Strategic Management

Lectures 5, 6 and 7

Strategy Generation and Selection

Learning Objectives

- Describe the strategy analysis and choice process
- Diagram and explain the three-stage strategy-formulation analytical framework
- Diagram and explain the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix
- Diagram and explain the Strategic Position and Action Evaluation (SPACE) Matrix
- Diagram and explain the Boston Consulting Group (BCG) Matrix
- Diagram and explain the Internal-External (IE) Matrix
- Diagram and explain the Grand Strategy Matrix
- Diagram and explain the Quantitative Strategic Planning Matrix (QSPM)
- Discuss the role of organizational culture in strategic analysis and choice
- Identify and discuss important political considerations in strategy analysis and choice
- Discuss the role of a board of directors (governance) in strategic planning

Topics

- ❑ The Strategy Analysis and Choice Process
  - The Process of Generating and Selecting Strategies
- ❑ The Strategy-Formulation Analytical Framework
  - The Input Stage
  - The Matching Stage
  - The Decision Stage
- ❑ The SWOT Matrix
- ❑ The strategic position and action evaluation (SPACE) matrix
- ❑ The Boston Consulting Group (BCG) matrix
- ❑ The Internal-External (IE) matrix
- ❑ The Grand Strategy Matrix
- ❑ The Quantitative Strategic Planning Matrix (QSPM)
- ❑ Cultural Aspects of Strategy Analysis and Choice
- ❑ The Politics of Strategy Analysis and Choice
- ❑ Board of Directors – Governance Issues

The Strategy Analysis and Choice Process

- Strategy analysis and choice largely involve making subjective decisions based on objective information
- The objective of this process is to generate feasible alternatives, evaluate those alternatives, and choose a specific course of action
  - ✓ that could best enable the firm to achieve its mission and objectives
- There are behavioral aspects involved, which include:
  - ➢ Politics
  - ➢ Culture
  - ➢ Ethics
  - ➢ Social Responsibility
- Various tools can be used to formulate strategies

The Strategy Analysis and Choice Process …

- There are an infinite number of possible actions and an infinite number of ways to implement those actions
- A manageable set of the most attractive alternative strategies must be developed, examined, prioritized, and selected
- As many of the managers and employees as practicable should be involved in this process
  - To gain an understanding of what the firm is doing and why
  - To become committed to helping the firm accomplish its objectives
- *External and Internal Audit Information* should be available to participants
- Creativity should be encouraged in the thought process
- When all feasible strategies identified by participants are given and understood, the strategies should be individually ranked in order of attractiveness by each participant
  - 1 = should not be implemented
  - 2 = possibly should be implemented
  - 3 = probably should be implemented
  - 4 = definitely should be implemented
- Next, a prioritized list of best strategies – that reflects the collective wisdom of the group – is produced

The Strategy-Formulation Analytical Framework

STAGE 1: THE INPUT STAGE

we don't focus on this stage

External Factor Evaluation (EFE) Matrix	Competitive Profile Matrix (CPM)	Internal Factor Evaluation (IFE) Matrix

STAGE 2: THE MATCHING STAGE

Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix	Strategic Position and Action Evaluation (SPACE) Matrix	Boston Consulting Group (BCG) Matrix	Internal-External (IE) Matrix	Grand Strategy Matrix

STAGE 3: THE DECISION STAGE

hena baa enta bta5ud el karar khlas

Quantitative Strategic Planning Matrix (QSPM)

The Strategy-Formulation Analytical Framework …

- Stage 1 (<u>the input stage</u>):
  - Consists of the External Factor Evaluation (EFE) Matrix, the Internal Factor Evaluation (IFE) Matrix, and the Competitive Profile Matrix (CPM)
  - Summarizes the basic input information needed to formulate strategies
- Stage 2 (<u>the matching stage</u>):
  - Techniques include the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix, the Strategic Position and Action Evaluation (SPACE) Matrix, the Boston Consulting Group (BCG) Matrix, the Internal-External (IE) Matrix, and the Grand Strategy Matrix
  - Focuses on generating feasible alternative strategies by aligning key external and internal factors
- Stage 3 (<u>the decision stage</u>):
  - involves a single technique, the Quantitative Strategic Planning Matrix (QSPM)
  - A QSPM uses input information from Stage 1 to objectively evaluate feasible alternative strategies identified in Stage 2
  - It reveals the relative attractiveness of alternative strategies and thus provides an objective basis for selecting specific strategies

you have to prepare yourself to be ready for claiming chances.

we have to always work in the 2nd quad
important but not urgent.
this is the best quad/

The SWOT Matrix

- The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix is an important matching tool that helps managers develop four types of strategies:
  - **SO** (strengths-opportunities) strategies
  - **WO** (weaknesses-opportunities) strategies
  - **ST** (strengths-threats) strategies
  - **WT** (weaknesses-threats) strategies
- **Matching key external and internal factors is the most difficult part of developing a SWOT Matrix, as it requires good judgment**
- **An example of such matching is shown in the table below**

el 3wamel el dakhlya Key Internal Factor	el 3waml el kharegya Key External Factor	el strategy el hastkhdmha Resultant Strategy
Excess working capital (an internal strength)	+ Annual growth of 20 percent in the cell phone industry (an external opportunity)	= Acquire Cellfone, Inc.
Insufficient capacity (an internal weakness)	+ Exit of two major foreign competitors from the industry (an external opportunity)	= Pursue horizontal integration by buying competitors' facilities
Strong research and development expertise (an internal strength)	+ Decreasing numbers of younger adults (an external threat)	= Develop new products for older adults
Poor employee morale (an internal weakness)	+ Rising health-care costs (an external threat)	= Develop a new wellness program

