Formulation of Corporate Strategies: Approaches to Strategy formulation

Meaning of Strategic Formulation

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results. Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose. Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur. A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).

A company that has not taken the time to develop a strategic plan will not be able to provide its employees with direction or focus. Rather than being proactive in the face of business conditions, an organization that does not have a set strategy will find that it is being reactive; the organization will be addressing unanticipated pressures as they arise; and the organization will be at a competitive disadvantage.

Steps of Strategy Formulation

The steps of strategy formulation include the following:

1. **Establishing Organizational Objectives**: This involves establishing long-term goals of an organization. Strategic decisions can be taken once the organizational objectives are determined.

2. **Analysis of Organizational Environment**: This involves SWOT analysis, meaning identifying the company's strengths and weaknesses and keeping vigilance over competitors' actions to understand opportunities and threats.

Strengths and weaknesses are internal factors which the company has control over. Opportunities and threats, on the other hand, are external factors over which the company has no control. A successful organization builds on its strengths, overcomes its weakness, identifies new opportunities and protects against external threats.

3. **Forming quantitative goals**: Defining targets so as to meet the company's short-term and long-term objectives. Example, 30% increase in revenue this year of a company.

4. **Objectives in context with divisional plans**: This involves setting up targets for every department so that they work in coherence with the organization as a whole.

5. **Performance Analysis**: This is done to estimate the degree of variation between the actual and the standard performance of an organization.

6. **Selection of Strategy**: This is the final step of strategy formulation. It involves evaluation of the alternatives and selection of the best strategy amongst them to be the strategy of the organization.

Strategy formulation process is an integral part of strategic management, as it helps in framing effective strategies for the organization, to survive and grow in the dynamic business environment.

Approaches to Strategy Formulation

1. Intuition

The basic premise of this approach is that the strategy evolves in the mind of the chief executive without ever being explicitly stated and without the aid of formal procedures. "Intuition." Sterner has observed, "is an excellent approach if it is brilliant." Along with intuition, personal judgment is also a necessary element in this approach.

The very nature of strategy formation is said to provide the raison d' etre of this approach. As Anthony has put it, Strategic planning is essentially irregular. Problems, opportunities, and 'bright ideas' do not arise according to some set time table; they have to be dealt with whenever they happen to be perceived.

The appropriate analytical techniques depend on the nature of the problem being analysed and currently there is no general approach (such as a mathematical model) that is of much help in the analysis of the types of strategic problems. Indeed, any attempt to introduce a systematic approach is quite likely to dampen the essential element of creativity.

Advantages

- A scientific approach requires a large collections of data and regular gathering of information to control and review decisions.
- It follows a scientific approach to decision making is time consuming .
- The data collected in a scientific approach to decision making might be flawed.
- Invariably, scientific decisions are based on past information.

Disadvantages

- Flawed information's.
- Short term emotional bias.

- Insufficient consideration of alternative.
- Prejudices.
- Inappropriate application.
- Lack of openness; every person has a different experience base.

2. Incrementalism

Sometimes referred to as 'muddling through', this approach to strategy-making reflects an attitude of management having strong preference for acting only when forced to, and then considering a few convenient alternatives involving only small, non-disruptive changes in the organization.

The decisions made are of remedial nature. Only those alternatives are considered which are important, interesting and easily understandable. The strategist, instead of comprehending strictly and literally present states of affairs or the consequences of present policies, attempt only to understand the respects in which various possible states differ from each other and from the status quo.

Advantages of Incremental model

- Generates working software quickly and early during the software life cycle.
- This model is more flexible – less costly to change scope and requirements.
- It is easier to test and debug during a smaller iteration.
- In this model customer can respond to each built.
- Lowers initial delivery cost.
- Easier to manage risk because risky pieces are identified and handled during it'd iteration.

Disadvantages of Incremental model

- Needs good planning and design.
- Needs a clear and complete definition of the whole system before it can be broken down and built incrementally.

- Total cost is higher than waterfall.

3. Entrepreneurial Approach

The thrust underlying this approach is related with the role of the manager as an entrepreneur. Drucker has depicted the role of an entrepreneurial manager as that of a systematic risk-maker and risk-taker, looking for and finding opportunity. “Entrepreneurship is essentially the acceptance of change as an opportunity and the acceptance of ‘the leadership in change’ as the unique task of the entrepreneur.”

The role of an entrepreneur is opportunity-focused and not problem- focused. Briefly speaking this general description of the entrepreneurial manager indicates what is expected of him, but it does not enlighten us on how he should go about performing his role.

4. Key-Factors Approach

This approach consists of determining the really significant factors that are important in the success of a particular business and concentrating major decisions on it. For instance, a new imaginative toy may be a critically strategic factor in the success of a toy company. Or, finding a propitious niche in the market where a company can give the customers an irresistible value that is not being satisfied at a relatively low cost may again be the cornerstone of strategy formation.

5. Competitive Advantage approach

The competitive advantage approach specifically focuses on the firm’s resources and distinctive capabilities as the basis for developing business strategy. Proponents of this approach view a successful firm as a bundle of unique resources and capabilities. According to them, if a firm’s resources and capabilities are scare, durable, defensible or hard to imitate, they can form the basis for sustainable competitive advantage and surplus profit, provided they aligned well with the key success factors of the industry.

Specifically, this competitive advantage approach emphasizes on the need for organizations to develop their business strategy based on their competitive advantage. This approach suggests that organizations should first identify their sources of competitive advantage before developing any business strategy. According to the approach, firms can obtain their competitive advantage from their organizational resources and distinctive capabilities. Organizational resources and capabilities (resource, skill, activity or capability) that are distinctive to those of the competitors may become the basis for competitive advantage as well as for developing organizational strategies if they can be matched appropriately to the environmental opportunities.

This approach views organizational resources as both tangible and intangible that include; physical assets, technology, information, human resources, financial resources, knowledge, skills, competencies, creativity, innovativeness, processes, functions, systems and intellectual properties. According to the competitive advantage approach, organizations should develop the competitive advantage that they need for developing effective strategies by using any of these resources. Through this approach, business strategy is developed based on the fit between the external relationships of the organization and its own competitive advantage.

6. The 3Cs Approach

The 3Cs approach represents another distinct approach to develop business strategy in organizations. This approach basically emphasizes on the 3Cs (costs, customers and competition). According to this approach, organizations should emphasize and develop their business strategy based on their abilities to figure out ways to lower operational costs, attract customers and overcome competition.

In this approach, the top executives of companies need to develop business strategy based on their abilities to produce products at not only lower costs but also will satisfy the needs and wants of customers as well as priced more competitively than that of the competitors. This approach suggests that a company's competitiveness and growth normally resulted from the price/performance attributes of its current products.

Additionally, according to this approach, a company's success depended not only on its ability to meet customer needs but also on how well the organization's internal processes worked to meet its external demand. The approach further emphasizes that organizations should develop business strategy through incorporating technological innovation into research and manufacturing operations, building better products and services, as well as pricing of goods or services lower than the competition.

7. ‘Inside Out’ Planning

According to Ewing, a basic approach to developing strategies could be ‘inside out’ planning. Strategies, he suggests, ought to be first conceived in a thought process arising out of the unique talents and resources possessed by a company. Market forecasts should be considered later as a kind of check or constraint on strategies so conceived.