Chapter 6
Strategy Analysis & Choice

Strategic Management: Concepts & Cases
12th Edition
Fred David
Chapter Outline

The Nature of Strategy & Choice

A Comprehensive Strategy-Formulation Framework

The Input Stage
Chapter Outline (cont’d)

The Matching Stage

The Decision Stage

Cultural Aspects of Strategy Choice
Chapter Outline (cont’d)

The Politics of Strategy Choice

Governance Issues
Strategy Analysis & Choice

Nature of Strategy Analysis & Choice

- Establishing long-term objectives
- Generating alternative strategies
- Selecting strategies to pursue
- Best alternative — achieve mission & objectives
FIGURE 6-1

A Comprehensive Strategic-Management Model

Develop Vision and Mission Statements Chapter 2

Perform External Audit Chapter 3

Establish Long-Term Objectives Chapter 5

Generate, Evaluate, and Select Strategies Chapter 6

Implement Strategies—Management Issues Chapter 7

Implement Strategies—Marketing, Finance, Accounting, R&D, and MIS Issues Chapter 8

Measure and Evaluate Performance Chapter 9

Strategy Formulation

Strategy Implementation

Strategy Evaluation

Strategy Analysis & Choice

Alternative Strategies Derive From –

- Vision
- Mission
- Objectives
- External audit
- Internal audit
- Past successful strategies
The Process of Generating and Selecting Strategies

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

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

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

Participation in generating alternative strategies should be as broad as possible.
FIGURE 6-2

The Strategy-Formulation Analytical Framework

**STAGE 1: THE INPUT STAGE**

- External Factor Evaluation (IFE) 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)
Comprehensive Strategy-Formulation Framework

Stage 1: The Input Stage

Stage 2: The Matching Stage

Stage 3: The Decision Stage
Strategy-Formulation Analytical Framework

Stage 1: The Input Stage

- Internal Factor Evaluation Matrix (IFE)
- External Factor Evaluation Matrix (EFE)
- Competitive Profile Matrix (CPM)
Stage 1: The Input Stage

- Basic input information for the matching & decision stage matrices
- Requires strategists to quantify subjectivity early in the process
- Good intuitive judgment always needed
Strategy-Formulation Analytical Framework

Stage 2: The Matching Stage

- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- IE Matrix
- Grand Strategy Matrix
Stage 2: The Matching Stage

- Match between organization’s internal resources & skills and the opportunities & risks created by its external factors
Stage 2: The Matching Stage

SWOT Matrix

- Strengths
- Weaknesses
- Opportunities
- Threats
SWOT Matrix

Four Types of Strategies

- Strengths-Opportunities (SO)
- Weaknesses-Opportunities (WO)
- Strengths-Threats (ST)
- Weaknesses-Threats (WT)
SO Strategies

Use a firm’s internal strengths to take advantage of external opportunities.
**WO Strategies**

- **Strengths**
- **Weaknesses**
- **Opportunities**
- **Threats**

**SWOT**

- Improving internal weaknesses by taking advantage of external opportunities
ST Strategies

- Strengths
- Weaknesses
- Opportunities
- Threats

ST Strategies

Use a firm’s strengths to avoid or reduce the impact of external threats

SWOT
WT Strategies

Strengths
Weaknesses
Opportunities
Threats
SWOT

WT Strategies

Defensive tactics aimed at reducing internal weaknesses & avoiding environmental threats
## SWOT Matrix

### Developing the SWOT

<table>
<thead>
<tr>
<th>List firm’s key internal</th>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>List firm’s key internal</td>
<td>Weaknesses</td>
</tr>
<tr>
<td>List firm’s key external</td>
<td>Opportunities</td>
</tr>
<tr>
<td>List firm’s key external</td>
<td>Threats</td>
</tr>
</tbody>
</table>
## SWOT Matrix

