients that they need more product. Thus, each of the lower levels (individual employee, sales, marketing, production) becomes a means to achieving the corporate end of increasing sales.

MANAGEMENT BY OBJECTIVES Instead of traditional goal setting, many organizations use **management by objectives (MBO)**, an approach in which specific performance goals are jointly determined by employees and their managers, progress toward accomplishing these goals is periodically reviewed, and rewards are allocated on the basis of this progress. Rather than using goals only as controls, MBO uses them to motivate employees as well. Employees will be more committed to goals that they help set.

Management by objectives consists of four elements: goal specificity, participative decision making, an explicit time period, and performance feedback.[10] Its appeal lies in its focus on the accomplishment of participatively set objectives as the reason for and motivation behind individuals' work efforts. Exhibit 3-1 lists the steps in a typical MBO program.

Do MBO programs work? Studies of actual MBO programs confirm that MBO increases employee performance and organizational productivity. A review of 70 programs, for example, found organizational productivity gains in 68 of them.[11] This same review also identified top management commitment and involvement as important conditions for MBO to succeed.

Have you occasionally failed at your goals? How can you develop more achievable goals?

CHARACTERISTICS OF WELL-DESIGNED GOALS Goals are not all created equal. Some goals are better than others. How can you tell the difference? What makes a "well-designed" goal?[12] Exhibit 3-2 outlines the characteristics of well-designed goals.

goals (objectives)
Desired outcomes for individuals, groups, or entire organizations.

plans
Documents that outline how goals are going to be met and describe resource allocations, schedules, and other necessary actions to accomplish the goals.

traditional goal setting
An approach to setting goals in which goals are set at the top of the organization and then broken into subgoals for each organizational level.

management by objectives (MBO)
An approach to goal setting in which specific measurable goals are jointly set by employees and their managers, progress toward accomplishing those goals is periodically reviewed, and rewards are allocated on the basis of this progress.

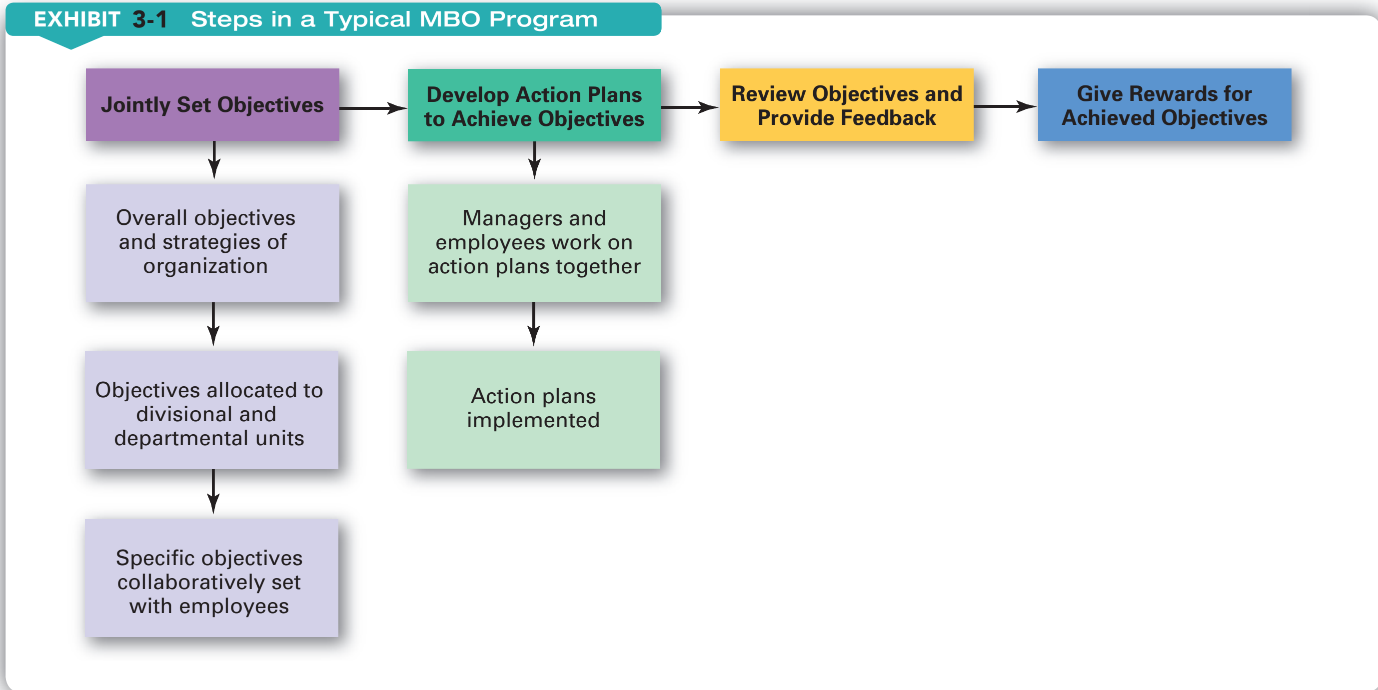


EXHIBIT 3-1 Steps in a Typical MBO Program

Steps in Goal Setting

What steps should managers follow in setting goals? The goal-setting process consists of five steps.

1. *Review the organization's vision and mission.* The **vision and mission** reflect the purpose of an organization as statements of what the organization hopes to accomplish. Reviewing these statements before writing goals is important, because the goals need to reflect what is contained in the vision and mission statements.
2. *Evaluate available resources.* You do not want to set goals that are impossible to achieve given your available resources. Even though goals should be challenging, they must be realistic. After all, if the resources you have to work with will not allow you to achieve a goal no matter how hard you try or how much effort is exerted, that goal should not be set. That would be like the person with a $50 000 annual income and no other financial resources setting a goal of building an investment portfolio worth $1 million in three years. No matter how hard he or she works at it, it will not happen.
3. *Determine the goals individually or with input from others.* The goals reflect desired outcomes and should be consistent with the organization's mission and goals in other organizational areas. These goals should be measurable, specific, and include a time frame for accomplishment.
4. *Write down the goals and communicate them to all who need to know.* We have already explained the benefit of writing down and communicating goals.
5. *Review results and whether goals are being met.* Make changes as needed. For any plan to be effective, reviews need to be done.

EXHIBIT 3-2 Characteristics of Well-Designed Goals

- Written in terms of outcomes rather than actions
- Measurable and quantifiable
- Clear time frame
- Challenging yet attainable
- Feature participation and feedback from all necessary organizational members

Developing Plans

Once goals have been established, written down, and communicated, a manager is ready to develop plans for pursuing the goals.

What are the advantages of specifying the plans to achieve goals? Jean-Marc Eustache, president and CEO of Montreal-based Transat A.T., knows he cannot relax just because he has one of the largest international travel and tourism companies in the world. He recently told shareholders that he plans "to double [Transat's] revenues during the next three-and-a-half years."[13] To accomplish this goal, he plans to do the following: increase the company's share of the leisure travel business into and out of Ontario; increase the company's share of the leisure travel business in France; increase flights between Canada and the United Kingdom; move into the United States and offer flights to Mexico and the Caribbean; and increase the company's ownership and management of hotels in the Caribbean and Mexico. By specifying the plans to achieve his goal to double revenues, Eustache let Transat employees know where to focus attention when helping people make their travel plans.

TYPES OF PLANS The most popular ways to describe an organization's plans are by their breadth (strategic vs. operational), time frame (short term vs. long term), specificity (directional vs. specific), and frequency of use (single use vs. standing). These planning classifications are not independent. As Exhibit 3-3 illustrates, strategic plans are long-term, directional, and single-use. Operational plans are short-term, specific, and standing. Let's examine each of these types of plans.

Strategic plans are plans that apply to the entire organization, establish the organization's overall goals, and seek to position the organization in terms of its environment. Plans that specify the details of how the overall goals are to be achieved are called **operational plans**. How do the two types of plans differ? Strategic plans tend to cover a longer time frame and a broader view of the organization. Strategic plans also include the formulation of goals, whereas operational plans define ways to achieve the goals. Also, operational plans tend to cover short time periods—monthly, weekly, and day-to-day.

The difference in years between short term and long term has shortened considerably. It used to be that long term meant anything more than seven years. Try to imagine what you would like to be doing in seven years, and you can begin to appreciate how difficult it was for managers to establish plans that far into the future. As organizational environments have become more uncertain, the definition of *long term* has changed. We define **long-term plans** as those with a time frame beyond three years.[14] For example, an organization may develop a five-year plan for increasing its sales in Asia. We define **short-term plans** as those with a time frame of one year or less. For example, a company may decide that it will increase sales by 10 percent over the next year. The *intermediate term* is any time period in between. Although these time classifications are fairly common, an organization can designate any time frame it wants for planning purposes.

Intuitively, it would seem that specific plans would be preferable to directional, or loosely guided, plans. **Specific plans** are plans that are clearly defined and leave no room for interpretation. They have clearly defined objectives. There is no ambiguity and no problem with misunderstanding. For example, a manager who seeks to increase his or her unit's work output by 8 percent over a given 12-month period might establish specific procedures,

vision and mission
The purpose of an organization.

strategic plans
Plans that apply to the entire organization, establish the organization's overall goals, and seek to position the organization in terms of its environment.

