

# David's framework mission vision



**ASSIGN  
BUSTER**

AN APPLICATION OF DAVID'S STRATEGY FORMULATION FRAMEWORK TO THE TURKISH AIRLINES ON DOMESTIC AIR TRANSPORTATION OPERATIONS Thesis submitted to the Institute of Social Sciences in partial fulfillment of the requirements for the degree of Master of Arts in Management by Mehmet SANAL Fatih University June 2007 © Mehmet SANAL All Rights Reserved, 2007 ii To my wife, Nesibe... APPROVAL PAGE iii I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Arts.

Assist. Prof. Dr. N.

Gokhan Torlak Department Chair This is to certify that I have read this thesis and that in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Arts. Assist. Prof. Dr. N. Gokhan Torlak Supervisor

Examining Committee Members Assist. Prof. Dr. N. Gokhan TORLAK Prof. Dr.

Vildan SERIN Assoc. Prof. Dr. Selim ZAIM .....

..... It is approved that this thesis has been written in compliance with the formatting rules laid down by the Graduate Institute of Social Sciences. Assoc.

Prof. Dr. Mehmet ORHAN Director Date June 2007 AUTHOR DECLARATIONS iv

1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted. 2. The program of advanced study of which this thesis is part has consisted of: i) Research Methods course during the undergraduate study ii) Examination of several thesis guides of particular universities both in Turkey and abroad as well as a professional book on this subject. Mehmet SANAL June, 2007 ABSTRACT Mehmet SANAL June 2007 AN APPLICATION OF DAVID'S STRATEGY FORMULATION FRAMEWORK TO THE TURKISH AIRLINES

ON DOMESTIC AIR TRANSPORTATION OPERATIONS This thesis focuses on a modern strategy formulation framework formed by Fred David in the strategic management process. This framework guides strategists to evaluate firms' internal strengths/weaknesses and external opportunities/threats, to reach alternative strategies for the firms by using many different tools and models and to choose the best strategy for the firms.

The tools presented in this framework are applicable to all sizes and types of organisations and can help strategists identify, evaluate, and select strategies. In this study the author has designed the case study of the Turkish Airlines on Domestic Air Transportation, applied the David's strategy formulation framework to the Turkish Airlines on Domestic Air Transportation Operations, and suggested the most applicable strategy(ies) to the firm.

Key words: decision stage mission strategy analysis strategy formulation strategic management vision vi KISA OZET Mehmet SANAL Haziran 2007

DAVID'IN STRATEJİ FORMULASYON MODELİNİN TÜRK HAVA YOLLARININ İÇ HAT HAVA YOLU TASIMACILIGI FAALİYETLERİ ÜZERİNE BİR UYGULAMASI Bu tez, Fred David tarafından geliştirilen stratejik yönetim süreci içindeki modern strateji modelini ele almıştır. Bu model firmaların içsel güçlükleri, zayıflıkları, fırsatları ve tehditlerini değerlendirmek, birçok farklı araç ve modeli kullanarak firmalar için alternatif stratejilere ulaşmak ve firmalara en iyi stratejiyi seçmek için stratejistlere rehberlik eder. Bu modelde ortaya konan araçlar, her çeşit ve büyüklükteki firmalar için uygulanabilir.

Bu model aynı zamanda stratejileri tanımlamak, değerlemek ve seçmek için stratejistlere yardımcı eder. Bu çalışmada yazar, Türk Hava Yolları'nın iç hat hava yolu taşımacılığı faaliyetlerinin vaka çalışması oluşturmuş, Türk Hava Yolları iç hat hava yolu taşımacılığı faaliyetlerine David'in strateji modelini uygulamaları ve firmaya en uygun strateji(leri) tavsiye etmiştir. Anahtar Kelimeler karar safhası misyon Strateji analizi Strateji formülasyonu Stratejik Yönetim vizyonu

vii ACKNOWLEDGEMENTS I gratefully acknowledge all those who have contributed to the presentation of this thesis.

I owe my special thanks to my thesis advisor Gokhan Torlak for his valuable supervision, interest, suggestion, and patience throughout this study. This thesis may not have been completed without his help, contributions, and constructive criticism. I am indebted to my wife because without her encouragements maybe I would not find any motivations to begin with writing this thesis.

viii	LIST OF CONTENTS	
	Dedication	
Page.....	.....	...iii
Approval Page.....	.....	.....
.....	iv	Author
Declarations.....	.....	v
Abstract.....	.....	.....
...vi	Kısa Özet.....	.....
.....	vii Acknowledgements.....	.....
.....	.....	viii
.....	List of	of
Contents.....	.....	ix
List of Tables.....	.....	.....

.....xiii	List	of
Figures.....	.....	xiv
INTRODUCTION.....		
..... 1 PART I: THEORETICAL DESCRIPTION.....		
.....	5	CHAPTER
1.....		5 WHAT
IS STRATEGIC MANAGEMENT?.....	5 1. 1.	
The Historical Foundation of Strategic Management.....	5 1. 2.	
Defining Strategic Management.....	6 1. 3.	
The Stages of Strategic Management.....	7 ix 1. 4.	
The Strategic-Management Model.....	8	
CHAPTER 2.....		11
STRATEGIC MANAGEMENT PROCESS.....	11 2. 1.	
Strategy Formulation.....	11 2. . 1.	
The Business Mission and Mission Statement.....	11 2. 1. 2. The	
Business Vision and Vision Statement.....	14 2. 1. 3. The	
External Assessment.....	15 2. 1. 4. The Internal	
Assesment.....	21 2. 1. 5. Strategies In Action:	
Types of Strategies.....	22 2. 1. 6. Strategy Analysis and	
Choice.....	30 2. 2. Strategy	
Implementation.....	30 2. 3.	
Strategy Evaluation.....	31 CHAPTER	
3.....	33 STRATEGY	
ANALYSIS AND CHOICE.....	33 3. 1.	
Comprehensive Strategy-Formulation Framework.....	33 3. 1. 1.	

