CHAPTER 6

STRATEGY ANALYSIS AND CHOICE

CHAPTER OUTLINE

- The Nature of Strategy Analysis and Choice
- A Comprehensive Strategy-Formulation Framework
- The Input Stage
- The Matching Stage
- The Decision Stage
- Cultural Aspects of Strategy Choice
- The Politics of Strategy Choice
- Governance Issues

CHAPTER OBJECTIVES

After studying this chapter, you should be able to do the following:

1. Describe a three-stage framework for choosing among alternative strategies.
2. Explain how to develop a SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and QSPM.
3. Identify important behavioral, political, ethical, and social responsibility considerations in strategy analysis and choice.
4. Discuss the role of intuition in strategic analysis and choice.
5. Discuss the role of organizational culture in strategic analysis and choice.
6. Discuss the role of a board of directors in choosing among alternative strategies.

CHAPTER OVERVIEW

Strategic analysis and choice largely involve making subjective decisions based on objective information. Chapter 6 introduces important concepts that can help strategists generate feasible alternatives, evaluate those alternatives, and choose a specific course of action. Behavioral aspects of strategy formulation are described, including politics, culture, ethics, and social responsibility considerations.

Doing Great in a Weak Economy – Apple

When most firms were struggling in 2008, Apple increased its revenues from $24 billion in 2007 to $32.4 billion in 2008. Fortune magazine in 2009 rated Apple as their number-one "Most Admired Company in the World" in terms of its management and performance. Brisk sales of iPods, iPhones, and laptops are yielding higher and higher revenues and profits every quarter.

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Apple has aggressive new plans to build its own computer chips to share fewer details about its technology with external chip manufacturers.

EXTENDED CHAPTER OUTLINE WITH TEACHING TIPS

I. THE NATURE OF STRATEGY ANALYSIS AND CHOICE

A. Figure 6-1 illustrates this chapter's focus on establishing long-term objectives, generating alternative strategies, and selecting strategies to pursue.

B. The Process of Generating and Selecting Strategies

1. Strategists never consider all feasible alternatives that could benefit the firm, because there are an infinite number of possible actions and an infinite number of ways to implement those actions. Therefore, a manageable set of the most attractive alternative strategies must be developed.

2. Identifying and evaluating alternative strategies should involve many of the managers and employees who earlier assembled the organizational mission statement, performed the external audit, and conducted the internal audit.

3. Alternative strategies proposed by participants should be considered and discussed in a meeting or series of meetings.

VTN (Visit the Net): http://www.csuchico.edu/mgmt/strategy/module1/sld050.htm cautions against planners usurping the responsibility of line managers in strategic planning.

II. A COMPREHENSIVE STRATEGY-FORMULATION FRAMEWORK

A. Important Strategy-Formulation Techniques

1. Important strategy-formulation techniques can be integrated into a three-stage decision-making framework, as shown in Figure 6-2 of the textbook. The tools presented in this framework are applicable to all sizes and types of organizations and can help strategists identify, evaluate, and select strategies.

2. The framework described above has three stages:

a. Stage 1: The Input Stage summarizes the basic input information needed to formulate strategies. It consists of the EFE Matrix, the IFE Matrix, and the CPM

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b. Stage 2: The Matching Stage focuses upon generating feasible alternative strategies by aligning key external and internal factors. It includes the SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and Grand Strategy Matrix.
c. Stage 3: The Decision Stage uses the GSPM to reveal the relative attractiveness of alternative strategies.

3. All nine techniques included in the strategy-formulation framework require integration of intuition and analysis.

VTN (Visit the Net): http://www.csuchico.edu/mgmt/strategy/module1/sld022.htm gives the purpose and characteristics of objectives.

III. THE INPUT STAGE

A. The Input Stage includes the External Factor Evaluation (EFE) Matrix, the Competitive Profile Matrix (CPM), and the Internal Factor Evaluation (IFE) Matrix.

B. Procedures for developing an EFE Matrix, an IFE Matrix, and a CPM were presented earlier.

C. The input tools require strategists to quantify subjectively during early stages of the strategy-formulation process. Making small decisions in the input matrices regarding the relative importance of external and internal factors allows strategists to generate and evaluate alternative strategies more effectively.

IV. THE MATCHING STAGE

A. The Matching Stage

1. The Matching Stage includes 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.

2. Any organization, whether military, product-oriented, service-oriented, governmental, or even athletic must develop and execute good strategies to win.

3. Table 6-1 provides the basic concept of matching.

VTN (Visit the Net): http://www.csuchico.edu/mgmt/strategy/module1/sld024.htm gives example objectives.

