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STRATEGIC FORMULATION: AN INTEGRATED APPROACH IN CORPORATE WORLD

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ABSTRACT

Corporate world is in the process of a global transformation. The formulating a strategy is a hard one to address in a short space of time. Concepts that help with strategy formulation are evolving and information technology itself is changing, so the impact of one on the other is complex. As such, it seems important to be clear about the underlying assumptions before beginning to address the substance of the question. There are some basic beliefs about the world and the way it operates which underlie the arguments developed in this paper. In a dynamic and uncertain environment, strategic management is important because it can provide managers with a systematic and comprehensive means for analyzing the environment assessing their organization's strengths and weakness and identifying opportunities for which they could develop and exploit a competitive advantage.

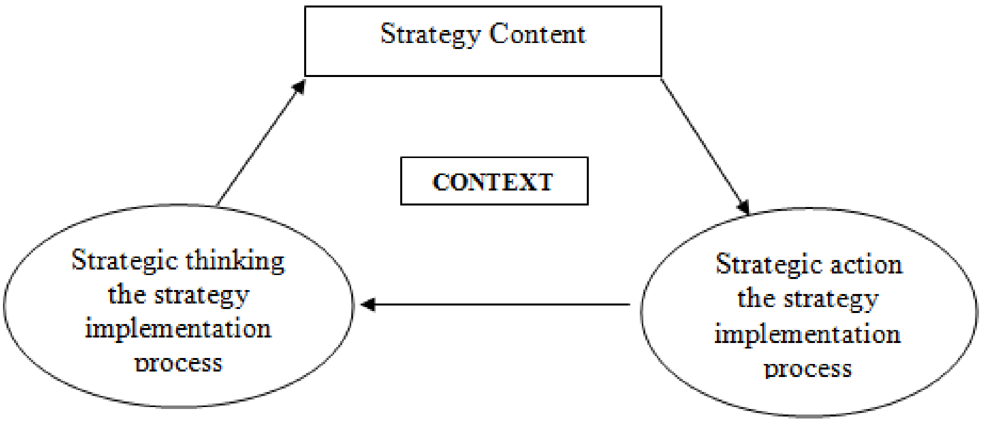
INTRODUCTION

Strategy is ideas and action to conceive and secure the future of the enterprise. The purpose of the strategy formulation process is to cause strategic thinking that conceives the future of the enterprise and how that future may be secured. The strategy formulation process should provide a mechanism to ease the communication of ideas and to co-ordinate efforts. It should inject structure but not rigidity into the thinking. Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. The process of strategy formulation basically involves six main steps. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order. The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives. The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist**.** Setting Quantitative Targets is the step in which, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments. Choice of Strategy is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

Strategy Formulation: Organizational Importance

Every enterprise has a strategy at any time. It may be that nobody has ever used the word strategy and that no deliberate or disciplined process has ever taken place. The strategy may be to continue to do tomorrow what was done today. This is a somewhat neutral strategy but it may sometimes be appropriate and effective. It certainly has the advantage that it is easy to implement and it may be more likely to secure the future than ill-conceived radical departures into new activities. More often in practice, however, it is apparent that the future of the enterprise is less secure than it might be so there is a need to consider and formulate suitable new strategies, which will increase the chance of success. Such new strategies do not just happen; they result from a formulation process. The strategy formulation process is important because a better process should produce better strategies.



