Strategic Management

Dr. Tantri Yanuar R Syah, SE, MSM

Strategy Analysis and Choice

A note from David

The Nature of Strategy Analysis and Choice

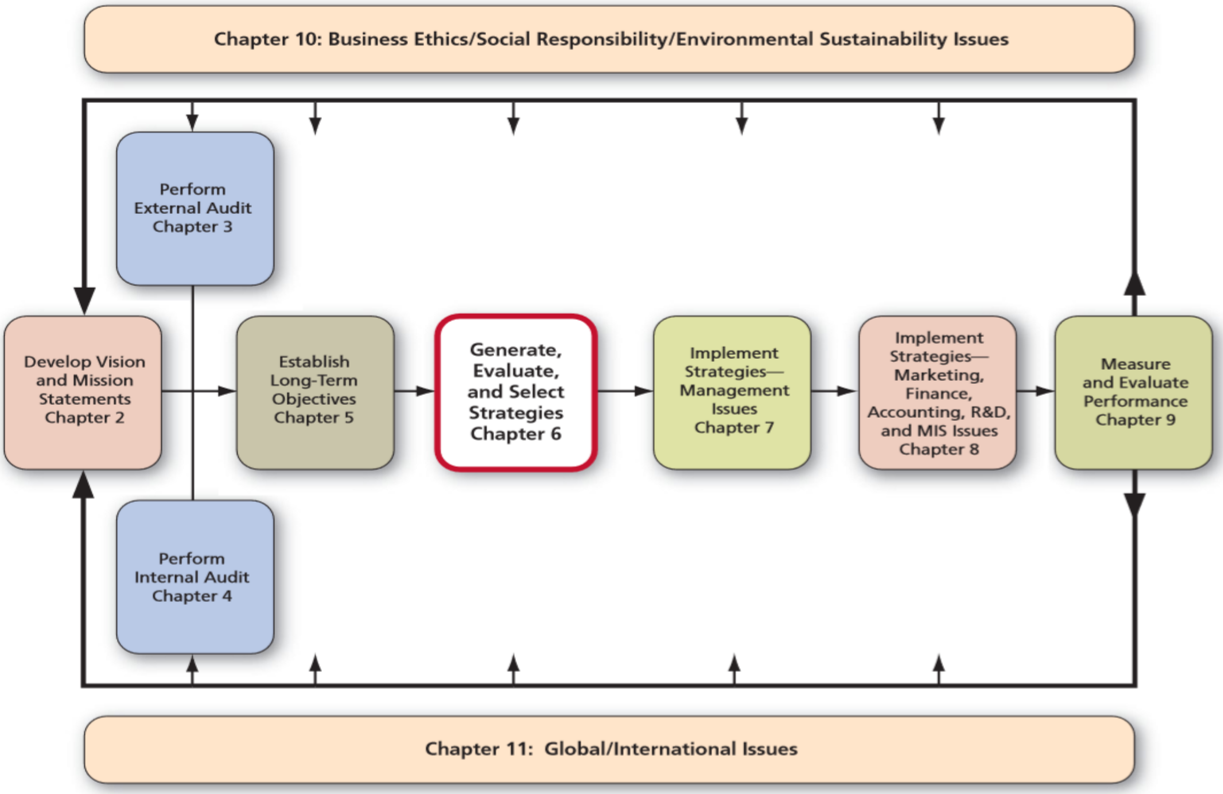
As indicated by Figure 6-1, this chapter focuses on generating and evaluating alternative strategies, as well as selecting strategies to pursue. Strategy analysis and choice seek to determine alternative courses of action that could best enable the firm to achieve its mission and objectives. The firm's present strategies, objectives, and mission, coupled with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies. Unless a desperate situation confronts the firm, alternative strategies will likely represent incremental steps that move the firm from its present position to a desired future position. Alternative strategies do not come out of the wild blue yonder; they are derived from the firm's vision, mission, objectives, external audit, and internal audit; they are consistent with, or build on, past strategies that have worked well.

The Process of Generating and Selecting Strategies

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. The advantages, disadvantages, trade-offs, costs, and benefits of these strategies should be determined. This section discusses the process that many firms use to determine an appropriate set of alternative strategies. Identifying and evaluating alternative strategies should involve many of the managers and employees who earlier assembled the organizational vision and mission statements, performed the external audit, and conducted the internal audit. Representatives from each department and division of the firm should be included in this process, as was the case in previous strategy-formulation activities. Recall that involvement provides the best opportunity for managers and employees to gain an understanding of what the firm is doing and why and to become committed to helping the firm accomplish its objectives. All participants in the strategy analysis and choice activity should have the firm's external and internal audit information by their sides. This information, coupled with the firm's mission statement, will help participants crystallize in their own minds particular strategies that they believe could benefit the firm most. Creativity should be encouraged in this thought process. Alternative strategies proposed by participants should be considered and discussed in a meeting or series of meetings. Proposed strategies should be listed in writing. When all feasible strategies identified by participants are given and understood, the strategies should be ranked in order of attractiveness by all participants, with 1 = should not be implemented, 2 = possibly should be implemented, 3 = probably should be implemented, and 4 = definitely should be implemented. This process will result in a prioritized list of best strategies that reflects the collective wisdom of the group.

FIGURE 6-1

A Comprehensive Strategic-Management Model



A Comprehensive Strategy-Formulation Framework

Important strategy-formulation techniques can be integrated into a three-stage decisionmaking framework, as shown in Figure 6-2. The tools presented in this framework are applicable to all sizes and types of organizations and can help strategists identify, evaluate, and select strategies. Stage 1 of the formulation framework consists of the EFE Matrix, the IFE Matrix, and the Competitive Profile Matrix (CPM). Called the Input Stage,Stage 1 summarizes the basic input information needed to formulate strategies. Stage 2, called the Matching Stage, focuses upon generating feasible alternative strategies by aligning key external and internal factors. Stage 2 techniques include 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. Stage 3, called the Decision Stage, involves a single technique, the Quantitative Strategic Planning Matrix (QSPM). A QSPM uses input information from Stage 1 to objectively evaluate feasible alternative strategies identified in Stage 2. A QSPM reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies.

FIGURE 6-2

The Strategy-Formulation Analytical Framework

STAGE 1: THE INPUT STAGE

External Factor Evaluation (EFE) Matrix	Competitive Profile Matrix (CPM)	Internal Factor Evaluation (IFE) Matrix

STAGE 2: THE MATCHING STAGE

Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix	Strategic Position and Action Evaluation (SPACE) Matrix	Boston Consulting Group (BCG) Matrix	Internal-External (IE) Matrix	Grand Strategy Matrix

STAGE 3: THE DECISION STAGE

Quantitative Strategic Planning Matrix (QSPM)

All nine techniques included in the strategy-formulation framework require the integration of intuition and analysis. Autonomous divisions in an organization commonly use strategy-formulation techniques to develop strategies and objectives. Divisional analyses provide a basis for identifying, evaluating, and selecting among alternative corporate-level strategies. Strategists themselves, not analytic tools, are always responsible and accountable for strategic decisions. Lenz emphasized that the shift from a words-oriented to a numbersoriented planning process can give rise to a false sense of certainty; it can reduce dialogue, discussion, and argument as a means for exploring understandings, testing assumptions, and fostering organizational learning.1 Strategists, therefore, must be wary of this possibility and use analytical tools to facilitate, rather than to diminish, communication. Without objective information and analysis, personal biases, politics, emotions, personalities, and halo error (the tendency to put too much weight on a single factor) unfortunately may play a dominant role in the strategy-formulation process.

The Input Stage

Procedures for developing an EFE Matrix, an IFE Matrix, and a CPM were presented in Chapters 3 and 4. The information derived from these three matrices provides basic input information for the matching and decision stage matrices described later in this chapter. The input tools require strategists to quantify subjectivity 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 more effectively generate and evaluate alternative strategies. Good intuitive judgment is always needed in determining appropriate weights and ratings.

The Matching Stage

Strategy is sometimes defined as the match an organization makes between its internal resources and skills and the opportunities and risks created by its external factors.2 The matching stage of the strategy-formulation framework consists of five techniques that can be used in any sequence: the SWOT Matrix, the SPACE Matrix, the BCG Matrix, the IE Matrix, and the Grand Strategy Matrix. These tools rely upon information derived from the input stage to match external opportunities and threats with internal strengths and weaknesses. Matching external and internal critical success factors is the key to effectively generating feasible alternative strategies. For example, a firm with excess working capital (an internal strength) could take advantage of the cell phone industry's 20 percent annual growth rate (an external opportunity) by acquiring Cellfone, Inc., a firm in the cell phone industry.

TABLE 6-1 Matching Key External and Internal Factors to Formulate Alternative Strategies

Key Internal Factor		Key External Factor		Resultant Strategy
Excess working capital (an internal strength)	+	20 percent annual growth in the cell phone industry (an external opportunity)	=	Acquire Cellfone, Inc.
Insufficient capacity (an internal weakness)	+	Exit of two major foreign competitors from the industry (an external opportunity)	=	Pursue horizontal integration by buying competitors' facilities
Strong R&D expertise (an internal strength)	+	Decreasing numbers of younger adults (an external threat)	=	Develop new products for older adults
Poor employee morale (an internal weakness)	+	Rising healthcare costs (an external threat)	=	Develop a new wellness program

This example portrays simple one-to-one matching. In most situations, external and internal relationships are more complex, and the matching requires multiple alignments for each strategy generated. The basic concept of matching is illustrated in Table 6-1. Any organization, whether military, product-oriented, service-oriented, governmental, or even athletic, must develop and execute good strategies to win. A good offense without a good defense, or vice versa, usually leads to defeat. Developing strategies that use strengths to capitalize on opportunities could be considered an offense, whereas strategies designed to improve upon weaknesses while avoiding threats could be termed defensive. Every organization has some external opportunities and threats and internal strengths and weaknesses that can be aligned to formulate feasible alternative strategies.