<table>
<thead>
<tr>
<th></th>
<th>Strengths – <em>S</em></th>
<th>Weaknesses – <em>W</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunities – <em>O</em></strong></td>
<td><em>SO</em> Strategies</td>
<td><em>WO</em> Strategies</td>
</tr>
<tr>
<td>List Opportunities</td>
<td>Use strengths to take advantage of opportunities</td>
<td>Overcoming weaknesses by taking advantage of opportunities</td>
</tr>
<tr>
<td><strong>Threats – <em>T</em></strong></td>
<td><em>ST</em> Strategies</td>
<td><em>WT</em> Strategies</td>
</tr>
<tr>
<td>List Threats</td>
<td>Use strengths to avoid threats</td>
<td>Minimize weaknesses and avoid threats</td>
</tr>
</tbody>
</table>

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Limitations with SWOT Matrix

- Does not show how to achieve a competitive advantage
- Provides a static assessment in time
- May lead the firm to overemphasize a single internal or external factor in formulating strategies
Strategy-Formulation Analytical Framework

Stage 2: The Matching Stage

- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- IE Matrix
- Grand Strategy Matrix
This vector reveals the type of strategies recommended for the organization.

- Aggressive
- Conservative
- Defensive
- Competitive
SPACE Matrix

Two Internal Dimensions

- Financial Strength (FS)
- Competitive Advantage (CA)
SPACE Matrix

Two External Dimensions

- Environmental Stability (ES)
- Industry Strength (IS)
## SPACE Factors

<table>
<thead>
<tr>
<th>Internal Strategic Position</th>
<th>External Strategic Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Strength (FS)</strong></td>
<td><strong>Environmental Stability (ES)</strong></td>
</tr>
<tr>
<td>Return on investment</td>
<td>Technological changes</td>
</tr>
<tr>
<td>Leverage (borrow)</td>
<td>Rate of inflation</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Demand variability</td>
</tr>
<tr>
<td>Working capital</td>
<td>Price range of competing products</td>
</tr>
<tr>
<td>Cash flow</td>
<td>Barriers to entry</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>Competitive pressure</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>Price elasticity of demand</td>
</tr>
<tr>
<td>Price earnings ratio</td>
<td>Ease of exit from market</td>
</tr>
<tr>
<td></td>
<td>Risk involved in business</td>
</tr>
</tbody>
</table>

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### SPACE Factors

<table>
<thead>
<tr>
<th>Internal Strategic Position</th>
<th>External Strategic Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competitive Advantage (CA)</strong></td>
<td><strong>Industry Strength (IS)</strong></td>
</tr>
<tr>
<td>Market share</td>
<td>Growth potential</td>
</tr>
<tr>
<td>Product quality</td>
<td>Profit potential</td>
</tr>
<tr>
<td>Product life cycle</td>
<td>Financial stability</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>Technological know-how</td>
</tr>
<tr>
<td>Competition’s capacity utilization</td>
<td>Resource utilization</td>
</tr>
<tr>
<td>Technological know-how</td>
<td>Ease of entry into market</td>
</tr>
<tr>
<td>Control over suppliers &amp; distributors</td>
<td>Productivity, capacity utilization</td>
</tr>
</tbody>
</table>
Steps to Developing a SPACE Matrix

1. Select a set of variables to define FS, CA, ES, and IS.
2. Assign a numerical value:
   1. From +1 to +6 to each FS & IS dimension
   2. From -1 to -6 to each ES & CA dimension
3. Compute an average score for each FS, CA, ES, and IS.
Steps to Developing a SPACE Matrix

4. Plot the average score on the appropriate axis.
5. Add the two scores on the $x$-axis and plot the point. Add the two scores on the $y$-axis and plot the point. Plot the intersection of the new $xy$ point.
6. Draw a directional vector from the origin through the new intersection point.
Example: the rate depends on evaluating the situation