The Input Stage.....	34	3.	1.	2.	The
Matching Stage.....	39	3.	1.	3.	The Decision
Stage.....	4				PART II:
PRACTICE.....					58
CHAPTER 4.....	58	x			THE
DESCRIPTION OF THE TURKISH AIRLINES ON DOMESTIC AIR					
TRANSPORTATION OPERATIONS.....	58	4.	1.		
The History of Turkish Airlines.....	58	4.	2.		
Chief Characteristics of Turkish Airlines on Domestic Air Transportation					
Operations.. .....	59	4.	2.	1.	The Turkish Airlines
Passenger Function.....	59	4.	2.	2.	The Turkish Cargo
Function.....	60	4.	2.	3.	Mission
Statement.....	61	4.	2.	4.	
Organisational Structure.....	61	4.	2.	5.	
Fleet.....	62	4.	2.	6.	
Destinations of Turkish Airlines on Domestic Flights.....	64	4.	2.	7.	
Maintenance Centre.....	65	4.	2.	8.	E-
commerce.....	65	4.	2.	9.	
Accidents.....	65	4.	2.	10.	
Financial Condition.....	66	4.	3.		The
Turkish Aviation Industry.....	0	4.	3.	1.	The
Nature of The Turkish Aviation Industry.....	70	4.	3.	2.	The Fuel
Prices in the Aviation Industry.....	72	4.	3.	3.	The Competition
in the Turkish Domestic Air Transportation.....					
72 CHAPTER 5.....					71
THE APPLICATION OF THE STRATEGY FORMULATION FRAMEWORK TO THE					

TURKISH AIRLINES ON DOMESTIC AIR TRANSPORTATION.....	75	xi	5.
1.			
The Input Stage.....	76	5.	2. The
Matching Stage.....	79	5.	3. The
Decision Stage.....			87
CONCLUSION.....			89
BIBLIOGRAPHY.....	94	xii	
LIST OF TABLES	Table	3.	1. External Factor Evaluation
Matrix.....	6	Table	3. 2. Internal Factor Evaluation
Matrix.....	37	Table	3. 3. Competitive Profile
Matrix.....	38	Table	3. 4. The Quantitative
Strategic Planning Matrix.....	57	Table	4. 1. Table 4. 1.
Turkish Airlines Balance Sheets as at 31 December 2006 and 2005.....	67	Table	4. 2. Turkish Airlines Balance
Sheets as at 31 December 2006 and 2005.....	68		
Table 4. 3.			
Turkish Airlines Statements of Income for the Years Ended 31 December 2006 and 2005.....	69	Table	4. 4. Number of Domestic Passenger
Carried in 2006.....	73	Table	5. 1. EFE Matrix for the Turkish
Airlines on Domestic Air			
Transportation.....	76	Table	5. 2. IFE
Matrix for the Turkish Airlines on Domestic Air			
Transportation.....	77	Table	5. 3.
Competitive Profile Matrix for the Turkish Airlines on Domestic Air			

Transportation.....	8	Table 5. 4. SWOT Matrix for the Turkish Airlines on Domestic Air Transportation.....	81
Table 5. 5. Factors That Make Up the SPACE Matrix Axes for the Turkish Airlines on Domestic Air Transportation.....	81	Table 5. 6. SBUs in Terms of Sales and Profits in Turkish Airlines on Domestic Air Transportation.....	83
Table 5. 7. SBUs in Terms of Sales and Profits in Turkish Airlines on Domestic Air Transportation.....	84	Table 5. 8. QSPM for Turkish Airlines on Domestic Air Transportation....	88
xiii LIST OF FIGURES			
Figure 1. 1. Comprehensive Strategic Management Model.....	10		
Figure 2. 1. The Five-Forces Model of Competition.....	17		
Figure 2. 2. Porter's Generic Strategies.....	28		
Figure 3. 1. Strategy-Formulation Framework.....	33		
Figure 3. 2. The SWOT Matrix.....	41		
Figure 3. 3. Strategic Position and Action Evaluation Matrix.....	5		
Figure 3. 4. Boston Consulting Group Matrix.....	47		
Figure 3. 5. The Internal-External Matrix.....	51		
Figure 3. 6. Grand Strategy Matrix.....	53		
Figure 4. 1. Turkish Airlines Organisation Chart.....	62		
Figure 4. 2. Turkish Airlines Fleet.....	63		
Figure 4. 3. Destinations of TA on Domestic Flights.....	64		
Figure 5. 1. SPACE Matrix for the Turkish Airlines on Domestic Air Transportation.....	82	Figure 5. 2.	



BCG Matrix for Turkish Airlines on Domestic Air Transportation.....	83	Figure 5. 3. IE
Matrix for the Turkish Airlines on Domestic Air Transportation.....	85	Figure 5. 4.
The Grand Strategy Matrix for Turkish Airlines on Domestic Air Transportation.....	86	xiv INTRODUCTION

Strategic management is that set of managerial decisions and actions that determines the long-run performance of a corporation. Strategic management is the science of formulating, implementing, and evaluating cross-functional decisions that enable an organisation to achieve its objectives. An organisation's ability to strengthen its strategic position is dependent on one important factor, its ability to create the strategies that produce the desired results. An effective strategy formulation process should enable an organisation to create strategies and solutions that will strengthen its strategic position.

