
Business Strategies Part II – Chapter 6

The Process to Develop, Formulate and Execute a Strategy

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2nd Semester 2021 (online)
- Global Governance -
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Business Strategies – Develop, Formulate and Execute a Strategy

6.1. Building the Strategy

Clarify the vision.

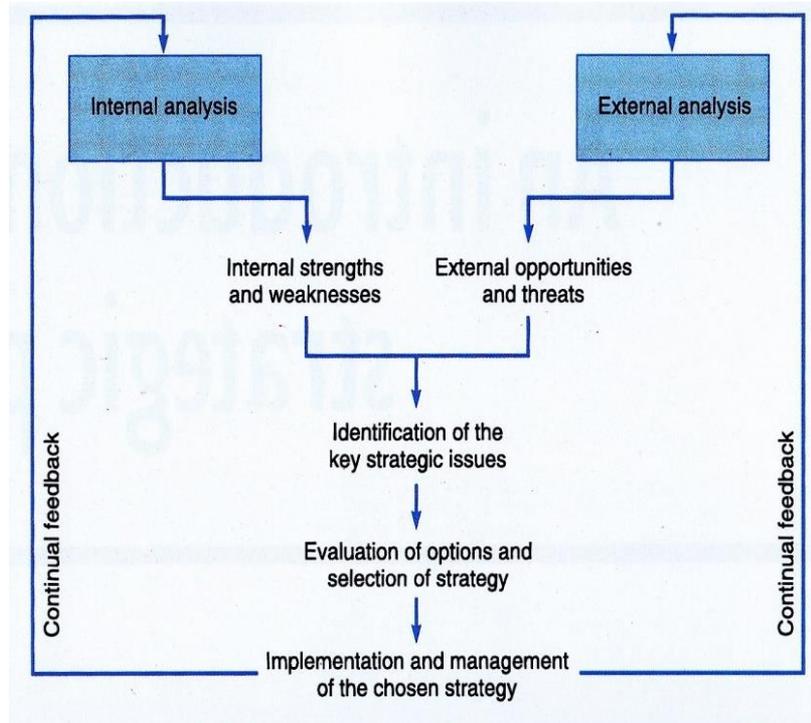
Analyze the internal and external environment.

Select the strategies and formulate them (evaluation and strategic plan).

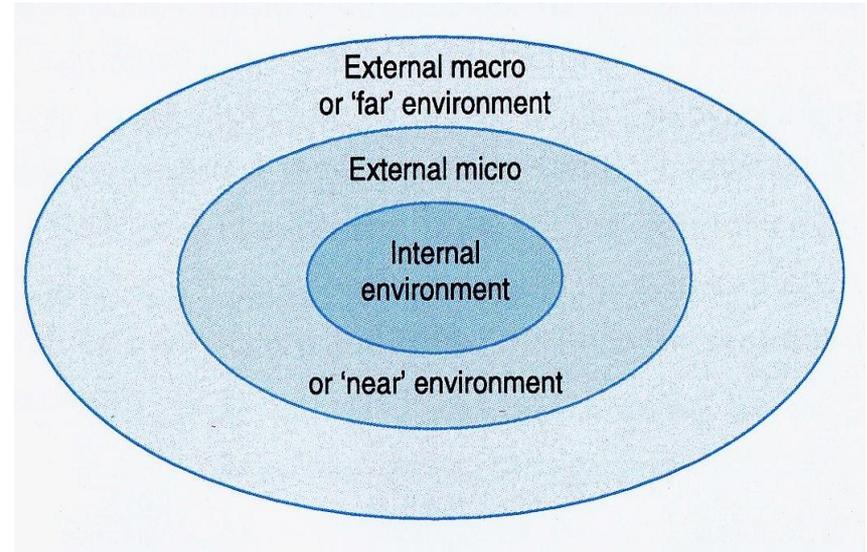
Execute and communicate the strategies (operating plan, process).

