

Chapter 8 – Strategy Formulation

Introduction

After defining the corporate, business unit and functional strategies, it is appropriate to formulate the strategy with reference to the organisation's strengths, weaknesses, opportunities and threats. Organisations conduct SWOT analysis facilitates the evaluation. SWOT analysis is also useful in unlocking certain hidden strengths that have not yet been fully utilised and also in identifying weaknesses that can be corrected as they go forward.

SWOT Analysis

SWOT Analysis is a valuable tool for analysing an organisation's internal environment, characterised by its strengths and weaknesses and draws an understanding on how those capabilities can be translated into a sustainable competitive advantage for the organisation.

Strategic managers need to consider the following resources-

- **Human resources** – Experience, capability, knowledge, skills, any IPR
- **Organisational resources** – These include systems and processes, strategy at various levels, structure and organisational culture
- **Physical resources**- Plant capacity, equipment, geographic presence, access to raw materials, distribution network and technology

Strengths

The organisation needs to identify competitive advantage unique resources and organisation's unique selling proposition

Weaknesses

Analysis of areas where organisation lacks capabilities, factors that impact company's sales, areas where competitors are better.

Threats

Review of obstacles faced by the company, changing external factors like consumer preferences, debt/ cash flow problems

Opportunities

Identification of opportunities that company can spot, interesting trends in the market, unaddressed market segments / product segments.

Key Resources for SWOT analysis

The key human resources are analysed at three levels-

- **Board of Directors-** highest level of authority that can influence the company's effectiveness based on the collective strength of the Board.
- **Executive Management-** Review of background and capabilities of top managers, tenure of top management and strengths of the individual managers need to be identified
- **Line Managers and Employees-** Evaluate a comprehensive resource planning program, assess the talent management and retention program

Review of organisational resources

Organisational resources include systems and processes, strategy at various levels, structure and organisational culture. It is important establish alignment between organisational resources and business strategy for the long term success of the organisation.

Physical resources

Physical resources refer to the company's capital assets, use of technology, production capacity, distribution network, access to raw materials and locations of operations.

Factors to be considered for SWOT Analysis

- Strengths and weaknesses are internal factors such as brand image, marketing strategy, financial position, employee expertise
- All external factors such as regulatory changes, demographic or social changes, technology evolution form part of the opportunities and threats for an organisation

SWOT Matrix is used to generate alternative course on actions or company's strategy. It helps top managers to position a company in its environment so that it leverages its strengths and develops new strengths which were hitherto weak areas for the company, thereby it tries to minimise the detrimental effects due to these weakness

Factors to be considered for choosing the best strategy alternative

Factors that need to be considered include organisation's prevailing culture, leadership team's quality and commitment, aspiration, ethical practice, financial performance and brand equity

Organisation Culture

- It is very important to understand the culture of the organisation and how it impacts any strategic decision
- The culture of an organisation is defined by clearly articulated values that are easily understood by all the employees and percolate from the top management
- Bold, risk taking and aggressive companies pursue growth through acquisitions and expansions in different countries
- Conservative companies with less risk appetite take pure organic approach and grow steadily over a long time

Shaping the culture

- Organisations may become vulnerable to market competition if its culture is not in tune with the fast changing world.
- The top leadership can influence and shape the organisation's culture not by command but by inspiring, collaborating and fostering a sense of ownership among the employees to act on the values to be demonstrated in their behaviour

Management Ethics

The organisation's ethics guide business relationships. Ethic is one of the prime considerations in the process of strategy formulation. Some of the important standards are-

- Integrity
- Respect
- Accountability and
- Responsibility

Social Responsibility

Corporate Social Responsibility (CSR) is pursuing sustainable business in the form of self regulation integrated into the business model.