The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix

The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix is an important matching tool that helps managers develop four types of strategies: SO (strengths-opportunities) Strategies, WO (weaknesses-opportunities) Strategies, ST (strengths-threats) Strategies, and WT (weaknesses-threats) Strategies.3 Matching key external and internal factors is the most difficult part of developing a SWOT Matrix and requires good judgment—and there is no one best set of matches. Note in Table 6-1 that the first, second, third, and fourth strategies are SO, WO, ST, and WT strategies, respectively. SO Strategies use a firm's internal strengths to take advantage of external opportunities. All managers would like their organizations to be in a position in which internal strengths can be used to take advantage of external trends and events. Organizations generally will pursue WO, ST, or WT strategies to get into a situation in which they can apply SO Strategies. When a firm has major weaknesses, it will strive to overcome them and make them strengths. When an organization faces major threats, it will seek to avoid them to concentrate on opportunities. WO Strategies aim at improving internal weaknesses by taking advantage of external opportunities. Sometimes key external opportunities exist, but a firm has internal weaknesses that prevent it from exploiting those opportunities. For example, there may be a high demand for electronic devices to control the amount and timing of fuel injection in automobile engines (opportunity), but a certain auto parts manufacturer may lack the technology required for producing these devices (weakness). One possible WO Strategy would be to acquire this technology by forming a joint venture with a firm having competency in this area. An alternative WO Strategy would be to hire and train people with the required technical capabilities. ST Strategies use a firm's strengths to avoid or reduce the impact of external threats. This does not mean that a strong organization should always meet threats in the external environment head-on. An example of ST Strategy occurred when Texas Instruments used an excellent legal department (a strength) to collect nearly $700 million in damages and royalties from nine Japanese and Korean firms that infringed on patents for semiconductor memory chips (threat).

Rival firms that copy ideas, innovations, and patented products are a major threat in many industries. This is still a major problem for U.S. firms selling products in China. WT Strategies are defensive tactics directed at reducing internal weakness and avoiding external threats. An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to fight for its survival, merge, retrench, declare bankruptcy, or choose liquidation. A schematic representation of the SWOT Matrix is provided in Figure 6-3. Note that a SWOT Matrix is composed of nine cells. As shown, there are four key factor cells, four strategy cells, and one cell that is always left blank (the upper-left cell). The four strategy cells, labeled SO, WO, ST, and WT, are developed after completing four key factor cells, labeled S, W, O, and T. There are eight steps involved in constructing a SWOT Matrix:

1. List the firm’s key external opportunities.
2. List the firm’s key external threats.
3. List the firm’s key internal strengths.
4. List the firm’s key internal weaknesses.
5. Match internal strengths with external opportunities, and record the resultant SO Strategies in the appropriate cell.
6. Match internal weaknesses with external opportunities, and record the resultant WO Strategies.
7. Match internal strengths with external threats, and record the resultant ST Strategies.
8. Match internal weaknesses with external threats, and record the resultant WT Strategies.

Some important aspects of a SWOT Matrix are evidenced in Figure 6-3. For example, note that both the internal/external factors and the SO/ST/WO/WT Strategies are stated in quantitative terms to the extent possible. This is important. For example, regarding the second SO #2 and ST #1 strategies, if the analyst just said, “Add new repair/service persons,” the reader might think that 20 new repair/service persons are needed. Actually only two are needed. Always be specific to the extent possible in stating factors and strategies. It is also important to include the “S1, O2” type notation after each strategy in a SWOT Matrix. This notation reveals the rationale for each alternative strategy. Strategies do not rise out of the blue. Note in Figure 6-3how this notation reveals the internal/external factors that were matched to formulate desirable strategies. For example, note that this retail computer store business may need to “purchase land to build new store” because a new Highway 34 will make its location less desirable. The notation (W2, O2) and (S8, T3) in Figure 6-3 exemplifies this matching process. The purpose of each Stage 2 matching tool is to generate feasible alternative strategies, not to select or determine which strategies are best. Not all of the strategies developed in the SWOT Matrix, therefore, will be selected for implementation. The strategy-formulation guidelines provided in Chapter 5 can enhance the process of matching key external and internal factors. For example, when an organization has both the capital and human resources needed to distribute its own products (internal strength) and distributors are unreliable, costly, or incapable of meeting the firm’s needs (external threat), forward integration can be an attractive ST Strategy. When a firm has excess production capacity (internal weakness) and its basic industry is experiencing declining annual sales and profits (external threat), related diversification can be an effective WT Strategy. Although the SWOT matrix is widely used in strategic planning, the analysis does have some limitations.4 First, SWOT does not show how to achieve a competitive advantage, so it must not be an end in itself. The matrix should be the starting point for a discussion on how proposed strategies could be implemented as well as cost-benefit considerations that ultimately could lead to competitive advantage. Second, SWOT is a static assessment (or snapshot) in time. A SWOT matrix can be like studying a single frame of a motion picture where you see the lead characters and the setting but have no clue as to the plot. As circumstances, capabilities, threats, and strategies change, the dynamics of a competitive environment may not be revealed in a single matrix.

FIGURE 6-3

A SWOT Matrix for a Retail Computer Store

	Strengths	Weaknesses
	1. Inventory turnover up 5.8 to 6.7	1. Software revenues in store down 12%
	2. Average customer purchase up $97 to $128	2. Location of store hurt by new Hwy 34
	3. Employee morale is excellent	3. Carpet and paint in store in disrepair
	4. In-store promotions = 20% increase in sales	4. Bathroom in store needs refurbishing
	5. Newspaper advertising expenditures down 10%	5. Total store revenues down 8%
	6. Revenues from repair/service in-store up 16%	6. Store has no Web site
	7. In-store technical support persons have MIS degrees	7. Supplier on-time-delivery up to 2.4 days
	8. Store's debt-to-total assets ratio down 34%	8. Customer checkout process too slow
		9. Revenues per employee up 19%
Opportunities	SO Strategies	WO Strategies
1. Population of city growing 10%	1. Add 4 new in-store promotions monthly (S4,O3)	1. Purchase land to build new store (W2, O2)
2. Rival computer store opening 1 mile away	2. Add 2 new repair/service persons (S6, O5)	2. Install new carpet/paint/bath (W3, W4, O1)
3. Vehicle traffic passing store up 12%	3. Send flyer to all seniors over age 55 (S5, O5)	3. Up Web site services by 50% (W6, O7, O8)
4. Vendors average six new products/yr		4. Launch mailout to all Realtors in city (W5, O7)
5. Senior citizen use of computers up 8%		
6. Small business growth in area up 10%		
7. Desire for Web sites up 18% by Realtors		
8. Desire for Web sites up 12% by small firms		
Threats	ST Strategies	WT Strategies
1. Best Buy opening new store in 1yr nearby	1. Hire two more repair persons and market these new services (S6, S7, T1)	1. Hire 2 new cashiers (W8, T1, T4)
2. Local university offers computer repair	2. Purchase land to build new store (S8, T3)	2. Install new carpet/paint/bath (W3, W4, T1)
3. New bypass Hwy 34 in 1 yr will divert traffic	3. Raise out-of-store service calls from $60 to $80 (S6, T5)	
4. New mall being built nearby		
5. Gas prices up 14%		
6. Vendors raising prices 8%		

Third, SWOT analysis may lead the firm to overemphasize a single internal or external factor in formulating strategies. There are interrelationships among the key internal and external factors that SWOT does not reveal that may be important in devising strategies.

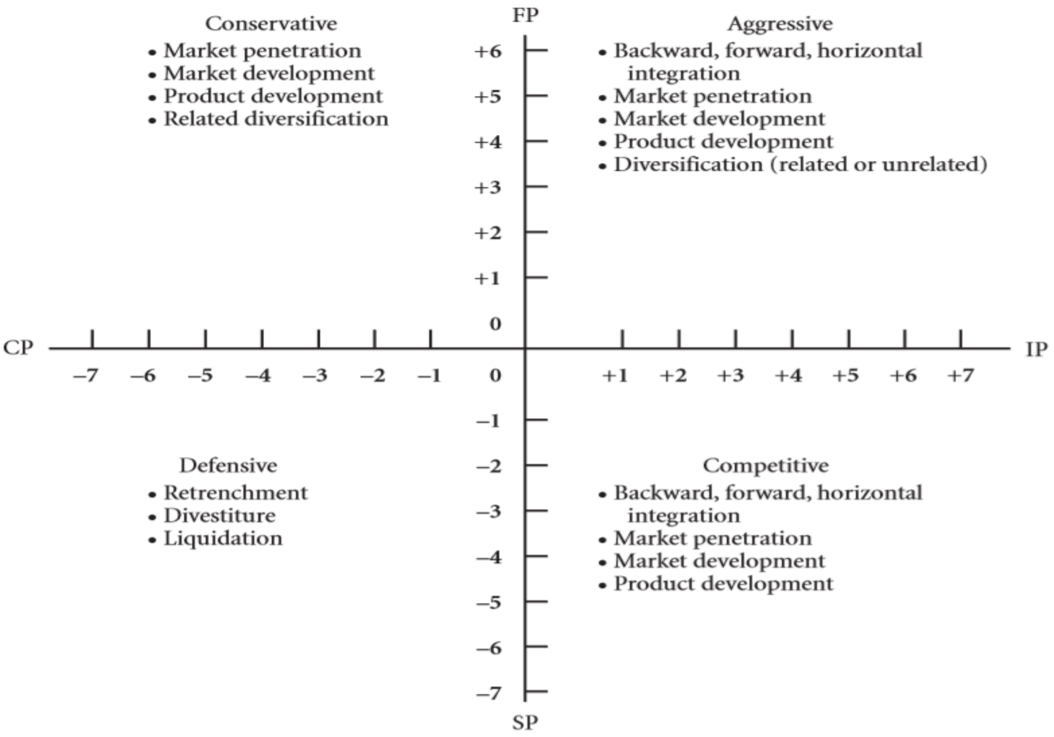
The Strategic Position and Action Evaluation (SPACE) Matrix

The Strategic Position and Action Evaluation (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 most appropriate for a given organization. The axes of the SPACE Matrix represent two internal dimensions (financial position [FP] and competitive position [CP]) and two external dimensions (stability position [SP]and industry position [IP]). These four factors are perhaps the most important determinants of an organization's overall strategic position.5

Depending on the type of organization, numerous variables could make up each of the dimensions represented on the axes of the SPACE Matrix. Factors that were included earlier in the firm's EFE and IFE Matrices should be considered in developing a SPACE Matrix. Other variables commonly included are given in Table 6-2. For example, return on investment, leverage, liquidity, working capital, and cash flow are commonly considered to be determining factors of an organization's financial strength. Like the SWOT Matrix, the SPACE Matrix should be both tailored to the particular organization being studied and based on factual information as much as possible.