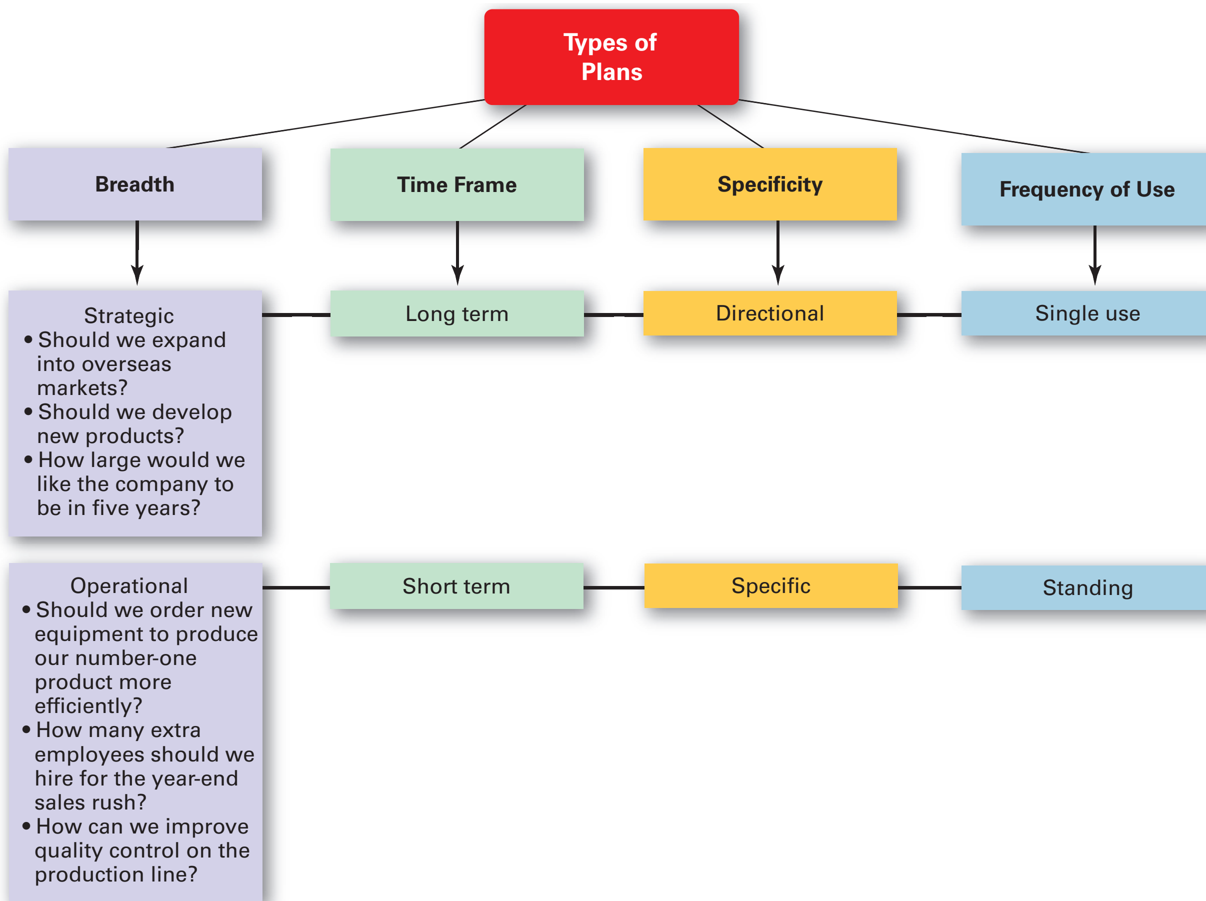
operational plans
Plans that specify the details of how the overall goals are to be achieved.

long-term plans
Plans with a time frame beyond three years.

short-term plans
Plans with a time frame of one year or less.

specific plans
Plans that are clearly defined and leave no room for interpretation.

EXHIBIT 3-3 Types of Plans



budget allocations, and schedules of activities to reach that goal. The drawbacks of specific plans are that they require clarity and a sense of predictability that often do not exist.

When uncertainty is high and managers must be flexible in order to respond to unexpected changes, directional plans are preferable. **Directional plans** are flexible plans that set out general guidelines. They provide focus but don't lock managers into specific goals or courses of action. Instead of detailing a specific plan to cut costs by 4 percent and increase revenues by 6 percent in the next six months, managers might formulate a directional plan for improving profits by 5 to 10 percent over the next six months. The flexibility inherent in directional plans must be weighed against the loss of clarity provided by specific plans.

Some plans that managers develop are ongoing, while others are used only once. A **single-use plan** is a one-time plan specifically designed to meet the needs of a unique situation. Budgets and projects are examples of single-use plans. For example, when Charles Schwab introduced its online discount stock-brokerage service, top-level executives used a single-use plan to guide the creation and implementation of the new service. In contrast, standing plans are ongoing and provide guidance for activities performed repeatedly. **Standing plans** include policies, rules, and procedures, which we define in Chapter 4. An example of a standing plan would be the discrimination and harassment policy developed by the University of British Columbia. The policy provides guidance to university administrators, faculty, and staff as they perform their job duties.

PLANNING TOOLS AND TECHNIQUES Managers use various tools and techniques to maximize the benefits of planning.[15]

Forecasting	Attempting to predict the future and developing plans accordingly
Contingency planning	Identifying alternative plans for outcomes that are different than expected
Scenario planning	Predicting various future outcomes and making plans for each
Benchmarking	Developing plans based on the practices of competitors

Forecasting Forecasting involves predicting future events and developing plans to deal with those events. Expert opinions and statistical analysis are two types of forecasting techniques.[16] Canadian financial analysts regularly predict what will happen with the Canadian and world economies, and businesses use that information to help plan their strategy.

Contingency Planning Adjusting plans for various future situations is called contingency planning. The process of developing these plans is influenced by changing circumstances in the environment.[17] When environmental uncertainty is high, plans should be specific, but flexible. Managers must be prepared to amend plans as they are implemented. At times, managers may even have to abandon their plans.[18]

Scenario Planning Scenario planning is a type of contingency planning that involves a longer time frame. Royal Dutch Shell has used scenarios since the early 1970s as part of a process for generating and evaluating its strategic options. Shell used these scenarios to develop better oil forecasts than its competitors and to predict the overcapacity issue in the tanker business earlier.[19]

Benchmarking Benchmarking involves the search for the best practices among competitors or noncompetitors that lead to their superior performance.[20] The basic idea underlying benchmarking is that management can improve quality by analyzing and then copying the methods of leaders in various fields. A local charity organization can benefit from the experience and successful practices of other Canadian charities.

ORGANIZATIONAL STRATEGY: CHOOSING A NICHE

Think About It

Think about the different aspects of the business that Maple Leaf Food's managers and Board of Directors have to consider when they are making their plans for the future. For example, Maple Leaf Foods has successfully used acquisitions, such as the purchase of Schneider Corporation in 2004, to diversify their product mix. How would some acquisitions be more effective than others?

3.3 **Describe** What are the steps in strategic management?

Maple Leaf Foods combines strategy and innovation to stay abreast of the trends in consumer purchasing. Each year, it introduces up to 100 new products. In 2009, Maple Leaf opened the ThinkFOOD! Centre, created to provide customers with an opportunity to collaborate with the product development team and culinary experts. By involving customers in the design of food products, Maple Leaf hopes to increase sales for its global baker and protein businesses.[21]

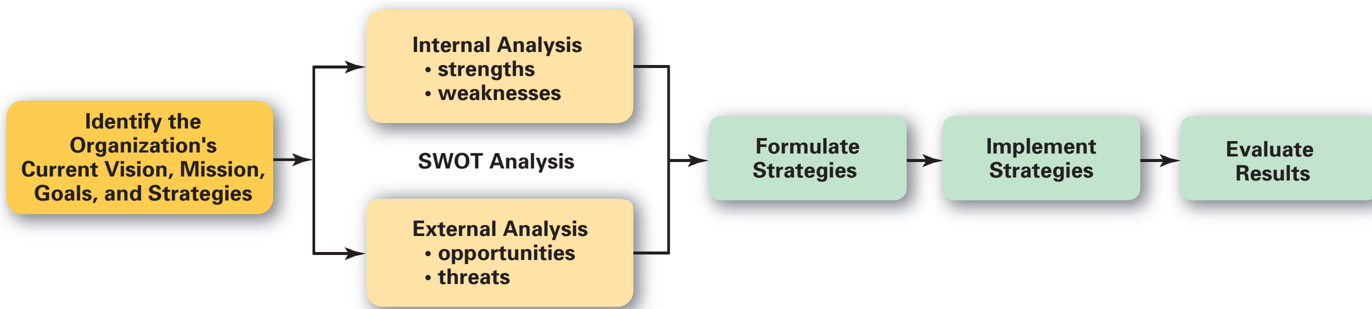
To begin to understand why organizational strategy matters, you need look no further than at what has happened in the discount retail industry in

directional plans
Plans that are flexible and that set out general guidelines.

single-use plan
A one-time plan specifically designed to meet the needs of a unique situation.

standing plans
Ongoing plans that provide guidance for activities performed repeatedly.

EXHIBIT 3-4 The Strategic Management Process



Canada. The industry's two largest competitors—Walmart and Zellers—have battled for market dominance since Walmart entered Canada in 1992. The two chains have some striking similarities: store atmosphere, markets served, and organizational purpose. Yet Walmart's performance (financial and otherwise) has taken market share from Zellers every single year. Walmart is the world's largest and most successful retailer, and Zellers is the second-largest discount retailer in Canada. Why the difference in performance? Organizations vary in how well they perform because of differences in their strategies and differences in competitive abilities.[22] Walmart excels at strategic management, while Zellers struggled to find the right niche and ultimately led to US retailer Target purchasing 220 of its stores.[23] Walmart now has to adapt their strategic planning to the entry of a formidable competitor in the Canadian market.