- **FS**: low capital ratio (1), return on assets (4), cash flow (4): average = $9/3 = 3$
- **IS**: freedom of product movement (4), high competition (2). Average = $6/2 = 3$
- **ES**: high inflation rate (-5), depression (-5) political instability (-2) = $-12/3 = -4$
- **CA**: growing market share (-2), product quality (-2) large customer base (-2) = $-6/3 = -2$
- Directional vector: x-axis: $-2 + 3 = +1$
- Y-axis: $-4 + 3 = -1$
FIGURE 6-4

The SPACE Matrix

Conservative
- Market penetration
- Market development
- Product development
- Related diversification

FS
+6

Aggressive
- Backward, forward, horizontal integration
- Market penetration
- Market development
- Product development
- Diversification (related or unrelated)

CA
-6 -5 -4 -3 -2 -1 0 +1 +2 +3 +4 +5 +6

Defensive
- Retrenchment
- Divestiture
- Liquidation

Competitive
- Backward, forward, horizontal integration
- Market penetration
- Market development
- Product development

IS

ES
-6 -5 -4 -3 -2 -1 0
Strategy-Formulation Analytical Framework

Stage 2: The Matching Stage

- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- IE Matrix
- Grand Strategy Matrix
BCG Matrix

Boston Consulting Group Matrix

- Enhances multidivisional firm in formulating strategies
- Autonomous divisions = business portfolio
- Divisions may compete in different industries
- Focus on market-share position & industry growth rate
Relative Market Share Position

- Ratio of a division’s own market share in an industry to the market share held by the largest rival firm in that industry
FIGURE 6-6

The BCG Matrix

RELATIVE MARKET SHARE POSITION

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>.50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INDUSTRY SALES GROWTH RATE (Percentage)

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+20</td>
<td>0</td>
<td>-20</td>
</tr>
</tbody>
</table>

Stars

- Backward, Forward, or Horizontal Integration
- Market Penetration
- Market Development
- Product Development

Question Marks

- Market Penetration
- Market Development
- Product Development
- Divestiture

Cash Cows

- Product Development
- Diversification
- Retrenchment
- Divestiture

Dogs

- Retrenchment
- Divestiture
- Liquidation
Example about BCG

<table>
<thead>
<tr>
<th>Companies</th>
<th>Marker share in 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>20%</td>
</tr>
<tr>
<td>B</td>
<td>10%</td>
</tr>
<tr>
<td>C</td>
<td>15%</td>
</tr>
<tr>
<td>Relative market share to B</td>
<td>10\20= .5</td>
</tr>
<tr>
<td>Industry growth rate measured by growth in sale of leading companies</td>
<td>15%+</td>
</tr>
</tbody>
</table>

Industry growth rate measured by growth in sale of leading companies
BCG Matrix

Question Marks

- Low relative market share, competes in high-growth industry
  - Cash needs are high
  - Case generation is low

- Decision to strengthen (intensive strategies) or divest
BCG Matrix

- The move in a clockwise motion.
- E.g. dog become cash cows.
- Size of the circle represents the size of sales compared to other divisions in the company.
- The pie slices within the circles represent the percent of corporate profits contributed by each division.
BCG Matrix

Stars

- High relative market share and high growth rate
  - Best long-run opportunities for growth & profitability

- Substantial investment to maintain or strengthen dominant position
  - Integration strategies, intensive strategies, joint ventures
BCG Matrix

Cash Cows

- High relative market share, competes in low-growth industry
  - Generate cash in excess of their needs
  - Milked for other purposes
- Maintain strong position as long as possible
  - Product development, concentric diversification
  - If weakens – retrenchment or divestiture
BCG Matrix

Dogs

- Low relative market share, competes in slow or no market growth
  - Weak internal & external position
- Liquidation, divestiture, retrenchment
Strategy-Formulation Analytical Framework

Stage 2: The Matching Stage

- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- IE Matrix
- Grand Strategy Matrix
The Internal-External Matrix

- Positions an organization’s various divisions in a nine-cell display
- Similar to BCG Matrix except the IE Matrix:
  - Axes are different
  - Requires more information about the divisions
  - Strategic implications of each matrix are different
The Internal–External (IE) Matrix