Business Strategies – Develop, Formulate and Execute a Strategy

6.2. Analysis as Base of Strategy I



Source: Campbell et al. 2017, p. 2



Source: Campbell et al. 2017, p. 113

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6.2. Analysis as Base of Strategy II

PESTEL framework for external analysis of **macro environment**

Political
Economic
Social
Technological
Environmental
Legal



Please discuss one example
(e.g. opening a car factory in Mexico)

Bkup: Kaplan/Norton, p.48

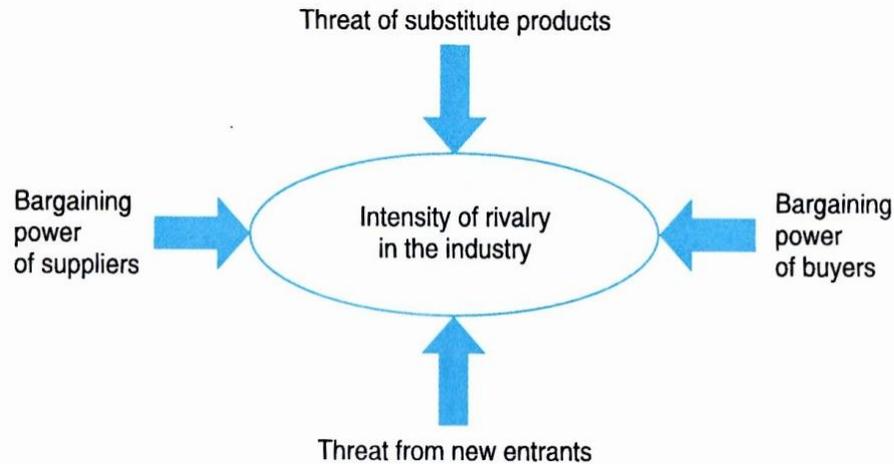
- Similar frameworks:
- SPENT (Social, Political, Economic, Natural, Technological)
 - CAGE (Culture, Administration, Geography, Economics)

IMD Competitiveness study ranks countries year by year.

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6.2. Analysis as Base of Strategy III

Michael Porter's 5 Forces framework to analyze the **micro** environment



Source: Campbell et al. 2017, p. 134

Force	Profitability will be higher if there is/are:	Profitability will be lower if there is/are:
Bargaining power of suppliers	Weak suppliers	Strong suppliers
Bargaining power of buyers	Weak buyers	Strong buyers
Threat of new entrants	High entry barriers	Low entry barriers
Threats from substitute products	Few possible substitutes	Many possible substitutes
Competitive rivalry	Little rivalry	Intense rivalry

Source: Campbell et al. 2017, p. 141

6.2. Analysis as Base of Strategy IV

“Resource-based management strategy theory” uses **VRIO framework** to analyze **internal** strengths and weaknesses.

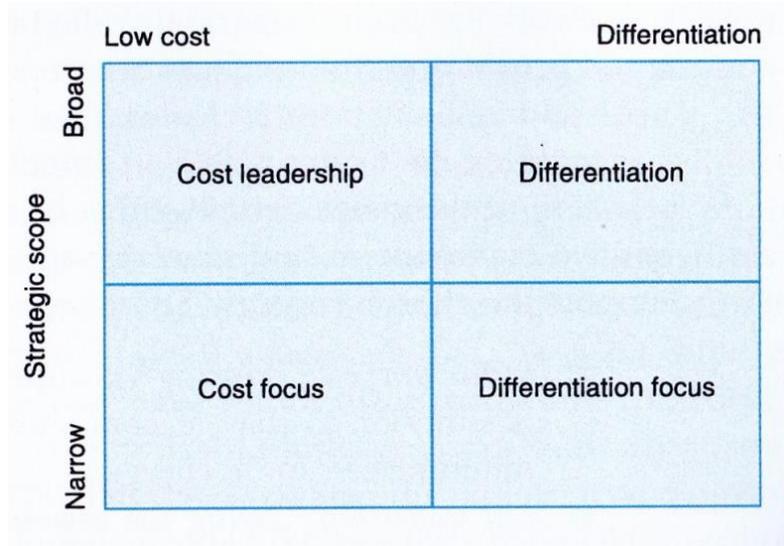
- **Value:** Company’s technology superior to competitors? Better human resources? Network of customers? Assets of high values?
- **Rarity:** How are the assets rare compared to competitors?
- **Imitability:** Is it difficult to copy the technology or the business model? Can “rarity” be maintained for a period of time?
- **Organization:** Is the organizational structure appropriate?