An ineffective strategy formulation process negatively impacts an organisation's rate of growth and overall competitive position. An effective strategy formulation process may in itself become a competitive advantage. Strategy formulation includes developing a vision and mission, identifying an organisation's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.

The aim of this study is to examine the applicability of a comprehensive strategy formulation framework developed by Fred David at the Turkish Airlines on Domestic Air Transportation Operations. 1 Chapter one, called "

What is Strategic Management”, handles the historical foundation of the strategic management, the definition and the stages of the strategic management, and finally a comprehensive strategic management model. Chapter two, called “ Strategic Management Process”, deals with the strategy formulation, strategy implementation and strategy evaluation activities.

Strategy formulation activities include, firstly, forming mission and vision statements, assessment of internal and external environment, identifying alternative strategies, and choosing the best strategy for the organisation. Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan. It is the process by which strategies and policies are put into action through the development of programme and procedures. Strategy evaluation is the systematic documentation of the consequences of using the strategic planning process and the determination of its worth in order to make decisions.

Chapter three, called “ Strategy Analysis and Choice”, examines a comprehensive strategy-formulation framework that helps strategists generate feasible alternatives, evaluate those alternatives, and choose a specific course of action. This framework consists of three stages: (1) input stage, (2) matching stage, and (3) decision stage. Stage 1 of the formulation framework includes 2 the External Factor Evaluation (EFE) Matrix, the Internal Factor Evaluation (IFE) Matrix, and the Competitive Profile Matrix (CPM). Input Stage summarise 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 reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies.

Chapter four, called "The Description of the Turkish Airlines on Domestic Air Transportation Operations", explains the company in terms of its history, main features, and aviation industry. Chapter five, called "The Application of the Strategy Formulation Analytical Framework to the Turkish Airlines on Domestic Air Transportation Operations", uses the formulation framework in the Turkish Airlines on Domestic Air Transportation and proposes the best strategy from amongst alternative strategies to the company. 3

In the conclusion part, the thesis will be summarized, the positive and negative aspects of the strategy formulation framework will be discussed, and then future research areas will be pointed up. PART I: THEORETICAL DESCRIPTION CHAPTER 1 WHAT IS STRATEGIC MANAGEMENT? 4 This chapter focuses, firstly, the historical foundation of strategic management, definition and stages of the strategic management, and, lastly, presents a strategic management model. 1. 1. The Historical Foundation of Strategic Management The concept of strategic management is of political and military origin.

The origin of the English “ strategy” comes from the Greek “ strategos” or a “ general”, with the Greek verb “ stratego” implying to “ plan the destruction of one’s enemies through effective use of resources” (Jeffery, 1980). This is why many of the business terms traditionally used in strategic management were developed by the military, such as mission, objectives, strategies, strengths, and weaknesses. Over the past decades, strategic management has primarily been developed in the business sector, promoted by the modern writers such as Von Neumann and Morgenstern in the late 1940s (Hopkins, 1987).

One formulation of strategic management was being developed in the late 1940s and early 1950s with planning as the center for these early strategic management approaches (Hopkins, 1987). In the 1980s strategic management acknowledges the importance of strategic formulation, implementation, and control as the model to managing complex organisations within competitive environments. 5 Today, Strategic Management is a new perspective of thinking not only in terms of internal operations but also in terms of external environmental assessment.

It focuses on creating a fit between the organisation’s external environment (political, economic, technological, social, and competitive forces) and its internal situation (vision, values, culture, finance, organisation, human resources, marketing, information systems). 1. 2. Defining Strategic Management One definition of strategic management is “ the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organisation” (Pearce and Robinson, 1988).

From another viewpoint, Thompson and Strickland (2003) define strategic management as "the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate". Walker (2004) summarizes strategic planning as the formulation of the overall strategy or direction of the organisation to achieve a mission or vision, translating the results into operational terms.

This includes establishing clarifying assumptions of the external and internal environment, developing guidelines to drive decision processes "especially at the level of the single business unit", and converting strategic thinking into action agendas with assigned responsibilities and allocation of resources. According to David (2007), strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organisation to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and computer information systems to achieve organisational success.

### 1.3. The Stages of Strategic Management

The strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation: Strategy formulation includes developing a vision and mission, identifying an organisation's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.

Strategy implementation often is called the “ action stage” of strategic management (David, 2007). Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies 7 can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organisational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organisational performance. Strategy evaluation is the final stage in strategic management.

Managers need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. The fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are bases for current strategies, (2) measuring performance, and (3) taking corrective actions. 1. 4. The Strategic Management Model Methods and processes for strategy development and implementation vary widely among business organisations. There does not appear to be any generally used format for determining and applying strategy.

Organisations differ in processes they use to formulate and direct their strategic management activities. Strategic management models vary in formality and the level of detail. However, the basic components of the strategic management model are similar in all models. The strategic management process can best be studied and applied using a model. A useful integrated model of strategic management has been developed 8 Perform External by Fred R. David who has published many of the writings in

strategic management. The framework illustrated in Figure 1. 1. s a widely accepted, comprehensive model of the strategic management process. This model is a dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. Audit Establish Develop Vision and Mission Statements Longterm Objectives Evaluate and Select Strategies Implement Strategies Management Issues Implement Strategies marketing finance accounting, R&D Issues Measure and Evaluate Performance Perform Internal Audit Strategy Formulation Strategy implementation Strategy evaluation Figure 1. 1.

