

DIPLOMA PENGURUSAN HAJI & UMRAH (DPHU)



STRATEGIC MANAGEMENT (DPHU 3633)

CHAPTER 8: STRATEGY FORMULATION

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INTRODUCTION

- ❑ Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals.
- ❑ This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results.
- ❑ Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose.
- ❑ Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur.
- ❑ A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).
- ❑ A company that has not taken the time to develop a strategic plan will not be able to provide its employees with direction or focus.
- ❑ Rather than being proactive in the face of business conditions, an organization that does not have a set strategy will find that it is being reactive; the organization will be addressing unanticipated pressures as they arise; and the organization will be at a competitive disadvantage.

WHAT IS VISION, MISSION AND STRATEGY?

- ❑ The **Vision** is a goal.
- ❑ It is not the same as a **strategy**; business **strategy** tells you how a company is going to achieve (or maintain) its **Vision**.
- ❑ **Mission** is a general statement of how you will achieve your **vision**.
- ❑ **Strategies** are a series of ways of using the **mission** to achieve the **vision**.
- ❑ The **strategy** is a plan, the tactics are how the plan will be executed and the **Vision** is the end-result.
- ❑ Goals are statements of what needs to be accomplished to implement the strategy.
- ❑ Objectives are specific actions and timelines for achieving the goal.



- ❑ Mission and vision both relate to an organization's purpose and are typically communicated in some written form.
- ❑ Mission and vision are statements from the organization that answer questions about who we are, what do we value, and where we're going.
- ❑ A study by the consulting firm Bain and Company reports that 90% of the 500 firms surveyed issue some form of mission and vision statements.
- ❑ Moreover, firms with clearly communicated, widely understood, and collectively shared mission and vision have been shown to perform better than those without them, with the caveat that they related to effectiveness only when strategy and goals and objectives were aligned with them as well.

MISSION

A mission defines
your purpose

VISION

A vision extends your
mission to an ideal
future state

- ❑ A **mission statement** communicates the organization's reason for being, and how it aims to serve its key stakeholders.
- ❑ Customers, employees, and investors are the stakeholders most often emphasized, but other stakeholders like government or communities (i.e., in the form of social or environmental impact) can also be discussed.
- ❑ Mission statements are often longer than vision statements.



- ❑ **A vision statement**, in contrast, is a future-oriented declaration of the organization's purpose and aspirations.
- ❑ In many ways, you can say that the mission statement lays out the organization's "purpose for being," and the vision statement then says, "based on that purpose, this is what we want to become."
- ❑ The strategy should flow directly from the vision, since the strategy is intended to achieve the vision and thus satisfy the organization's mission.
- ❑ Typically, vision statements are relatively brief, as in the case of Starbucks's vision statement, which reads: "Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow (Starbucks, 2008)."
- ❑ Or ad firm Ogilvy & Mather, which states their vision as "an agency defined by its devotion to brands (Ogilvy, 2008)."
- ❑ Sometimes the vision statement is also captured in a short tag line, such as Toyota's "moving forward" statement that appears in most communications to customers, suppliers, and employees (Toyota, 2008).
- ❑ Similarly, Wal-Mart's tag-line version of its vision statement is "Save money. Live better (Walmart, 2008)."



EXAMPLE: TABUNG HAJI VISION AND MISSION

Vision

- ❑ The Pillar Of The Ummah's Economic Success; Excellence In Hajj Management

Mission

In achieving TH's vision, WE pledge:-

- ❑ To strengthen the economy of the ummah
- ❑ To remain active in seeking strategic investments locally and globally to ensure sustainable growth
- ❑ To consolidate and enrich depositors' funds
- ❑ To continuously provide excellent services
- ❑ To facilitate and assist pilgrims towards achieving a Mabrur Hajj
- ❑ To provide competitive, halal and toyyiban return



HOW DOES THE MISSION AND VISION STATEMENT DRIVE THE STRATEGIC PLAN?

- ❑ The fundamental purpose of **strategic planning** is to align a company's **mission** with its **vision**.
- ❑ Without **mission and vision**, the **plan** exists in a vacuum, as the **mission** is the starting point for **planning**, the **vision** is the destination, and the **strategic plan** is the roadmap that helps you navigate from one to the other.