Strategic Thinking: The Element of Strategic Management

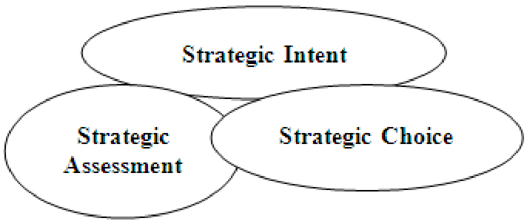
Good strategies are judged by the results not by the quality of the process that generated them. It is apparent that there is considerable divergence of view among academic thinkers on what the best strategy process would look like. Successful enterprises adopt a formulation process that matches their business, their culture and the specific issues of the context. They certainly do not all go about formulating strategy in the same way. Management consultants specializing in strategy may offer their clients a proprietary method for formulating strategy and may claim that this approach offers advantages over alternative approaches. Such claims are hard to substantiate and the same process is likely to work better in some contexts than others. Certainly no standardized approach can ever guarantee success. When management consultants guide their clients through a process, it is originality, creativity, and effective implementation that lead to future business success and not the process itself. It is impossible to be prescriptive about what process will generate the best strategies. In spite of this awkward fact, most enterprises find it useful to think about the process by which they formulate their future strategies and to try to improve the process so as to increase the chances of creative thinking happening.

In practice, strategy processes may be formal or informal, complex or simple. They may be exactly analytical or based on a broad understanding of important trends. The process may involve many people of just a few. In one very successful life insurance company the process is almost entirely informal. The senior six or seven executive directors meet regularly and discuss strategy among other more immediate matters. Strategic ideas may be discussed at committees chaired by the same directors so that any difficulties or objections become apparent. After a period of gradual agreement, the strategies will be reported to a meeting of the full board. The expectation is that the board will nod them through. There are no strategic plans written down, and very little documentation of any kind. All the executive directors maintain, however, that the strategy is very clear. The company has been highly successful over a long period of time. At the other end of the scale, many large multi-divisional companies still operate formal processes in which individual companies or divisions present their strategies to the board for review. Such formality may have the important advantage that it causes busy managers to think about the future. On the other hand, formality may also have the disadvantage that thinking that is undertaken only to meet the requirements of a bureaucratic process may be stiff and unimaginative. The case examples give some indication of the broad range of formality, style and time-scale that occurs within planning processes. In ICI, under the pressure of a crisis, one or two people conceived a radically new strategy in a period of a few weeks. Marks & Spencer, also experiencing a crisis, found it appropriate to have an off-site meeting for the entire board and to study a strategy document several hundred pages long.

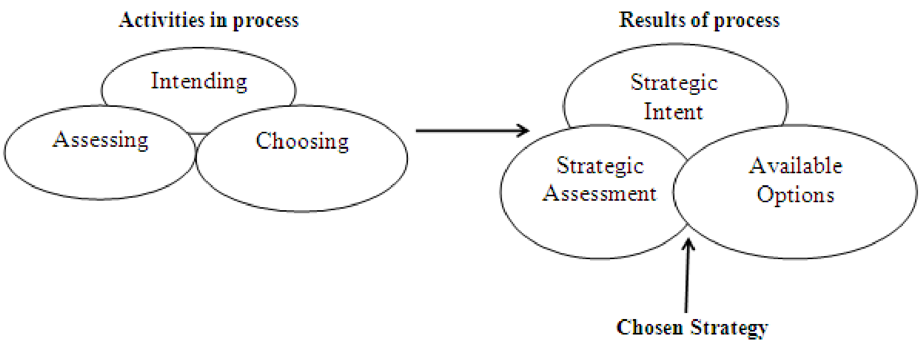
The strategy formulation process has to be tailored to the current- needs of the organization. The task for the manager is to understand the process- that has generated strategies in the past in that enterprise and to consider how to develop that process in the future. This may require minor adjustments, such as changes of emphasis, involvement of new groups of people, or new analysis of data. There, is some evidence that planning processes need several years to bed down and begin to produce results. This argues for .gradual development of the existing process. Sometimes, however, it may be appropriate to introduce an entirely new process for formulating strategy so as to generate new insights about the future of the business and to break out of accepted patterns of thought. The value of the process is that it can trigger new ideas, capture ideas for discussion, and clarify ideas for implementation. The process must lead to ideas about how the future can be secured and must lay the ground for effective action. The strategy formulation process should, in short, lead to good strategic thinking. Effective strategic thinking usually has certain characteristics. It considers the enterprise as a whole and is more about the longer term than the immediate. Strategic thinking must address both the relationship of the enterprise with its external environment and its own capabilities and resources. Good strategic thinking is based on fact and reality and is supported by rigorous analysis. On the other hand, analysis is not enough; good strategic thinking also requires imagination. An effective strategic thinker has a good understanding of the present, is able to imagine the future, and is also able to think beyond the current constraints in an original way. The design of the strategy process must cause strategic thinking to happen. It is important that all parts of the strategy process are appropriate. The process must be coherent. Good strategic thinking requires the right combination of analysis and imagination. Sometimes a strategy formulation process may fail to achieve this balance. This may be because it is too analytical.