Comprehensive Strategic Management Model (David, 1988) 9 CHAPTER 2 STRATEGIC MANAGEMENT PROCESS The strategic management process can be broken down into three main activities: strategy formulation, strategy implementation, and strategy evaluation. This chapter examines these three activities. 2. 1. Strategy Formulation Strategy formulation activities include, firstly, forming mission and vision statements, assessment of internal and external environment, identifying alternative strategies, and, lastly, choosing the best strategy for the organisation. This section describes these activities. 2. 1. 1.

The Business Mission and Mission Statement 10 Mission can be viewed as the cornerstone of organisational culture and a critical tool for motivating employees to pursue institutional goals by providing meaning to their work. Mission is the " why" of an organisation. The mission of a business reflects the essence of that business. According to Drucker (1973), a business is not defined by its name, statutes, or articles of incorporation. It is defined by the

business mission. Only a clear definition of the mission and purpose of the organisation makes possible clear and realistic business objectives.

In the field of strategic management, mission statement is generally known that the first step in the strategic planning in determining the mission of the organisation (Thompson and Strickland, 1996). There are various versions of mission statement definition in management literature. A mission statement attempts to articulate the business mission. It tries to convey the identity, purpose and direction of a business in a concise and simple manner (Leuthesser and Kohli, 1997). A mission statement broadly charts the future direction of an organisation.

A good mission statement describes an organisation's purpose, products and services, markets, and basic technology. A mission statement establishes the values, beliefs, and guidelines for the way the organisation conducts its business and determines its relationships with its stakeholders—employees, customers, shareholders, suppliers, government, and the community (Ackoff, 1987). A mission statement reveals the long-term vision of an organisation in terms of what it wants to be and who it wants to serve (David, 1989). Mission statements are often regarded as 'enduring statements of purpose that distinguish one business firm from others'.

A well-designed mission statement is essential for formulating, implementing, and evaluating business strategy (David, 2001). As Kemp and Dwyer (2003) stated that a clear mission statement is important to sound strategic management of an organisation for several reasons: First, a clear mission statement is needed before alternative strategies can be formulated, implemented, and evaluated. Only a clear definition of the mission and



purpose of an organisation makes it possible to formulate realistic business objectives, providing useful criteria for choosing between strategies.

Second, a clear mission statement can provide a basis or standard for allocating organisational resources, providing managers with a common direction that should transcend individual, departmental and transitory needs. Third, a clear mission statement describes the values and priorities of an organisation. A clear mission statement can help to establish a general tone or organisational climate which can serve as a focal point for individuals to identify with the organisation's purpose and direction and to indicate standards of behaviour expected from them (Klemme and Sanderson & Luffman (1991).

Fourth, the mission statement can be an effective vehicle for communicating with important internal and external stakeholders. Stakeholders are groups, both inside and outside the organisation, with an interest in its fortunes. They are those individuals or groups who depend on the organisation to fulfil their own goals and on whom, in turn, the organisation depends. They include such external groups as customers, suppliers, shareholders, investors, government agencies, and the general public (David, 2001).

Generally the content is essential to a meaningful mission statement, and the statement has to be clearly and concisely articulated. The clear presentation of concepts then become essential to the mission's overall effectiveness (David, 2001).

2. 1. 2. The Business Vision and Vision Statement A Vision should be expressed that describes what the organisation looks like, how it functions, and how it behaves. Generally, the

vision expresses the desired future state of the business from the participant's viewpoint.

Hammer and Champy (1993) claim that a powerful vision should be both qualitative and quantitative, and contain three elements: it should focus on 13 operations, it should include measurable objectives and metrics, and finally it should change the basis for competition in the industry. David (2007) indicates that many organisations today develop a vision statement that answers the question “ what do we want to become? ”. Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement.

Many vision statements are a single sentence. A vision statement describes where the organisation wants to be at a specific future point. It does not restate the mission, but incorporates the mission as a statement of the present. It serves to inspire and focus the efforts of the organisation. 2. 1. 3. The External Assessment An organisation's external forces can be classified into two groups; the industrial environment and the macro-environment. The industrial environment includes competitors, customers, and suppliers, which directly affect the organisation.

The macro-environment comprises 1) economic forces, 2) social, cultural, demographic, and environmental forces, 3) political, governmental, and legal forces, 4) technological forces and, 5) competitive forces (David, 2007). Hill and Jones (1989) indicate that many of these environmental factors are “ 14 constantly changing, and the change process itself gives rise to new opportunities and threats”. Hill and Jones (1989) also note the fit between

organisational environments and the strategic choices: " For an organisation to succeed, its strategy must be consistent with the external environment.

Superior performance is the product of a good fit between strategy and environment. To achieve a good fit, managers must first understand the forces that shape competition in the external environment. In order to analyze external environment and competitors Michael Porter (1979) presented a clear and intuitive model to be used by industry as a tool to help decide if a particular industry should be entered or expand their established operations. He called his model the " five-forces" model. Competitive Analysis: Porter's Five- Forces Model A widely used technique for the analysis of market competition is the Michael Porter's " five forces" model. It provides a framework for structural analysis of industries. The advantage of using Porter's model as a framework for strategic analysis is to consider different factors within the five forces so as to provide a more complete map about their level of strategic competitiveness. (Yeo and Huang, 2003). 15 Figure 2. 1. The Five-Forces Model of Competition (Porter, 1979) Porter suggests that market competition is a function of five major forces.