B. The SWOT Matrix

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1. The SWOT Matrix is an important matching tool that helps managers develop four types of strategies:

    a. SO strategies—use a firm's internal strengths to take advantage of external opportunities.
    b. WO strategies—are aimed at improving internal weaknesses by taking advantage of external opportunities.
    c. ST strategies—use a firm's strengths to avoid or reduce the impact of external threats.
    d. WT strategies—are defensive tactics directed at reducing internal weaknesses and avoiding external threats.

2. A schematic representation of the SWOT Matrix is provided in Figure 6-3 in the textbook.

3. There are eight steps to constructing a SWOT Matrix:

    a. List the firm's key external opportunities.
    b. List the firm's key external threats.
    c. List the firm's key internal strengths.
    d. List the firm's key internal weaknesses.
    e. Match internal strengths with external opportunities and record the resulting SO strategies in the appropriate cell.
    f. Match internal weaknesses with external opportunities and record the resulting WO strategies.
    g. Match internal strengths with external threats and record the resultant ST strategies.
    h. Match internal weaknesses with external threats and record the resulting WT strategies.

4. Although the SWOT matrix is widely used in strategic planning, the analysis does have some limitations.

    a. SWOT does not show how to achieve a competitive advantage.
    b. A SWOT matrix is a static assessment.
    c. SWOT analysis may lead to firm to overemphasize certain internal or external factors.

VTN (Visit the Net): http://www.planware.org/strategicsample.htm provides a sample strategic plan as well as the basis for a SWOT matrix.

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Teaching Tip: There is an excellent article about SWOT analysis located at http://www.mindtools.com/pages/article/newTMC_05.htm including a downloadable template.

VTN (Visit the Net): http://www.mindtools.com gives excellent information about the need for planning.

C. The SPACE Matrix

1. The SPACE Matrix, another important Stage 2 matching tool, is illustrated in Figure 6-4. Its four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are more appropriate for a given organization.

2. Depending on the type of organization, numerous variables could make up each of the dimensions represented on the axes of the SPACE Matrix.

3. The steps to develop a SPACE Matrix include:

   a. Select a set of variables to define financial position (FP), competitive position (CP), stability position (SP), and industry position (IP).
   b. Assign a numerical value ranging from +1 (worst) to +7 (best) for the variables that make up the FP and IP dimensions. Assign a number between –1 (best) to –7 (worst) for variables that make up the SP and CP dimensions. On the FP and CP axes, make comparison to competitors. On the IP and SP axes, make comparison to other industries.
   c. Compute an average score for FP, CP, IP, and SP by summing the values given to the variables and dividing by the number of variables included in each dimension.
   d. Plot the average scores for FP, IP, SP, and CP on the appropriate axis in the SPACE Matrix.
   e. Add the two scores on the x-axis and plot the resultant point on X. Add the two scores on the y-axis and plot the resultant point on Y. Plot the intersection of the new xy point.
   f. Draw a directional vector from the origin of the SPACE matrix through the new intersection point. This vector reveals the type of strategies recommended for the organization: aggressive, competitive, defensive, or conservative.

3. Table 6-2 shows other variables commonly included in the SPACE Matrix. Figure 6-5 provides examples of the strategy profiles. Table 6-3 provides an example of a SPACE matrix analysis for a bank.

D. The BCG Matrix

1. Autonomous divisions (or profit centers) of an organization make up what is called a business portfolio.

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2. The BCG Matrix graphically portrays differences among divisions (of a firm) in terms of relative market share position and industry growth rate.

3. Table 6-4 identifies reasons to disclose or not disclose financial information by division.

4. Table 6-5 presents market share data for selected industries in 2009.

5. The BCG Matrix appears in Figure 6-6. Divisions in the respective circles in the BCG Matrix are called Question Marks, Stars, Cash Cows, and Dogs.

4. The four quadrants represent the following:

   a. Question Marks—Divisions in Quadrant I have a low relative market share position, yet compete in a high-growth industry. Generally these firms' cash needs are high and their cash generation is low.

   b. Stars—Quadrant II businesses represent the organization's best long-run opportunities for growth and profitability. These businesses have a high relative market share and compete in high growth rate industries.

   c. Cash Cows—Divisions positioned in Quadrant III have a high relative market position, but compete in a low-growth industry. They are called Cash Cows because they generate cash in excess of their needs.

   d. Dogs—Quadrant IV divisions of the organization have a low relative market share position and compete in a slowed or no-growth industry; they are Dogs in a firm's portfolio.

4. Figures 6-7 and 6-8 provide examples of the BCG Matrix.

E. The IE Matrix

1. The IE Matrix positions an organization's various divisions in a nine-cell display illustrated in Figure 6-9.

2. The IE Matrix is similar to the BCG Matrix in that both tools involve plotting organization divisions in a schematic diagram; this is why they are called portfolio matrices.