Strategy Formulation: Effectiveness in Practice

There are three essential elements of the strategy process. Strategic Intent is the driver of the strategy process. Without an underlying intent, strategy lacks an overall sense of direction and there is no reason to choose one direction rather than another. The fundamental role of Strategic Assessment is to provide relevant knowledge about the strategic context. It has to assess both the outside world and the relative capabilities of our own enterprise. The role of strategic assessment is to anchor future strategies in reality. Strategic assessment must address the question 'where are we now?' potential future strategies also have to be assessed. Strategic choice is fundamental to the strategy process because it is the link to action. Strategy is to be anything more than an intellectual relaxation than actions must result from the strategy process.



(The strategy formulation process: three inter-locking aspects)



(Process and Results both Inter-Relate)

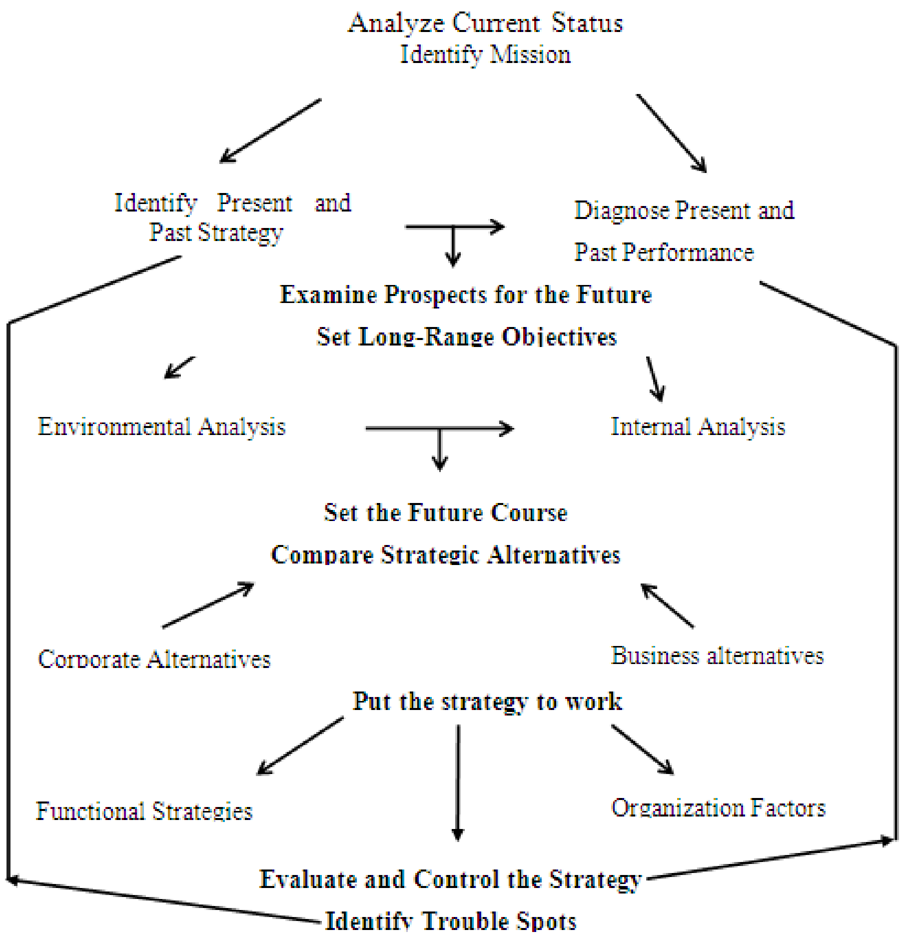
The strategy formulation process has three interlocking activities intending, assessing and choosing. Each of these activities relates to the other two. In a good strategy process, the activities fit together into a coherent whole and are in balance. These interlocking activities produce related result strategic intent, strategic assessment, and available options. While it is impossible to define a universal strategy formulation process that will work for any enterprise in all circumstances, it is possible to observe the characteristics that seem to lead to in practice. The process must take account of customer's needs, how existing needs are changing and what new needs are emerging. This may be called being market-driven but it is more than mere reaction to customer needs; it is necessary to anticipate future needs. The scope of the process is normally the boundaries of the organization. External relationships with suppliers of all kinds extend the boundaries of the enterprise in an untidy way. The process has to be aware of changes that affect suppliers and ensure that their significance is understood. The process must take into account the expectations and influences of all important groups or stakeholders. Shareholders, regulators, and lobby groups may be particularly important in many contexts. The process must equally take into account of the competence of the enterprise. As well as taking an honest view of the relative competence of the enterprise against its competitors, it must also make a dynamic assessment of their likely response.

