OCR ALevel Business: Strategy & Objectives 1

Knowledge Organiser: Strategy and Objectives

Objectives are statements of specific outcomes that are to be achieved

Mission	The overall purpose of the business
Vision	The overall aspiration of the business
Aims or goals	General statements of what business intends to achieve
Objective	More precise & detailed statements of the aims / goals

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The hierarchy of objectives in a business

Mission Statements

Benefits	Drawbacks
• Provides strategic direction thereby assisting in the formation of acceptable strategies. • Assists in resolving conflict between stakeholder groups. • Provides a framework within which managerial decisions can be made. • Assists in communicating key cultural values to employees and other stakeholders. • Helps to prevent potential misinterpretations of the organisation's reason for being.	• They may be unclear or vague. • They may be unrealistic. • There may be inconsistencies between the different elements of the mission statement. • They may be inconsistent with management action. • They may lack sufficient external focus.

Strategic vs. Tactical and Operational

- **Strategic Plan** – Long range planning for the institution as a whole. Institutional goals and objectives are specified and an action plan is developed.
- **Tactical Plan** – Short-term planning that is unit specific that contributes to the attainment of goals in the strategic plan.
- **Operational Plan** – Day to day operations or functions of a unit. Serves to identify how to function efficiently and to the highest quality.

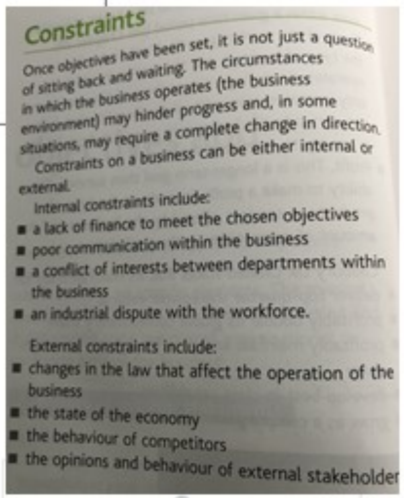
"*Strategy is the* ***direction and scope*** *of an organisation over the* ***long-term****: which achieves advantage for the organisation through its configuration of* ***resources*** *within a challenging environment, to meet the* ***needs of markets*** *and to* ***fulfil stakeholder expectations***".

In other words, strategy is about

- Where the business is trying to get to in the long-term
- The markets a business should compete in and the kind of activities that are involved in such markets
- How the business can perform better than the competition in those markets
- The resources (skills, assets, finance, relationships, technical

Levels of Business Planning

	Strategic	Business	Operational
Level	Business wide	Business unit	Functional area
Focus	Direction and strategy for whole business	Direction and strategy for the business unit	Resources and action for functional area
Nature	Broad and general	More detail on goals and tasks	Specific to the function
Time horizon	Long term 3+ years	1-2 years	Up to one year



Constraints

Once objectives have been set, it is not just a question of sitting back and waiting. The circumstances in which the business operates (the business environment) may hinder progress and, in some situations, may require a complete change in direction.

Constraints on a business can be either internal or external.

Internal constraints include:

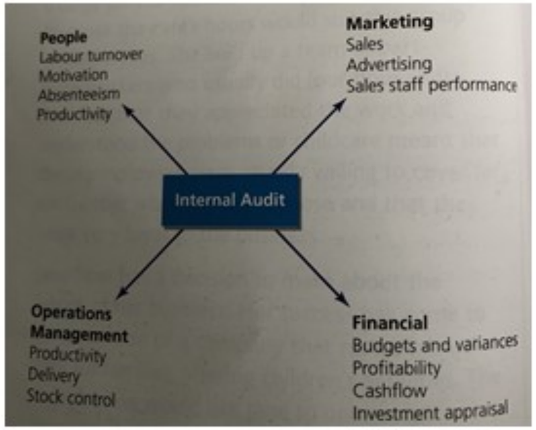
- a lack of finance to meet the chosen objectives
- poor communication within the business
- a conflict of interests between departments within the business
- an industrial dispute with the workforce.

External constraints include:

- changes in the law that affect the operation of the business
- the state of the economy
- the behaviour of competitors
- the opinions and behaviour of external stakeholder

Organisations may change their objectives over time because...

- They may achieve their original objectives
- The business has grown
- The competitive environment changes
- The market changes
- Technology changes



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Definition "PDR" or Plan-Do-Review is a cyclical process which drives the identification, planning and successful completion of issues and activities.