FIGURE 6-4

The SPACE Matrix



Source: Adapted from H. Rowe, R. Mason, and K. Dickel, *Strategic Management and Business Policy: A Methodological Approach* (Reading, MA: Addison-Wesley Publishing Co. Inc., © 1982): 155.

TABLE 6-2 Example Factors That Make Up the SPACE Matrix Axes

Internal Strategic Position	External Strategic Position
Financial Position (FP)	*Stability Position (SP)*
Return on investment	Technological changes
Leverage	Rate of inflation
Liquidity	Demand variability
Working capital	Price range of competing products
Cash flow	Barriers to entry into market
Inventory turnover	Competitive pressure
Earnings per share	Ease of exit from market
Price earnings ratio	Price elasticity of demand
	Risk involved in business
Competitive Position (CP)	*Industry Position (IP)*
Market share	Growth potential
Product quality	Profit potential
Product life cycle	Financial stability
Customer loyalty	Extent leveraged
Capacity utilization	Resource utilization
Technological know-how	Ease of entry into market
Control over suppliers and distributors	Productivity, capacity utilization

Source: Adapted from H. Rowe, R. Mason, and K. Dickel, *Strategic Management and Business Policy: A Methodological Approach* (Reading, MA: Addison-Wesley Publishing Co. Inc., © 1982): 155–156.

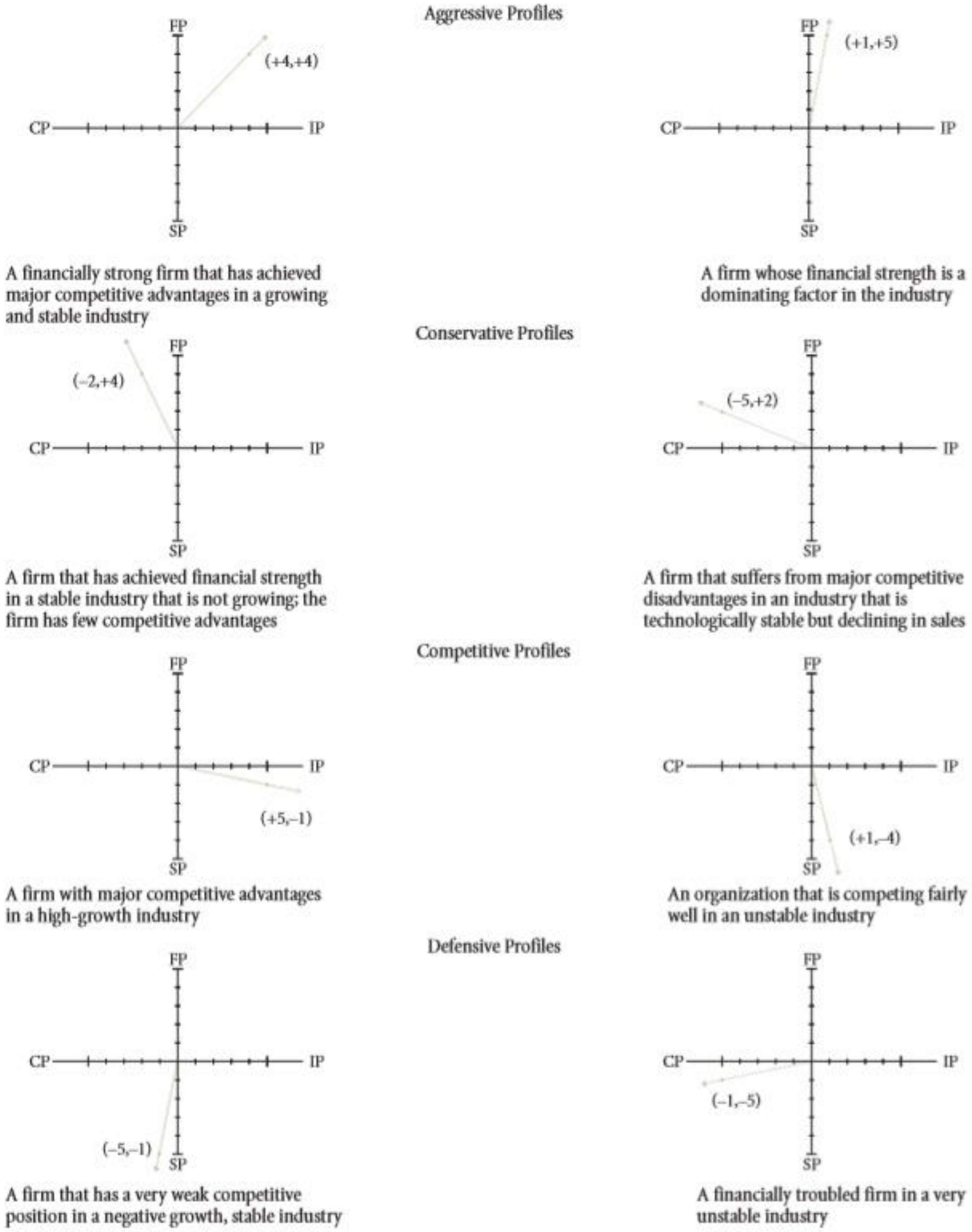
The steps required to develop a SPACE Matrix are as follows:

1. Select a set of variables to define financial position (FP), competitive position (CP), stability position (SP), and industry position (IP).
2. Assign a numerical value ranging from +1 (worst) to +7 (best) to each of the variables that make up the FP and IP dimensions. Assign a numerical value ranging from -1 (best) to -7 (worst) to each of the 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.
3. Compute an average score for FP, CP, IP, and SP by summing the values given to the variables of each dimension and then by dividing by the number of variables included in the respective dimension.
4. Plot the average scores for FP, IP, SP, and CP on the appropriate axis in the SPACE Matrix.
5. 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.
6. 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.

Some examples of strategy profiles that can emerge from a SPACE analysis are shown in Figure 6-5. The directional vector associated with each profile suggests the type of strategies to pursue: aggressive, conservative, defensive, or competitive. When a firm's directional vector is located in the aggressive quadrant(upper-right quadrant) of the SPACE Matrix, an organization is in an excellent position to use its internal strengths to (1) take advantage of external opportunities, (2) overcome internal weaknesses, and (3) avoid external threats. Therefore, market penetration, market development, product development, backward integration, forward integration, horizontal integration, or diversification, can be feasible, depending on the specific circumstances that face the firm.

FIGURE 6-5

Example Strategy Profiles



Source: Adapted from H. Rowe, R. Mason, and K. Dickel, *Strategic Management and Business Policy: A Methodological Approach* (Reading, MA: Addison-Wesley Publishing Co. Inc., © 1982): 155.

When a particular company is known, the analyst must be much more specific in terms of implied strategies. For example, instead of saying market penetration is a recommended strategy when your vector goes in the Conservative quadrant, say that adding 34 new stores in India is a recommended strategy. This is a very important point for students doing case analyses because a particular company is generally known, and terms such as market development are too vague to use. That term could refer to adding a manufacturing plant in Thailand or Mexico or South Africa—so students—Be specific to the extent possible regarding implications of all the matrices presented in Chapter 6.

The directional vector may appear in the conservative quadrant (upper-left quadrant) of the SPACE Matrix, which implies staying close to the firm's basic competencies and not taking excessive risks. Conservative strategies most often include market penetration, market development, product development, and related diversification. The directional vector may be located in the lower-left or defensive quadrant of the SPACE Matrix, which suggests that the firm should focus on rectifying internal weaknesses and avoiding external threats. Defensive strategies include retrenchment, divestiture, liquidation, and related diversification. Finally, the directional vector may be located in the lower-right or competitive quadrantof the SPACE Matrix, indicating competitive strategies. Competitive strategies include backward, forward, and horizontal integration; market penetration; market development and product development.

A SPACE Matrix analysis for a bank is provided in Table 6-3. Note that competitive type strategies are recommended.

TABLE 6-3 A SPACE Matrix for a Bank

Financial Position (FP)	Ratings
The bank's primary capital ratio is 7.23 percent, which is 1.23 percentage points over the generally required ratio of 6 percent.	1.0
The bank's return on assets is negative 0.77, compared to a bank industry average ratio of positive 0.70.	1.0
The bank's net income was $183 million, down 9 percent from a year earlier.	3.0
The bank's revenues increased 7 percent to $3.46 billion.	4.0
	9.0
Industry Position (IP)	
Deregulation provides geographic and product freedom.	4.0
Deregulation increases competition in the banking industry.	2.0
Pennsylvania's interstate banking law allows the bank to acquire other banks in New Jersey, Ohio, Kentucky, the District of Columbia, and West Virginia.	4.0
	10.0
Stability Position (SP)	
Less-developed countries are experiencing high inflation and political instability.	−4.0
Headquartered in Pittsburgh, the bank historically has been heavily dependent on the steel, oil, and gas industries. These industries are depressed.	−5.0
Banking deregulation has created instability throughout the industry.	−4.0
	−13.0
Competitive Position (CP)	
The bank provides data processing services for more than 450 institutions in 38 states.	−2.0
Superregional banks, international banks, and nonbanks are becoming increasingly competitive.	−5.0
The bank has a large customer base.	−2.0
	−9.0
Conclusion	
SP Average is −13.0 ÷ 3 = −4.33 IP Average is +10.0 ÷ 3 = 3.33	
CP Average is −9.0 ÷ 3 = −3.00 FP Average is +9.0 ÷ 4 = 2.25	
Directional Vector Coordinates: x-axis: −3.00 + (+3.33) = +0.33	
y-axis: −4.33 + (+2.25) = −2.08	
The bank should pursue Competitive Strategies.	