Strategic management is what managers do to develop the organization's strategies. What are an organization's **strategies**? They are the plans for how the organization will do whatever it is in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.[24]

One term that is often used in conjunction with strategic management and strategies is **business model**, which is a strategic design for how a company intends to profit from its strategies, work processes, and work activities. A company's business model focuses on two things: (1) whether customers will value what the company is providing and (2) whether the company can make any money doing that.[25] Dell pioneered a new business model for selling computers to consumers directly on the Internet instead of selling its computers, like all the other computer manufacturers, through computer retailers. Did customers "value" that? Absolutely! Did Dell make money doing it that way? Absolutely! As managers think about strategies for their businesses, they need to give some thought to the economic viability of their business model.

The **strategic management process**, as illustrated in Exhibit 3-4, is a six-step process that encompasses strategic planning, implementation, and evaluation. Although the first four steps describe the planning that must take place, implementation and evaluation are just as important. Even the best strategies can fail if management does not implement or evaluate them properly. Let's examine the six steps in detail.

How would you develop a strategic plan for the next five or ten years of your life? What would be your vision, mission, goals, and strategies?

Step 1: Identify the Organization's Current Vision, Mission, Goals, and Strategies

Together the vision and mission provide an organization's statement of purpose. The vision answers the question, What will this business be in the future?[26] The mission answers the question, What is our reason for being in business? Defining the organization's mission forces managers to carefully identify the scope of their products or services. These statements provide clues to what organizations see as their reason for being in business. Exhibit 3-5 on page 00 describes the typical components of a mission statement.

It is important for managers to identify goals and strategies consistent with the vision and mission being pursued. For example, the Workers' Compensation Board of BC, now known as Work Safe BC, has the following vision, mission, and goals:[27]

EXHIBIT 3-5 Components of a Mission Statement

Customers:	**Who are the organization's customers?** We believe our first responsibility is to the doctors, nurses and patients, to mothers, fathers and all others who use our products and services. (Johnson & Johnson)
Markets:	**Where does the organization compete geographically?** To invoke the senses, evoke the imagination and provoke the emotions of people around the world! (Cirque du Soleil)
Concern for survival, growth, and profitability:	**Is the organization committed to growth and financial stability?** We expand our thinking and grow faster than the industry average, and we enjoy being seen as a young aggressive company. We believe that we do not have to compromise our integrity to be profit driven. (G.A.P Adventures)
Philosophy:	**What are the organization's basic beliefs, values, and ethical priorities?** Ducks Unlimited Canada (DUC) envisions Canada as a nation that can sustain use by people and wildlife without endangering the amount or functions of natural lands. DUC leads wetland conservation for waterfowl, other wildlife and people in North America. (Ducks Unlimited Canada)
Concern for public image:	**How responsive is the organization to societal and environmental concerns?** As a vital measure of integrity, we will ensure the health and safety of our communities, and protect the environment in all we do. (Dow Chemical)
Products or services:	**What are the organization's major products or services?** To enrich the lives of everyone in WestJet's world by providing safe, friendly and affordable air travel. (WestJet Airlines)
Technology:	**Is the organization's technologically current?** **Pushing the limits of what technology can accomplish:** Pushing the limits means focusing more of our resources and attention on what we do not know rather than on controlling what we already know. The fact that something has not worked in the past does not mean that it cannot be made to work in the future; and the fact that something did work in the past doesn't mean that it can't be improved upon. (Syncrude Canada)
Self-concept:	**What are the organization's major competitive advantage and core competencies?** CBC Television, as Canada's national public television broadcaster, has a cultural mandate to tell compelling, original, audacious and entertaining Canadian stories in a way that Canadians want to watch, and in large numbers. (CBC Television)
Concern for employees:	**Are employees a valuable asset of the organization?** We recognize contributions and celebrate accomplishments. (Tourism BC)

Sources: Based on company websites; and F. David, *Strategic Management*, 11th ed. (Upper Saddle River, NJ: Prentice Hall, 2007), p. 70.

Our vision
Workers and workplaces safe and secure from injury, illness, and disease.

Our mission
To add value for workers and employers by:

- Assisting them to create a culture of health and safety in the workplace
- Delivering quality decisions and advice
- Providing compassionate and supportive service
- Ensuring solid financial stewardship now and in the future

strategic management
What managers do to develop the organization's strategies.

strategies
The decisions and actions that determine the long-run performance of an organization.

business model
A strategic design for how a company intends to profit from its strategies, work processes, and work activities.

strategic management process
A six-step process that encompasses strategic planning, implementation, and evaluation.

Step 2: Do an Internal Analysis

Now we move from looking outside the organization to looking inside. The internal analysis provides important information about an organization's specific resources and capabilities. An organization's **resources** are its assets—financial, physical, human, intangible—that are used by the organization to develop, manufacture, and deliver products or services to its customers. Its **capabilities** are its skills and abilities in doing the work activities needed in its business. The major value-creating capabilities and skills of the organization are known as its **core competencies**.[28] Both resources and core competencies can determine the organization's competitive weapons. Procter & Gamble's core competencies were historically based on innovation and brand-building.[29] P&G has focused on supply chain management by increasing forecasting accuracy. Supply chain management has become a core competence as the company has earned very high rankings annually, including #2 in AMR Research's 2010 Supply Chain Top 25.[30] Companies like P&G or Maple Leaf that are commited to continually improving the quality of their products and services are attempting to use **quality management**. Kerry Shapansky, president of Toronto-based Pareto, a marketing services company, emphasizes the value of quality as a competitive advantage. "You can do 984 things right and just one thing wrong for it all to come apart," he says. "Nobody remembers the 984 things you did right; all focus is on that one thing you did wrong."

After doing the internal analysis, managers should be able to identify organizational strengths and weaknesses. **Strengths** are any activities the organization does well or any unique resources that it has. **Weaknesses** are activities the organization does not do well or resources it needs but does not possess. This step forces managers to recognize that their organizations, no matter how large or successful, are constrained by the resources and capabilities they have.

What are your strengths and weaknesses for developing a successful career?

Doing an internal analysis of an organization's financial and physical assets is fairly easy because information on those areas is readily available. However, evaluating an organization's intangible assets—things such as employees' skills, talents, and knowledge; databases and other IT assets; organizational culture; and so forth—is a bit more challenging. Organizational culture, specifically, is one crucial part of the internal analysis that is often overlooked.[31] Assessing the company's culture is critical because strong and weak cultures have different effects on strategy, and the content of a culture has a major effect on strategies pursued. What is a strategically appropriate culture? It is one that supports the firm's chosen strategy. For a number of years, Avis, the number-two US car rental company, has stood at the top of its category in an annual survey of brand loyalty. By creating a culture in which employees obsess over every step of the rental car experience, Avis has built an unmatched record for customer loyalty.[32]

Another intangible asset that is important, but difficult to assess during an internal analysis, is corporate reputation. Does the fact that Montreal-based aluminum producer Rio Tinto Alcan is ranked as one of Canada's "most admired corporations" make a difference? Does the fact that Calgary-based WestJet Airlines often makes the list of "Canada's 10 Most Admired Corporate Cultures™" mean anything? Does the fact that Coca-Cola has the world's most powerful global brand give it any edge? Studies of reputation on corporate performance show that it can have a positive impact.[33] As one researcher stated, "[A] strong, well-managed reputation can and should be an asset for any organization."[34]

Step 3: Do an External Analysis

What changes in the world are happening that could affect how your career might unfold over time? How would this affect your strategic plan?

In Chapter 2, we described the external environment as an important constraint on a manager's actions. Analyzing that environment is a critical step in the strategic management process. Managers in every organization need to do an external analysis. They need to know, for example, what the competition is doing, what pending legislation might affect the organization, or what the labour supply is like in locations where it operates. In analyzing the external environment, managers should examine both the specific and general environments to see what trends and changes are occurring.

After analyzing the environment, managers need to assess what they have learned in terms of opportunities the organization can exploit, and threats it must

counteract. **Opportunities** are positive trends in external environmental factors; **threats** are negative trends. For Indigo Books & Music managers, one opportunity is the increased use of the Internet, and managers have looked for ways to get more revenue from this medium. Threats to Indigo include a decreasing number of people who read books and greater competition from alternative sources of entertainment, including movies, radio, and television programs. As a result, Indigo is betting on home décor and gifts as book sales are expected to drop from 75 percent to 50 percent of Indigo's business.[35]

One last thing to understand about external analysis is that the same environment can present opportunities to one organization and pose threats to another in the same industry because of their different resources and capabilities. For example, WestJet Airlines has prospered in a turbulent industry, while Air Canada has struggled.

Paul Holland, CEO of Vancouver-based A&W, celebrates with employee Fatemeh Divsaler Mohajer. Despite the downturn in the economic environment, A&W's sales increased 10 percent in 2008, due to Holland's strategy of focusing on Baby Boomers' taste for nostalgia.

The combined external and internal analyses are called the **SWOT analysis**—an analysis of the organization's *s*trengths, *w*eaknesses, *o*pportunities, and threats. Based on the SWOT analysis, managers can identify a strategic niche that the organization might exploit (see Exhibit 3-6). For example, owner Leonard Lee started Ottawa-based Lee Valley Tools in 1982 to help individual woodworkers, and later gardeners, find just the right tools for their tasks. This niche strategy enabled Lee to grow Lee Valley into one of North America's leading garden and woodworking catalogue companies.

SWOT analysis is effective when the analysis helps companies make specific observations and draw conclusions, and allows them to develop plans to act upon this information. Exhibit 3-7 shows some common areas to investigate when performing SWOT analysis.

