Chapter 6
Strategy Analysis & Choice

Chapter Outline

The Nature of Strategy & Choice

A Comprehensive Strategy-Formulation Framework

The Input Stage

Chapter Outline (cont’d)

The Matching Stage

The Decision Stage

Cultural Aspects of Strategy Choice

Chapter Outline (cont’d)

The Politics of Strategy Choice

Governance Issues

Strategy Analysis & Choice

To acquire or not to acquire, that is the question –
Robert J. Terry

Life is full of lousy options --
General P.X. Kelley

Nature of Strategy Analysis & Choice

-- Establishing long-term objectives
-- Generating alternative strategies
-- Selecting strategies to pursue
-- Best alternative - achieve mission & objectives
Strategy Analysis & Choice

Alternative Strategies Derive From --

- Vision
- Mission
- Objectives
- External audit
- Internal audit
- Past successful strategies

Generating Alternatives --

Participation in generating alternative strategies should be as broad as possible

Comprehensive Strategy-Formulation Framework

Stage 1: The Input Stage
- Basic input information for the matching & decision stage matrices
- Requires strategists to quantify subjectivity early in the process
- Good intuitive judgment always needed

Strategy-Formulation Analytical Framework

Stage 1: The Input Stage
- Internal Factor Evaluation Matrix (IFE)
- External Factor Evaluation Matrix (EFE)
- Competitive Profile Matrix (CPM)

Stage 2: The Matching Stage
- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- IE Matrix
- Grand Strategy Matrix
Stage 2: The Matching Stage

- Match between organization’s internal resources & skills and the opportunities & risks created by its external factors

SWOT Matrix

- Strengths
- Weaknesses
- Opportunities
- Threats

Four Types of Strategies

- Strengths-Opportunities (SO)
- Weaknesses-Opportunities (WO)
- Strengths-Threats (ST)
- Weaknesses-Threats (WT)

SO Strategies

- Use a firm’s internal strengths to take advantage of external opportunities

WO Strategies

- Improving internal weaknesses by taking advantage of external opportunities

ST Strategies

- Use a firm’s strengths to avoid or reduce the impact of external threats
WT Strategies

Defensive tactics aimed at reducing internal weaknesses & avoiding environmental threats

WT Strategies

SWOT Matrix

Developing the SWOT

- List firm’s key internal strengths
- List firm’s key internal weaknesses
- List firm’s key external opportunities
- List firm’s key external threats

SWOT Matrix

Matching Key Factors to Formulate Alternative Strategies

<table>
<thead>
<tr>
<th>Key Internal Factor</th>
<th>Key External Factor</th>
<th>Resultant Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess working capacity (strength)</td>
<td>20% annual growth in the cell phone industry (opportunity)</td>
<td>Acquire Cellphone, Inc.</td>
</tr>
<tr>
<td>Insufficient capacity (weakness)</td>
<td>Exit of two major foreign competitors from the industry (opportunity)</td>
<td>Pursue horizontal integration by buying competitor's facilities</td>
</tr>
<tr>
<td>Strong R&amp;D (strength)</td>
<td>Decreasing numbers of young adults (threat)</td>
<td>Develop new products for older adults</td>
</tr>
<tr>
<td>Poor employee morale (weakness)</td>
<td>Strong union activity (threat)</td>
<td>Develop a new employee benefits package</td>
</tr>
</tbody>
</table>

SWOT Matrix

Space Matrix

Strategic Position & Action Evaluation Matrix

- Aggressive
- Conservative
- Defensive
- Competitive

Strategy-Formulation Analytical Framework

Stage 2: The Matching Stage
**SPACE Matrix**

**Two Internal Dimensions**

- Financial Strength (FS)
- Competitive Advantage (CA)

**SPACE Matrix**

**Two External Dimensions**

- Environmental Stability (ES)
- Industry Strength (IS)