The Boston Consulting Group (BCG) Matrix

Autonomous divisions (or profit centers) of an organization make up what is called a business portfolio. When a firm's divisions compete in different industries, a separate strategy often must be developed for each business. The Boston Consulting Group (BCG) Matrix and the Internal-External (IE) Matrix are designed specifically to enhance a multidivisional firm's efforts to formulate strategies. (BCG is a private management consulting firm based in Boston. BCG employs about 4,300 consultants worldwide.)

In a Form 10K or Annual Report, some companies do not disclose financial information by segment, so a BCG portfolio analysis is not possible by external entities. Reasons to disclose by-division financial information in the author's view, however, more than offset the reasons not to disclose, as indicated in Table 6-4.

The BCG Matrix graphically portrays differences among divisions in terms of relative market share position and industry growth rate. The BCG Matrix allows a multidivisional organization to manage its portfolio of businesses by examining the relative market share position and the industry growth rate of each division relative to all other divisions in the organization.

Relative market share position is defined as the ratio of a division's own market share (or revenues) in a particular industry to the market share (or revenues) held by the largest rival firm in that industry. Note in Table 6-5 that other variables can be in this analysis besides revenues. Relative market share position for Heineken could also be determined by dividing Heineken's revenues by the leader Corona Extra's revenues. Relative market share position is given on the x-axis of the BCG Matrix. The midpoint on the x-axis usually is set at .50, corresponding to a division that has half the market share of the leading firm in the industry. The y-axis represents the industry growth rate in sales, measured in percentage terms. The growth rate percentages on the y-axis could range from -20 to +20 percent, with 0.0 being the midpoint. The average annual increase in revenues for several leading firms in the industry would be a good estimate of the value. Also, various sources such as the S&P Industry Survey would provide this value. These numerical ranges on the x- and y-axes are often used, but other numerical values could be established as deemed appropriate for particular organizations, such as –10 to +10 percent.

The basic BCG Matrix appears in Figure 6-6. Each circle represents a separate division. The size of the circle corresponds to the proportion of corporate revenue generated by that business unit, and the pie slice indicates the proportion of corporate profits generated by that division. Divisions located in Quadrant I of the BCG Matrix are called "Question Marks," those located in Quadrant II are called "Stars," those located in Quadrant III are called "Cash Cows," and those divisions located in Quadrant IV are called "Dogs."

1. Question Marks—Divisions in Quadrant I have a low relative market share position, yet they compete in a high-growth industry. Generally these firms' cash needs are high and their cash generation is low. These businesses are called Question Marks because the organization must decide whether to strengthen them by pursuing an intensive strategy (market penetration, market development, or product development) or to sell them.

TABLE 6-4 Reasons to (or Not to) Disclose Financial Information by Segment (by Division)

Reasons to Disclose	Reasons Not to Disclose
1. Transparency is a good thing in today's world of Sarbanes-Oxley	1. Can become free competitive information for rival firms
2. Investors will better understand the firm, which can lead to greater support	2. Can hide performance failures
3. Managers/employees will better understand the firm, which should lead to greater commitment	3. Can reduce rivalry among segments
4. Disclosure enhances the communication process both within the firm and with outsiders	

TABLE 6-5 Market Share Data for Selected Industries in 2009

U.S. Top Five Airlines by Number of Passengers Boarded in 2008 (in millions; estimate)	
Southwest	7.5
American	5.0
Delta	4.5
United	4.0
US Airways	3.5
U.S. Top Five Imported Beers in 2008 (in millions of barrels imported)	
Corona Extra	8.0
Heineken	5.0
Modelo Especial	2.0
Tecate	1.5
Guinness	1.0

Source: Based on David Kesmodel, "U.S. Beer Imports Lose Their Fizz," *Wall Street Journal* (February 20, 2009): B5; S&P Industry Surveys and Company *Form 10-K* Reports.

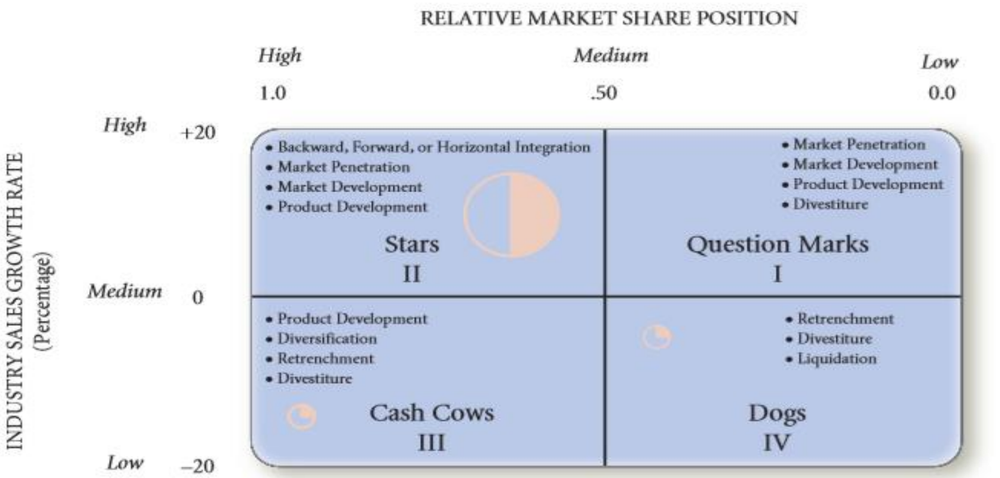
2. Stars—Quadrant II businesses (Stars) represent the organization's best long-run opportunities for growth and profitability. Divisions with a high relative market share and a high industry growth rate should receive substantial investment to maintain or strengthen their dominant positions. Forward, backward, and horizontal integration; market penetration; market development; and product development are appropriate strategies for these divisions to consider, as indicated in Figure 6-6.

3. Cash Cows—Divisions positioned in Quadrant III have a high relative market share position but compete in a low-growth industry. Called Cash Cows because they generate cash in excess of their needs, they are often milked. Many of today's Cash Cows were yesterday's Stars. Cash Cow divisions should be managed to maintain their strong position for as long as possible. Product development or diversification may be attractive strategies for strong Cash Cows. However, as a Cash Cow division becomes weak, retrenchment or divestiture can become more appropriate.

4. Dogs—Quadrant IV divisions of the organization have a low relative market share position and compete in a slow- or no-market-growth industry; they are Dogs in the firm's portfolio. Because of their weak internal and external position, these businesses are often liquidated, divested, or trimmed down through retrenchment. When a division first becomes a Dog, retrenchment can be the best strategy to pursue because many Dogs have bounced back, after strenuous asset and cost reduction, to become viable, profitable divisions.

FIGURE 6-6

The BCG Matrix



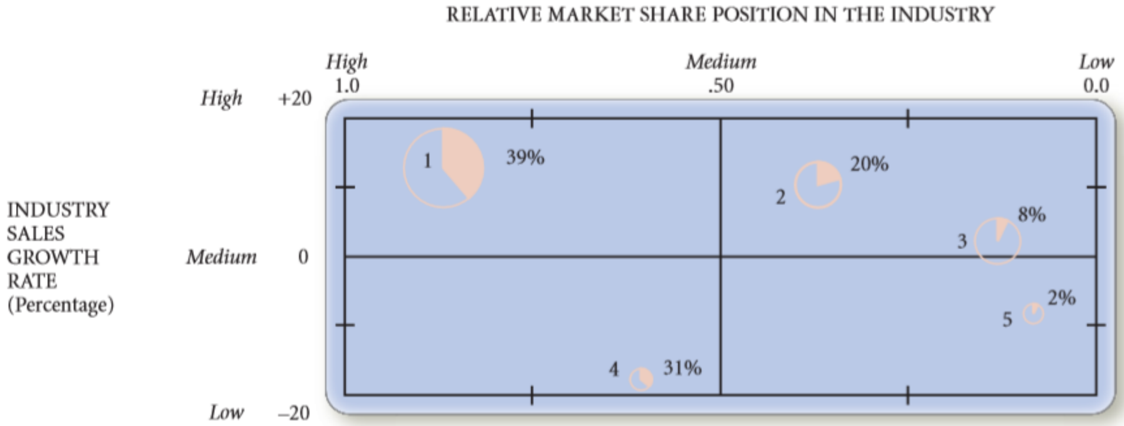
Source: Adapted from the BCG Portfolio Matrix from the Product Portfolio Matrix, © 1970, The Boston Consulting Group.

The major benefit of the BCG Matrix is that it draws attention to the cash flow, investment characteristics, and needs of an organization's various divisions. The divisions of many firms evolve over time: Dogs become Question Marks, Question Marks become Stars, Stars become Cash Cows, and Cash Cows become Dogs in an ongoing counterclockwise motion. Less frequently, Stars become Question Marks, Question Marks become Dogs, Dogs become Cash Cows, and Cash Cows become Stars (in a clockwise motion). In some organizations, no cyclical motion is apparent. Over time, organizations should strive to achieve a portfolio of divisions that are Stars.

An example BCG Matrix is provided in Figure 6-7, which illustrates an organization composed of five divisions with annual sales ranging from $5,000 to $60,000. Division 1 has the greatest sales volume, so the circle representing that division is the largest one in the matrix. The circle corresponding to Division 5 is the smallest because its sales volume ($5,000) is least among all the divisions. The pie slices within the circles reveal the percent of corporate profits contributed by each division. As shown, Division 1 contributes the highest profit percentage, 39 percent. Notice in the diagram that Division 1 is considered a Star, Division 2 is a Question Mark, Division 3 is also a Question Mark, Division 4 is a Cash Cow, and Division 5 is a Dog.