EXHIBIT 3-6 Identifying the Organization's Opportunities

resources
An organization's assets—financial, physical, human, intangible—that are used to develop, manufacture, and deliver products or services to customers.

capabilities
An organization's skills and abilities that enable it to do the work activities needed in its business.

core competencies
An organization's major value-creating skills, capabilities, and resources that determine its competitive weapons.

quality management
A philosophy of management driven by continual improvement and responding to customer needs and expectations.

strengths
Any activities the organization does well or any unique resources that it has.

weaknesses
Activities the organization does not do well or resources it needs but does not possess.

opportunities
Positive trends in external environmental factors.

threats
Negative trends in external environmental factors.

SWOT analysis
An analysis of the organization's strengths, weaknesses, opportunities, and threats.

EXHIBIT 3-7 SWOT Analysis

Strengths

- Financial condition: adequate resources, returns, revenues, profit
- Operations: cost advantages, economies of scale, location/geographic coverage, good supply chain management
- Product: product innovation, price/value/quality, PL breadth
- Management: proven management team, history of success, succession planning
- Competition: insulated from competitive pressures, market leader
- Technology: proprietary technology, patents
- Marketing: brand awareness and recognition, brand equity, distribution, strong advertising
- Customers: attractive customer base, well thought of by buyers
- Strategies: powerful strategy, key functional area strategies
- Organization: culture, climate
- History: track record of success, experience, knowledge, data
- People: accreditations, qualifications, training, low turnover, high customer service, intellectual capital
- Competencies/capabilities suited to industry
- IT: processes, systems, infrastructure, communications
- Alliances/joint ventures with key industry partners
- Innovation: proven and unique

Weaknesses

- Financial condition: inadequate resources, debt, declining revenues, subpar profitability
- Operations: obsolete facilities, weak R&D, internal operating problems, underutilized capacity, weak dealer network
- Product: too narrow a product line, cannibalization, saturation, limited features
- Management: lack of depth and talent, key executive departures
- Competition: losing market share, inferior intellectual capital
- Technology: lack of presence in e-commerce
- Marketing: weak brand image or reputation, no unique sales proposition, lack of reach
- Customers: declining customer base, poorly regarded by buyers
- Strategies: lacking clear strategic direction, poor track record in strategy implementation
- Organization: culture, climate
- History: still overcoming negative trends, poor triple bottom line reputation
- People: high turnover, poor training, low morale, poor customer service, missing key skills or competencies
- Lack of developed or proven competencies
- IT: processes, systems, infrastructure, communications
- Alliances/joint ventures with key industry partners
- Innovation: weak or unproven

Opportunities

- Markets: new markets or segments, vertical/horizontal integration, niche markets
- Customers: serve additional customer groups, lifestyle or demand trends
- Product: PL expansion (broader range or customer needs), add complementary products, diversification
- Competition: complacency among rivals, rival vulnerabilities, winning market share
- Market developments: faster market or industry growth
- Technology: development/adaptation innovation, online sale /e-commerce
- Operational: using existing skills/know-how to enter new product lines or new businesses, production economies, supply chain integration
- Integration: forward/backward
- Global: new influences, export /import, lowering trade barriers
- Tactics: surprise element, major contracts, alliances/joint ventures/partnerships, acquisition of rivals
- Seasonal: weather, fashion influences, trends
- Marketing: New USP's?, research, product development

Threats

- Competition: likely entry of new competitors, existing competition, substitute products
- Buyers: changing needs and preferences, growing purchasing power
- Demographics: adverse changes, skills shortages
- Supply: limited supply, growing bargaining power of suppliers
- Economy: home and abroad, vulnerability to recession and business cycle
- Political/legislative: effects from changes, restrictive trade policies, costly new regulatory requirements
- Market: slower growth, decreasing demand
- Environmental: seasonality, weather effects
- Technology: new services, technologies, ideas
- Organization: loss of key staff, insurmountable weaknesses, vital contracts and partners

Source: A. Thompson, A. Strickland, and J. Gamble, *Crafting and Executing Strategy*, 14th ed. (New York, NY: McGraw-Hill, 2005), p. 95.

EXHIBIT 3-8 PESTEL Analysis

Political

- How stable is the political environment?
- What are local taxation policies and how do these affect your business?
- Is the government involved in trading agreements such as EU, NAFTA, ASEAN, or others?
- What are the foreign-trade regulations?
- What are the social-welfare policies?

Economic

- What are current and projected interest rates?
- What is the level of inflation, what is it projected to be, and how does this projection reflect the growth of your market?
- What are local employment levels per capita and how are they changing?
- What are the long-term prospects for gross domestic product (GDP) per capita and so on?
- What are exchange rates between critical markets and how will they affect production and distribution of your goods?

Socio-cultural

- What are local lifestyle trends?
- What are the current demographics and how are they changing?
- What is the level and distribution of education and income?
- What are the dominant local religions and what influence do they have on consumer attitudes and opinions?
- What is the level of consumerism and what are popular attitudes toward it?
- What pending legislation affects corporate social policies (e.g., domestic-partner benefits, maternity/paternity leave)?
- What are the attitudes toward work and leisure?

Technological

- What is the level of research funding in government and industry and are those levels changing?
- What is the government and industry's level of interest and focus on technology?
- How mature is the technology?
- What is the status of intellectual-property issues in the local environment?
- Are potentially disruptive technologies in adjacent industries creeping in at the edges of the focal industry?

Environmental

- What are local environmental issues?
- Are there any pending ecological or environmental issues relevant to your industry?
- How do the activities of international pressure groups (e.g., Greenpeace, Earth First, PETA) affect your business?
- Are there environmental-protection laws?
- What are the regulations regarding waste disposal and energy consumption?

Legal

- What are the regulations regarding monopolies and private property?
- Does intellectual property have legal protections?
- Are there relevant consumer laws?
- What is the status of employment, health-and-safety, and product-safety laws?

PESTEL ANALYSIS PESTEL is an acronym for six contextual factors that shape a company's external environment: *p*olitical, *e*conomic, *s*ocio-cultural, *t*echnological, *e*nvironmental, and *l*egal. The questions in Exhibit 3-8 help determine the nature of opportunities and threats facing a company in the future. **PESTEL analysis** is a way for a company to align its strategy with the external environment.[36]

Step 4: Formulate Strategies

Once the SWOT analysis is complete, managers need to develop and evaluate strategic alternatives and then select strategies that either capitalize on the organization's strengths and exploit environmental opportunities or correct the organization's weaknesses and buffer it against threats. Strategies need to be established for the corporate, business, and functional levels of the organization, which we will describe shortly. This step is complete when managers have developed a set of strategies that gives the organization a relative

PESTEL analysis
A way for a company to align its strategy with the external environment by analyzing six contextual factors that shape the external environment: political, economic, socio-cultural, technological, environmental, and legal.

advantage over its rivals. Professor Henry Mintzberg of McGill Business School notes that strategies often emerge from actions that organizations take rather than simply reflect the original strategic intent of the organization.[37]

Step 5: Implement Strategies

After strategies are formulated, they must be implemented. No matter how effectively an organization has planned its strategies, it cannot succeed if the strategies are not implemented properly. Involving all members of the organization in strategic planning is also important.

Step 6: Evaluate Results

Analyze

The final step in the strategic management process is evaluating results. How effective have the strategies been? A winning strategy is one that provides competitive advantage, leads to improved performance, and fits the industry and competitive situation.[38] What adjustments, if any, are necessary? Revisions become necessary for several reasons: specific company performance, changing environmental conditions, and new opportunities.[39] We discuss this step in our coverage of the control process in Chapter 11.

TYPES OF ORGANIZATIONAL STRATEGIES

3.4 Explain What kinds of strategies can managers use?

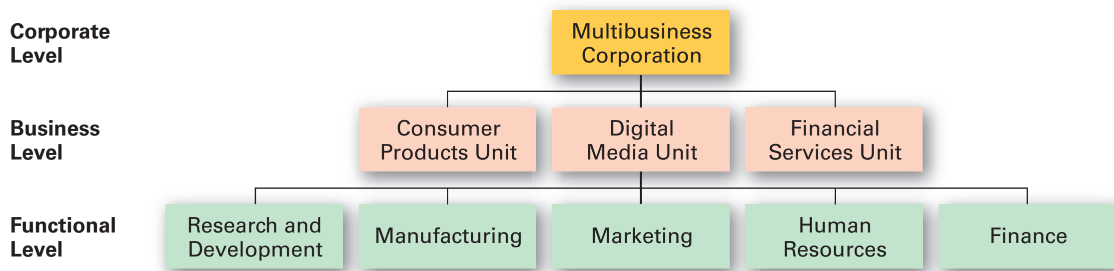
There are three types of organizational strategy: corporate, business, and functional (see Exhibit 3-9). They relate to the particular level of the organization that introduces the strategy. Managers at the top level of the organization typically are responsible for corporate strategies; for example, Michael McCain plans Maple Leaf Foods' restructuring strategy. Maple Leaf has three separate business-level divisions and directors reporting to McCain: Meat Products group, Agribusiness group, and Bakery Products group. Managers within each division are responsible for functional strategies such as accounting and marketing. Let's look at each type of organizational strategy.

Corporate Strategy

If you were to develop your own company, what business would it be in? Why?

Corporate strategy is a strategy that evaluates what businesses a company is in, should be in, or wants to be in, and what it wants to do with those businesses. The corporate strategy is based on the mission and goals of the organization and the roles that each business unit of the organization will play. Take PepsiCo, for example. Its mission is to be a successful producer and marketer of beverage and packaged food products, and its strategy for pursuing that mission and various goals is through its different businesses including North American Soft Drinks, Frito-Lay, Gatorade, Tropicana Products, and PepsiCo International. At one time, PepsiCo had a restaurant division that included Taco Bell, Pizza Hut, and KFC, but because

EXHIBIT 3-9 Types of Organizational Strategy



of intense competitive pressures in the restaurant industry and the division's inability to contribute to corporate growth, PepsiCo made a strategic decision to spin off that division as a separate and independent business entity, now known as YUM! Brands Inc. What types of corporate strategies do organizations such as PepsiCo use?