WHAT ROLE DOES A MISSION AND A VISION STATEMENT PLAY IN STRATEGIC PLANNING?

Roles Played by Mission and Vision. Mission and vision statements play three critical roles:

- (1) communicate the purpose of the organization to stakeholders,
- (2) inform strategy development, and
- (3) develop the measurable goals and objectives by which to gauge the success of the organization's strategy

What is Strategy formulation?

- ❑ Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals.
- ❑ This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results.
- ❑ Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose.
- ❑ Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur.



- ❑ A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment)
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6 STEPS OF STRATEGY FORMULATION

Strategy formulation requires a defined set of six steps for effective implementation.

Those steps are:

1. define the organization,
2. define the strategic mission,
3. define the strategic objectives,
4. define the competitive strategy,
5. implement strategies, and
6. evaluate progress.



Step 1. Define the Organization

- ❑ The first step in defining an organization is to identify the company's customers.
- ❑ Without a strong customer base, whose needs are being filled, an organization will not be successful.
- ❑ A company must identify the factors that are valued by its customers. Is the value based on a superior product or service relative to the competition?
- ❑ Are your customers buying your products for your low prices?
- ❑ Do you produce products that meet image needs of your customers?
- ❑ Organizations must remember that people are buying benefits not features.
- ❑ For example, if an airline only defined itself as being in the business of flying people from one place to another, then it would view its competition as being only other airlines.
- ❑ However, if it views itself as being in the transportation business, then it will recognize that its competition includes not only other airlines, but also trains, buses, car rental companies, and other ways of getting people from one place to another place.
- ❑ An airline must highlight the benefits of using its method of transportation as a means of persuading customers to purchase its service.

Step 2. Define the Strategic Mission

- ❑ An organization's strategic mission offers a long-range perspective of what the organization strives for going forward.
- ❑ A clearly stated mission will provide the organization with a guide for carrying out its plans.
- ❑ Elements of a strong strategic mission statement should include the values that the organization holds, the nature of the business, special abilities or position the organization holds in the marketplace, and the organization's vision for where it wants to be in the future.



Step 3. Define the Strategic Objectives

- ❑ This third step in the strategic formulation process requires an organization to identify the performance targets needed to reach clearly stated objectives.
- ❑ These objectives may include: market position relative to the competition, production of goods and services, desired market share, improved customer services, corporation expansion, advances in technology, and sales increases.
- ❑ Strategic objectives must be communicated with all employees and stakeholders in order to ensure success.

- ❑ All members of the organization must be made aware of their role in the process and how their efforts contribute to meeting the organization's objectives.
- ❑ Additionally, members of the organization should have their own set of objectives and performance targets for their individual roles.



Step 4. Define the Competitive Strategy

- ❑ The next step in strategy formulation requires an organization to determine where it fits into the marketplace.
- ❑ This applies not only to the organization as a whole, but to each individual unit and department throughout the enterprise.
- ❑ Each area must be aware of its role within the company and how those roles enable the organization to maintain its competitive position.
- ❑ Another step in the competitive strategy process requires an organization to develop proactive responses to potential changes in the marketplace.
- ❑ As discussed earlier, an organization must not wait for events in the marketplace to occur before taking steps; they must identify possible events and be prepared to take action.
- ❑ The final step in defining a competitive strategy is identifying an organization's resources and determining how those resources will be used.
- ❑ Each department, division, or location will have its own set of needs, and a company must determine how it will allocate resources in order to meet those needs.

Step 5. Implement Strategies

- ❑ Developing a strategy is only effective if it is put into place.
- ❑ An organization may take all the necessary steps to understand the marketplace, define itself, and identify the competition.
- ❑ However, without implementing the strategy, the organization's work will be of little to no value.
- ❑ The methods employed for implementing strategies are known as tactics.
- ❑ These individual actions enable an organization to build a foundation for implementation
- ❑ Companies are able to identify which of their efforts are more successful than others and will uncover new methods of implementation, if necessary.



Step 6. Evaluate Progress

- ❑ As in any plan, a regular evaluation of processes and results is vital to ongoing success.
- ❑ An organization must keep track of the progress it is making as defined by its strategic plan.
- ❑ If goals are not being met, the organization must be adaptable and flexible to recognize that changes may be needed.