Plan
- Agree the objectives and timeframe
- Identify key performance measures
- Identify key activities
- Identify key personnel/resource

Do
- Measure progress
- Complete identified tasks

Review
- Regularly review progress
- Identify shortfalls in performance or activity-based issues
- Agree corrective action with clear next steps

Uncertainty: the inability to calculate the costs and benefits of a decision precisely.
Risk: the chance or possibility of an adverse occurrence.
Reward: the possible return that a particular activity may make.

External Uncertainty: Economic, Political, Competitive

Internal Uncertainties: Organisational, Stakeholder, Technological

Advantages and disadvantages of business planning

Advantages	Disadvantages
• Enables owners of new or existing business to review their ideas and see if it will provide a profitable future • Reduces risk- guide for business for what to do and when • Allows business to measure success against plan; make changes if need be • help ensure finance is available e.g. bank loans, lenders will see if business is organised • helps to set objectives in order to achieve aims • Helps set up a business successfully • helps to co-ordinate actions- plan should be set out to for how an objective is going to be achieved.	• Uncertainty of what will happen in the future makes it harder to predict your statistics e.g. the no. units sold of the product • Lack of experience. Usually people who make their plans lack very much experience and are not as effective when planning. • Change. Business plans need to be reviewed and updated regularly. • Does not guarantee business success. -Plan quality may be low due to lack of experience from the people who wrote it. • Takes time and effort which may be expensive, especially for small businesses. • New opportunities can be missed if they are not in the plan.

Key term

Quantifiable risk: the likelihood of a predictable risk occurring. It is possible to put a value on this sort of risk.
Unquantifiable risk: the risk of an event that is unexpected. Sometimes referred to as 'the unknown unknowns'. It is not possible to put a value on this sort of risk.

Key term

Opportunity cost: the next best alternative that has to be forfeited when a decision is made.

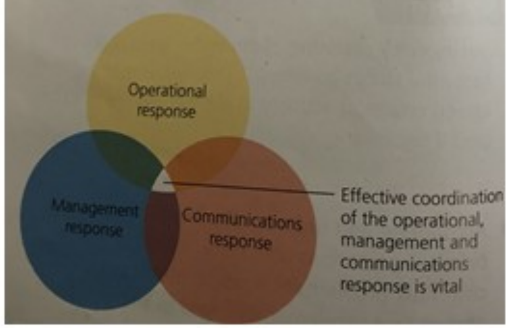
Some Example Trade-Offs in Business

Choice	Potential Trade-Off
Less market research (lower cost)	Less successful new product launch (lower sales)
Higher quality standards to build reputation	More quality control & assurance costs
Higher advertising online	Reduced advertising on TV
Choose lower risk investments	Gain lower rewards

- **Risk management**
  - Identifying and dealing with the risks threatening a business
- **Contingency planning**
  - Planning for unforeseen events
- **Crisis management**
  - Handling potentially dangerous events for a business

What should be done in a crisis?

It is generally accepted an effective response to a crisis has three elements.



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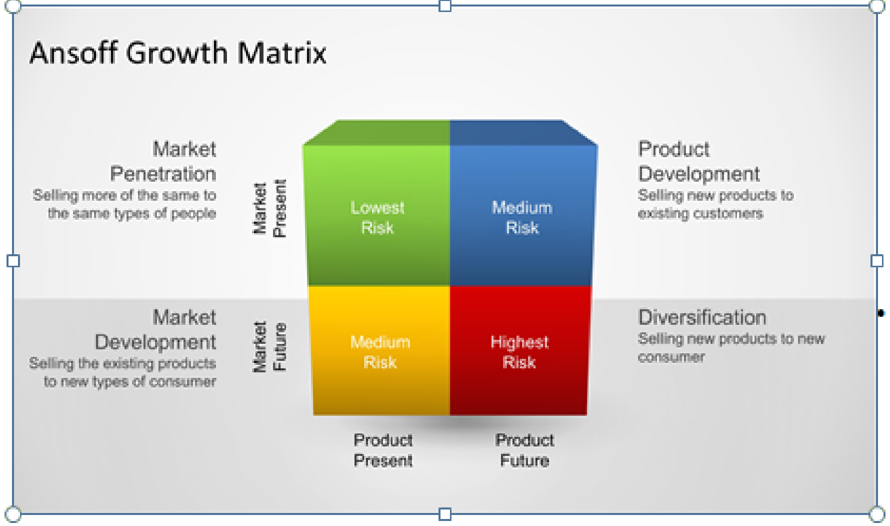

Porter suggested that all businesses could follow one of three strategies because they can be applied to products or services in all industries, and to organisations of all sizes.