These are: . . . . Rivalry among existing firms Bargaining power of buyers Bargaining power of suppliers Threat of potential entrants Threat of substitutes Four forces -bargaining power of customers, the bargaining power of suppliers, the threat of new entrants, and the threat of substitute products - 16 combined with other variables to influence a fifth force, the level of competition in an industry. Each of these forces has several determinants: Rivalry among Existing Firms: The intensity of rivalry between competitors in an industry will depend on: - The structure of competition.

Rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader. - The structure of industry costs. Industries with high fixed costs encourage competitors to fill unused capacity by price cutting. - Degree of differentiation. Industries where products are commodities (e. g. steel, coal) have greater rivalry; industries where competitors can differentiate their products have less rivalry. - Switching costs are the one-time costs customers incur when buying from a different supplier.

When a customer can freely switch from one product to another there is a greater struggle to compute customers. - Strategic objectives. When competitors are pursuing aggressive growth strategies, rivalry is more intensive. - Exit barriers are economic, strategic, and emotional factors causing companies to remain in an industry even though the profitability of doing so may be in question. When barriers to leaving an industry are high (e. g. the cost of closing down factories), the competitors tend to exhibit greater rivalry. Bargaining Power of Buyers 17

Buyers are the people / organisations who create demand in an industry. The bargaining power of buyers is greater when there are few dominant buyers and many sellers in the industry, products are standardised, buyers threaten to integrate backward into the industry, suppliers do not threaten to integrate forward into the buyer's industry, and the industry is not a key supplying group for buyers Bargaining Power of Suppliers Suppliers are the businesses that supply materials & other products into the industry. The cost of items bought from suppliers (e. g. raw materials, components) can have a significant impact on a company's profitability. If suppliers have high

bargaining power over a company, then in theory the company's industry is less attractive. The bargaining power of suppliers will be high when there are many buyers and few dominant suppliers, there are undifferentiated, highly valued products, buyers do not threaten to integrate backwards into supply and, the industry is not a key customer group to the suppliers Threat of Potential Entrants Potential entrants to an industry can raise the level of competition, thereby reducing its attractiveness.

The threat of potential entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e. g. shipbuilding) whereas other industries are very easy to enter (e. g. restaurants). Key barriers to entry include: - Economies of scale is referred to as the quantity of a product produced during a given time period increases, the costs of manufacturing each unit declines. - Capital requirements. Competing in a new industry requires resources to invest. Capital is needed for every critical business functions and inventories. Access to industry distribution channels - The likelihood of retaliation from existing industry players. Threat of Substitutes The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on buyers' willingness to substitute, the relative price and performance of substitutes and, the costs of switching to substitutes. 2. 1. 4. The Internal Assessment The internal analysis is composed of five major areas of evaluation that relate to the overall capability of the firm.

Those areas are: Management finance/accounting, Development. marketing, production/operations, and Research and 19 · The function of management consist of five basic activities: planning, organizing, motivating, staffing, and

controlling. · The functions of finance/accounting comprise three decisions. First, the investment decision is the allocation and reallocation of capital and resources to projects, products, and divisions of an organisation. Second, dividend decisions concern issues such as the percentage of earnings paid to stockholders, the stability of dividends paid over time, and the purchase of stock.

Third, the financing decisions determines the best capital structure for the firm and includes examining various methods by which the firm can raise capital (Horne, 1974). · The function of marketing can be described as the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services (David, 2007). There are seven basic functions of marketing: (1) customer analysis, (2) selling products/services, (3) product and service planning, (4) pricing, (5) distribution, (6) marketing research, and (7) opportunity analysis (Evans and Bergman, 1982). The production/operations function of a business consists of all those activities that transform inputs into goods and services. 20 Production/operations management comprises five decision areas: process, capacity, inventory, workforce, and quality. · Research and Development (R&D) is discovering new knowledge about products, processes, and services, and then applying that knowledge to create new and improved products, processes, and services that fill market needs. 2. 1. 5.

Strategies In Action: Types of Strategies Alternative strategies that an enterprise could pursue can be categorized into six actions; (1) integration strategies (forward integration, backward integration, horizontal integration), (2) intensive strategies (market penetration, market development, product

development), (3) diversification strategies (related diversification, unrelated diversification), (4) defensive strategies (retrenchment, divestiture, liquidation), (5) Michael Porter's generic strategies, and (6) joint venture. 1.

Integration Strategies There are two kinds of integration strategies.

These are: vertical integration and horizontal integration. · Vertical

Integration 21 Vertical integration can be viewed as the extent to which a firm controls the production of its inputs or suppliers and the distribution of its output or finished products (Mpoyi, 2003). Vertical integration can occur in two directions: - Forward integration; where the firm takes ownership and control of its own customers (Sadler, 1993). Through forward integration, a manufacturer has guaranteed access to distribution channels for its new products. xample of this is a movie studio that also owns a chain of theaters.

An - Backward integration; where the firm takes ownership and control of producing its own inputs (Sadler, 1993). For example, an automobile company may own a tire company, a glass company, and a metal company. ·

Horizontal Integration When a company expands its business into different products that are similar to current lines. For example, a book publisher might acquire another publishing house to increase its stable of editors and authors or to otherwise enhance its competitiveness. 2.