FIGURE 6-7

An Example BCG Matrix



Division	*Revenues*	*Percent Revenues*	*Profits*	*Percent Profits*	*Relative Market Share*	*Industry Growth Rate (%)*
1	$60,000	37	$10,000	39	.80	+15
2	40,000	24	5,000	20	.40	+10
3	40,000	24	2,000	8	.10	+1
4	20,000	12	8,000	31	.60	–20
5	5,000	3	500	2	.05	–10
Total	**$165,000**	**100**	**$25,500**	**100**	—	—

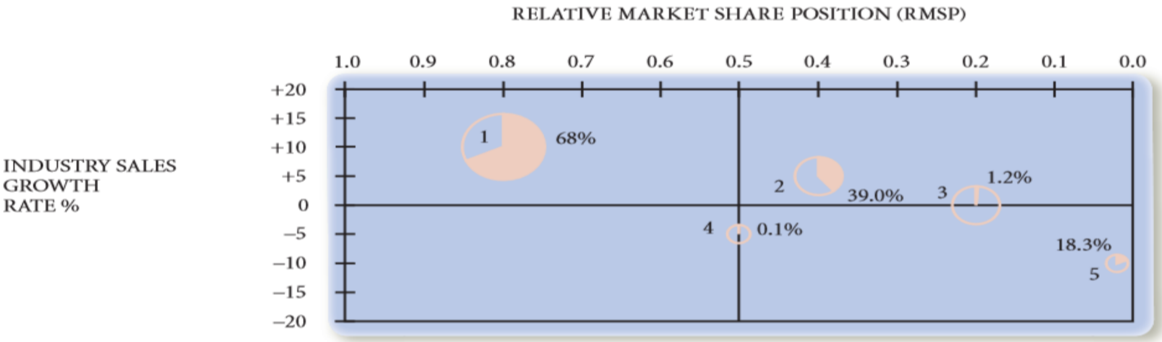
The BCG Matrix, like all analytical techniques, has some limitations. For example, viewing every business as either a Star, Cash Cow, Dog, or Question Mark is an oversimplification; many businesses fall right in the middle of the BCG Matrix and thus are not easily classified. Furthermore, the BCG Matrix does not reflect whether or not various divisions or their industries are growing over time; that is, the matrix has no temporal qualities, but rather it is a snapshot of an organization at a given point in time. Finally, other variables besides relative market share position and industry growth rate in sales, such as size of the market and competitive advantages, are important in making strategic decisions about various divisions. An example BCG Matrix is provided in Figure 6-8. Note in Figure 6-8 that Division 5 had an operating loss of $188 million. Take note how the percent profit column is still calculated because oftentimes a firm will have a division that incurs a loss for a year. In terms of the pie slice in circle 5 of the diagram, note that it is a different color from the positive profit segments in the other circles.

The Internal-External (IE) Matrix T

he Internal-External (IE) Matrix positions an organization’s various divisions in a ninecell display, illustrated in Figure 6-9. 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 both called “portfolio matrices.” Also, the size of each circle represents the percentage sales contribution of each division, and pie slices reveal the percentage profit contribution of each division in both the BCG and IE Matrix. But there are some important differences between the BCG Matrix and the IE Matrix. First, the axes are different. Also, the IE Matrix requires more information about the divisions than the BCG Matrix. Furthermore, the strategic implications of each matrix are different. For these reasons, strategists in multidivisional firms often develop both the BCG Matrix and the IE Matrix in formulating alternative strategies. A common practice is to develop a BCG Matrix and an IE Matrix for the present and then develop projected matrices to reflect expectations of the future. This before-and-after analysis forecast the expected effect of strategic decisions on an organization's portfolio of divisions.

FIGURE 6-8

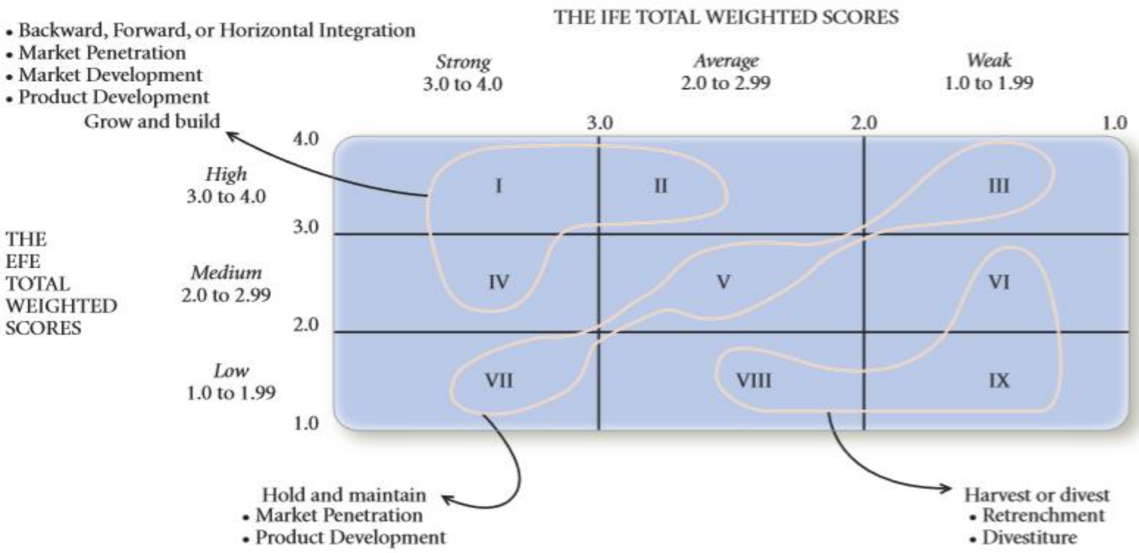
An Example BCG Matrix



Division	*$ Sales (millions)*	*% Sales*	*$ Profits (millions)*	*% Profits*	*RMSP*	*IG Rate %*
1.	$5,139	51.5	$799	68.0	0.8	10
2.	2,556	25.6	400	39.0	0.4	05
3.	1,749	17.5	12	1.2	0.2	00
4.	493	4.9	4	0.1	0.5	–05
5.	42	0.5	–188	(18.3)	.02	–10
Total	**$9,979**	**100.0**	**$1,027**	**100.0**		

FIGURE 6-9

The Internal–External (IE) Matrix



Source: Adapted. The IE Matrix was developed from the General Electric (GE) Business Screen Matrix. For a description of the GE Matrix see Michael Allen, "Diagramming GE's Planning for What's WATT," in R. Allio and M. Pennington, eds., *Corporate Planning: Techniques and Applications* (New York: AMACOM, 1979).

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. Recall that each division of an organization should construct an IFE Matrix and an EFE Matrix for its part of the organization. The total weighted scores derived from the divisions allow construction of the corporate-level IE Matrix. On the x-axis of the IE Matrix, an IFE total weighted score of 1.0 to 1.99 represents a weak internal position; a score of 2.0 to 2.99 is considered average; and a score of 3.0 to 4.0 is strong. Similarly, on the y-axis, an EFE total weighted score of 1.0 to 1.99 is considered low; a score of 2.0 to 2.99 is medium; and a score of 3.0 to 4.0 is high.

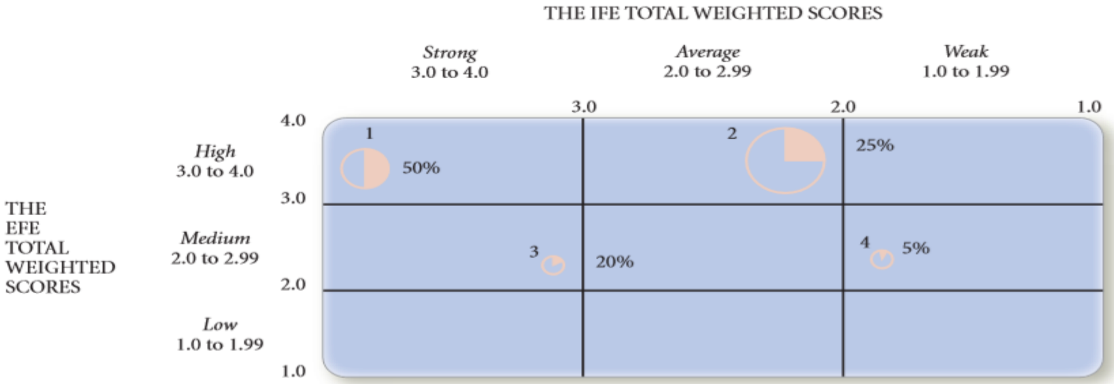
The IE Matrix can be divided into three major regions that have different strategy implications. First, the prescription for divisions that fall into cells I, II, or IV can be described as grow and build. Intensive (market penetration, market development, and product development) or integrative (backward integration, forward integration, and horizontal integration) strategies can be most appropriate for these divisions. Second, divisions that fall into cells III, V, or VII can be managed best with hold and maintain strategies; market penetration and product development are two commonly employed strategies for these types of divisions. Third, a common prescription for divisions that fall into cells VI, VIII, or IX is harvest or divest. Successful organizations are able to achieve a portfolio of businesses positioned in or around cell I in the IE Matrix.

An example of a completed IE Matrix is given in Figure 6-10, which depicts an organization composed of four divisions. As indicated by the positioning of the circles, grow and build strategies are appropriate for Division 1, Division 2, and Division 3. Division 4 is a candidate for harvest or divest. Division 2 contributes the greatest percentage of company sales and thus is represented by the largest circle. Division 1 contributes the greatest proportion of total profits; it has the largest-percentage pie slice.

As indicated in Figure 6-11, the IE Matrix has five product segments. Note that Division #1 has the largest revenues (as indicated by the largest circle) and the largest profits (as indicated by the largest pie slice) in the matrix. It is common for organizations to develop both geographic and product-based IE Matrices to more effectively formulate strategies and allocate resources among divisions. In addition, firms often prepare an IE (or BCG) Matrix for competitors. Furthermore, firms will often prepare "before and after" IE (or BCG) Matrices to reveal the situation at present versus the expected situation after one year. This latter idea minimizes the limitation of these matrices being a "snapshot in time." In performing case analysis, feel free to estimate the IFE and EFE scores for the various divisions based upon your research into the company and industry—rather than preparing a separate IE Matrix for each division.