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6.3. Selection and Formulation of Strategies I

Porter's generic strategic framework

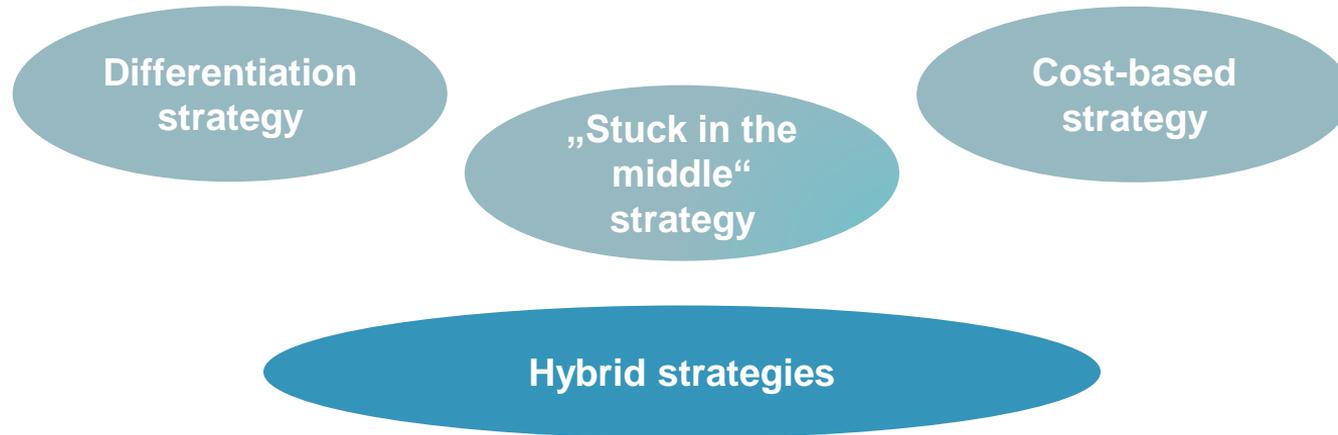
Differentiation, cost leadership or focus inside segments?



Source: Campbell et al. 2017, p. 160

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6.3. Selection and Formulation of Strategies II



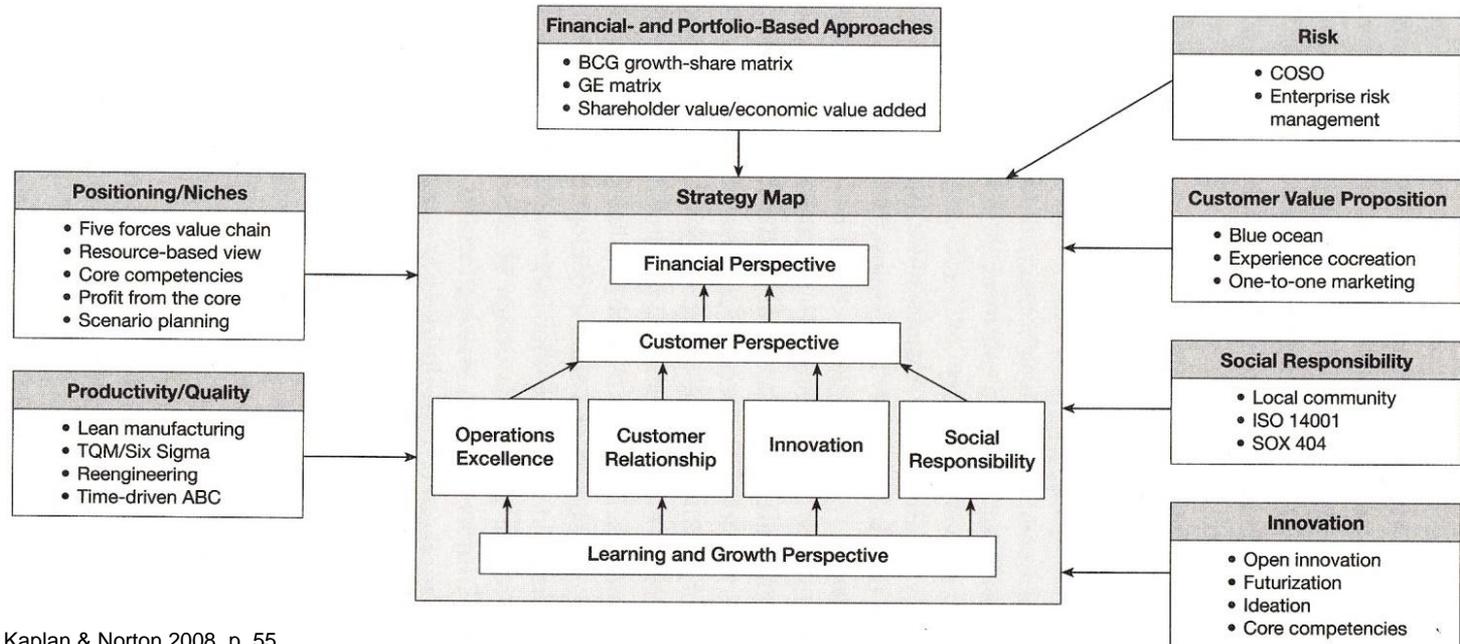
Often we see hybrid strategies because ...