Intensive Strategies: Market penetration, market development, and product development are referred to as intensive strategies because they require intensive efforts if a firm's competitive position with existing products is to improve. 22 ·

Market Penetration Market penetration is an effort to increase company's sales without departing from an original product-market strategy.

The company seeks to improve business performance either by increasing

the volume of sales to its present customers or by finding new customers for present products (Ansoff, 1957).

This strategy includes increasing the number of salespersons, increasing advertising expenditures, offering extensive sales promotion items, or increasing publicity efforts (David, 2007). For example, firms use the web to sell existing products in new markets.

- Market Development Market development is a strategy in which the company attempts to adopt its present product line (generally with some modification in the product characteristics) to new markets (Ansoff, 1957). An airline company, which adapts and sells its passenger transport for the mission of cargo transportation is an example of this strategy
- Product Development

Product development is a strategy that seeks increased sales by improving or modifying present products or services. Product development usually entails large research and development expenditures (David, 2007). The idea is to attract satisfied customers to try new products as a result of their positive experience with the company's initial product offering (Pearce, 1982).

### 3. Diversification Strategies

Diversification is a product-market strategy based on a new product or service offers in a new market (or markets) (Morden, 1999).

This is a shift into either new products, new markets, new channels to market, new technologies, new geographic domains or into new competencies (or into a combination of some of these) (Grundy, 2003). There are two general types of diversification strategies: related and unrelated diversification strategies.

- Related Diversification Related diversification refers to diversification into a new activity that is linked to a



company's existing activity by commonality between one or more components of each activity's value chain.

Normally, these linkages are based on manufacturing, marketing, materials management, and technological commonalities (Charles and Jones, 1989). A publishing company, for instance, might diversify into the making of programmes for television and radio for which it can produce stories and scripts.

· Unrelated Diversification 24 Unrelated diversification refers to diversification into a new activity that has no obvious commonalities with any of the company's existing activities (Charles and Jones, 1989).

Firms that employ unrelated diversification continually search across different industries for companies that can be acquired for a deal and yet have potential to provide a high return on investment (David, 2007). For example a food processing firm may manufacture leather footwear as well.

4. Defensive Strategies There are three kinds of defensive strategies. They are: retrenchment, divestiture and liquidation.

· Retrenchment Retrenchment occurs when an organisation regroups through cost and asset reduction to reverse declining sales and profits.

Retrenchment is designed to fortify an organisation's basic distinctive competence (David, 2007). Retrenchment can entail selling off land and buildings to raise needed cash, pruning product lines, closing marginal businesses, closing obsolete factories, automating processes, reducing the number of employees, and instituting expense control systems.

· Divestiture 25 A divestiture strategy is the marketing for sale of a business or a major component of a business. When a retrenchment strategy fails, strategic managers often decide to sell the business (Pearce, 1982).

Divestiture can take either of two forms. The parent can spin off a business as a financially and managerially independent company in which the parent company may or may not retain partial ownership. Or the parent may sell the unit outright, in which case a buyer needs to be found (Thompson and Strickland, 1996). · Liquidation Selling all of a company's assets, in parts, for their tangible worth is called liquidation. Liquidation is a recognition of defeat and consequently can be an emotionally difficult strategy.

The benefit of liquidation is that the board of directors, as representatives of the shareholders, together with top management make the decisions instead of turning them over to the court, which may choose to ignore shareholders completely (Thompson and Strickland, 1996). 5. Michael Porter's Generic Strategies Michael Porter presented his generic strategies for businesses to consider relating to winning and sustaining competitive advantage. The main theme of Porter's strategies was to create sustainable competitive advantages.

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: lower cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus as shown in Figure 2. . : COMPETITIVE ADVANTAGE Differentiation Industrywide COMPETITIVE SCOPE Particular Segment Only DIFFERENTIATION COST

LEADERSHIP Lower Cost FOCUS Figure 2. 2. Porter's Generic Strategies Cost leadership strategy is mostly about minimizing costs by achieving economies of scale and scope. Hence, one must pay special attention to costs associated with parts, labor, and overhead, besides making sure that a high level of capacity is being utilized (Thompson and Strickland, 1995). Differentiation strategy is about offering a unique product that customers desire and value.

The organisation's effort must be geared towards offering a product that is distinct from its competitors' product (Thompson and Strickland, 1995). However, this strategy is also associated with costly activities such as higher R&D expenditures, higher inventory levels, and greater marketing and distribution costs. Focus strategy is directed toward serving the needs of a limited customer group or segment. In other words, a focused company concentrates on serving a particular market niche, which may be defined geographically or by the type of customer or by segment of the product line. . Joint Venture A joint venture is founded through the creation of a separate legal entity to complete a one-time project that is owned, operated and controlled by simultaneous contractual agreements between the founding organisations (Kukalis and Jungemann, 1995). Joint ventures are also widely used by companies to gain entrance into foreign markets. Foreign companies form joint ventures with domestic companies already present in markets the foreign companies would like to enter.

The foreign companies generally bring new technologies and business practices into the joint venture, while the domestic companies already have the relationships and requisite governmental documents within the country

along with being entrenched in the domestic industry 28 2. 1. 6. Strategy Analysis and Choice Strategy analysis and choice is the evaluation of alternative strategies and selection of the best alternative. These activities 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 (David, 2007). 2. 2. Strategy Implementation Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan. It is the process by which strategies and policies are put into action through the development of programs and procedures (Wheelen and Hunger, 2004).