FIGURE 6-10

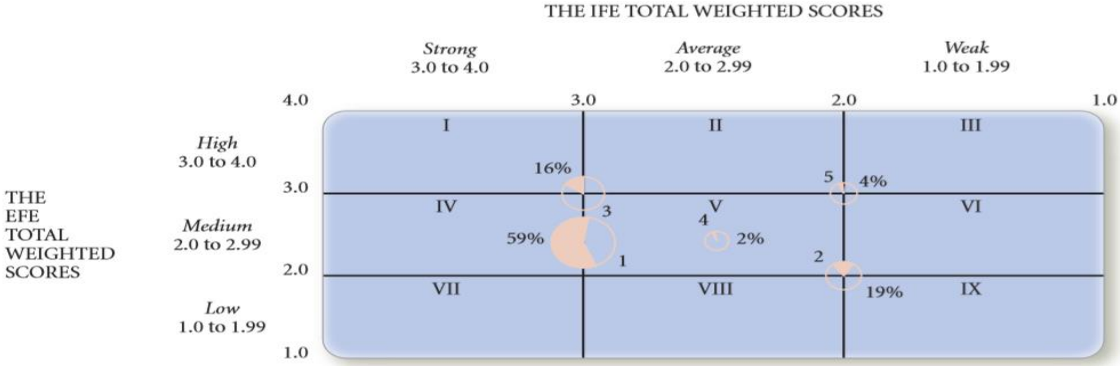
An Example IE Matrix



Division	Sales	Percent Sales	Profits	Percent Profits	IFE Scores	EFE Scores
1	$100	25.0	10	50	3.6	3.2
2	200	50.0	5	25	2.1	3.5
3	50	12.5	4	20	3.1	2.1
4	50	12.5	1	5	1.8	2.5
Total	**400**	**100.0**	**20**	**100**		

FIGURE 6-11

The IE Matrix



Grow and Build

Segments	*$ Revenue*	*% Revenue*	*$ Profit*	*% Profit*	*EFE Scores*	*IFE Scores*
1.	$7,868	71.5%	$3,000	59%	2.5	3
2.	1,241	11.3%	1,000	19%	2	2
3.	1,578	14.3%	800	16%	3	3
4.	90	0.8%	100	2%	2.5	2.5
5.	223	2.1%	200	4%	3	2
Total	**$11,000**	**100%**	**$5,100**	**100%**	—	—

The Grand Strategy Matrix

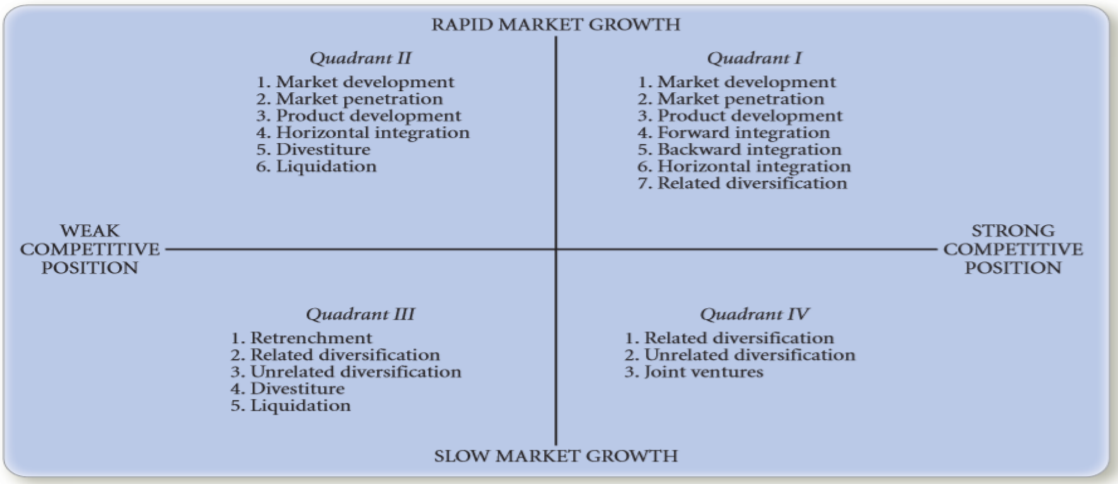
In addition to the SWOT Matrix, SPACE Matrix, BCG Matrix, and IE Matrix, the Grand Strategy Matrix has become a popular tool for formulating alternative strategies. All organizations can be positioned in one of the Grand Strategy Matrix's four strategy quadrants. A firm's divisions likewise could be positioned. As illustrated in Figure 6-12, the Grand Strategy Matrix is based on two evaluative dimensions: competitive position and market (industry) growth. Any industry whose annual growth in sales exceeds 5 percent could be considered to have rapid growth. Appropriate strategies for an organization to consider are listed in sequential order of attractiveness in each quadrant of the matrix.

Firms located in Quadrant I of the Grand Strategy Matrix are in an excellent strategic position. For these firms, continued concentration on current markets (market penetration and market development) and products (product development) is an appropriate strategy. It is unwise for a Quadrant I firm to shift notably from its established competitive advantages. When a Quadrant I organization has excessive resources, then backward, forward, or horizontal integration may be effective strategies. When a Quadrant I firm is too heavily committed to a single product, then related diversification may reduce the risks associated with a narrow product line. Quadrant I firms can afford to take advantage of external opportunities in several areas. They can take risks aggressively when necessary.

Firms positioned in Quadrant II need to evaluate their present approach to the marketplace seriously. Although their industry is growing, they are unable to compete effectively, and they need to determine why the firm's current approach is ineffective and how the company can

FIGURE 6-12

The Grand Strategy Matrix



Source: Adapted from Roland Christensen, Norman Berg, and Malcolm Salter, *Policy Formulation and Administration* (Homewood, IL: Richard D. Irwin, 1976): 16–18.

best change to improve its competitiveness. Because Quadrant II firms are in a rapid-market-growth industry, an intensive strategy (as opposed to integrative or diversification) is usually the first option that should be considered. However, if the firm is lacking a distinctive competence or competitive advantage, then horizontal integration is often a desirable alternative. As a last resort, divestiture or liquidation should be considered. Divestiture can provide funds needed to acquire other businesses or buy back shares of stock.

Quadrant III organizations compete in slow-growth industries and have weak competitive positions. These firms must make some drastic changes quickly to avoid further decline and possible liquidation. Extensive cost and asset reduction (retrenchment) should be pursued first. An alternative strategy is to shift resources away from the current business into different areas (diversify). If all else fails, the final options for Quadrant III businesses are divestiture or liquidation.

Finally, Quadrant IV businesses have a strong competitive position but are in a slowgrowth industry. These firms have the strength to launch diversified programs into more promising growth areas: Quadrant IV firms have characteristically high cash-flow levels and limited internal growth needs and often can pursue related or unrelated diversification successfully. Quadrant IV firms also may pursue joint ventures.

The Decision Stage

Analysis and intuition provide a basis for making strategy-formulation decisions. The matching techniques just discussed reveal feasible alternative strategies. Many of these strategies will likely have been proposed by managers and employees participating in the strategy analysis and choice activity. Any additional strategies resulting from the matching analyses could be discussed and added to the list of feasible alternative options. As indicated earlier in this chapter, participants could rate these strategies on a 1 to 4 scale so that a prioritized list of the best strategies could be achieved.

The Quantitative Strategic Planning Matrix (QSPM)

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. This technique is the Quantitative Strategic Planning Matrix (QSPM), which comprises Stage 3 of the strategy-formulation analytical framework.6 This technique objectively indicates which alternative strategies are best. The QSPM uses input from Stage 1 analyses and matching results from Stage 2 analyses to decide objectively among alternative strategies. That is, the EFE Matrix, IFE Matrix, and Competitive Profile Matrix that make up Stage 1, coupled with the SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and Grand Strategy Matrix that make up Stage 2, provide the needed information for setting up the QSPM (Stage 3). The QSPM is a tool that allows strategists to evaluate alternative strategies objectively, based on previously identified external and internal critical success factors. Like other strategy-formulation analytical tools, the QSPM requires good intuitive judgment.

The basic format of the QSPM is illustrated in Table 6-6. Note that the left column of a QSPM consists of key external and internal factors (from Stage 1), and the top row consists of feasible alternative strategies (from Stage 2). Specifically, the left column of a QSPM consists of information obtained directly from the EFE Matrix and IFE Matrix. In a column adjacent to the critical success factors, the respective weights received by each factor in the EFE Matrix and the IFE Matrix are recorded.

The top row of a QSPM consists of alternative strategies derived from the SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and Grand Strategy Matrix. These matching tools usually generate similar feasible alternatives. However, not every strategy suggested by the matching techniques has to be evaluated in a QSPM. Strategists should use good intuitive judgment in selecting strategies to include in a QSPM.

TABLE 6-6 The Quantitative Strategic Planning Matrix—QSPM

		Strategic Alternatives		
Key Factors	Weight	Strategy 1	Strategy 2	Strategy 3
Key External Factors				
Economy				
Political/Legal/Governmental				
Social/Cultural/Demographic/Environmental				
Technological				
Competitive				
Key Internal Factors				
Management				
Marketing				
Finance/Accounting				
Production/Operations				
Research and Development				
Management Information Systems				

Conceptually, the QSPM determines the relative attractiveness of various strategies based on the extent to which key external and internal critical success factors are capitalized upon or improved. The relative attractiveness of each strategy within a set of alternatives is computed by determining the cumulative impact of each external and internal critical success factor. Any number of sets of alternative strategies can be included in the QSPM, and any number of strategies can make up a given set, but only strategies within a given set are evaluated relative to each other. For example, one set of strategies may include diversification, whereas another set may include issuing stock and selling a division to raise needed capital. These two sets of strategies are totally different, and the QSPM evaluates strategies only within sets. Note in Table 6-6that three strategies are included, and they make up just one set.

A QSPM for a retail computer store is provided in Table 6-7. This example illustrates all the components of the QSPM: Strategic Alternatives, Key Factors, Weights, Attractiveness Scores (AS), Total Attractiveness Scores (TAS), and the Sum Total Attractiveness Score. The three new terms just introduced—(1) Attractiveness Scores, (2) Total Attractiveness Scores, and (3) the Sum Total Attractiveness Score—are defined and explained as the six steps required to develop a QSPM are discussed:

Step 1 Make a list of the firm's key external opportunities/threats and internal strengths/weaknesses in the left column of the QSPM. This information should be taken directly from the EFE Matrix and IFE Matrix. A minimum of 10 external key success factors and 10 internal key success factors should be included in the QSPM.