The SWOT Matrix …

- SO Strategies
  - Use a firm’s internal strengths to take advantage of external opportunities
  - Preferred by all managers
  - Organizations generally will pursue WO, ST, or WT strategies to get into a situation in which they can apply SO strategies
  - When a firm has major weaknesses, it will strive to overcome them and make them strengths
  - When an organization faces major threats, it will seek to avoid them to concentrate on opportunities
- WO Strategies
  - Aim at improving internal weaknesses by taking advantage of external opportunities
  - Sometimes key external opportunities exist, but a firm has internal weaknesses that prevent it from exploiting those opportunities
  - For example, there may be a high demand for electronic devices to control the amount and timing of fuel injection in automobile engines (opportunity), but a certain auto parts manufacturer may lack the technology required for producing these devices (weakness)
- ST Strategies
  - Use a firm’s strengths to avoid or reduce the impact of external threats
  - This does not mean that a strong organization should always meet threats in the external environment head-on
- WT Strategies
  - Defensive tactics directed at reducing internal weakness and avoiding external threats
  - An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position

The SWOT Matrix …

Below is a third option for structuring your SWOT analysis, which may be appropriate for a larger initiative that requires detailed planning. This "TOWS Matrix" is adapted from Fred David's *Strategic Management* text.

	STRENGTHS 1. 2. 3. 4.	WEAKNESSES 1. 2. 3. 4.
OPPORTUNITIES 1. 2. 3. 4.	Opportunity-Strength (OS) Strategies Use the strengths to take advantage of opportunities 1. 2.	Opportunity-Weakness (OW) Strategies Overcome weaknesses by taking advantage of opportunities 1. 2.
THREATS 1. 2. 3. 4.	Threat-Strength (TS) Strategies Use strengths to avoid threats 1. 2.	Threat-Weakness (TW) Strategies Minimize weaknesses and avoid threats 1. 2.

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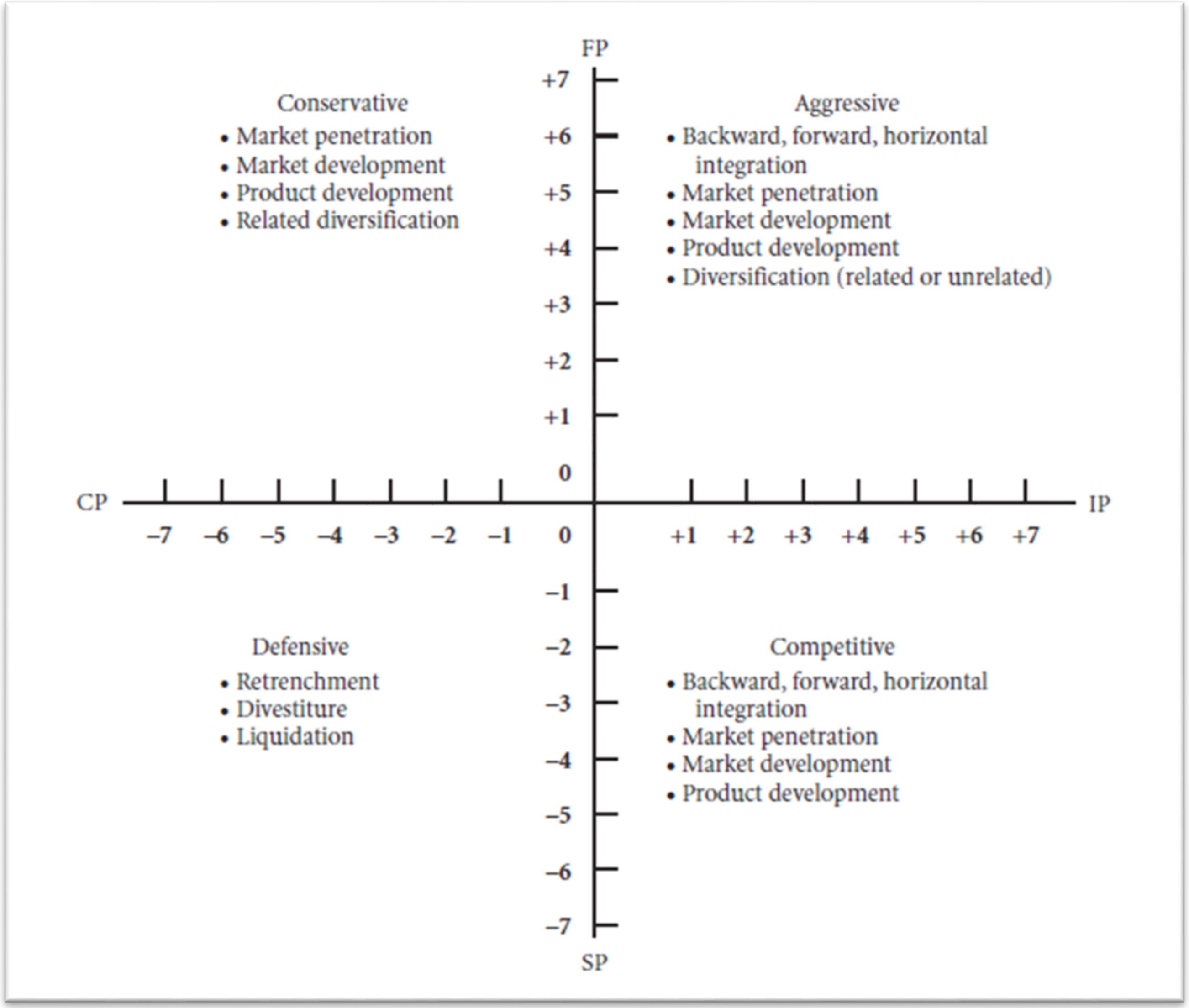
The SWOT Matrix …