Porter called the generic strategies "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialised service in a niche market).

Porter also talked about a fourth of being stuck in the middle and trying to do all three which will not achieve a competitive advantage

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QUALITATIVE FORECASTING METHODS

Qualitative Method	Description
Jury of executive opinion	The opinions of a small group of high-level managers are pooled and together they estimate demand. The group uses their managerial experience, and in some cases, combines the results of statistical models.
Sales force composite	Each salesperson (for example for a territorial coverage) is asked to project their sales. Since the salesperson is the one closest to the marketplace, he has the capacity to know what the customer wants. These projections are then combined at the municipal, provincial and regional levels.
Delphi method	A panel of experts is identified where an expert could be a decision maker, an ordinary employee, or an industry expert. Each of them will be asked individually for their estimate of the demand. An iterative process is conducted until the experts have reached a consensus.
Consumer market survey	The customers are asked about their purchasing plans and their projected buying behaviour. A large number of respondents is needed here to be able to generalize certain results.

Summary for calculating moving average and using it to forecast

- Find the trend period
- Calculate the moving total
- Calculate the moving average
- Plot moving average onto graph and produce line of best fit
- Calculate the cyclical variation
- Calculate the average cyclical variation
- Add or subtract average cyclical variation from line of best fit forecast figures

Use and limitations of forecasts

Forecasts are likely to be useful to businesses in showing the trend in figures such as sales, but they need to be used with caution.

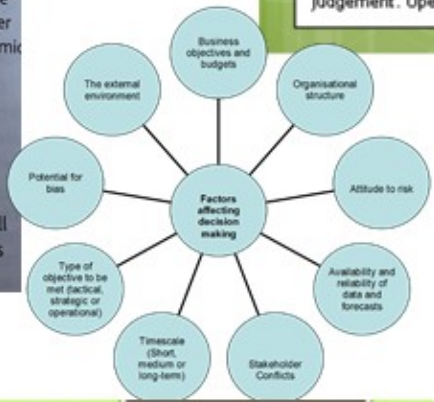
- Any forecast will only be as reliable as the data that is used to formulate it. It is vital in preparing forecasts to use accurate and reliable information.
- Businesses need to be careful about making assumptions about the future based on the experience of the past. While past performance may be a reasonable indicator of the future most of the time, events in political and economic spheres can occasionally make forecasts less useful.
- The most recent information is often the most useful and relevant. The use of moving averages does not distinguish between recent and distant information in formulating the forecast.
- The forecast does not take account of any change in the objectives of the business. For example, the business may want to increase its sales by a larger percentage in the next few years or, if the economic outlook is not good, it may be happy simply to maintain sales at their current level.
- It is important, nevertheless, for businesses to try to estimate future revenue and costs so that they can take action to improve their overall performance. The use of a moving average will help to show the business how well it is likely to perform in the future, other things remaining equal.

1. Strategic decisions:
Strategic decisions are major choices of actions and influence whole or a major part of business enterprise. They contribute directly to the achievement of common goals of the enterprise. They have long-term implications on the business enterprise. Such decisions are taken at the higher level of management.

2. Tactical decisions:
These decisions relate to the implementation of strategic decisions. They are directed towards developing divisional plans, structuring workflows, establishing distribution channels, acquisition of resources such as labour, materials and money. These decisions are taken at the middle level of management.

3. Operational decisions:

These decisions relate to day-to-day operations of the enterprise. They have a short-term horizon as they are taken repetitively. These decisions are based on facts regarding the events and do not require much of business judgement. Operational decisions are taken at lower levels of management.



POGADSCIE

There is a structured decision-making model known by the acronym **POGADSCIE**. This is used by businesses to make an effective decision. The letters in the acronym stand for:

- Identify the **P**roblem
- Identify **O**bjectives of solution
- **G**ather information
- **A**nalyse information
- **D**evise possible solutions
- **S**elect best possible solution
- **C**ommunicate the decision
- Plan and **I**mplement solution
- **E**valuate effectiveness of the solution

The decision tree steps: Work from right to left

- Calculate the expected monetary values of each option (probability x cash inflows)
- Add the inflows together for each option
- Write the value above the node (circle)
- Minus any costs from the inflows- where there is more than one option (e.g. no7)- pick the most profitable (largest number)
- Multiply new cash inflow by profitability of that outcome
- Add any cash inflows for one decision together i.e. number 3
- Minus any capital costs (costs are written underneath the line)
- Look at which idea is the most profitable (no3)
- Put 2 dashes through decision least profitable (opposite to critical path)