Step 2 Assign weights to each key external and internal factor. These weights are identical to those in the EFE Matrix and the IFE Matrix. The weights are presented in a straight column just to the right of the external and internal critical success factors. S

Step 3 Examine the Stage 2 (matching) matrices, and identify alternative strategies that the organization should consider implementing. Record these strategies in the top row of the QSPM. Group the strategies into mutually exclusive sets if possible.

Step 4 Determine the Attractiveness Scores (AS) defined as numerical values that indicate the relative attractiveness of each strategy in a given set of alternatives. Attractiveness Scores (AS) are determined by examining each key external or internal factor, one at a time, and asking the question "Does this factor affect the choice of strategies being made?" If the answer to this question is yes, then the strategies should be compared relative to that key factor. Specifically, Attractiveness Scores should be assigned to each strategy to indicate the relative attractiveness of one strategy over others, considering the particular factor. The range for Attractiveness Scores is 1 = not attractive, 2 = somewhat attractive, 3 = reasonably attractive, and 4 = highly attractive. By attractive, we mean the extent that one strategy, compared to others, enables the firm to either capitalize on the strength, improve on the weakness, exploit the opportunity, or avoid the threat. Work row by row in developing a QSPM. If the answer to the previous question is no, indicating that the respective key factor has no effect upon the specific choice being made, then do not assign Attractiveness Scores to the strategies in that set. Use a dash to indicate that the key factor does not affect the choice being made. Note: If you assign an AS score to one strategy, then assign AS score(s) to the other. In other words, if one strategy receives a dash, then all others must receive a dash in a given row.

Step 5 Compute the Total Attractiveness Scores. Total Attractiveness Scores (TAS) are defined as the product of multiplying the weights (Step 2) by the Attractiveness Scores (Step 4) in each row. The Total Attractiveness Scores indicate the relative attractiveness of each alternative strategy, considering only the impact of the adjacent external or internal critical success factor. The higher the Total Attractiveness Score, the more attractive the strategic alternative (considering only the adjacent critical success factor).

Step 6 Compute the Sum Total Attractiveness Score. Add Total Attractiveness Scores in each strategy column of the QSPM. The Sum Total Attractiveness Scores (STAS) reveal which strategy is most attractive in each set of alternatives. Higher scores indicate more attractive strategies, considering all the relevant external and internal factors that could affect the strategic decisions. The magnitude of the difference between the Sum Total

Attractiveness Scores in a given set of strategic alternatives indicates the relative desirability of one strategy over another.

TABLE 6-7 A QSPM for a Retail Computer Store

		STRATEGIC ALTERNATIVES			
		1		2	
		Buy New Land and Build New Larger Store		Fully Renovate Existing Store	
Key Factors	*Weight*	*AS*	*TAS*	*AS*	*TAS*
Opportunities					
1. Population of city growing 10%	0.10	4	0.40	2	0.20
2. Rival computer store opening 1 mile away	0.10	2	0.20	4	0.40
3. Vehicle traffic passing store up 12%	0.08	1	0.08	4	0.32
4. Vendors average six new products/year	0.05	—		—	
5. Senior citizen use of computers up 8%	0.05	—		—	
6. Small business growth in area up 10%	0.10	—		—	
7. Desire for Web sites up 18% by Realtors	0.06	—		—	
8. Desire for Web sites up 12% by small firms	0.06	—		—	
Threats					
1. Best Buy opening new store nearby in 1 year	0.15	4	0.60	3	0.45
2. Local university offers computer repair	0.08	—		—	
3. New bypass for Hwy 34 in 1 year will divert traffic	0.12	4	0.48	1	0.12
4. New mall being built nearby	0.08	2	0.16	4	0.32
5. Gas prices up 14%	0.04	—		—	
6. Vendors raising prices 8%	0.03	—		—	
	1.00				
Strengths					
1. Inventory turnover increased from 5.8 to 6.7	0.05	—		—	
2. Average customer purchase increased from $97 to $128	0.07	2	0.14	4	0.28
3. Employee morale is excellent	0.10	—		—	
4. In-store promotions resulted in 20% increase in sales	0.05	—		—	
5. Newspaper advertising expenditures increased 10%	0.02	—		—	
6. Revenues from repair/service segment of store up 16%	0.15	4	0.60	3	0.45
7. In-store technical support personnel have MIS college degrees	0.05	—		—	
8. Store's debt-to-total assets ratio declined to 34%	0.03	4	0.12	2	0.06
9. Revenues per employee up 19%	0.02	—		—	
Weaknesses					
1. Revenues from software segment of store down 12%	0.10	—		—	
2. Location of store negatively impacted by new Hwy 34	0.15	4	0.60	1	0.15
3. Carpet and paint in store somewhat in disrepair	0.02	1	0.02	4	0.08
4. Bathroom in store needs refurbishing	0.02	1	0.02	4	0.08
5. Revenues from businesses down 8%	0.04	3	0.12	4	0.16
6. Store has no Web site	0.05	—		—	
7. Supplier on-time delivery increased to 2.4 days	0.03	—		—	
8. Often customers have to wait to check out	0.05	2	0.10	4	0.20
Total	1.00		4.36		3.27

In Table 6-7, two alternative strategies—(1) buy new land and build new larger store and (2) fully renovate existing store—are being considered by a computer retail store. Note by sum total attractiveness scores of 4.63 versus 3.27 that the analysis indicates the business should buy new land and build a new larger store. Note the use of dashes to indicate which factors do not affect the strategy choice being considered. If a particular factor affects one strategy but not the other, it affects the choice being made, so attractiveness scores should be recorded for both strategies. Never rate one strategy and not the other. Note also in Table 6-7that there are no double 1's, 2's, 3's, or 4's in a row. Never duplicate scores in a row. Never work column by column; always prepare a QSPM working row by row. If you have more than one strategy in the QSPM, then let the AS scores range from 1 to "the number of strategies being evaluated." This will enable you to have a different AS score for each strategy. These are all important guidelines to follow in developing a QSPM. In actual practice, the store did purchase the new land and build a new store; the business also did some minor refurbishing until the new store was operational.

There should be a rationale for each AS score assigned. Note in Table 6-7 in the first row that the "city population growing 10 percent annually" opportunity could be capitalized on best by strategy 1, "building the new, larger store," so an AS score of 4 was assigned to Strategy 1. AS scores, therefore, are not mere guesses; they should be rational, defensible, and reasonable.

Avoid giving each strategy the same AS score. Note in Table 6-7 that dashes are inserted all the way across the row when used. Also note that double 4's, or double 3's, or double 2's, or double 1's are never in a given row. Again work row by row, not column by column. These are important guidelines to follow in constructing a QSPM.

Positive Features and Limitations of the QSPM

A positive feature of the QSPM is that sets of strategies can be examined sequentially or simultaneously. For example, corporate-level strategies could be evaluated first, followed by division-level strategies, and then function-level strategies. There is no limit to the number of strategies that can be evaluated or the number of sets of strategies that can be examined at once using the QSPM.

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. A QSPM draws attention to important relationships that affect strategy decisions.

Although developing a QSPM requires a number of subjective decisions, making small decisions along the way enhances the probability that the final strategic decisions will be best for the organization. A QSPM can be adapted for use by small and large for-profit and nonprofit organizations so can be applied to virtually any type of organization. A QSPM can especially enhance strategic choice in multinational firms because many key factors and strategies can be considered at once. It also has been applied successfully by a number of small businesses.7

The QSPM is not without some limitations. First, it always requires intuitive judgments and educated assumptions. The ratings and attractiveness scores require judgmental decisions, even though they should be based on objective information. Discussion among strategists, managers, and employees throughout the strategy-formulation process, including development of a QSPM, is constructive and improves strategic decisions. Constructive discussion during strategy analysis and choice may arise because of genuine differences of interpretation of information and varying opinions. Another limitation of the QSPM is that it can be only as good as the prerequisite information and matching analyses upon which it is based.

Cultural Aspects of Strategy Choice

All organizations have a culture. Culture includes the set of shared values, beliefs, attitudes, customs, norms, personalities, heroes, and heroines that describe a firm. Culture is the unique way an organization does business. It is the human dimension that creates solidarity and meaning, and it inspires commitment and productivity in an organization when strategy changes are made. All human beings have a basic need to make sense of the world, to feel in control, and to make meaning. When events threaten meaning, individuals react defensively. Managers and employees may even sabotage new strategies in an effort to recapture the status quo.

It is beneficial to view strategic management from a cultural perspective because success often rests upon the degree of support that strategies receive from a firm's culture. 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. However, if a supportive culture does not exist and is not cultivated, then strategy changes may be ineffective or even counterproductive. A firm's culture can become antagonistic to new strategies, and the result of that antagonism may be confusion and disarray.

Strategies that require fewer cultural changes may be more attractive because extensive changes can take considerable time and effort. Whenever two firms merge, it becomes especially important to evaluate and consider culture-strategy linkages.

Culture provides an explanation for the difficulties a firm encounters when it attempts to shift its strategic direction, as the following statement explains:

Not only has the "right" corporate culture become the essence and foundation of corporate excellence, but success or failure of needed corporate reforms hinges on management's sagacity and ability to change the firm's driving culture in time and in tune with required changes in strategies.8

The Politics of Strategy Choice

All organizations are political. Unless managed, political maneuvering consumes valuable time, subverts organizational objectives, diverts human energy, and results in the loss of some valuable employees. Sometimes political biases and personal preferences get unduly embedded in strategy choice decisions. Internal politics affect the choice of strategies in all organizations. The hierarchy of command in an organization, combined with the career aspirations of different people and the need to allocate scarce resources, guarantees the formation of coalitions of individuals who strive to take care of themselves first and the organization second, third, or fourth. Coalitions of individuals often form around key strategy issues that face an enterprise. A major responsibility of strategists is to guide the development of coalitions, to nurture an overall team concept, and to gain the support of key individuals and groups of individuals. In the absence of objective analyses, strategy decisions too often are based on the politics of the moment. With development of improved strategy-formation tools, political factors become less important in making strategic decisions.

In the absence of objectivity, political factors sometimes dictate strategies, and this is unfortunate. Managing political relationships is an integral part of building enthusiasm and esprit de corps in an organization.