An organization should consider the following questions on a continuous basis in order to evaluate progress:

- ✓ Have market conditions changed that may require a change in corporate direction?



- ✓ Are there new entries in the marketplace to pose a competitive threat?
- ✓ Has the organization been successful in translating their strategy into actionable steps?
- ✓ An organization will be able to successfully implement its strategy both now and in the future through evaluating feedback.

WHAT IS AN ORGANIZATIONAL OBJECTIVE?

- ❑ Organizational objectives are short - and medium-term goals that an organization seeks to accomplish so it might reach its overall strategic goals.
- ❑ Objectives will usually play a part in the setting of an organization's policies and allocation of resources.
- ❑ Most would agree that a successful venture starts with a well-thought-out plan.
- ❑ Just as someone doesn't start a road trip without a map or begin cooking a meal without a recipe, running a successful business is the product of a plan that includes objectives of strategic planning that someone creates before opening the doors to the first customer.



Start With a Plan

- ✓ Before you decide on the goals and objectives of your organization, put a plan in place to measure those objectives.
 - ✓ Do some free-association brainstorming and start determining where you want the business to be in the future. What will success look like in five or even 10 years?
 - ✓ Will the business grow or stay small?
 - ✓ How many employees do you anticipate having?
 - ✓ How much revenue do you want to earn?
 - ✓ What types of products will you produce, and what kind of corporate culture do you want to create as you grow in size and success?
- ❑ The answers to these questions play an important role in a business owner's strategic planning.
 - ❑ They help you develop your road map, eventually leading to a business plan that embraces your individual objectives and those of your employees.
 - ❑ They help keep you accountable for your actions and prevent wasted time as you make business decisions.
 - ❑ Answers to these questions also give a point for assessment.

Five Performance Objectives in Business

- ❑ You determine your company's organizational objectives when you create a business plan.
- ❑ There are typically five performance goals and objectives of an organization that indicate business success, and they rarely deviate.
- ❑ At the end of the day, a business needs to make money. It needs to respond to market fluctuations and it needs to make customers happy.
- ❑ How you do that is up to you, but in the end, you must have five pillars in place to succeed.

1. Quality:

- ✓ One of the most important organizational objectives to strive for in business is quality.
- ✓ Your reputation for producing quality goods and services is what will draw customers to continue doing business with you and recommend your company to other potential customers.
- ✓ By maintaining high-quality products and reliable service for current customers, you increase the satisfaction of those you do business with and develop long-lasting relationships with them.

2. Speed:

- ❑ If you've ever waited in line to purchase food at a fast-food restaurant or had to wait an insufferably long time to receive something you ordered online, you understand the importance of speed as one of the objectives of strategic planning for business success.
- ❑ It behooves a business to get its products and services to customers quickly because swift delivery increases customer satisfaction.
- ❑ A less obvious but equally important benefit of speed is the cost reduction that a business can enjoy by speeding up certain processes.
- ❑ A perfect example is an airline: The faster an airline processes passengers, refuels and performs maintenance on its airplanes, the sooner they are back in the air and making money.



3. Dependability:

- ❑ It's one thing to be quick and good. It's another to be consistent and keep your promises.
- ❑ Amazon Prime would not be as successful as it is if customers didn't receive their packages within two days, as the company's guarantee states.
- ❑ Burger King's success lies mostly in the fact that diners can get their food their way and Domino's Pizza promises to deliver a pie within 30 minutes of ordering.
- ❑ Customers expect the delivery of products and services as promised. If you can't deliver consistently, they go somewhere else.



4. Flexibility:

- ❑ A business must be able to respond to changes in the market and customer requirements.
- ❑ Flexibility may be the one factor that gives you a competitive edge over your competition.
- ❑ Say you are a small business that produces notebooks.
- ❑ What happens when you get an order for many more notebooks than usual?
- ❑ Can your production process ramp up to meet that order, or do your customers have to go elsewhere?
- ❑ The ability to be flexible comes in many shapes.
- ❑ While it's essential to be flexible in your production, think about customer service.
- ❑ If you discover a flaw in your product, is your company flexible enough to replace it with another version until the bug is worked out, or are you forced to stop production altogether?
- ❑ It's essential to have flexibility in your product lines to remain viable.
- ❑ Can your delivery process change to suit your customer's needs? If your customers need their notebooks in two days, as opposed to the usual week that it takes to deliver, do you have the infrastructure in place to vary delivery dates?