According to Price and Newson (2003), strategy implementation " is concerned with the translation of strategy into organisational action through organisational structure and design, resource planning and the management of strategic change. ". Formulating the right strategies is not enough for the success of the strategies, because managers and employees must be motivated to implement those strategies. Management issues considered central to strategy implementation include matching organisational structure with strategy, creating an organisational climate conducive to change, managing political relationship, 9 adapting production/operations processes, and managing human resources. Establishing annual objectives, devising policies, and allocating resources are central strategy implementation activities common to all organisations. Successful strategy implementation also depends on cooperation among all functional and divisional managers in

an organisation. Marketing departments are commonly charged with implementing strategies that require significant increases in sales revenues in new areas and with new improved products.

Finance and accounting managers must devise effective strategy implementation approaches at low cost and minimum risk to that firm. R&D managers have to transfer complex technologies or develop new technologies to successfully implement strategies.

### 2. 3. Strategy Evaluation

The final phase of strategic management process is evaluation. Evaluation is the systematic documentation of the consequences of using the strategic planning process and the determination of its worth in order to make decisions. Evaluation provides input to future planning efforts for the organisation.

Strategy evaluation includes three basic activities: (1) examining the underlying bases of a firm's strategy, (2) comparing expected results with actual results, and (3) taking corrective actions to ensure that performance conforms to plans (David, 2007).<sup>30</sup> According to David (2007), strategy evaluation must meet several basic requirements to be effective. First, strategy evaluation activities must be economical; too much information can be just as bad as too little information. Strategy evaluation activities also should be meaningful; they should specifically relate to a firm's objectives.

Strategy evaluation activities should provide timely information; on occasion in some areas, managers may daily need information. Strategy evaluation should be designed to provide a true picture of what is happening. There is no one ideal strategy evaluation system. The unique characteristics of an organisation, including its size, management style, purpose, problems, and

strengths, can determine a strategy evaluation and control system's final design. 31 CHAPTER 3 STRATEGY ANALYSIS AND CHOICE

This chapter examines a comprehensive strategy-formulation framework that helps strategists generate feasible alternatives, evaluate those alternatives, and choose a specific course of action. This framework consists of three stages: (1) input stage, (2) matching stage, and (3) decision stage.

3. 1. Comprehensive Strategy-Formulation Framework Techniques of strategy-formulation can be integrated into a decision STAGE 1: THE INPUT STAGE External Factor Evaluation (EFE) Matrix Competitive Profile Matrix STAGE 2: THE MATCHING STAGE Internal Factor Evaluation (IFE) Matrix

ThreatsOpportunitiesWeaknesses(SWOT) Matrix Strategic Position and Action Evaluation (SPACE) Matrix Boston Internal-External Consulting (IE) Matrix Group (BCG) Matrix STAGE 3: THE DECISION STAGE Gran Strategy Matrix Quantitative Strategic Planning Matrix (QSPM) making framework. This framework is composed of three stages as shown in Figure 3. 1. Strategists can apply tools of the framework to all sizes and types of 32 organisations. Strategies can be identified, evaluated and selected by this framework. Figure 3. 1.

Strategy-Formulation Framework (David, 2007) Fred David stated the stages of the framework as below (David, 2007): Stage 1 of the formulation framework consists of the External Factor Evaluation (EFE) Matrix, the Internal Factor Evaluation (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.

3. 1. The Input Stage 1. External Factor Evaluation (EFE) Matrix

External Factor Evaluation (EFE) Matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Illustrated in Table 3. 1. , the EFE Matrix can be developed in five steps:

1. List key external factors as identified in the external-audit process. Include a total of from ten to twenty factors, including both opportunities and threats affecting the firm and its industry.

- List the opportunities first and then the threats. Be as specific as possible, using percentages, ratios, and comparative numbers whenever possible.
2. Assign to each factor a weight that ranges from 0. 0 (not important) to 1. 0 (very important). The weight indicates the relative importance of that factor to being successful in the firm's industry. Opportunities often receive higher weights than threats, but threats too can receive high weights if they are especially severe or threatening. The sum of all weights assigned to the

factors must be equal to 1. . 3. Assign a 1-to-4 rating to each key external factor to indicate how effectively the firm's current strategies respond to the factor, where 4 = the response is superior, 3 = the response is above average, 2 = the response is average, and 1 = the response is poor. Ratings are thus company-based, whereas the weights in Step 2 are industry-based.

4. Multiply each factor's weight by its rating to determine a weighted score.

5. Sum the weighted scores for each variable to determine the total weighted score for the organisation.

In the EFE Matrix, the highest possible total weighted score for an organisation is 4. 0 and the lowest possible total weighted score is 1. 0. The average total weighted score is 2. 5. A total weighted score of 4. 0 indicates that 34 an

KEY EXTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
Opportunities	12345		
Threats	12345		
Total			organisation is responding in an outstanding way to existing opportunities and threats in its industry. A total score of 1. 0 indicates that the firm's strategies are not capitalizing on opportunities or avoiding external threats. Table 3. 1. External Factor Evaluation Matrix 35 2.

Internal Factor Evaluation (IFE) Matrix Internal Factor Evaluation Matrix (IFE) summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas. (Table David KEY INTERNAL FACTORS WEIGHT RATING WEIGHTED SCORE 3. 2. ) (2007) stated IFE Matrix in five steps as below: 1. List key internal factors as identified in the internal-audit process. Use a total of from ten to twenty internal factors, including both strengths and weaknesses. List strengths first and then weaknesses. 2.