In choosing what businesses to be in, senior management can choose among three main types of corporate strategies: growth, stability, and renewal. To illustrate, Walmart, Cadbury Schweppes, and General Motors (GM) are companies that seem to be going in different directions. Walmart is rapidly expanding its operations and developing new business and retailing concepts. Cadbury's managers, on the other hand, are content to maintain the status quo and focus on the candy industry. Meanwhile, sluggish sales and an uncertain outlook in the automobile industry have prompted GM to take drastic measures in dealing with its problems. Each of these organizations is using a different type of corporate strategy. Let's look closer at each type.

GROWTH Even though Walmart is the world's number-one retailer, it continues to grow, and over the next five years will concentrate its growth efforts internationally. Walmart Canada opened 40 new supercentres in 2012, which increased its number of supercentres by 33 percent![40] Walmart's international operations included more than 3400 stores in 2009, and these stores account for about 25 percent of the company's revenue.[41] A **growth strategy** is used when an organization wants to grow and does so by expanding the number of products offered or markets served, either through its current business(es) or through new business(es). As a result of its growth strategy, the organization may increase sales revenues, number of employees, market share, or other quantitative measures. How can organizations grow? Through concentration, vertical integration, horizontal integration, or diversification.

Concentration Growth through *concentration* is achieved when an organization concentrates on its primary line of business and increases the number of products offered or markets served in this primary business. No other firms are acquired or merged with; instead the company chooses to grow by increasing its own business operations. For example, Oakville, Ontario–based Tim Hortons opens about 200 new stores a year and is currently focusing most of its new openings on small-town western Canada, Quebec, and the United States, where it had 184 stores in 2004.[42]

Maple Leaf Foods follows a strategy of vertical integration with its AgriBusiness group, where it controls hog production.

Vertical Integration A company also might choose to grow by *vertical integration*, which is an attempt to gain control of inputs (backward vertical integration), outputs (forward vertical integration), or both. In backward vertical integration, the organization attempts to gain control of its inputs by becoming its own supplier. For example, French hospitality giant Accor, which owns Motel 6, Red Roof Inns, and numerous other lodging properties, also owns a majority of Carlson Wagonlit Travel, one of the world's largest travel

corporate strategy
An organizational strategy that evaluates what businesses a company is in, should be in, or wants to be in, and what it wants to do with those businesses.

growth strategy
A corporate strategy used when an organization wants to grow and does so by expanding the number of products offered or markets served, either through its current business(es) or through new business(es).

agencies. In forward vertical integration, the organization gains control of its outputs (products or services) by becoming its own distributor. For example, several manufacturers with strong brands—including Coach, Apple, LaCoste, and Lego—have opened select stores where customers can buy products. In other words, they have become their own distributors.

Horizontal Integration In *horizontal integration*, a company grows by combining with other organizations in the same industry—that is, combining operations with competitors. Anheuser-Busch InBev of Belgium, which owns Alexander Keith's and Labatt, is the leading brewer in the world; it is a dominant player in North America, South America, Europe, Australia, and parts of Asia and Africa because of its acquisition of local breweries. In recent years, horizontal integration has been frequently considered in the Canadian banking industry as well.

Because combining with competitors might decrease the amount of competition in an industry, Competition Bureau Canada assesses the impact of proposed horizontal integration strategies and must approve such plans before they are allowed to go forward in this country. Other countries have similar bodies to protect fair competition. For example, in the United States the Federal Trade Commission examines proposals for horizontal integration. In early 2007, Sirius Satellite Radio and XM Satellite Radio announced plans to merge and create a single satellite radio network in the United States and Canada. The companies face significant hurdles in the United States to finalize their agreement because the merger would create a monopoly in satellite radio. The merger was also difficult to achieve in Canada, as approval was needed from both the Competition Bureau Canada and the Canadian Radio-television and Telecommunications Commission (CRTC), leading to a delay of almost four years.[43]

Diversification Finally, an organization can grow through *diversification*, either related or unrelated. In **related diversification** a company grows by merging with or acquiring firms in different, but related, industries. For example, Toronto-based Weston Foods is involved in the baking and dairy industries, while its ownership of Loblaw Companies Limited (Loblaw) provides for the distribution of Weston's food products. In **unrelated diversification** a company grows by merging with or acquiring firms in different and unrelated industries. Toronto-based Brookfield Asset Management (formerly Brascan) is one of the few Canadian conglomerates that pursues a diversified strategy. Under CEO Bruce Flatt, Brascan has focused its development in three areas: real estate (Brookfield Properties), financial services (Brookfield Asset Management), and power generation (Brookfield Power). The company also owns 49 percent of Fraser Papers, a leading manufacturer of specialized printing, publishing, and converting papers; 38 percent of Norbord, a paperboard company; and 23 percent of Stelco, a steel producer.[44] However, unrelated diversification has fallen out of favour in recent years. Too much diversification can cause managers to lose control of their organizations' core business, which can reduce value rather than create it.[45] Unrelated diversification also suffers from a lack of strategic fit. Related diversification allows companies to benefit from economies of scale and knowledge transfer.[46]

Many companies use a combination of these approaches to grow. McDonald's has grown using the concentration strategy by opening more than 32 000 outlets in more than 100 countries, of which about 30 percent are company-owned. In addition, it has used horizontal integration by purchasing Boston Market and Chipotle Mexican Grill (which it spun off as a separate entity in 2006). McDonald's newest twist on its growth strategy is a move into the premium coffee market with its McCafé coffee shops.

STABILITY A **stability strategy** is a corporate strategy characterized by an absence of significant change in what the organization is currently doing. Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's business operations. The organization does not grow, but it does not fall behind either.

Although it may seem strange that an organization might not want to grow, there are times when its resources, capabilities, and core competencies are stretched to

their limits, and expanding operations further might jeopardize its future success. When might managers decide that a stability strategy is the most appropriate choice? One situation might be that the industry is in a period of rapid upheaval with external forces drastically changing and making the future uncertain. At times like these, managers might decide that the prudent course of action is to sit tight and wait to see what happens.

Another situation where a stability strategy might be appropriate is if the industry is facing slow- or no-growth opportunities. In such situations, managers might decide to keep the organization operating at its current levels before making any strategic moves. This period of stability would allow them time to analyze their strategic options. The grocery industry is growing very slowly. This fact, plus the all-out push of Walmart into grocery retailing, for example, led managers at Montreal, Quebec–based grocery chain Metro to use a stability strategy.

Finally, owners and managers of small businesses, such as small neighbourhood grocers, often purposefully choose to follow a stability strategy. Why? They may feel that their business is successful enough as it is, that it adequately meets their personal goals, and that they don't want the hassles of a growing business.

Ecotrust Canada successfully engineered a turnaround strategy to improve the triple-bottom line performance of Iisaak Forest Resources, a 100 percent First Nations forest operator on the BC coast. Iisaak has outperformed its competitors while developing strong community relationships, financial stability, and sustainable business systems. It has also achieved Forest Stewardship Council (FSC) certification while meeting strict environmental recommendations.

RENEWAL Popular business periodicals frequently print stories about organizations that are not meeting their goals or whose performance is declining. When an organization is in trouble, something needs to be done. Managers need to develop strategies that address organizational weaknesses that are leading to performance declines. These strategies are called **renewal strategies**. There are two main types of renewal strategies, retrenchment and turnaround.

A **retrenchment strategy** reduces the organization's activities or operations. Retrenchment strategies include cost reductions, layoffs, closure of underperforming units, or closure of entire product lines or services.[47] There is no shortage of companies that have pursued a retrenchment strategy. A partial list includes some big corporate names: Procter & Gamble, Sears Canada, Corel, and Nortel Networks. When an organization is facing minor performance setbacks, a retrenchment strategy helps it stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again.

What happens if an organization's problems are more serious? What if the organization's profits are not just declining, but instead there are no profits, just losses? The **turnaround strategy** is a renewal strategy for times when the organization's performance problems are more critical.

related diversification
When a company grows by combining with firms in different, but related, industries.

unrelated diversification
When a company grows by combining with firms in different and unrelated industries.

stability strategy
A corporate strategy characterized by an absence of significant change in what the organization is currently doing.

renewal strategies
Corporate strategies designed to address organizational weaknesses that are leading to performance declines.

retrenchment strategy
A short-term renewal strategy that reduces the organization's activities or operations.

turnaround strategy
A renewal strategy for situations in which the organization's performance problems are more serious.

Business Strategy

What might be the competitive advantage of a business you would like to create?

The selection of a corporate strategy sets the direction for the entire organization. Subsequently, each unit within the organization has to translate this corporate strategy into a set of business strategies that will give the organization a competitive advantage. **Competitive advantage** is what sets an organization apart: that is, its distinct edge. That distinct edge comes from the organization's core competencies—what the organization does that others cannot do or what it does better than others can do.

COMPETITIVE STRATEGIES Many important ideas in strategic management have come from the work of Michael Porter, Professor at Harvard Business School.[48] His competitive strategies framework identifies three generic strategies from which managers can choose. Success depends on selecting the right strategy—one that fits the competitive strengths (resources and capabilities) of the organization and the industry it is in. Porter's major contribution has been to explain how managers can create and sustain a competitive advantage that will give a company above-average profitability. An important element in doing this is an industry analysis.