**SPACE Factors**

<table>
<thead>
<tr>
<th>Internal Strategic Position</th>
<th>External Strategic Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Strength (FS)</td>
<td>Environmental Stability (ES)</td>
</tr>
<tr>
<td>Return on investment</td>
<td>Technological changes</td>
</tr>
<tr>
<td>Leverage</td>
<td>Rate of inflation</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Demand variability</td>
</tr>
<tr>
<td>Working capital</td>
<td>Price range of competing products</td>
</tr>
<tr>
<td>Cash flow</td>
<td>Barriers to entry</td>
</tr>
<tr>
<td></td>
<td>Competitive pressure</td>
</tr>
<tr>
<td></td>
<td>Price elasticity of demand</td>
</tr>
<tr>
<td></td>
<td>Ease of exit from market</td>
</tr>
<tr>
<td></td>
<td>Risk involved in business</td>
</tr>
</tbody>
</table>

**SPACE Factors**

<table>
<thead>
<tr>
<th>Internal Strategic Position</th>
<th>External Strategic Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Advantage CA</td>
<td>Industry Strength (IS)</td>
</tr>
<tr>
<td>Market share</td>
<td>Growth potential</td>
</tr>
<tr>
<td>Product quality</td>
<td>Profit potential</td>
</tr>
<tr>
<td>Product life cycle</td>
<td>Financial stability</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>Technological know-how</td>
</tr>
<tr>
<td>Competition’s capacity utilization</td>
<td>Resource utilization</td>
</tr>
<tr>
<td>Technological know-how</td>
<td>Ease of entry into market</td>
</tr>
<tr>
<td>Control over suppliers &amp; distributors</td>
<td>Productivity, capacity utilization</td>
</tr>
</tbody>
</table>

**SPACE Matrix**

<table>
<thead>
<tr>
<th>Conservative</th>
<th>Aggressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>FS</td>
<td></td>
</tr>
<tr>
<td>+6</td>
<td>+5</td>
</tr>
<tr>
<td>+4</td>
<td>+3</td>
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<tr>
<td>+2</td>
<td>+1</td>
</tr>
<tr>
<td>-2</td>
<td>-1</td>
</tr>
<tr>
<td>-4</td>
<td>-3</td>
</tr>
<tr>
<td>-6</td>
<td>-5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Competitive</th>
<th>Defensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>IS</td>
<td></td>
</tr>
<tr>
<td>+1</td>
<td>+2</td>
</tr>
<tr>
<td>+3</td>
<td>+4</td>
</tr>
<tr>
<td>+5</td>
<td>+6</td>
</tr>
<tr>
<td>-1</td>
<td>-2</td>
</tr>
<tr>
<td>-3</td>
<td>-4</td>
</tr>
<tr>
<td>-5</td>
<td>-6</td>
</tr>
</tbody>
</table>

**Strategy-Formulation Analytical Framework**

- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- IE Matrix
- Grand Strategy Matrix

Stage 2: The Matching Stage
**BCG Matrix**

**Boston Consulting Group Matrix**
- Enhances multi-divisional firm in formulating strategies
- Autonomous divisions = business portfolio
- Divisions may compete in different industries
- Focus on market-share position & industry growth rate

**Relative Market Share Position**
- Ratio of a division’s own market share in an industry to the market share held by the largest rival firm in that industry.

**Question Marks**
- Low relative market share – compete in high-growth industry
  - Cash needs are high
  - Case generation is low
- Decision to strengthen (intensive strategies) or divest

**Stars**
- High relative market share and high growth rate
  - Best long-run opportunities for growth & profitability
  - Substantial investment to maintain or strengthen dominant position
  - Integration strategies, intensive strategies, joint ventures

**Cash Cows**
- High relative market share, competes in low-growth industry
  - Generate cash in excess of their needs
  - Milked for other purposes
  - Maintain strong position as long as possible
  - Product development, concentric diversification
  - If weakens—retrenchment or divestiture
BCG Matrix

Dogs

- Low relative market share & compete in slow or no market growth
  - Weak internal & external position
- Liquidation, divestiture, retrenchment

Strategy-Formulation Analytical Framework

- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- Grand Strategy Matrix

Grand Strategy Matrix

- Tool for formulating alternative strategies
- Based on two dimensions
  - Competitive position
  - Market growth

RAPID MARKET GROWTH

Quadrant II
1. Market development
2. Market penetration
3. Product development
4. Horizontal integration
5. Diversification
6. Liquidation

Quadrant III
1. Retrenchment
2. Concentric diversification
3. Horizontal diversification
4. Conglomerate diversification
5. Liquidation

Quadrant IV
1. Concentric diversification
2. Horizontal diversification
3. Conglomerate diversification
4. Joint ventures