A classic study of strategic management in nine large corporations examined the political tactics of successful and unsuccessful strategists.9 Successful strategists were found to let weakly supported ideas and proposals die through inaction and to establish additional hurdles or tests for strongly supported ideas considered unacceptable but not openly opposed. Successful strategists kept a low political profile on unacceptable proposals and strived to let most negative decisions come from subordinates or a group consensus, thereby reserving their personal vetoes for big issues and crucial moments.

Successful strategists did a lot of chatting and informal questioning to stay abreast of how things were progressing and to know when to intervene. They led strategy but did not dictate it. They gave few orders, announced few decisions, depended heavily on informal questioning, and sought to probe and clarify until a consensus emerged.

Successful strategists generously and visibly rewarded key thrusts that succeeded. They assigned responsibility for major new thrusts to champions, the individuals most strongly identified with the idea or product and whose futures were linked to its success. They stayed alert to the symbolic impact of their own actions and statements so as not to send false signals that could stimulate movements in unwanted directions.

Successful strategists ensured that all major power bases within an organization were represented in, or had access to, top management. They interjected new faces and new views into considerations of major changes. This is important because new employees and managers generally have more enthusiasm and drive than employees who have been with the firm a long time. New employees do not see the world the same old way; nor do they act as screens against changes. Successful strategists minimized their own political exposure on highly controversial issues and in circumstances in which major opposition from key power centers was likely. In combination, these findings provide a basis for managing political relationships in an organization.

Because strategies must be effective in the marketplace and capable of gaining internal commitment, the following tactics used by politicians for centuries can aid strategists:

1. **Equifinality—It** is often possible to achieve similar results using different means or paths. Strategists should recognize that achieving a successful outcome is more important than imposing the method of achieving it. It may be possible to generate new alternatives that give equal results but with far greater potential for gaining commitment.
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 strategists' options for gaining organizational commitment.
4. **Focus on Higher-Order Issues**—By raising an issue to a higher level, many shortterm interests can be postponed in favor of long-term interests. For instance, by focusing on issues of survival, the airline and automotive industries were able to persuade unions to make concessions on wage increases.
5. **Provide Political Access on Important Issues**—Strategy and policy decisions with significant negative consequences for middle managers will motivate intervention behavior from them. If middle managers do not have an opportunity to take a position on such decisions in appropriate political forums, they are capable of successfully resisting the decisions after they are made. Providing such political access provides strategists with information that otherwise might not be available and that could be useful in managing intervention behavior.10

Governance Issues

A "director," according to Webster's Dictionary, is "one of a group of persons entrusted with the overall direction of a corporate enterprise." A board of directors is a group of individuals who are elected by the ownership of a corporation to have oversight and guidance over management and who look out for shareholders' interests. The act of oversight and direction is referred to as governance. The National Association of Corporate Directors defines governance as "the characteristic of ensuring that long-term strategic objectives and plans are established and that the proper management structure is in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation's integrity, reputation, and responsibility to its various constituencies." This broad scope of responsibility for the board shows how boards are being held accountable for the entire performance of the firm. In the Worldcom, Tyco, and Enron bankruptcies and scandals, the firms' boards of directors were sued by shareholders for mismanaging their interests. New accounting rules in the United States and Europe now enhance corporate-governance codes and require much more extensive financial disclosure among publicly held firms. The roles and duties of a board of directors can be divided into four broad categories, as indicated in Table 6-8.

The recession and credit crunch of 2008–2009 prompted shareholders to become more wary of boards of directors. Shareholders of hundreds of firms are demanding that their boards do a better job of governing corporate America.11 New compensation policies are needed as well as direct shareholder involvement in some director activities. For example, boards could require CEOs to groom possible replacements from inside the firm because exorbitant compensation is most often paid to new CEOs coming from outside the firm.

TABLE 6-8 Board of Director Duties and Responsibilities

1. CONTROL AND OVERSIGHT OVER MANAGEMENT
   a. Select the Chief Executive Officer (CEO).
   b. Sanction the CEO's team.
   c. Provide the CEO with a forum.
   d. Ensure managerial competency.
   e. Evaluate management's performance.
   f. Set management's salary levels, including fringe benefits.
   g. Guarantee managerial integrity through continuous auditing.
   h. Chart the corporate course.
   i. Devise and revise policies to be implemented by management.
2. ADHERENCE TO LEGAL PRESCRIPTIONS
   a. Keep abreast of new laws.
   b. Ensure the entire organization fulfills legal prescriptions.
   c. Pass bylaws and related resolutions.
   d. Select new directors.
   e. Approve capital budgets.
   f. Authorize borrowing, new stock issues, bonds, and so on.
3. CONSIDERATION OF STAKEHOLDERS' INTERESTS
   a. Monitor product quality.
   b. Facilitate upward progression in employee quality of work life.
   c. Review labor policies and practices.
   d. Improve the customer climate.
   e. Keep community relations at the highest level.
   f. Use influence to better governmental, professional association, and educational contacts.
   g. Maintain good public image.
4. ADVANCEMENT OF STOCKHOLDERS' RIGHTS
   a. Preserve stockholders' equity.
   b. Stimulate corporate growth so that the firm will survive and flourish.
   c. Guard against equity dilution.
   d. Ensure equitable stockholder representation.
   e. Inform stockholders through letters, reports, and meetings.
   f. Declare proper dividends.
   g. Guarantee corporate survival.

Shareholders are also upset at boards for allowing CEOs to receive huge end-of-year bonuses when the firm's stock price drops drastically during the year.12 For example, Chesapeake Energy Corp. and its board of directors are under fire from shareholders for paying Chairman and CEO Aubrey McClendon $112 million in 2008 as the firm's stock price plummeted. Investor Jeffrey Bronchick wrote in a letter to the Chesapeake board that the CEO's compensation was a "near perfect illustration of the complete collapse of appropriate corporate governance."

Until recently, boards of directors did most of their work sitting around polished wooden tables. However, Hewlett-Packard's directors, among many others, now log on to their own special board Web site twice a week and conduct business based on extensive confidential briefing information posted there by the firm's top management team. Then the board members meet face to face and fully informed every two months to discuss the biggest issues facing the firm. Even the decision of whether to locate operations in countries with low corporate tax rates would be reviewed by a board of directors.

Today, boards of directors are composed mostly of outsiders who are becoming more involved in organizations' strategic management. The trend in the United States is toward much greater board member accountability with smaller boards, now averaging 12 members rather than 18 as they did a few years ago. BusinessWeek recently evaluated the boards of most large U.S. companies and provided the following "principles of good governance":

1. No more than two directors are current or former company executives.
2. No directors do business with the company or accept consulting or legal fees from the firm.
3. The audit, compensation, and nominating committees are made up solely of outside directors.
4. Each director owns a large equity stake in the company, excluding stock options.
5. At least one outside director has extensive experience in the company's core business and at least one has been CEO of an equivalent-size company.
6. Fully employed directors sit on no more than four boards and retirees sit on no more than seven.
7. Each director attends at least 75 percent of all meetings.
8. The board meets regularly without management present and evaluates its own performance annually.
9. The audit committee meets at least four times a year.
10. The board is frugal on executive pay, diligent in CEO succession oversight responsibilities, and prompt to act when trouble arises.
11. The CEO is not also the chairperson of the board.
12. Shareholders have considerable power and information to choose and replace directors.
13. Stock options are considered a corporate expense.
14. There are no interlocking directorships (where a director or CEO sits on another director's board).13

Being a member of a board of directors today requires much more time, is much more difficult, and requires much more technical knowledge and financial commitment than in the past. Jeff Sonnerfeld, associate dean of the Yale School of Management, says, "Boards of directors are now rolling up their sleeves and becoming much more closely involved with management decision making." Since the Enron and Worldcom scandals, company CEOs and boards are required to personally certify financial statements; company loans to company executives and directors are illegal; and there is faster reporting of insider stock transactions.

Just as directors are beginning to place more emphasis on staying informed about an organization's health and operations, they are also taking a more active role in ensuring that publicly issued documents are accurate representations of a firm's status. It is becoming widely recognized that a board of directors has legal responsibilities to stockholders and society for all company activities, for corporate performance, and for ensuring that a firm has an effective strategy. Failure to accept responsibility for auditing or evaluating a firm's strategy is considered a serious breach of a director's duties. Stockholders, government agencies, and customers are filing legal suits against directors for fraud, omissions, inaccurate disclosures, lack of due diligence, and culpable ignorance about a firm's operations with increasing frequency. Liability insurance for directors has become exceptionally expensive and has caused numerous directors to resign.

The Sarbanes-Oxley Act resulted in scores of boardroom overhauls among publicly traded companies. The jobs of chief executive and chairman are now held by separate persons, and board audit committees must now have at least one financial expert as a member. Board audit committees now meet 10 or more times per year, rather than 3 or 4 times as they did prior to the act. The act put an end to the "country club" atmosphere of most boards and has shifted power from CEOs to directors. Although aimed at public companies, the act has also had a similar impact on privately owned companies.14

In Sweden, a new law has recently been passed requiring 25 percent female representation in boardrooms. The Norwegian government has passed a similar law that requires 40 percent of corporate director seats to go to women. In the United States, women currently hold about 13 percent of board seats at S&P500 firms and 10 percent at S&P1,500 firms. The Investor Responsibility Research Center in Washington, D.C. reports that minorities hold just 8.8 percent of board seats of S&P1,500 companies. Progressive firms realize that women and minorities ask different questions and make different suggestions in boardrooms than white men, which is helpful because women and minorities comprise much of the consumer base everywhere.

Adirect response of increased pressure on directors to stay informed and execute their responsibilities is that audit committees are becoming commonplace. Aboard of directors should conduct an annual strategy audit in much the same fashion that it reviews the annual financial audit. In performing such an audit, a board could work jointly with operating management and/or seek outside counsel. Boards should play a role beyond that of performing a strategic audit. They should provide greater input and advice in the strategyformulation process to ensure that strategists are providing for the long-term needs of the firm. This is being done through the formation of three particular board committees: nominating committees to propose candidates for the board and senior officers of the firm; compensation committees to evaluate the performance of top executives and determine the terms and conditions of their employment; and audit committees to give board-level attention to company accounting and financial policies and performance.