1. List the firm’s key external opportunities
2. List the firm’s key external threats
3. List the firm’s key internal strengths
4. List the firm’s key internal weaknesses
5. Match internal strengths with external opportunities, and record the resultant SO strategies in the appropriate cell
6. Match internal weaknesses with external opportunities, and record the resultant WO strategies
7. Match internal strengths with external threats, and record the resultant ST strategies
8. Match internal weaknesses with external threats, and record the resultant WT strategies

The process in eight steps

The strategic position and action evaluation (SPACE) matrix

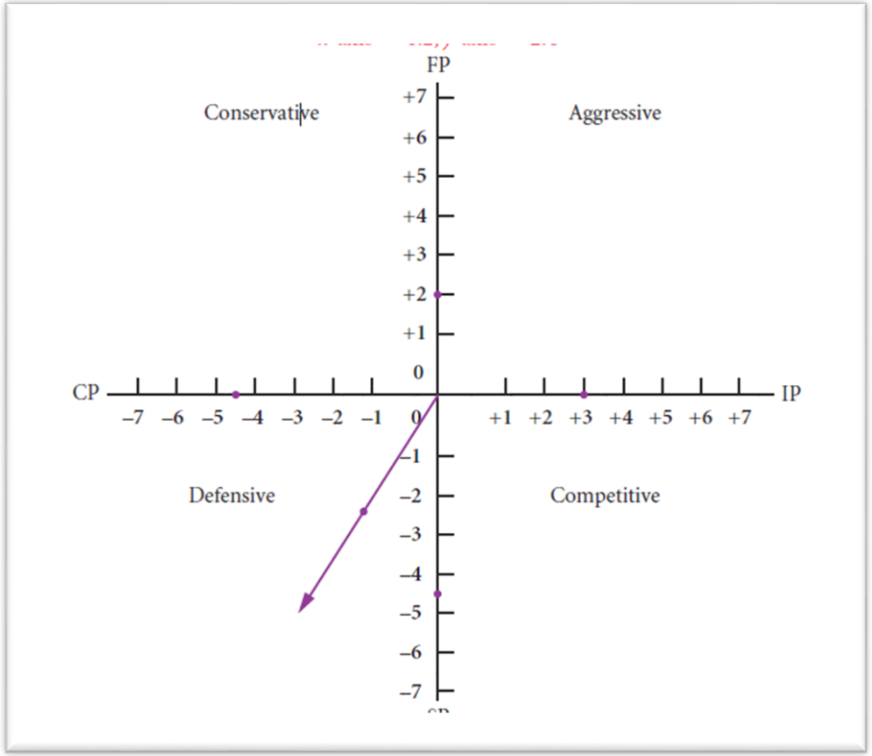


The strategic position and action evaluation (SPACE) matrix …

TABLE 8-2 Example Factors That Make Up the SPACE Matrix Axes

Internal Strategic Position	External Strategic Position
Financial Position (FP)	*Stability Position (SP)*
Return on investment	Technological changes
Leverage	Rate of inflation
Liquidity	Demand variability
Working capital	Price range of competing products
Cash flow	Barriers to entry into market
Inventory turnover	Competitive pressure
Earnings per share	Ease of exit from market
Price earnings ratio	Risk involved in business
Competitive Position (CP)	*Industry Position (IP)*
Market share	Growth potential
Product quality	Profit potential
Product life cycle	Financial stability
Customer loyalty	Extent leveraged
Capacity utilization	Resource utilization
Technological know-how	Ease of entry into market
Control over suppliers and distributors	Productivity, capacity utilization

The strategic position and action evaluation (SPACE) matrix …



Some of the limitations of the SPACE matrix:

1. It is a snapshot in time
2. There are more than four dimensions that firms could/should be rated on
3. The directional vector could fall directly on an axis, or could even go nowhere if the coordinate is (0,0)
4. Implications of the exact angle of the vector within a quadrant are unclear
5. The relative attractiveness of alternative strategies generated is unclear
6. Key underlying internal and external factors are not explicitly considered