5. Cost:

- ❑ This is another of those goals and objectives of an organization that can affect business success, both externally and internally.
- ❑ Your customers expect your rates and prices to remain consistent and reasonable, and you need to keep them as low as possible while maintaining quality and consistency of service.
- ❑ From an internal perspective, you need to minimize the cost of your workforce, equipment, vendors and raw materials so that you can make a profit and grow your business



HOW TO MEASURE AND MAINTAIN ORGANIZATIONAL OBJECTIVES

- ✓ Once you know the goals and objectives you want to achieve in business, figure out how to keep your objectives in sight and how to measure them.
- ✓ Business experts agree that there are a few realistic ways that organizations can stay on track to realizing their objectives.

1. Goals should be attainable.

- ❑ Organizational objectives should be lofty, but they should also be realistic.
- ❑ Any goal that has little chance of being realized is doomed before you start.
- ❑ You and your employees must believe a goal can be achieved to remain motivated to work hard to reach the finish line.
- ❑ It helps to set achievable milestones along the way, such as a certain revenue level or number of customers that you and your employees know are attainable.
- ❑ A clear action plan puts those milestones on paper with precise deadlines and checkpoints for workers to reach. When you get there, celebrate and set new goals.

2. Adapt goals as needed.

- ❑ Too many businesses and project managers set goals at the beginning of the year or the project and don't leave any wiggle room for reassessment.
- ❑ There's nothing wrong with setting clear goals with objectives that must be met by specific dates, but there should be some room to adapt as conditions change.



3. Measure goals in a SMART way.

- ❑ Some experts say that organizational objectives should be SMART goals, that is, goals that are specific, measurable, actionable, results-oriented and time-bound.
- ❑ By doing this, participants in a project or employees know they have agreed to results that require their full commitment and that they are responsible if they fall behind on their part.

S	M	A	R	T
<u>Specific</u>	<u>Measurable</u>	<u>Achievable</u>	<u>Relevant</u>	<u>Time-bound</u>
<ul style="list-style-type: none">- State what you'll do- Use action words	<ul style="list-style-type: none">- Provide a way to evaluate- Use metrics or data targets	<ul style="list-style-type: none">- Within your scope- Possible to accomplish, attainable	<ul style="list-style-type: none">- Makes sense within your job function- Improves the business in some way	<ul style="list-style-type: none">- State when you'll get it done- Be specific on date or timeframe

SELECTING STRATEGIES

- ❑ The first step in evaluating and selecting a strategy is to review the results of the strategic situation assessment consisting of an analysis of the general, industry, and internal environments, in terms of factors critical to the success of the business.
- ❑ 3 types of data are required to perform a situation audit: identifying threats, strengths, and weaknesses.



1. Past performance of the firm.
2. Data about the current situation, including:
 - Analysis of customers and markets.
 - Resources of the company.
 - Competition.
 - Environmental setting.
 - Other performance measures or areas of interest.
3. Forecasts of the future.

- ❑ There are several techniques for identifying Critical success factors (CSFs) for a business, its industry, and its general environment. It is important to evaluate the firm, but it is equally important evaluate the capabilities of competitors.
- ❑ The development and evaluation of alternatives should be two separate and distinct steps.
- ❑ Three basic questions must be asked during strategy evaluation:
 1. How effective has the existing strategy been?
 2. How effective will that strategy be in the future?
 3. What will be the effectiveness of selected alternative strategies (or changes in the existing strategy) in the future?



- ❑ The form of strategic analysis and choice varies considerably according to the stage of development of the firm, and the focus differs at the different firm levels.
- ❑ The evaluation should take place at the corporate, business, and functional levels, with close scrutiny of policies and plans at each of these levels.
- ❑ For multi-industry and multiproduct/product firm, strategic analysis begins at the corporate level.
- ❑ Corporate strategy provides guidance for resource allocations among businesses and also indicates standards for adding new businesses or deleting existing ones.
- ❑ Alternative business-level strategies must be examined within the context of each business unit in multi-industry firms.
- ❑ Functional strategies must be identified to initiate and control daily business activities in a manner consistent with business strategy.