SLOW MARKET GROWTH

Quadrant I
1. Market development
2. Market penetration
3. Product development
4. Forward integration
5. Backward integration
6. Horizontal integration
7. Concentric diversification

Quadrant II
1. Market development
2. Market penetration
3. Product development
4. Horizontal integration
5. Divestiture
6. Liquidation

Quadrant III
1. Retrenchment
2. Concentric diversification
3. Horizontal diversification
4. Conglomerate diversification
5. Liquidation

Quadrant IV
1. Concentric diversification
2. Horizontal diversification
3. Conglomerate diversification
4. Joint ventures

Grand Strategy Matrix

Quadrant I
- Excellent strategic position
- Concentration on current markets/products
- Take risks aggressively when necessary

Quadrant II
- Evaluate present approach
- How to improve competitiveness
- Rapid market growth requires intensive strategy
Grand Strategy Matrix

Quadrant III

- Compete in slow-growth industries
- Weak competitive position
- Drastic changes quickly
- Cost & asset reduction (retrenchment)

Quadrant IV

- Strong competitive position
- Slow-growth industry
- Diversification to more promising growth areas

Strategy-Formulation Analytical Framework

Stage 3: The Decision Stage

Quantitative Strategic Planning Matrix (QSPM)

QSPM

Quantitative Strategic Planning Matrix

- Technique designed to determine the relative attractiveness of feasible alternative actions

QSPM

Strategic Alternatives

<table>
<thead>
<tr>
<th>Key External Factors</th>
<th>Weight</th>
<th>Strategy 1</th>
<th>Strategy 2</th>
<th>Strategy 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political/Legal/Governmental</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social/Cultural/Demographic/Environmental</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

| Key Internal Factors                          |        |            |            |            |
| Management                                   |        |            |            |            |
| Marketing                                    |        |            |            |            |
| Finance/Accounting                           |        |            |            |            |
| Production/Operations                        |        |            |            |            |
| Research and Development                     |        |            |            |            |
| Computer Information                         |        |            |            |            |
| Systems                                      |        |            |            |            |

Limitations

- Requires intuitive judgments & educated assumptions
- Only as good as the prerequisite inputs
QSPM

Advantages

- Sets of strategies considered simultaneously or sequentially
- Integration of pertinent external & internal factors in the decision making process

Cultural Aspects of Strategy Choice

Organization Culture

- Successful strategies depend on the degree of consistency with the firm’s culture

Politics of Strategy Choice

Politics in Organizations

- Management hierarchy
- Career aspirations
- Allocation of scarce resources

Politics of Strategy Choice

Political tactics for strategists

- Equifinality
- Satisfying
- Generalization
- Higher-order issues
- Political access on important issues

Governance Issues

Board of Directors Roles & Responsibilities

- Control & oversight over management
- Adherence to legal prescriptions
- Consideration of stakeholder interests
- Advancement of stockholder rights

Corporate Governance Issues

Business Week’s “principles of good governance”

1. No more than 2 directors current or former company executives
2. No directors do business with the company
3. Audit, compensation, and nominating committees made up of outside directors
4. Each director attends at least 75% of all meetings
5. Audit committee meets at least four times a year
6. CEO is not also the Chairperson of the Board
7. Shareholders have considerable power and information to choose & replace directors
8. Stock options are considered a corporate expense
9. No interlocking directorships
Key Terms & Concepts

For Review (Chapter 6)

Aggressive Quadrant
Attractiveness Scores (AS)
Boards of Directors
Boston Consulting Group (BCG) Matrix
Conservative Quadrant
Culture
Environmental Stability (ES)
Defensive Quadrant
Financial Strength (FS)
Directional Vector
Governance

Grand Strategy Matrix
Halo Error
Industry Strength (IS)
Input Stage
Internal-External (IE) Matrix
Matching
Matching Stage
Quantitative Strategic Planning Matrix (QSPM)

Question Marks
Relative Market Share Position
SO Strategies
ST Strategies

Strengths, Weaknesses Opportunities, Threats SWOT
Total Attractiveness Scores (TAS)
WO Strategies
WT Strategies

Strategy Matrix
Matching Stage
Quantitative Strategic Planning Matrix (QSPM)

Question Marks
Relative Market Share Position
SO Strategies
ST Strategies