The Boston Consulting Group (BCG) Matrix

- Autonomous divisions (also called segments or profit centers) of an organization make up what is called a business portfolio
- When a firm's divisions compete in different industries, a separate strategy often must be developed for each business
- The Boston Consulting Group
- (BCG) Matrix and the Internal-External (IE) Matrix are designed specifically to enhance a multidivisional firm's efforts to formulate strategies
- Allocating resources across divisions is arguably the most important strategic decision facing multidivisional firms
- Multidivisional firms
- range in size from small to huge conglomerates such as Walt Disney Company, to universities that have various schools or colleges—and they all need to use portfolio analysis

The Boston Consulting Group (BCG) Matrix …

TABLE 8-3 Reasons to (or Not to) Disclose Financial Information by Segment (by Division)

Reasons to Disclose	Reasons Not to Disclose
1. Transparency is a good thing in today's world of Sarbanes-Oxley Act of 2002.	1. Rival firms can obtain free competitive information.
2. Investors will better understand the firm, which can lead to greater support.	2. Performance failures can be hidden.
3. Managers and employees will better understand the firm, which should lead to greater commitment.	3. Rivalry among segments can be reduced.
4. Disclosure enhances the communication process both within the firm and with outsiders.	

The Boston Consulting Group (BCG) Matrix …

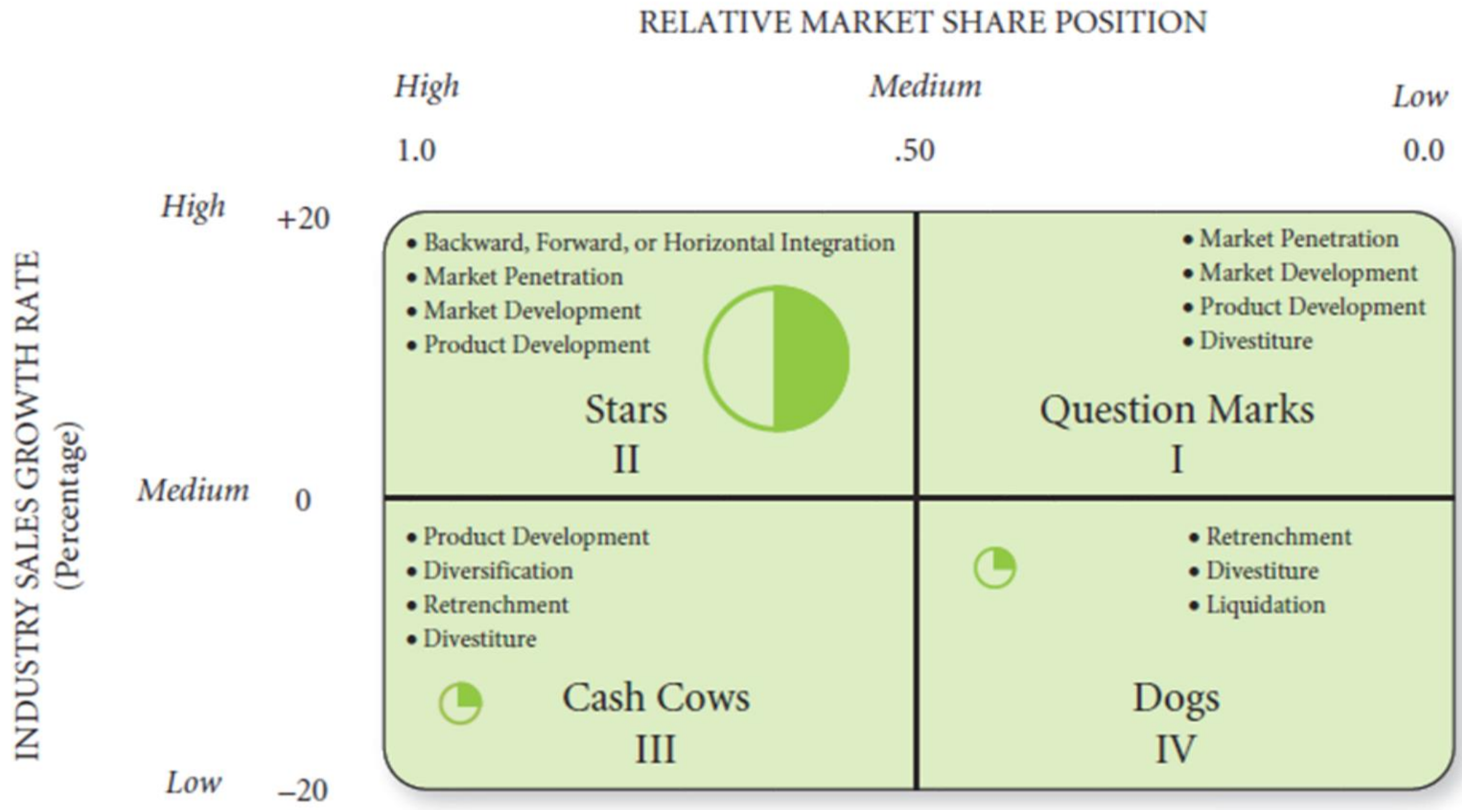
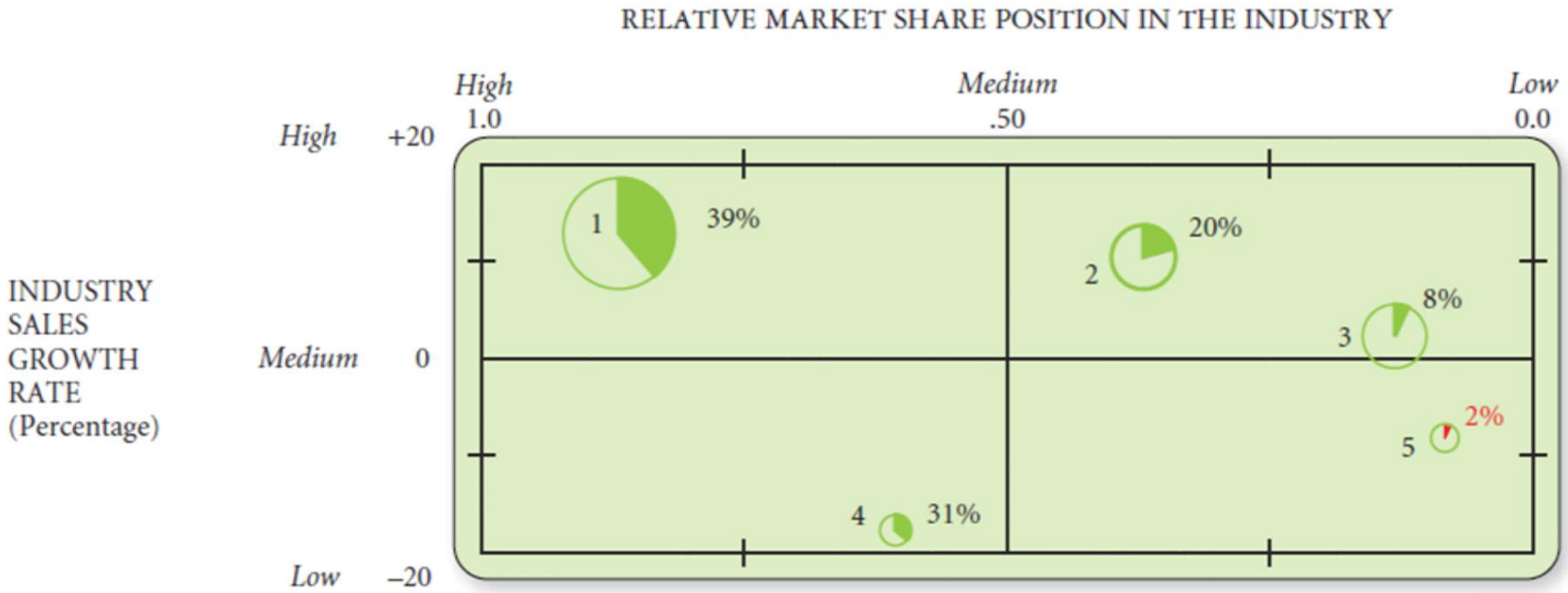