Assign a weight that ranges from 0. (not important) to 1.0 (all-important) to each factor. The weight assigned to a given factor indicates the relative importance of the factor to being successful in the firm's industry. The sum of all weights must equal 1.0.

3. Assign a 1-to-4 rating to each factor to indicate whether that factor represents a major weakness (rating = 1), a minor weakness (rating = 2), a minor strength (rating = 3), or a major strength (rating = 4). Note that strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating. Ratings are thus company-based, whereas the weights in Step 2 are industry-based.

4. Multiply each factor's weight by its rating to determine a weighted score for each variable.

5. Sum the weighted scores for each variable to determine the total weighted score for the organisation.

Internal Strengths	1	2	3	4	5	Internal Weaknesses	1	2	3	4	5	Total
1	2	3	4	5		1	2	3	4	5		

Table 3. 2. Internal Factor Evaluation Matrix

In the IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0, with the average score being 2.5. Total weighted score well below 2.5 characterize organisations that are weak internally, whereas scores above 2.5 indicate a strong internal position.

Like the EFE Matrix, an IFE Matrix should include from 10 to 20 key factors. The number of factors has no effect upon the range of total weighted scores because the weights always sum to 1.0.

3. Competitive Profile Matrix (CPM)

The Competitive Profile Matrix (CPM) identifies a firm's major competitors and their particular strengths and weaknesses in relation to a sample firm's strategic position. A CPM include both internal and external issues; therefore, the ratings 3-7 refer to strengths and weaknesses, where 4 = major strength, 3 = minor strength, 2 = minor weakness, and 1 = major weakness. A sample

CPM is provided in Table 3. . In this example critical success factors listed that include advertising, product quality, price competitiveness, management, financial position, customer loyalty, global expansion and market share. Table 3. 3. Competitive Profile Matrix Different from EFE, critical success factors in a CPM are broader; they do not include specific or factual data and even may focus on internal issues. The Company A

CRITICAL SUCCESS FACTORS	Advertising	Product Quality	Price Competitiveness	Management	Financial Position	Customer Loyalty	Global Expansion	Market Share	TOTAL WEIGHT	RATING SCORE	Company B RATING SCORE	Company C RATING SCORE

ritical success factors in a CPM also are not grouped into opportunities and threats as they are in an EFE. Ratings and total weighted scores can be compared with the sample firm in CPM. This provides internal strategic information which is important for the firm. 38 3.

1. 2. The Matching Stage 1. Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix The acronym SWOT stands for Strength, Weaknesses, Opportunities, and Threats. It is an approach to the analysis of the internal and external environments. This analytical technique assists an organisation to fulfill its needs for consistent knowledge of the current situation (David, 2007).

SWOT analysis originated from efforts at Harvard Business School (HBS) to analyse case studies. In the early 1960s, classroom discussions in business schools were focusing on organisational strengths and weaknesses in relation to the opportunities and threats in their business environments (Panagiotou, 2003). SWOT analysis was first introduced in the 1980's for assessing General Electric's position in each of its various business. SWOT

Matrix helps managers develop four types of strategies: SO (strengths-opportunities) Strategies, WO (weaknesses-opportunities) Strategies, ST (strengths-threats) Strategies, and WT (weaknesses-threats) Strategies.

In a SWOT Matrix (David, 2007). SO strategies use a firm's internal strengths to take advantage of external opportunities. WO strategies aim at improving internal weaknesses by taking advantage of external external opportunities. ST strategies use a firm's strengths to avoid or reduce the impact of external 39 threats. WT strategies are defensive tactics directed at reducing internal weaknesses and avoiding environmental threats. As shown in Figure 3. 2. SWOT Matrix is composed of nine cells. 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, S, W , O, and T. There are eight steps involved in constructing a SWOT Matrix: 1. 2. 3. 4. 5. List the firm's key external opportunities. List the firm's key external threats. List the firm's key internal strengths. List the firm's key internal weaknesses. 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. Always Leave Blank STRENGTHS - S 1. 2. 3. List strengths 4. 5. WEAKNESSES - W 1. 2. 3. List weaknesses 4. 5. 40 OPPORTUNITIES - O 1. 2. 3. List opportunities 4. 5. THREATS - T 1. 2. 3. List

threats 4. 5. SO STRATEGIES 1. 2. Use strengths to 3. take advantage 4. of opportunities 5. ST STRATEGIES 1. 2. Use strengths 3. to avoid 4. threats 5. WO STRATEGIES 1. 2. Overcome weaknesses 3. by taking advantage 4. of opportunities 5.

WT STRATEGIES 1. 2. 3. Minimize weaknesses 4. and avoid threats 5. Figure 3. 2. The SWOT Matrix 2. Strategic Position and Action Evaluation (SPACE) Matrix Strategic Position and Action Evaluation (SPACE) Matrix analysis is an analytical tool originally devised by Rowe and Mason (1994) and updated in subsequent editions. It uses the data and aggregates conclusions that would be produced by applying the classical strategic auditing models found in the strategy literature, such as the profit impact of marketing strategy, Porter's (1979) competitive forces that determine industry profitability and the value chain (Porter 1985), the Boston Consulting Group Matrix, and SWOT (Cross and Henderson, 2003). SPACE method is based on two internal dimensions and two external dimensions. The internal dimensions; financial strength [FS] and competitive advantage[CA], are the major determinants of the organisation's strategic position, whereas the external dimensions of en