3. Differences between the IE Matrix and the BCG Matrix
   a. Axes are different.
   b. IE Matrix requires more information about divisions than BCG.

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c. Strategic implications of each matrix are different.

4. The IE Matrix is based on two key dimensions: the IFE total weighted scores on the x-axis and the EFE total weighted scores on the y-axis.

5. The IE Matrix can be divided into three major regions:

   a. Divisions I, II, and IV can be described as grow and build.
   b. Divisions III, V, and VII can be managed best with hold and maintain strategies.
   c. Divisions VI, VIII, or IX should use harvest or divest strategies.

6. Figure 6-10 provides an example IE Matrix, which depicts an organization composed of four divisions.

7. As indicated in Figure 6-11, the IE Matrix has five product segments. Division I has the largest revenues and the largest profits in the matrix.

F. The Grand Strategy Matrix

1. In addition to the SWOT Matrix, SPACE Matrix, BCG Matrix, and IE Matrix, the Grand Strategy Matrix has become a popular tool for formulating alternative strategies. All organizations can be positioned in one of the Grand Strategy Matrix's four strategy quadrants.

2. The Grand Strategy Matrix is pictured in Figure 6-12.

3. It is based on two evaluative dimensions: competitive position and market growth.

   a. Firms located in Quadrant I of the Grand Strategy Matrix are in excellent strategic position.
   b. Firms positioned in Quadrant II need to evaluate their present approach to the marketplace.
   c. Quadrant III organizations compete in slow-growth industries and have weak competitors.
   d. Quadrant IV businesses have strong competitive position but are in a slow growth industry.

V. THE DECISION STAGE

A. The Quantitative Strategic Planning Matrix (QSPM)

1. Other than ranking strategies to achieve the prioritized list, there is only one analytical technique in the literature designed to determine the relative attractiveness of feasible alternative actions.

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2. This technique is the QSPM, which comprises Stage 3 of the strategy-formulation analytical framework. This technique objectively indicates which alternative strategies are best.

3. The basic format of the QSPM is illustrated in Table 6-6. The left column consists of key external and internal factors, and the top row consists of feasible alternative strategies.

4. A QSPM for a retail computer store is provided in Table 6-7.

4. Six steps to developing a QSPM:

   a. Make a list of the firm's key external opportunities/threats and internal strengths/weaknesses in the left column of the QSPM.
   b. Assign weights to each key external and internal factor.
   c. Examine the Stage 2 matrices and identify alternative strategies that the organization should consider implementing.
   d. Determine the Attractiveness Scores (AS).
   e. Compute the total AS.
   f. Compute the sum Total AS.

B. Positive Features and Limitations of the QSPM

1. A positive feature of the QSPM is that sets of strategies can be examined sequentially or simultaneously. Another positive feature of the QSPM is that it requires strategists to integrate pertinent external and internal factors into the decision process. Developing a QSPM makes it less likely that key factors will be overlooked or weighted inappropriately.

2. The QSPM is not without some limitations. First, it always requires intuitive judgment. Second, it can only be as good as the prerequisite information and matching analyses upon which it is based.

VI. CULTURAL ASPECTS OF STRATEGY CHOICE

A. Culture includes the set of shared values, beliefs, attitudes, customs, norms, personalities, heroes, and heroines that describe a firm.

B. All Organizations Have a Culture

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1. It is beneficial to view strategic management from a cultural perspective because success often rests on the degree of support that strategies receive from a firm's culture.

2. If a firm's strategies are supported by cultural products such as values, beliefs, rites, rituals, ceremonies, stories, symbols, language, heroes, and heroines, then managers often can implement changes swiftly and easily.

3. Strategies that require fewer cultural changes may be more attractive because extensive changes can take considerable time and effort.

VII. THE POLITICS OF STRATEGY CHOICE

A. In the absence of objective analyses, strategy decisions too often are based on the politics of the moment. With development of improved strategy-formulation tools, political factors become less important in making strategic decisions.

B. Tactics to aid in strategy:

1. Equifinality – It is often possible to achieve similar results using different means or paths.
2. Satisfying – Achieving satisfactory results with an acceptable strategy is far better than failing to achieve optimal results with an unpopular strategy.
3. Generalization – Shifting focus from specific issues to more general ones may increase options for gaining organizational commitment.
4. Focus on Higher-Order Issues – By raising an issue to a higher level, many short-term interests can be postponed in favor of long-term interests.
5. Provide Political Access on Important Issues – Strategy and policy decisions with significant negative consequences for middle managers will motivate intervention behavior from them.

VIII. GOVERNANCE ISSUES

A. A director is one of a group of persons entrusted with the overall direction of a corporate enterprise. A board of directors is a group of persons elected by the ownership of a corporation to have oversight and guidance over management and to look out for the shareholders' interests.

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