FIGURE 8-7

The BCG Matrix

The Boston Consulting Group (BCG) Matrix …



Division	*Revenues*	*Percent Revenues*	*Profits*	*Percent Profits*	*Relative Market Share*	*Industry Growth Rate (%)*
1	$60,000	37	$10,000	39	.80	+15
2	40,000	24	5,000	20	.40	+10
3	40,000	24	2,000	8	.10	+1
4	20,000	12	8,000	31	.60	–20
5	5,000	3	–500	2	.05	–10
Total	$165,000	100	$25,500	100	—	—

FIGURE 8-8

An Example BCG Matrix

The Boston Consulting Group (BCG) Matrix …

Some of its limitations

- Viewing every business as a star, cash cow, dog, or question mark is an oversimplification
- Many businesses fall right in the middle of the BCG Matrix and thus are not easily classified
- It does not reflect if various divisions or their industries are growing over time; that is, the matrix has no temporal qualities, but rather it is a snapshot of an organization at a given point in time
- other variables besides relative market share position and industry growth rate in sales, such as size of the market and competitive advantages, are important in making strategic decisions about various divisions

The Internal-External (IE) Matrix

- The IE Matrix is based on two key dimensions: (1) the IFE total weighted scores on the x-axis and (2) the EFE total weighted scores on the y-axis
- On the x-axis of the IE Matrix, an IFE total weighted score of 1.0 to 1.99 represents a weak internal position; a score of 2.0 to 2.99 is considered average; and a score of 3.0 to 4.0 is strong
- Similarly, on the y-axis, an EFE total weighted score of 1.0 to 1.99 is considered low; a score of 2.0 to 2.99 is medium; and a score of 3.0 to 4.0 is high
- Despite having nine cells (or quadrants), the IE Matrix has three major regions that have different strategy implications, as follows:
  - Region 1: grow and build
  - Region 2: hold and maintain
  - Region 3: harvest or divest