The process must be orientated towards change. Understanding the nature of change is likely to require a sound understanding of how technology is adding value to the business. This is not the same thing as understanding the leading-edge applications of technology in the industry. Businesses are usually complex so different people have different perspective, and different fields of knowledge. Marketing people see the world differently and know different things from development engineers; long-serving employees differently from newcomers, board members differently from middle managers, central staff differently from field staff. No one group has a monopoly on useful perspectives so an effective mix of views is important. An effective moderator may be essential to ensure that views are heard. It is useful, to consider the strengths and weaknesses, of the existing strategy process. The process should be tailored to address current .strategic issues and hence ensure relevance. Some outline of time-scale and method is necessary. However, the technique must be flexible enough to allow time to react to findings and delve into critical detail. The balance between analysis and synthesis's important. The process needs to develop from year to year to avoid the process becoming a boring and bureaucratic routine.

Strategic Management: Analyzing, Evaluating and Controlling the Strategy in Successful Way

Any organization must first analyze and clearly understand its current status. Once an organization has a firm grip on its present status, it is in a position to examine its prospects for the future. After its prospects have been identified the organization must set its future course through careful evaluation and choice of alternatives. In the next stage, the organization implements the chosen strategy. In the final stage, the organization evaluates and controls the selected strategy. It should be noted that the strategic management process is presented as an iterative process, as indicated by the arrows leading from the bottom of the model back to the top. The implication is that the process is never-ending and requires constant evaluations, updating and revising. The double-headed arrows indicate a two-way relationship; each of the affected variables has an impact on the other. The four major components and their respective subcomponents are introduced in the following sections.

Management consultants can make a valuable contribution provided that their role has been thought through. Consultants can help with process design, provide analytical support, offer a comparative, perspective, and contribute to strategic thinking. They can also catch attention, contribute objectively in political discussions, and cut across organizational boundaries. Consultants cannot however, take responsibility for implementation nor are they likely to understand their client's business in as much depth as insiders do. It is essential that the strategy formulation process is designed to meet the needs of the enterprise and its business needs. There are dangers in initiating processes that seem to have worked well in prominent and successful companies. A strategic change can be developed and implemented, the past and present strategies must be clarified. Evaluating an organization's performance usually involves some type of in-depth financial analysis and diagnosis.



Strategic Management Process Analyze Status

The first step in looking toward the future is to decide what the long and intermediates range objectives should be in light of the current mission. However, these objectives cannot be accurately established without examining the internal and external environments. Thus establishing the long and intermediate range objectives and analyzing the internal and external environments are concurrent processes, which influence one another. The two-way arrows in Exhibit show these circular relationships. In establishing long-range objectives, the emphasis is on corporate and divisional level objectives, as opposed to departmental objectives. The first step is to decide which areas of the organization's business should be covered by objectives. Common choices include sales, market share, costs, product introductions, return on investment, and societal goals. Once the areas for objectives have been decided upon, the next step is to determine the desired magnitudes and associated time frames for accomplishment.

