

Strategic Management
Lecture Six: Strategy Formulation
Lecturer: Stephen Githii

Introduction

In our last lecture, we talked about two important concepts that can be said to be the starting point of strategic planning- Vision and mission statement. We looked at what they constitute, samples of those that are well crafted and how we could use them in our personal life. In this current lecture we will look at strategy formulation.

Learning Outcomes

- Understand the definition of strategy formulation
- Pick the importance of strategy formulation
- Understand why alignment between vision, mission and strategy is important
- Be able to establish goals and objectives.



Image source: Microsoft Stock Image

Opening Case (Not real): The Coffee Shop Turnaround

Scenario: A small café in Berlin struggles to compete with Starbucks. The owner, Maria, conducts a SWOT analysis:

- Strengths: Cozy ambiance, loyal local customers.
- Weaknesses: Limited budget, no global branding.
- Opportunities: Rising demand for organic, locally sourced coffee.
- Threats: Price wars with big chains.

Strategy Formulation:

- Maria pivots to a niche strategy:

Mission: "Authentic local coffee experiences with organic ingredients."

Action: Partners with local farmers, adds storytelling sessions about coffee origins, and markets via Instagram.

Result: Becomes a tourist hotspot, differentiating from Starbucks.

Reflection

- Strategy formulation start from environmental scanning
- Analysis of the environment provides the firm with information that is crucial for the next step they need to take-opportunities

Definition

Strategy formulation is the process of developing or coming up with a strategy that a firm will use to achieve its long-term goal or desired destination.

Essentially, it is about planning how a firm will go about achieving its mission and vision statements, while being alive to the threats and opportunities the environment presents.

It entails several activities some of which we have tackle in our previous lectures, or we will tackle in our next lecture:

- Mission and Mission (lecture five)
- Identifying the key goals (our focus in this topic)
- Analyzing the current business environment (Lecture three and four)
- Generating strategic options (next topic)
- Choosing the best path (next topic)

What strategy formulation is NOT

- Reacting to problem, strategy formulation is proactive not merely reactive to changes in the environment, and that is why environmental scanning need to happen to guide the formulation phase

- It is planning phase not execution phase, execution comes later
- Not top-down decision, though top leadership is important in the process, effective strategy formulation requires that everyone in the organization be involved (something that most firms fail to do)

Characteristics of strategy formulation phase

1. Positioning the Force Before Action:

- **Pre-action planning:** Strategy formulation sets the stage by planning the path forward before taking any significant steps.
- **Strategic advantage:** Like a military general positioning troop, it involves analyzing where to place the organization to succeed.
- **Roadmap creation:** Developing a clear blueprint for where the organization is headed, the resources needed, and the best approach to take.
- **Avoids reactive decisions:** It prevents making decisions based on immediate needs or external pressures.
- **Aligns actions with goals:** Ensures that each step aligns with the overall vision and mission of the organization.
- **Maximizes opportunities:** Involves understanding external trends and internal strengths to position the organization for success.
- **Focuses on long-term direction:** Lays out a well-thought-out direction that guides future activities, much like preparing the ground for planting to ensure success later.

2. Focusing on Effectiveness:

- **The right focus, not just busy work:** It's about choosing the right actions that will move the organization forward, not just doing tasks efficiently.
- **Prioritization:** Focuses on high-impact actions, even if they require less effort, rather than simply increasing activity.
- **Alignment with goals:** The strategy must clearly link to organizational objectives, like market share growth or profit improvement.
- **Creating sustainable advantage:** Looks at ways to differentiate the organization and create a lasting edge over competitors.
- **Measuring impact:** Prioritizes outcomes over effort, ensuring the chosen actions lead to measurable success.

3. Primarily an Intellectual Process:

- **Deep thinking:** Strategy formulation relies on cognitive skills such as analysis, synthesis, and evaluation.

- **Big-picture thinking:** Involves understanding complex situations, identifying patterns, and envisioning possible futures.
- **Data-driven decisions:** Gathering and processing relevant information from both internal and external sources to guide decisions.
- **Critical judgment:** Requires making informed decisions about the organization's direction, priorities, and resource allocation.
- **Creative problem-solving:** Encourages coming up with innovative solutions and alternatives to achieve the organization's goals.

4. Requires Both Intuitive and Analytical Skills:

- **Balance of logic and insight:** Combines data-driven analysis with intuition, allowing for creative leaps in strategy.
- **Analytical skills:** Involves breaking down problems, analyzing data, and identifying trends to make informed choices.
- **Intuitive judgment:** Leverages experience, gut feeling, and pattern recognition to make decisions, especially in uncertain situations.
- **Synergy of analysis and intuition:** The best strategies emerge when both analytical rigor and intuitive insights work together.
- **Navigating uncertainty:** Intuition helps guide decisions when data is unclear or qualitative factors are at play.

5. May Involve a Few Individuals:(though it need not be the case)

- **Top management involvement:** Typically, a small, focused group such as senior leaders or a strategic planning team is responsible for strategy formulation.
- **Focused discussions:** A smaller team allows for more in-depth conversations, faster decision-making, and more cohesive strategies.
- **Confidentiality and sensitivity:** Strategic decisions often involve sensitive or confidential information that is easier to handle with a limited group.
- **Expertise and experience:** The core group typically possesses significant knowledge about the organization, the industry, and the competitive landscape.
- **Broader input:** While the core group is small, input from other stakeholders such as middle management, employees, and external advisors can enrich the strategy.