The Internal-External (IE) Matrix …

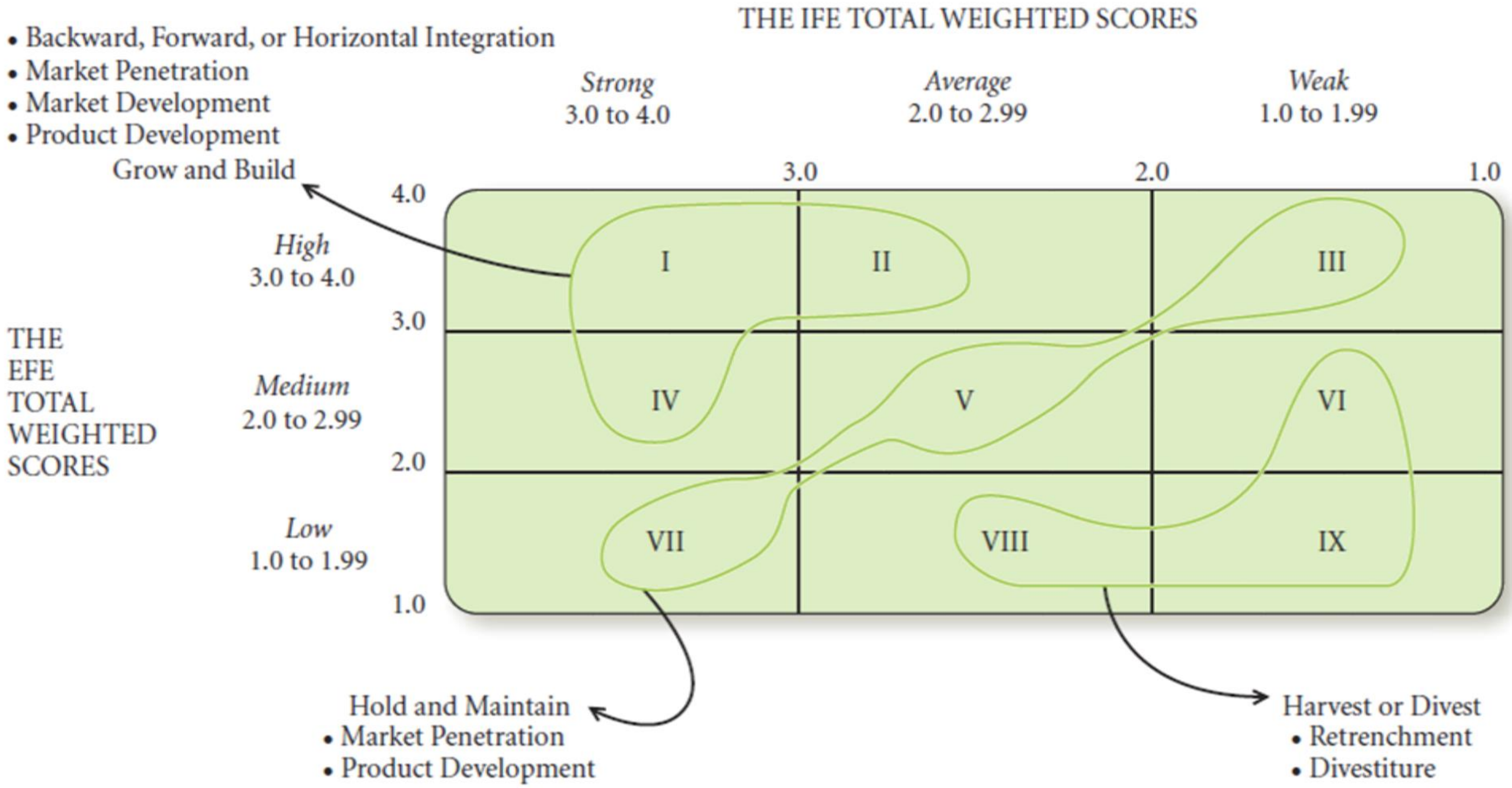
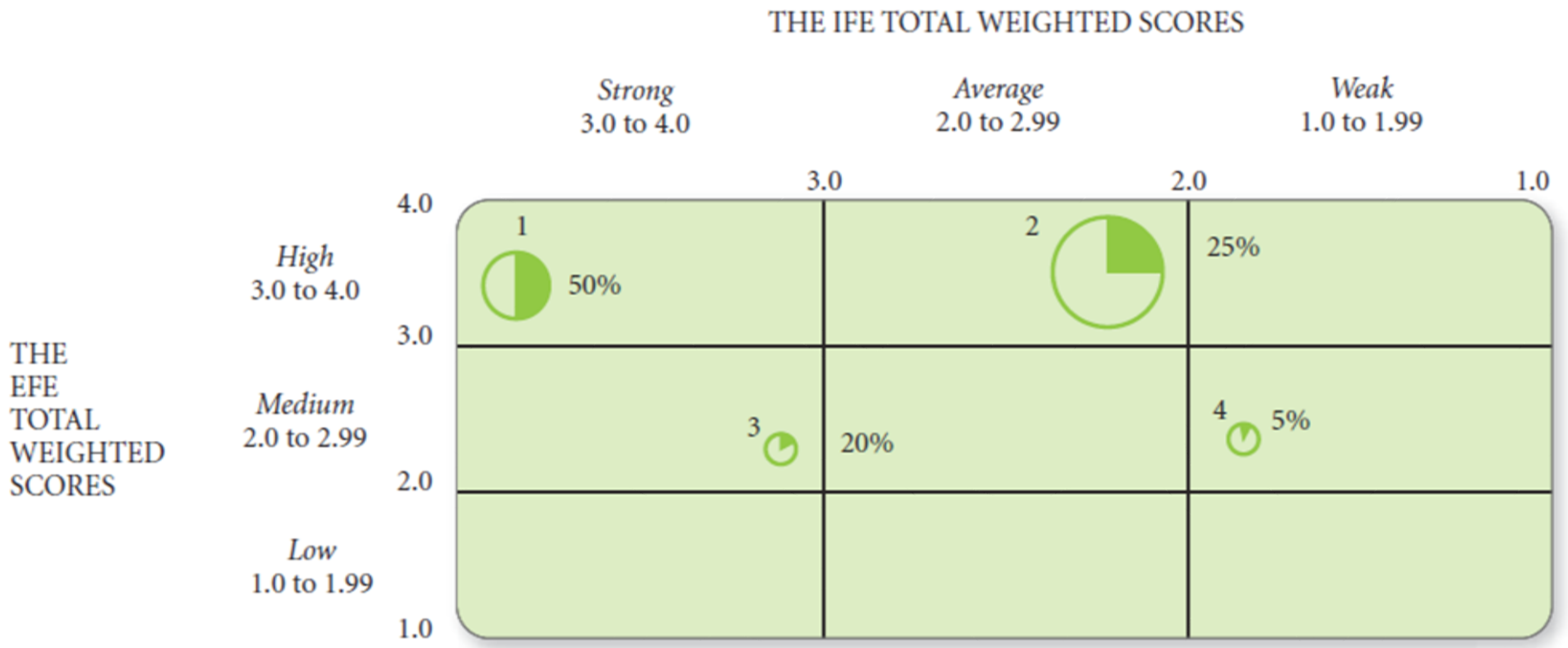