The basic idea in conducting an internal analysis is to perform an objective assessment of the organization's current status. Additional areas that should be investigated include the organization's structure and its culture. It is usually desirable to analyze structure in terms of the lines of authority, communication patterns, and work flow. With regard to culture, the first step is usually to identify corporate norms and mores. As emphasized earlier, the process of setting long-range objectives is influenced by the results of the internal analysis. Similarly, the internal analysis should focus on factors affected by the long-range objectives. Thus there is a circular relationship between these variables. An organization's external environment consists of everything outside the organization, but the focus of the assessment is on the external factors that have an impact on the organization business. Such factors are classified by their proximity to the organization they are either in its broad environment, or in its competitive environment. Broad environmental factors are somewhat removed from the organization but can still influence it. General economic conditions and social, political, and technological trends represent common factors in the broad environment. Factors in the competitive environment, which is also referred to as the task environment are close to and come in regular contact with the organization. Stockholders, suppliers, competitors, labor unions, and customers represent members of the competitive environment. The external analysis, like the internal analysis, has a circular relationship with the long-range objectives. This portion of the model concludes the reflective part of the strategic management process. Having analyzed its current status and examined its prospects for the future, the organization is then in a position to consider its future course. Setting the future course involves generating possible strategic alternatives, based on the mission and long-range objectives, and then selecting the best alternative.

Not only does an organization have a strategic history, but it also has existing structures, policies, and systems. Although each of these factors can change as a result of a new strategy, each must be assessed and dealt with as part of the implementation process. Although an organization's structure can always be altered, the associated costs may be very high. The strategy must fit with current organizational policies, or the conflicting policies must be modified. Often, past policies heavily influence the extent in which future policies can be altered. Similarly, organizational systems that are currently in place can affect how the strategy might best be implemented. These systems can be either formal or informal. Examples include information systems, compensation systems, communication systems, control systems, and planning systems. Functional strategies are the means by which the business strategy is operationalized. Functional strategies outline the specific short-range actions to be taken by the different functional units of the organization in order to implement the business strategy. The purpose of functional strategies is to make the corporate and business level strategies a reality. The formulation for functional strategies plays a major role in determining the feasibility of the corporate and business level strategies. Of sound functional strategies cannot be formulated and implemented, it may be that the corporate and /or business level strategies need to be reworked. As the old saying goes, the functional strategies are the point where “the rubber meets the road”.

The challenge is to monitor continuously the organization’s progress toward its long-range objectives and mission. The emphasis here is on making the organization's strategists aware of the problems that are likely to occur and of the actions that should be taken if these problems do occur. As mentioned earlier, the arrows looping back up from this last component of the model indicate that the strategic management process is continuous and never-ending. The strategy formulation process results in strategic choice and supporting strategies. The results of strategic assessment are an objective and profound understanding of resources and an objective appraisal of the competitive environment. A good strategic choice is one ingredient of effective implementation. On the other hand, Grant's list does not guarantee success. There may also be other necessary useful results that are not on his list. Objective appraisal of resources’ may not be enough as it may be possible to find new resources to stretch the organization to meet future challenges. Certainly the strategy formulation process must generate strategies which are capable of implementation but actions will have to be modified in the light of events so that what is implemented is not the same as what seemed capable of implementation.

CONCLUSION

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. Strategy formulation should be done on a regular basis, as often as required by changes in the industry. Firms need to track the company's progress, or lack thereof, on the key goals and objectives outlined in the strategic plan. The company must be objective and flexible enough to realize whether the strategy is no longer appropriate as it was first conceived, and whether it needs revision or replacement. In other cases, the strategy itself may be fine, but the communication of the strategy to employees has been inadequate or the specific steps to implementation haven't worked out as planned. This evaluation and feedback of the strategy formulation, the final step, provides the foundation for successful future strategy formulation. The strategy formulation plays a vital role in management.

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