Porter proposes that some industries are inherently more profitable (and, therefore, more attractive to enter and remain in) than others. For example, the pharmaceutical industry is one with historically high profit margins, and the airline industry is one with notoriously low ones. But a company can still make a lot of money in a "dull" industry and lose money in a "glamorous" industry. The key is to exploit a competitive advantage.

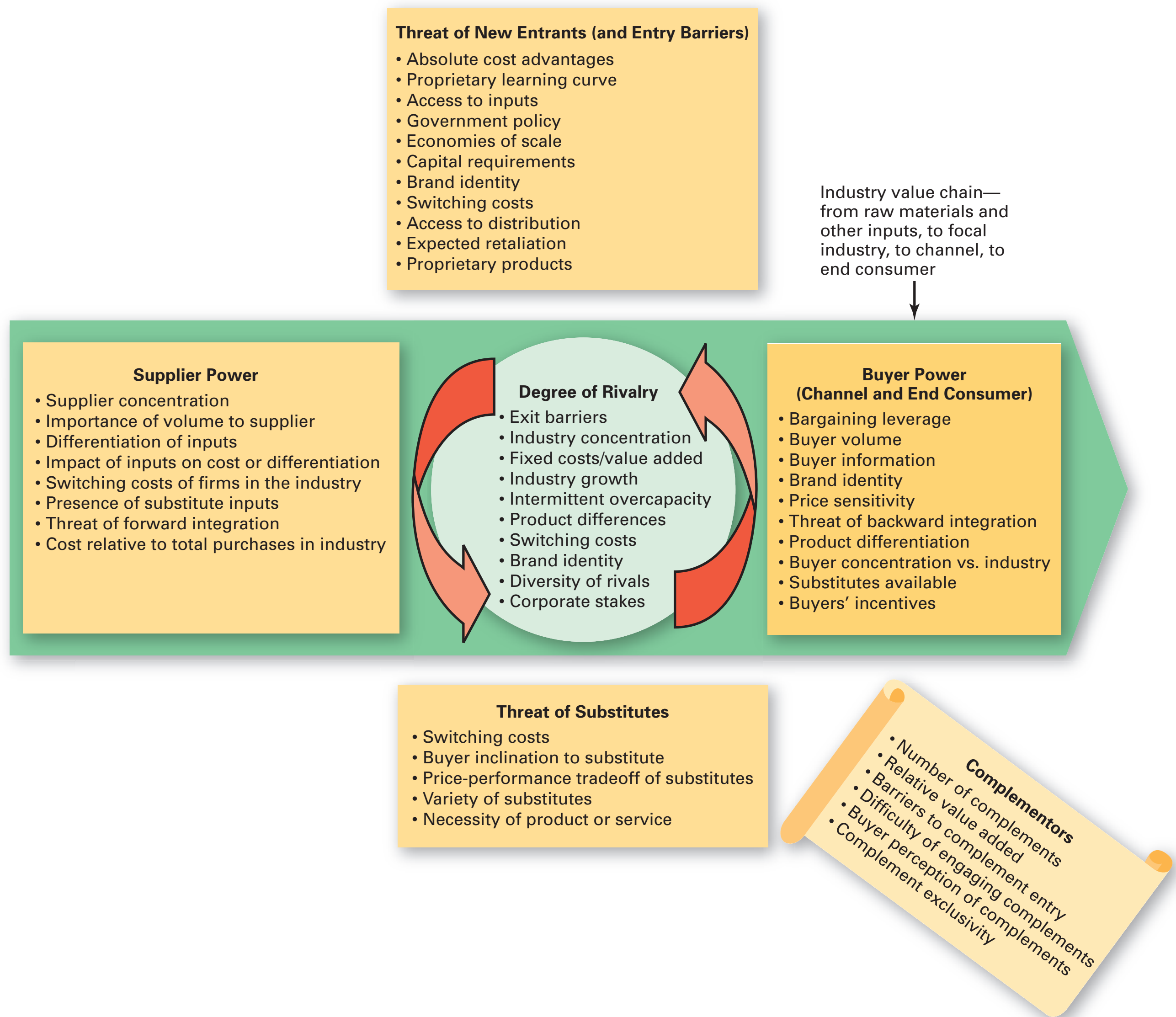
In any industry, six competitive forces dictate the rules of competition. Together, these five forces (see Exhibit 3-10 on page 00) determine industry attractiveness and profitability. Managers assess an industry's attractiveness using these forces:

- *Threat of new entrants.* Factors such as economies of scale, brand loyalty, and capital requirements determine how easy or hard it is for new competitors to enter an industry.
- *Threat of substitutes.* Factors such as switching costs and buyer loyalty determine the degree to which customers are likely to buy a substitute product.
- *Bargaining power of buyers.* Factors such as number of customers in the market, customer information, and the availability of substitutes determine the amount of influence that buyers have in an industry.
- *Bargaining power of suppliers.* Factors such as the degree of supplier concentration and availability of substitute inputs determine the amount of power that suppliers have over firms in the industry.
- *Current-competitor rivalry.* Factors such as industry growth rate, increasing or falling demand, and product differences determine how intense the competitive rivalry will be among firms currently in the industry.
- *Power of complementors.* A complementor is another industry whose product tends to increase the sales of a product in another industry.[49] Companies in the computer and electronics industries sell products that must be used together.[50]

Other stakeholders such as special interest groups, trade associations, and local communities can also wield powerful influence and therefore impact the competitive landscape of an industry.

Once managers have assessed the five forces and determined what threats and opportunities exist, they are ready to select an appropriate competitive strategy. According to Porter, no firm can be successful by trying to be all things to all people. He proposes that managers select a strategy that will give the organization a competitive advantage, which he says arises out of either having lower costs than all other industry competitors or by being significantly different from competitors. On that basis, managers can choose one of three strategies: cost leadership, differentiation, or focus. Which strategy managers select depends on the organization's strengths and core competencies and its competitors' weaknesses (see Exhibit 3-11).

EXHIBIT 3-10 Forces in an Industry Analysis



Cost Leadership Strategy When an organization sets out to be the lowest-cost producer in its industry, it is following a **cost leadership strategy**. A low-cost leader aggressively searches out efficiencies in production, marketing, and other areas of operation. Overhead is kept to a minimum, and the firm does everything it can to cut costs. You will not find expensive art or interior décor at offices of low-cost leaders. For example, at Walmart's headquarters in Bentonville, Arkansas, office furnishings are sparse and drab but functional.

Although low-cost leaders do not place a lot of emphasis on "frills," the product or service being sold must be perceived as comparable in quality to that offered by rivals or at least be acceptable to buyers. Examples of companies that have used a low-cost leadership strategy include Target, Hyundai, and WestJet Airlines.

competitive advantage
What sets an organization apart; its distinct edge.

cost leadership strategy
A business strategy in which the organization sets out to be the lowest-cost producer in its industry.

EXHIBIT 3-11 Requirements for Successfully Pursuing Porter's Competitive Strategies

Generic Strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Cost leadership	Sustained capital investment and access to capital Process engineering skills Intense supervision of labour Products designed for ease in manufacture Low-cost distribution system	Tight cost control Frequent, detailed control reports Structured organization and responsibilities Incentives based on meeting strict quantitative targets
Differentiation	Strong marketing abilities Product engineering Creative flair Strong capability in basic research Corporate reputation for quality or technological leadership Long tradition in the industry or unique combination of skills drawn from other businesses Strong cooperation from channels	Strong coordination among functions in R & D, product development, and marketing Subjective measurement and incentives instead of quantitative measures Amenities to attract highly skilled labour, scientists, or creative people
Focus	Combination of the foregoing skills and resources directed at the particular strategic target	Combination of the foregoing organizational requirements directed at the particular strategic target

Source: Reprinted from M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980), pp. 40–41.

Differentiation Strategy A company seeking to offer unique products that are widely valued by customers is following a **differentiation strategy**. Sources of differentiation might be exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. The key to this competitive strategy is that whatever product or service attribute is chosen for differentiating must set the firm apart from its competitors and be significant enough to justify a price premium that exceeds the cost of differentiating. St. Stephen, New Brunswick–based Ganong Bros., a small chocolate maker, differentiates itself from bigger boxed-chocolate makers by focusing on the assorted chocolates market. This focus enables it to rank second in Canada in that market. Vancouver City Savings Credit Union differentiates itself from competitors through a focus on the community and the customer. Profit is not the bank's only goal, and in 2010 Vancity returned a record $23.5 million to members and communities, up from $15.2 million in 2009.[51]

By looking at successful consumer products or services, a company's differentiation strategy is often clear: Calgary-based WestJet Airlines—customer service; Ontario Power Authority–sponsored Team North—energy-efficient and innovative solar product design; Vancouver-based Martha Sturdy—sleek furniture design and brand image; and Ottawa-based Lee Valley Tools—quality product design.

Focus Strategy The first two of Michael Porter's competitive strategies seek a competitive advantage in the broad marketplace. However, the **focus strategy** involves a cost advantage (cost leadership focus) or a differentiation advantage (differentiation focus) in a narrow industry segment. That is, managers select a market segment in an industry and tailor their strategy to serve it rather than the broad market. Segments can be based on product variety, type of end buyer, distribution channel, or geographical location of buyers. For example, at Compania Chilena de Fosforos SA, a large Chilean wood products manufacturer, Vice-Chair Gustavo Romero Zapata devised a focus strategy to sell chopsticks in Japan. Competitors, and even other company managers, thought he was crazy. However, by focusing on this segment, Romero's strategy managed to create more demand for his company's chopsticks than it had mature trees with which to make the products. Whether a

focus strategy is feasible depends on the size of the segment and whether the organization can support the additional cost of focusing. Research suggests that the focus strategy may be the most effective choice for small businesses because they typically do not have the economies of scale or internal resources to successfully pursue one of the other two strategies.[52]

Stuck in the Middle What happens if an organization is unable to develop a competitive advantage through either cost or differentiation? Porter uses the term **stuck in the middle** to describe those organizations that find it very difficult to achieve long-term success. He goes on to note that successful organizations frequently get into trouble by reaching beyond their competitive advantage and end up stuck in the middle. The Hudson's Bay Company department store in recent years seems to have had this strategy, avoiding the low-cost strategy of Walmart, but also avoiding the strategies of higher-end fashion boutiques such as Holt Renfrew.