FIGURE 8-10

The Internal-External (IE) Matrix

The Internal-External (IE) Matrix …



Division	*Sales*	*Percent Sales*	*Profits*	*Percent Profits*	*IFE Scores*	*EFE Scores*
1	$100	25.0	$10	50	3.6	3.2
2	200	50.0	5	25	2.1	3.5
3	50	12.5	4	20	3.1	2.1
4	50	12.5	1	5	1.8	2.5
Total	**$400**	**100.0**	**$20**	**100**		

The Internal-External (IE) Matrix …

Despite having nine cells (or quadrants), the IE Matrix has three major regions that have different strategy implications, as follows:

- Region 1—The prescription for divisions that fall into cells I, II, or IV can be described as grow and build. Intensive (market penetration, market development, and product development) or integrative (backward integration, forward integration, and horizontal integration) strategies can be most appropriate for these divisions. This is the best region for divisions, given their high IFE and EFE scores. Successful organizations are able to achieve a portfolio of businesses positioned in Region 1
- Region 2—The prescription for divisions that fall into cells III, V, or VII can be described as hold and maintain strategies; market penetration and product development are two commonly employed strategies for these types of divisions
- Region 3—The prescription for divisions that fall into cells VI, VIII, or IX can be described as harvest or divest

The Grand Strategy Matrix

- All organizations can be positioned in one of the Grand Strategy Matrix's four strategy quadrants
- A firm's divisions likewise could be positioned
- The Grand Strategy Matrix is based on two evaluative dimensions: (1) competitive position on the x-axis and (2) market (industry) growth on the y-axis
- Any industry whose annual growth in sales exceeds 5 percent could be considered to have rapid growth
- Appropriate strategies for an organization to consider are listed in sequential order of attractiveness in each quadrant of the Grand Strategy Matrix

The Grand Strategy Matrix …

FIGURE 8-13

The Grand Strategy Matrix

The Decision Stage: The Quantitative Strategic Planning Matrix (QSPM)

- The Quantitative Strategic Planning Matrix (QSPM), comprises Stage 3 of the strategy-formulation analytical framework, objectively indicates which alternative strategies are best
- The QSPM uses input from Stage 1 analyses and matching results from Stage 2 analyses to decide objectively among alternative strategies
  - That is, the EFE Matrix, IFE Matrix, and CPM that comprise Stage 1, coupled with the SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and Grand Strategy Matrix that comprise Stage 2, provide the needed information for setting up the QSPM (Stage 3)
- The QSPM is a tool that allows strategists to evaluate alternative strategies objectively, based on previously identified external and internal key success factors. Like other strategy-formulation analytical tools, the QSPM requires assignment of ratings (called attractiveness scores), but making “small” rating decisions enables strategists to make effective “big” decisions, such as which country to spend a billion dollars in to sell a product

The Decision Stage: The Quantitative Strategic Planning Matrix (QSPM) ...