- Backward, Forward, or Horizontal Integration
- Market Penetration
- Market Development
- Product Development

**THE IFE TOTAL WEIGHTED SCORES**

- **Strong**
  - 3.0 to 4.0
- **Average**
  - 2.0 to 2.99
- **Weak**
  - 1.0 to 1.99

**THE EFE TOTAL WEIGHTED SCORES**

- **High**
  - 3.0 to 4.0
- **Medium**
  - 2.0 to 2.99
- **Low**
  - 1.0 to 1.99

- Grow and build
- Hold and maintain
  - Market Penetration
  - Product Development
- Harvest or divest
  - Retrenchment
  - Divestiture
IE Matrix

- Based on two key dimensions
  - The IFE total weighted scores on the $x$-axis
  - The EFE total weighted scores on the $y$-axis
- Divided into three major regions
  - Grow and build – Cells I, II, or IV
  - Hold and maintain – Cells III, V, or VII
  - Harvest or divest – Cells VI, VIII, or IX
FIGURE 6-11
The IE Matrix for Harrah’s
Strategy-Formulation Analytical Framework

Stage 2: The Matching Stage

- SWOT Matrix
- SPACE Matrix
- BCG Matrix
- IE Matrix
- Grand Strategy Matrix
Grand Strategy Matrix

- Tool for formulating alternative strategies
- Based on two dimensions
  - Competitive position
  - Market growth
### RAPID MARKET GROWTH

**Quadrant I**
1. Market development
2. Market penetration
3. Product development
4. Forward integration
5. Backward integration
6. Horizontal integration
7. Concentric diversification

**Quadrant II**
1. Market development
2. Market penetration
3. Product development
4. Horizontal integration
5. Divestiture
6. Liquidation

### SLOW MARKET GROWTH

**Quadrant III**
1. Retrenchment
2. Concentric diversification
3. Horizontal diversification
4. Conglomerate diversification
5. Liquidation

**Quadrant IV**
1. Concentric diversification
2. Horizontal diversification
3. Conglomerate diversification
4. Joint ventures

### WEAK COMPETITIVE POSITION

**Quadrant III**
1. Retrenchment
2. Concentric diversification
3. Horizontal diversification
4. Conglomerate diversification
5. Liquidation

**Quadrant IV**
1. Concentric diversification
2. Horizontal diversification
3. Conglomerate diversification
4. Joint ventures

### STRONG COMPETITIVE POSITION

**Quadrant I**
1. Market development
2. Market penetration
3. Product development
4. Forward integration
5. Backward integration
6. Horizontal integration
7. Concentric diversification

**Quadrant II**
1. Market development
2. Market penetration
3. Product development
4. Horizontal integration
5. Divestiture
6. Liquidation
Grand Strategy Matrix

Quadrant I

- Excellent strategic position
- Concentration on current markets/products
- Take risks aggressively when necessary
Grand Strategy Matrix

Quadrant II

- Evaluate present approach
- How to improve competitiveness
- Rapid market growth requires intensive strategy
Grand Strategy Matrix

Quadrant III

- Compete in slow-growth industries
- Weak competitive position
- Drastic changes quickly
- Cost & asset reduction (retrenchment)
Grand Strategy Matrix

Quadrant IV

- Strong competitive position
- Slow-growth industry
- Diversification to more promising growth areas
Stage 3: The Decision Stage

Quantitative Strategic Planning Matrix (QSPM)
Quantitative Strategic Planning Matrix

- Technique designed to determine the relative attractiveness of feasible alternative actions
### 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
- Computer Information Systems

<table>
<thead>
<tr>
<th>Key External Factors</th>
<th>Weight</th>
<th>Strategy 1</th>
<th>Strategy 2</th>
<th>Strategy 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political/Legal/Governmental</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Social/Cultural/Demographic/Environmental</td>
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<td></td>
</tr>
<tr>
<td>Technological</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key Internal Factors</td>
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<td></td>
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<td>Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance/Accounting</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Production/Operations</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Information Systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Steps to Develop a QSPM