Image source: Microsoft 365 stock

Why alignment between vision, mission and strategy is important

There should be alignment between these three items, and strategy formulation is equally meant to ensure this is present before we go to the action phase. The following are the reasons why the alignment is important;

Provides Clarity and Focus:

1. **Shared understanding:** When there is alignment, there is no confusion of direction, purpose and how the goals will be achieved. It therefore ensures everyone is working toward a shared goal.
2. **Prioritization:** Alignment helps in prioritizing the task as well as resource allocation
3. **Reduced ambiguity:** with proper alignment, everyday tasks are clear for employees.

Enhanced decision-making:

1. **Strategic Framework:** The aligned vision, mission and strategy act as the reference point for decision making in the firm
2. **Consistency:** Alignment ensures there is consistency in the decision-making process
3. **Speed:** With clear understanding of the three, employee can make decision much faster

Enhanced employee commitment

1. **Sense of purpose:** Employees who understand where their organization is headed and understand how their work contributes to the mission of the firm are more likely to feel a greater sense of purpose and value.
2. **Shared goals:** This promotes a sense of unity, as employees see themselves as part of the larger effort to achieve something meaningful.

Improves resource allocation

1. **Targeted investment:** Where there are alignment resources (human, financial and technological) are put in activities that
2. **Streamlined operations:** Where everyone is working toward one goal, the operations are likely to be streamlined and efficient thereby reducing duplication of tasks.
3. **Optimal use of resources:** The capabilities in the firm such as skills and talent are efficiently used to achieve the overall goal.

Build Trust

1. **Clear communication:** where there is alignment communication is likely to be harmonized, and this increases the trust for different stakeholders.
2. **Consistent brand:** Both the brand equity and reputation are likely to be present in an organization where alignment exist
3. **Attracting potential investors and partners:** If there is alignment there is clarity of strategic intent for the firm, this in turn makes it attractive for potential investors, suppliers, customers, and employees.

Establishing goals and objectives.

- Goals are broader and more strategic aim of what the firm wants to achieve, as compared to vision and mission which speaks of the direction the firm is taking.
- Goals are strategic steppingstones that connect the vision and the mission
- Goal spells out the specific key results that the firm must achieve.
- Objectives on the other hand are more specific actions or targets that the firm must undertake to achieve the goals
- Objectives are concrete actionable steps; they break goals into day-to-day tasks or actions.
- In term of hierarchy, you mover from Vision-Mission-Goal-Objectives
- In our last lecture we mentioned the need to set SMART goals/objectives. In this section we will talk more about this.
- SMART goals framework helps in effective strategy formulation.
- This is an acronym, where S- Specific, M- Measurable, A-Achievable, R- Realistic, T- Timebound

SMART Framework

Specific: The goals must be very specific and not vague,

- It must be clear what you want to achieve.
- For instance;

Vague: To reduce turnaround time

Specific: To reduce our turnaround time by 25% by the second quarter.

Measurable: How will you know if you achieve your goal?

- Define quantifiable metrics
- How often will you be measuring
 - **Non-measurable:** To become the leading bank
 - **Measurable:** To gain 10% market share in Africa by year end as measured by World Bank.

Achievable: This also mean attainable

- The goal should be realistic within your constraints
- The internal analysis we did earlier in internal environmental scanning should help you document your capabilities
- It should be challenging yet achievable
 - **Unachievable:** Be in all country of the world in the next month
 - **Achievable:** Expand to two markets in Africa in the next 2 years through acquisition.

Relevant: Connected to our business

- The goal must be speaking to where we want to go (vision) and our purpose (mission)
- This also speak about the timing or context- is it the right time or place to do it
 - **Irrelevant** (for a university): To increase the sale of our merchandise by 50%
 - **Relevant:** To increase the graduation rate by 10% from the current number.

Time-bound: Talks of deadline

- By when should the goals be achieved
- When is the start and end time
- What are the milestones along the way
 - **Not time-bound:** Increase our sales
 - **Time-bound:** Increase our sales from 200 cartons to 600 by the end of 2026.

Topic Recap

- Strategy formulation is the proactive process of planning how a firm will achieve its long-term vision and mission, informed by environmental scanning.
- Effective strategy formulation is characterized by pre-action positioning, a focus on impactful actions (effectiveness), a strong intellectual component, the need for both intuitive and analytical skills, and often involves a core group of individuals.
- Alignment between vision, mission, and strategy is crucial for providing clarity and focus, enhancing decision-making, boosting employee commitment, improving resource allocation, and building stakeholder trust.
- Goals are broader strategic aims derived from the mission, while objectives are specific, measurable, actionable, relevant, and time-bound (SMART) steps to achieve those goals.
- The SMART framework (Specific, Measurable, Achievable, Relevant, Time-bound) is a key tool for establishing effective objectives that support strategy implementation.
- In our next lecture we will look at strategic analysis and choice, where we shall look at different frameworks that can help firms to select a strategy.

Reference

Image source: Microsoft 365 stock