- cost leadership does not sell products
- differentiation can be used to increase sales or charge a premium price
- price can be used to differentiate
- clear linkage between core competences and value adding activities
- generic approach of Porter is not reflecting the needs of different areas (e.g. HR)

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6.3. Selection and Formulation of Strategies III

Various strategy approaches, but all formulated strategies can be translated into a strategy map.



Source: Kaplan & Norton 2008, p. 55

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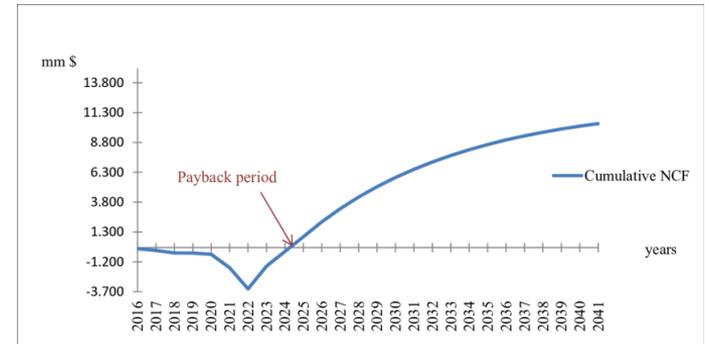
6.4. Excursus: Tools for Strategy Selection I

- **Cashflow forecasting:** Forecast of expected income and costs of a certain option
➔ net cash inflow or outflow over a certain timeframe

- **Investment appraisal:** How much money makes an investment option over a period of time?
➔ pay back period including inflation factor



Net Cash Flow: 1066.00



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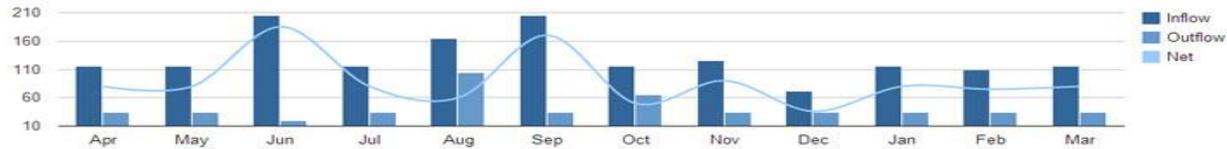
6.4. Excursus: Tools for Strategy Selection I

1. Cashflow forecasting:

Forecast of expected income and costs of a certain option



net cash inflow or outflow over a certain timeframe



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Inflow +													
Cash Sales	10	10	100	10	10	100	10	20	10	10	5	10	305.00
Main Income	100	100	100	100	150	100	100	100	56	100	100	100	1206.00
Other Income	5	5	5	5	5	5	5	5	5	5	5	5	60.00
Totals	115.00	115.00	205.00	115.00	165.00	205.00	115.00	125.00	71.00	115.00	110.00	115.00	1571.00
Outflow +													
Miscellaneous Direct Expenses	5	5	5	5	75	5	35	5	5	5	5	5	160.00
Heat, Light and Power	30	30	15	30	30	30	30	30	30	30	30	30	345.00
Totals	35.00	35.00	20.00	35.00	105.00	35.00	65.00	35.00	35.00	35.00	35.00	35.00	505.00