We now realize organizations *can* achieve competitive advantage by pursuing a cost-leadership and a differentiation strategy at the same time. Studies have shown that such a dual emphasis can result in high performance.[53] However, an organization must be strongly committed to quality products or services, and consumers of those products or services must value quality. By providing high-quality products or services, an organization differentiates itself from its rivals. Consumers who value high quality will purchase more of the organization's products, and the increased demand will lead to economies of scale and lower per-unit costs. For example, companies such as Molson, Toyota, Intel, and Coca-Cola differentiate their products while at the same time maintaining low-cost operations.

Functional Strategy

Functional strategies are the strategies used by an organization's various functional departments to support the business strategy. For organizations with traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies must support the business strategy. Problems arise when employees and customers do not understand a company's strategy. Air Canada attempted to compete as a low-cost competitor to WestJet through Zip. This low-cost division ceased operations due to poor marketing (lack of branding) and human resource strategies (Zip employees were paid less than Air Canada employees).[54] By contrast, WestJet Airlines communicates a very clear strategy to its employees: enjoyable flights and an affordable experience for travellers. Employees are asked to implement this strategy by working to keep costs down and improve turnaround time. Aware of the strategy, all WestJet employees know what is expected of them in a crisis, and all employees help in whatever ways are necessary to meet this strategy.

Practice

differentiation strategy
A business strategy in which a company seeks to offer unique products that are widely valued by customers.

focus strategy
A business strategy in which a company pursues a cost or differentiation advantage in a narrow industry segment.

stuck in the middle
A situation in which an organization is unable to develop a competitive advantage through cost or differentiation.

functional strategy
A strategy used by a functional department to support the business strategy of the organization.

3 Review and Apply

Summary of Learning Objectives

3.1 **What does planning involve?** Planning is the process of defining goals and assessing how those goals can best be achieved. The goals are written and shared with organizational members. Once the goals are agreed on, specific action plans are created to achieve the goals. Planning's purpose is to provide direction, reduce uncertainty, reduce overlapping and wasteful activities, and establish the goals or standards used in controlling. Without planning, managers would not know what to organize, lead, or control.

3.2 **How do managers set goals and develop plans?** Planning involves two important elements: goals and plans. Goals are the desired outcomes for individuals, groups, or entire organizations. They provide the direction for all management decisions and form the criteria against which actual work accomplishments can be measured. Goals can be set at the top of the organization or through management by objectives (MBO), in which employees and managers jointly develop goals. Once goals have been established, managers develop plans to achieve them, either on their own or with the help of employees. Plans outline how goals are going to be met. They typically describe resource allocations, schedules, and other necessary actions to accomplish the goals. Planning can lock people into a particular way of behaving, which might not be appropriate at a later point. Therefore, plans need to be somewhat flexible so that managers can respond to environmental changes.

3.3 **What are the steps in strategic management?** The strategic management process is a six-step process that encompasses strategic planning, implementation, and evaluation. The first four steps involve planning: identifying the organization's current mission, goals, and strategies; analyzing the internal environment; analyzing the external environment; and formulating strategies. The fifth step is implementing strategies, and the sixth step is evaluating the results. Even the best strategies can fail if management does not implement or evaluate them properly.

Maple Leaf Foods is reinventing itself as a more streamlined and profitable company, making one of the largest single investments in the Canadian food industry to create a highly efficient, world-class prepared meats production and distribution network. If this does not close the cost gap with its US rivals, Maple Leaf will need to investigate other strategies that will do so.

3.4 **What kinds of strategies can managers use?** There are three types of organizational strategies: corporate, business, and functional. They relate to the particular level of the organization that introduces the strategy. At the corporate level, organizations can engage in growth, stability, and renewal strategies. At the business level, strategies look at how an organization should compete in each of its businesses: through cost leadership, differentiation, or focus. At the functional level, strategies of the various functional departments support the business strategy.

SNAPSHOT SUMMARY

3.1 What Is Planning?
- Purposes of Planning
- Planning and Performance
- Criticisms of Planning

3.2 How Do Managers Plan?
- Approaches to Establishing Goals
- Steps in Goal Setting
- Developing Plans

3.3 Organizational Strategy: Choosing a Niche
- **Step 1.** Identify the Organization's Current Vision, Mission, Goals, and Strategies
- **Step 2.** Do an Internal Analysis
- **Step 3.** Do an External Analysis
- **Step 4.** Formulate Strategies
- **Step 5.** Implement Strategies
- **Step 6.** Evaluate Results

3.4 Types of Organizational Strategies
- Corporate Strategy
- Business Strategy
- Functional Strategy

MyManagementLab Learning Resources

Resources

Explore and enhance your understanding of key chapter topics through the following online resources:

- Student PowerPoints
- Audio Summary of Chapter
- Annotated Exhibits
- CBC Videos for Part 2
- MySearchLab

Test your progress with **Study Plan Pre-Tests and Post-Tests**. The Pre-Tests help identify chapter concepts you've understood, and guides you to study tools for the areas in which you might need a little more practice. The Post-Tests confirm your mastery of the chapter concepts.

Build on your knowledge and practice real-world applications using the following online activities:

Interpret

- Opening Case Activity: The Purposes of Planning
- Review and Apply: Solutions to Interpret section questions and activities
- Glossary Flashcards
- Chapter Quiz

Analyze

- Opening Case Activity: The Strategic Management Process
- Review and Apply: Solutions to Analyze section questions and activities
- Management Skills
- Management Mini-Case for Chapter 3
- Self-Assessment Library

Practice

- Opening Case Activity: Planning for Action
- Review and Apply: Solutions to Practice section questions and activities

Interpret What You Have Read

1. Contrast formal and informal planning.
2. Under what circumstances are short-term plans preferred? Under what circumstances are specific plans preferred?
3. Describe the differences and explain the relationships between (a) strategic and operational plans, (b) short- and long-term plans, and (c) specific and directional plans.
4. If planning is so crucial, why do some managers choose not to do it? What are the consequences of not planning?
5. Will planning become more or less important to managers in the future? Why?
6. Compare an organization's vision and mission with its goals.
7. Describe the six-step strategic management process.
8. What is a SWOT analysis?
9. What is PESTEL analysis?

Analyze What You Have Read

1. "Organizations that fail to plan are planning to fail." Do you agree or disagree with this statement? Explain your position.
2. Under what circumstances do you believe management by objectives and traditional goal setting would be most useful? Discuss.
3. Using Michael Porter's generic strategies (cost leadership, differentiation, and focus), describe the strategy used by each of the following companies in the automotive industry: Kia, Toyota, and Ferrari.
4. How does planning differ for small versus large organizations? How is it different for a nonprofit organization versus a for-profit organization?
5. "The primary means of sustaining a competitive advantage is to adjust faster to the environment than your competitors do." Do you agree or disagree with this statement? Explain your position.

Assess Your Skills

HOW GOOD AM I AT PERSONAL PLANNING?

Indicate how much you agree or disagree with each of the six statements as they relate to your school and personal life. Use the following scale to record your answers:[55]

1 = Strongly Disagree 2 = Disagree 3 = Neither Agree nor Disagree
4 = Agree 5 = Strongly Agree

1. I am proactive rather than reactive.	1 2 3 4 5
2. I set aside enough time and resources to study and complete projects.	1 2 3 4 5
3. I am able to budget money to buy the things I really want without going broke.	1 2 3 4 5
4. I have thought through what I want to do in school.	1 2 3 4 5
5. I have a plan for completing my major.	1 2 3 4 5
6. My goals for the future are realistic.	1 2 3 4 5

SCORING KEY A score of 5 on any item means that you are doing well in planning and goal setting in that area. The authors of this instrument suggest that scores of 3 or less on any item indicate you need to gain a better understanding of the importance of goal setting and what is involved in the process.

ANALYSIS AND INTERPRETATION

Successful people have goals and establish plans to help them achieve those goals. This exercise is designed to get you to think about goal setting as it relates to your school and personal life.

If your performance on this instrument was less than you desire, consider practising skills related to goal setting and time management. Toward that end, you might want to read one or more of the following books: D. K. Smith, *Make Success Measurable! A Mindbook-Workbook for Setting Goals and Taking Action* (New York: Wiley, 1999); G. R. Blair, *Goal Setting 101: How to Set and Achieve a Goal!* (Syracuse, NY: GoalsGuy Learning, 2000); and M. Leboeuf, *Working Smart: How to Accomplish More in Half the Time* (New York: Warner Books, 1993).

More Self-Assessments

To learn more about your own skills, abilities, and interests, take the following self-assessments on MyManagementLab at www.pearsoned.ca/mymanagementlab:

- I.E.2.—What Time of Day Am I Most Productive?
- I.E.3.—How Good Am I at Personal Planning?
- III.C.1.—How Well Do I Respond to Turbulent Change? (This exercise also appears in Chapter 12 on pages 379–380.)