IDENTIFYING A STRATEGY

The purpose of identifying and articulating the current strategy of an organization as the first step in strategic analysis is threefold:

1. To provide an understanding of how the organization reached its present status and current level of performance.
2. To provide the first alternative for any set of strategic alternatives.
3. To communicate with other strategists to come to a common understanding of the situation.
4. Identification of strategy involves of investigative work and analysis.

- ❑ An organization which has no explicit strategy is relatively easy to identify.
- ❑ The probabilities of long-term success are greatly reduced without a consciously developed strategy.
- ❑ However, strategy may exist even when it is not formally developed and explicitly communicated.
- ❑ If the strategy has been developed but no written, it becomes necessary to look for evidence of strategy rather than for a strategy statement.
- ❑ In this situation, a formally developed, written strategy makes identification simply a process of locating the statement of strategy or an individual who can divulge it.

STRATEGY SELECTION CONSTRAINTS

In order for managers to formulate useful strategies, they must be aware of certain organizational constraints. Some of the major ones are:

- ✓ **Availability of financial resources**

Even when a particular strategy appears optimal for an organization, serious consideration must be given to where the money to finance the strategy is going to come from.

- ✓ **Attitude toward risk**

Some firms are willing to accept only minimal levels of risk, regardless of the level of potential return.

- ✓ **Organizational capabilities**

Some otherwise excellent strategies may require capabilities beyond those an organization currently possesses.

- ✓ **Channel relationships**

Strategies that call for the development of new channels of distribution or that involve new suppliers require careful consideration of the availability of these other organizations and their willingness to work with the firm.