1. Make a list of the firm’s key external opportunities/threats and internal strengths/weaknesses in the left column.
2. Assign weights to each key external and internal factor.
3. Examine the Stage 2 (matching) matrices, and identify alternative strategies that the organization should consider implementing.
Steps to Develop a QSPM

4. Determine the Attractiveness Scores.
5. Compare the Total Attractiveness Scores.
6. Compute the Sum Total Attractiveness Score.
QSPM

Limitations

- Requires intuitive judgments & educated assumptions
- Only as good as the prerequisite inputs
Advantages

- Sets of strategies considered simultaneously or sequentially
- Integration of pertinent external & internal factors in the decision-making process
Cultural Aspects of Strategy Choice

Organization Culture

- Successful strategies depend on the degree of consistency with the firm's culture
Cultural Aspects of Strategy Choice

- It is beneficial to view strategic management from a cultural perspective because success often rests on the degree of support that strategies receive from a firm’s culture.
Cultural Aspects of Strategy Choice

- 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.

- Strategies that require fewer cultural changes may be more attractive because extensive changes can take considerable time and effort.
Cultural Aspects of Strategy Choice

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

Politics in Organizations

- Management hierarchy
- Career aspirations
- Allocation of scarce resources
Politics of Strategy Choice

Political Tactics for Strategists

- Equifinality: give flexibility to use different techniques.
- Satisfying: achieving satisfactory results with acceptable strategies.
- Generalization: shifting focus from specific to general ones.
- Higher-order issues: postponed short-term in favor of long term. E.g., focus on survival and give concession to union on wage increase.
- Political access on important issues
Governance Issues

Board of Directors Roles & Responsibilities

- Control & oversight over management
- Adherence to legal prescriptions
- Consideration of stakeholder interests
- Advancement of stockholder rights
Global Perspective
Corporate Tax Rates Worldwide – Europe is Lowest

- Lowest corporate tax rates reside in Europe and European countries
- Average tax rate in EU countries is 26%
- Besides tax rates, large markets and affluent markets attract new businesses
- Taxes can be used to reward or penalize companies for locating locally or moving overseas
Corporate Governance Issues

*BusinessWeek’s “Principles of Good Governance”*

1. No more than 2 directors are current or former company executives
2. No directors do business with the company
3. Audit, compensation, and nominating committees made up of outside directors
4. Each director owns a large equity stake in the company
5. At least one outside director with extensive experience
6. Fully employed directors sit on no more than 4 boards, retirees on no more than 7
7. Each director attends at least 75% of all meetings
Corporate Governance Issues

Business Week’s “principles of good governance”

8. Board meets regularly without management present
9. Audit committee meets at least four times a year
10. Board is frugal on executive pay, diligent in CEO succession, and prompt to act when trouble arises
11. CEO is not also the chairperson of the board
12. Shareholders have considerable power and information to choose & replace directors
13. Stock options are considered a corporate expense
14. No interlocking directorships
### Key Terms & Concepts

<table>
<thead>
<tr>
<th>Aggressive Quadrant</th>
<th>Business Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractiveness Scores (AS)</td>
<td>Cash Cows</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>Competitive Advantage (CA)</td>
</tr>
<tr>
<td>Boston Consulting Group (BCG) Matrix</td>
<td>Competitive Quadrant</td>
</tr>
</tbody>
</table>
Key Terms & Concepts

- Grand Strategy Matrix
- Halo Error
- Industry Strength (IS)
- Input Stage
- Internal-External (IE) Matrix
- Matching
- Matching Stage
- Quantitative Strategic Planning Matrix (QSPM)
For Review (Chapter 6)

Key Terms & Concepts

- Question Marks
- Stars
- Relative Market Share Position
  - Strategic Position & Action Evaluation (SPACE)
  - Sum Total Attractiveness Score (STAS)
- SO Strategies
- ST Strategies
- Sustainability

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For Review (Chapter 6)

Key Terms & Concepts

- Strengths, Weaknesses, Opportunities, Threats (SWOT)
- Total Attractiveness Scores (TAS)
- WO Strategies
- WT Strategies
Review

How would application of the strategy-formulation framework differ from a small to a large organization?