Practise What You Have Learned

DILEMMA

Think ahead to five years from now, to consider what it is that you might like to be doing with your life. Develop your own vision and mission statements. Conduct a personal SWOT analysis. Establish a set of goals that will help you achieve your vision and mission. Develop a five-year plan that maps out the steps you need to take in order to get to where you want to be with your life at that time. Use this plan as a basis for prioritizing tasks with your time management techniques.

BECOMING A MANAGER

- Write a personal mission statement in under 200 words
- What are your strengths and weaknesses as a student? What opportunities and threats exist in your college or university environment?
- Develop some specific and challenging goals for various aspects of your life, such as academic studies, career preparation, family, and so forth.
- Set some deadlines and milestones for your goals. Monitor and evaluate your performance every six to twelve months.
- For goals that you have developed, write out plans for achieving those goals.
- Think of a job that you would like to have five years from now. See if your goals and plans will help you to obtain this job.

DEVELOPING YOUR INTERPERSONAL SKILLS: GOAL SETTING FOR YOUR PROFESSOR

ABOUT THE SKILL

Management by objectives was described earlier in the chapter. Setting objectives jointly provides for greater commitment and motivation.

PRACTISING THE SKILL

Have a discussion with your professor. Provide responses to the following three questions as it relates to your classroom:

1. What should the professor stop doing?
2. What should the professor start doing?
3. What should the professor continue doing?

Now develop a list of three goals that would be critical to your professor's performance. Ensure that these goals meet the characteristics of well-designed goals (Exhibit 3-2). Now develop an action plan for your professor to achieve the goals.

Team Exercises

3BL: THE TRIPLE BOTTOM LINE

ETHICAL COMPETITIVE INTELLIGENCE

Some companies use competitive intelligence to get a sense of a competitor's possible strategic options, to find out information on their cost structure, or even to get an early read on a new product. If a firm does so unethically, the profit bottom line may create a negative tradeoff on the people bottom line in the organization. Acting unethically, even if it generates more profit, can lead employees to believe that their interests and those of the broader community are no longer being served.

In 2004, Air Canada filed a $5 million lawsuit against rival WestJet, alleging that WestJet executives used a former Air Canada employee's password to gain access to confidential information on flight load schedules. WestJet used this information to increase service out of Toronto and adjust US routes to the detriment of Air Canada. The case was settled in 2006, when WestJet paid $5.5 million to Air Canada in damages and agreed to donate $10 million to children's charities in the names of both airlines.

THINKING CRITICALLY ABOUT ETHICAL COMPETITIVE INTELLIGENCE

Which of the following situations would be examples of ethical competitive intelligence? Why or why not?

- Attending a trade show with a name badge and gathering information at the competitor's booth
- Accessing annual reports and industry market surveys
- Obtaining information from the competitor's public website
- Interviewing competitors' employees to access confidential information
- Hiring professional investigators to get some specific details about the competitor
- Secretly monitoring statements made by competitors' employees

YOUR COLLEGE OR UNIVERSITY'S VISION, MISSION, AND STRATEGIES

You might not pay much attention to the goals and objectives of your college or university because you are focusing on your studies. But your college or university had to carve out its niche in an effort to provide something of value to its students, and it must continue to monitor its performance.

For this exercise, break up into small groups. The task of each small group is to prepare responses to the following questions and present findings to the class.

1. What is your college or university's vision and mission? What resources does your college or university have that support its vision and mission?
2. How would you describe your college or university's environment in terms of PESTEL?
3. What do you believe are the strengths and weaknesses of your college or university? What are its opportunities and threats?
4. Obtain the strategic plan for your college or university. Which corporate strategy is your college or university following? How does this relate to its strengths, weaknesses, opportunities, and threats?
5. Which of Porter's generic strategies is evident at your college or university?
6. What do you believe is your college or university's competitive advantage? What do you think your college or university should do to sustain its competitive advantage?
7. Is strategic planning as important in education as it is in business?

BE THE CONSULTANT: MAKING MEETINGS MORE EFFECTIVE

Try these tips at your next group meeting and discuss the impact they made on your meeting.

A two-hour meeting with four people leads to a potential productivity loss of eight hours.

Objectify yourself	The meeting needs to have a clear outcome: "At the end of the meeting, we will . . ."	Make a decision? Generate ideas? Update status?
The basket case	Collect everyone's PDA, tablet, or cell phone at the start of the meeting and return them at the end of the meeting	Collecting electronic devices will reduce distractions and keep people on task
Share and share again	Distribute the agenda in advance Get the minutes out quickly	Attendees can prepare more effectively in advance Having an agenda allows you to keep the meeting on track and on time Momentum will not be lost if you can get the action items in the hands of the participants
Take a stand	Motivational speaker and author Jon Petz suggests having the meeting in a space with no chairs, tables, or laptops—only a whiteboard	People will work more quickly and will not extend the time of the meeting unnecessarily
Two minute warning	Petz suggests that each participant gets two minutes uninterrupted to state their case or provide information	Participants must stay focused Cut people off if they go over and reward them if they finish sooner

Business Cases

SILVERBIRCH HOTELS & RESORTS

The name SilverBirch Hotels & Resorts may be unfamiliar, but you have likely heard of brands such as Radisson, Hilton, Best Western, and Ramada. SilverBirch is one of Canada's leading hotel management companies and manages over 20 hotels and resorts across Canada. The Vancouver-based company manages independent hotels and hotels operating under major franchise brands listed previously.

Over the past decade, SilverBirch Hotels & Resorts has experienced success due in large part to a strong regional infrastructure, sales growth, marketing programs and support, excellent franchise relations, and an unusual approach to branding. For consumer marketing purposes, the name GreatCanadianHotels is used instead of SilverBirch, to address the lack of a franchise brand.

SilverBirch entered a partnership with Marriott International Inc. to open the first branded extended-stay hotel in the summer of 2012. The partnership gives Marriott a partner very familiar with the Canadian market, while aligning with a strong international brand is helping SilverBirch with its strategy of acquiring and building new branded properties across the country.

SilverBirch has also shown a strong environmental ethic since it was established in 1997. Its vision, mission, and values include "safety and respect for the environment" as one of its key values. The Hotel Association of Canada (HAC) administers a Green Key Eco-rating program, and SilverBirch was the first hotel management company in Canada to have all of its properties certified by HAC.

Determine whether the following SilverBirch decisions are strategic (S) or operational (O):

_____ Partnering with Marriott International
_____ Planting 1800 trees at one of its hotels to offset the greenhouse gas emissions produced by meetings and events at its property
_____ Creating educational internship programs for students at culinary and hospitality training schools
_____ Installing a computerized reservation system

_____ Developing a new vision statement: "We excite our markets with the liveliest hotels in Canada, each with its own rich, Canadian sense of place."

_____ Holding a wine and food pairing fall promotion in its Saskatoon hotel

Sources:

http://www.silverbirchhotels.com/about/environment.html
http://www.silverbirchhotels.com/about/vision.html
http://www.silverbirchhotels.com/about/history.html
http://www.silverbirchhotels.com/press/
http://www.hotelassociation.ca/site/programs/green_key.htm

CANADIAN WINE INDUSTRY

The Canada-US Free Trade Agreement was expected to destroy the Canadian wine industry. Initially, market share and vineyard hectarage both were reduced. The increase of competition forced the remaining Canadian wineries to increase product quality and find new markets. The Canadian wine industry overcame a very sluggish period in the 1990s with growth of more than 7 percent annually due to a shift in higher quality grape species (*vitis vinifera*), the establishment of the Vintners Quality Alliance (VQA), and new markets for cool climate wines. The industry is fragmented, with only two major players in Vincor and Andrés Wines. This fragmentation provides major challenges through the lack of economies of scale and brand recognition. The industry is concentrated in Ontario and BC, with small operations in Quebec and other provinces. Canadian provincial distribution monopolies (except for Alberta and Quebec) lead to heavy mark-ups and high sales taxes, which hurt domestic wine sales.

Imports once made up only 25 percent of domestic consumption, but now total two-thirds of domestic market share. Canadian wine consumption is growing at a faster rate than that of beer and spirits, but import growth has been spurred by the reduction of non-tariff barriers, the strength of the Canadian dollar, and geographic limitations on red wine production in Canada. Climate conditions hamper Canadian wine production both in scale and competitiveness. Poor weather leads to a short season and major fluctuations in quality from year to year for all wines except for Icewine, in which Canada has become a world leader. Canada has successfully exploited the cool climate wine niche, and exports in this area reached $11.7 billion in 2007.

Other domestic challenges include the absence of external credibility due to poor export market penetration and persisting perceptions of low-quality wines, which date back to the lower-quality grape species used in the 70s and 80s. Exporting challenges for Canadian wines include lack of capacity, lack of marketing expertise, and insufficient financial resources.

Ontario, which accounts for 80 percent of domestic production, developed a strategic plan in the early 2000s to optimize land use planning, increase wine quality through VQA, and increase wine tourism. The strategic dilemma facing Canadian winemakers is whether to focus on domestic or international markets. While exports are likely to remain small in the short term, it is possible to target smaller, fast-growth markets.

Questions

1. How is the planning process in the wine industry similar to that in other manufacturing industries?
2. What kinds of contingency plans are required in the Canadian wine industry?
3. What elements would be required in a Canadian national or provincial exporting strategy?
4. What growth strategies are most suitable for the Canadian wine industry?

Sources: Kenrick Jordan, *The Canadian Wine Industry: A Summary View* (Special Report for BMO Capital Markets), July 6, 2011.

Agriculture and Agri-Food Canada, "The Canadian Wine Industry (NAICS 31213)," http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1172244915663&lang=eng