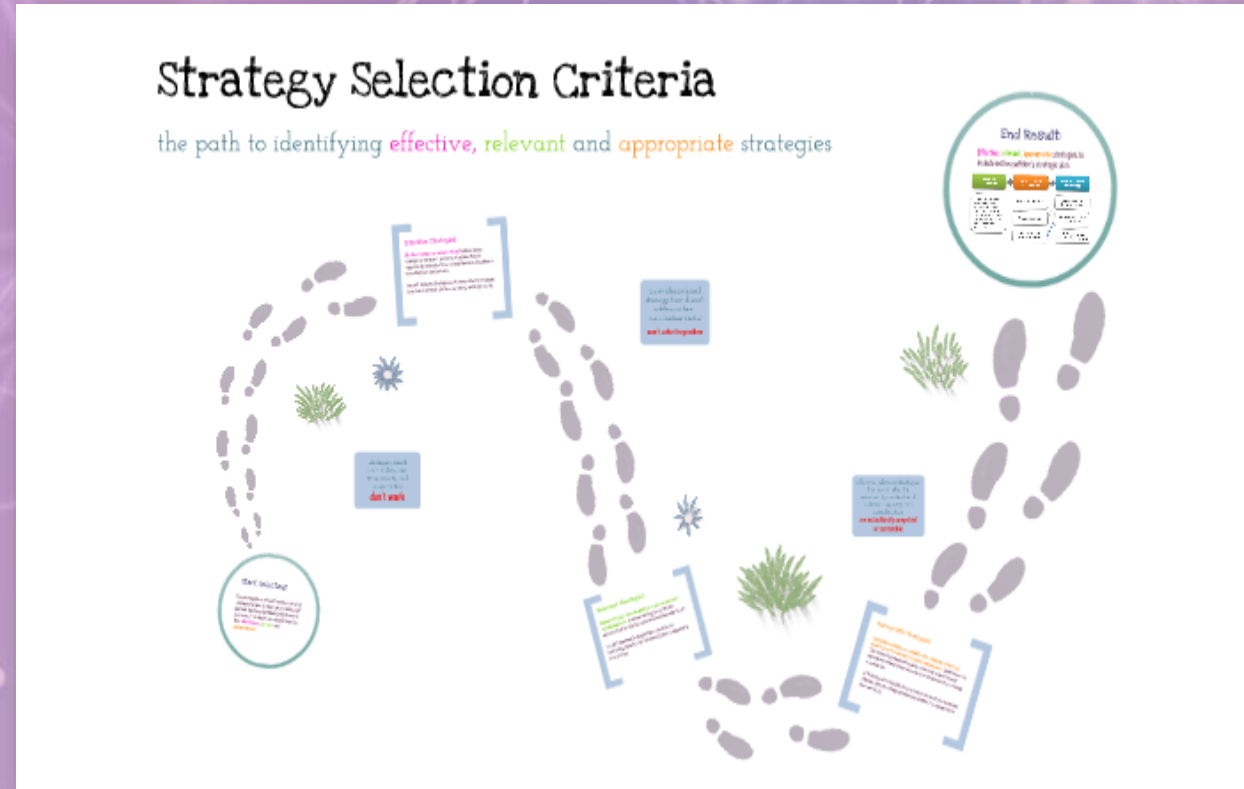
- ✓ **Competitive retaliation**

Some strategies may have the unintended effect of dramatically increasing competitors' efforts in the marketplace.

Strategy Selection Criteria

Strategic alternatives should be accepted to the degree that they meet the following 5 criteria:

1. They are responsive to the external environment.
2. They involve a sustainable competitive advantage.
3. They are consistent with other strategies in the organization.
4. They provide adequate flexibility for the business and the organization.
5. They are organizationally feasible.



TESTS OF A WINNING STRATEGY

Three tests can be used to evaluate the merits of one strategy over another and to gauge how good a strategy is:

1. The Goodness of Fit Test

A good strategy is well matched to the company's situation - both internal and external factors and its own capabilities and aspirations.

2. The Competitive Advantage Test

A good strategy leads to sustainable competitive advantage. The bigger the competitive edge that a strategy helps build, the more powerful and effective it is.

3. The Performance Test

A good strategy boosts company performance. Two kinds of performance improvements are the most telling: gains in profitability and gains in the company's long-term business strength and competitive position.

IS OUR STRATEGY A WINNER?



THE COMPONENTS OF STRATEGIC MANAGEMENT

- ❑ Strategic Management is perhaps most crucial to organizational planning and direction.
- ❑ It gives long-term focus to the organization and ensures the achievement of goals within the stipulated time period.
- ❑ The onus (responsibility) of strategic management usually lies with the top bosses in the organization.
- ❑ They may delegate certain tasks of strategic management, but the core planning and monitoring remain in their purview.
- ❑ Usually, they prefer to delegate to experienced employees only or novices who at least hold strategic management certificate.



1. Goal Setting

- ❑ The American entrepreneur and life coach Tony Robbins says, “Setting goals is the first step in turning invisible to visible.”
- ❑ How well-said! Unless the organization knows what it wants to achieve, there is no point in planning ahead.
- ❑ This component is all about setting short-term as well as long-term goals.
- ❑ These goals should be SMART – Specific, Measurable, Attainable, Relevant and Timely.



2. Gathering Information

- ❑ The next component of strategic management pertains to collecting information about all those internal and external factors that could influence the implementation and hence, the achievement of goals.

- ✓ What are competitors doing in the same space?
- ✓ What are the problems and opportunities that may arise in the future?

For example:

- ✓ Are there enough resources in terms of finances and manpower to execute a process?
- ✓ Are there any laws or regulations to be taken care?



3. Strategy Formulation

- ❑ Once the goals and research are in place, now is the time to formulate a strategy.
- ❑ It determines what actions need to be taken to accomplish the goals.
- ❑ This is the most elaborate component of strategic management because how well the strategy is formulated will ensure the success of it.
- ❑ It also involves the allocation of resources at each phase of implementation.
- ❑ For instance, phase one will require 20 employees and an investment of RM5M, and then phase two will require 15 employees and an investment of RM2M.



4. Strategy Implementation

- ❑ Well, you have the strategy ready in the written format.
- ❑ The next component is to execute it seamlessly.
- ❑ This is the practical and most rigorous part of strategic management.
- ❑ Whatever you have planned is converted into actual activities and actions geared towards the delivery of goals.



5. Strategy Evaluation

- ❑ A strategy on paper may look perfect and doable.
- ❑ But, implementation can prove otherwise.
- ❑ There can be certain loopholes or deviations from the original planning which may render the strategy futile.
- ❑ In order to ensure that this doesn't happen, the implementation has to monitor and evaluated at regular intervals.
- ❑ If there are any issues, they should be plugged immediately.



END OF CHAPTER 8