The Quantitative Strategic Planning Matrix (QSPM) is developed in the following six steps:

1. Make a list of the firm’s key external opportunities and threats and internal strengths and weaknesses in the left column of the QSPM
2. Assign weights to each key external and internal factor
3. Examine the Stage 2 (matching) matrices, and identify alternative strategies that the organization should consider implementing
4. Determine the Attractiveness Scores (AS)
5. Compute the Total Attractiveness Scores
6. Compute the Sum Total Attractiveness Score

Positive Features of QSPM

1. Sets of strategies can be examined sequentially or simultaneously
2. It requires strategists to integrate pertinent external and internal factors into the decision process
3. A QSPM can be used by small and large, for-profit and nonprofit organizations

Limitations of QSPM

1. It always requires informed judgments regarding AS scores
2. It can be only as good as the prerequisite information and matching analyses on which it is based

Cultural Aspects of Strategy Analysis and Choice

- Organizational culture includes the set of shared values, beliefs, attitudes, customs, norms, rites, rituals, personalities, heroes, and heroines that describe a firm
- It is the human dimension that creates solidarity and meaning, and it inspires commitment and productivity in an organization when strategy changes are made
- When events threaten meaning, individuals react defensively
- Managers and employees may even sabotage new strategies in an effort to recapture the status quo
- Success often rests on the degree of support that strategies receive from a firm’s culture
- If a firm’s strategies are supported by an organization’s culture, then managers often can implement changes swiftly and easily
- Strategies that require fewer cultural changes may be more attractive because extensive changes can take considerable time and effort
- Whenever two firms merge, it becomes especially important to evaluate and consider culture-strategy linkages

The Politics of Strategy Analysis and Choice

- Unless managed, political maneuvering consumes valuable time, subverts organizational objectives, diverts human energy, and results in the loss of some valuable employees
- Internal politics affect the choice of strategies in all organizations
- The hierarchy of command in an organization, combined with the career aspirations of different people and the need to allocate scarce resources, guarantees the formation of coalitions of individuals who strive to take care of themselves first and the organization second, third, or fourth
- A major responsibility of strategists is to guide the development of coalitions, to nurture an overall team concept, and to gain the support of key individuals and groups of individuals
- Objectivity is key to having a healthy climate
- With development of improved strategy-formation analytical tools, political factors become less important in making strategic decisions
- Successful strategists ensured that all major power bases within an organization were represented in, or had access to, top management

The Politics of Strategy Analysis and Choice …

The following tactics used by politicians for centuries can aid strategists

1. Achieving desired results is more important than imposing a particular method; therefore, consider various methods and choose, whenever possible, the one(s) that will afford the greatest commitment from employees/managers
2. Achieving satisfactory results with a popular strategy is generally better than trying to achieve optimal results with an unpopular strategy
3. Often, an effective way to gain commitment and achieve desired results is to shift from specific to general issues and concerns
4. Often, an effective way to gain commitment and achieve desired results is to shift from short-term to long-term issues and concerns
5. Middle-level managers must be genuinely involved in and supportive of strategic decisions, because successful implementation will hinge on their support

Boards of Directors: Governance Issues

- A board of directors is a group of individuals elected by the ownership of a corporation to have oversight and guidance over management and to look out for shareholders' interests
- The act of oversight and direction is referred to as governance
- The National Association of Corporate Directors defines governance as "the characteristic of ensuring that long-term strategic objectives and plans are established and that the proper management structure is in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation's integrity, reputation, and responsibility to its various constituencies"
- Boards are held accountable for the entire performance of an organization
- Boards of directors are increasingly sued by shareholders for mismanaging their interests
- New accounting rules in the United States and Europe now enhance corporate-governance codes and require much more extensive financial disclosure among publicly held firms
- The roles and duties of a board of directors can be divided into four broad categories, as indicated in the following slides

Boards of Directors: Responsibilities

1. CONTROL AND OVERSIGHT OVER MANAGEMENT

a. Select the Chief Executive Officer (CEO)
b. Sanction the CEO's team
c. Provide the CEO with a forum
d. Ensure managerial competency
e. Evaluate management's performance
f. Set management's salary levels, including fringe benefits
g. Guarantee managerial integrity through continuous auditing
h. Chart the corporate course
i. Devise and revise policies to be implemented by management

2. ADHERENCE TO LEGAL PRESCRIPTIONS

a. Keep abreast of new laws
b. Ensure the entire organization fulfils legal prescriptions
c. Pass bylaws and related resolutions
d. Select new directors
e. Approve capital budgets
f. Authorize borrowing, new stock issues, bonds, and so on

3. CONSIDERATION OF STAKEHOLDERS' INTERESTS

a. Monitor product quality
b. Facilitate upward progression in employee quality of work life
c. Review labor policies and practices
d. Improve the customer climate
e. Keep community relations at the highest level
f. Use influence to better governmental, professional association, and educational contacts
g. Maintain good public image

4. ADVANCEMENT OF STOCKHOLDERS' RIGHTS

a. Preserve stockholders' equity
b. Stimulate corporate growth so that the firm will survive and flourish
c. Guard against equity dilution
d. Ensure equitable stockholder representation
e. Inform stockholders through letters, reports, and meetings
f. Declare proper dividends
g. Guarantee corporate survival

THANK YOU