The strategy-formulation framework is conceptually identical for both small and large organizations. However, in large organizations, there are more variables to analyze and forecast. This makes the strategy-formulation process more complex.
Given the information in the table below, develop a BCG Matrix and an IE Matrix.

<table>
<thead>
<tr>
<th>Divisions</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits</td>
<td>$10</td>
<td>$15</td>
<td>$25</td>
</tr>
<tr>
<td>Sales</td>
<td>$100</td>
<td>$50</td>
<td>$100</td>
</tr>
<tr>
<td>Relative Market Share</td>
<td>0.2</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Industry Growth Rate</td>
<td>+.20</td>
<td>+.10</td>
<td>-.10</td>
</tr>
<tr>
<td>IFE Total Weighted Success</td>
<td>1.6</td>
<td>3.1</td>
<td>2.2</td>
</tr>
<tr>
<td>EFE Total Weighted Success</td>
<td>2.5</td>
<td>1.8</td>
<td>3.3</td>
</tr>
</tbody>
</table>
Review

- **Explain the steps involved in developing a QSPM.**
- **Answer:** There are six basic steps involved in applying QSPM:
  - Make a list of the firm’s key external opportunities/threats and internal strengths/weaknesses in the left column of the QSPM.
  - Assign weights to each key external and internal factor.
  - Examine the Stage 2 matrices and identify alternative strategies that the organization should consider implementing.
  - Determine the AS.
  - Compute the total AS.
  - Compute the sum Total AS
What do you think is the appropriate role of a board of directors in strategic management? Why?

Answer: Board members should review strategy formulation, implementation, and evaluation reports. As described in the chapter, board members are, more and more, being held personally liable for failed strategies in organizations. Board members should provide input, advice, suggestions, and comments about strategic-management activities.
Review

- Explain why cultural factors should be an important consideration in analyzing and choosing among alternative strategies.
- Answer: Cultural factors are an integral part of everyday life in organizations. An organization’s unique culture represents the heart of work. Thus, in choosing among alternative strategies for an organization, consideration should be given to the different levels of support that proposed strategies would receive from existing cultural products. Consideration should also be given to whether cultural changes could be achieved readily.
How are the SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and Grand Strategy Matrix similar? How are they different?

The TOWS Matrix, SPACE Matrix, BCG Matrix, IE Matrix, and Grand Strategy Matrix are similar in that all are matching tools in stage two of the strategy-formulation framework. These analytical tools differ, in that they focus on different variables. Also, the BCG and IE Matrices generally apply only to a multidivisional firm, whereas the TOWS, SPACE, and Grand Strategy Matrices are applicable to all organizations.
List 4 limitations of a BCG Matrix.

Viewing every business as one of four types is an oversimplification. Some businesses are not easily classified. The matrix does not reflect whether or not various divisions are growing over time, because the matrix has no temporal qualities. 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.
Why should one avoid putting double 4’s in a row in preparing a QSPM?

The numbers refer to the relative attractiveness of one strategy over others considering a particular factor. A 4 means that the strategy is highly attractive. Because it is a measure of relative attractiveness, each strategy will receive a different score.
Review

- If a firm has the leading market share in its industry, where on the BCG Matrix would the circle lie?
- Firms with high relative market share are plotted as either Stars (Quadrant II) or Cash Cows (Quadrant III) on the BCG Matrix.
Why do you feel the SWOT Matrix is the most widely used of all strategy matrices?

The SWOT Matrix is one of five techniques that can be used in the matching stage of the strategy-formulation framework. While the other techniques also are useful in the matching stage, the SWOT is easy to apply.