Net Cash Flow: 1066.00

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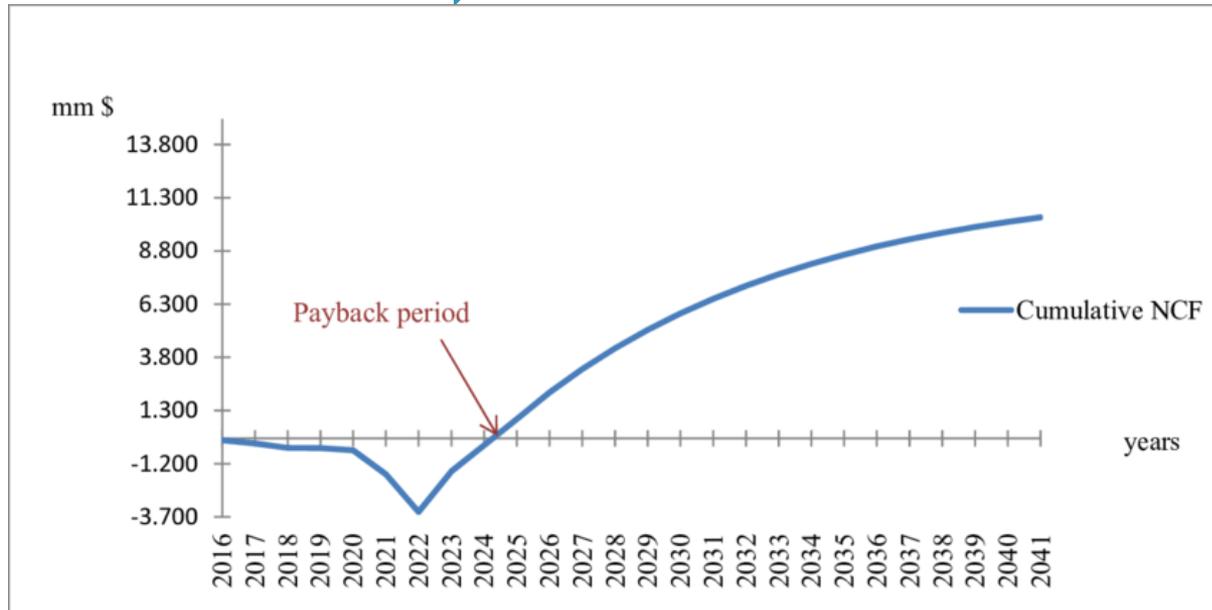
6.4. Excursus: Tools for Strategy Selection I

2. Investment appraisal:

How much money makes an investment option over a period of time?



pay back period including inflation factor



6.4. Excursus: Tools for Strategy Selection II

Other Tools:

3. **Cost-benefit analysis:** Applies to all areas of life, compares all kind of costs with the benefits, i.e. financial and non-financial items (e. g. social costs/ benefits, reputation etc.)

4. **Impact analysis:** “If this option goes ahead, what will be its impact upon ...?” (e. g. impact of an investment on tourism, health, labour market, reputation etc.)

5. **Benchmarking:** Comparison of own performance in certain areas against competitors; objective: best-in-class

6.5. Execute and Communicate a Strategy I

Strategy Plan =

“converts statements of strategic direction into specific objectives, measures, targets, initiatives, and budgets that guide actions and align the organization for effective strategy execution” (Kaplan & Norton 2008, S. 67)

Plan the strategy

- Strategy map/ themes
- Measures/ targets
- Initiative portfolios
- Funding/ STRATEX

Source: Kaplan & Norton 2008, p. 70

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6.5. Execute and Communicate a Strategy II

The strategy translation process (model by Kaplan & Norton 2008)

Strategy Translation Process	Objective	Barriers 	Enabling Tools
Create the Strategy Map <i>How do we express our strategy?</i>	To develop a comprehensive integrated model of the strategy that pulls together the many diverse components of the plan	Typical strategies are built by different groups in different parts of the organization. They are not integrated.	<ul style="list-style-type: none"> • Strategy map (cause and effect) • Strategic objectives
Select Measures and Targets <i>How do we measure our strategy?</i>	To convert strategic direction statements into measures and targets that can be linked to the management system	Lower-level objectives and targets are not aligned with the higher-level goals.	<ul style="list-style-type: none"> • Balanced Scorecard <ul style="list-style-type: none"> – Measures – Targets – Gaps

Strategic Themes



Clarify the logic of strategy and split it into distinct value creating processes (e.g., “improve productivity” affects various processes and the customer as well)

Bkup: BSC as integrated Mgt.system

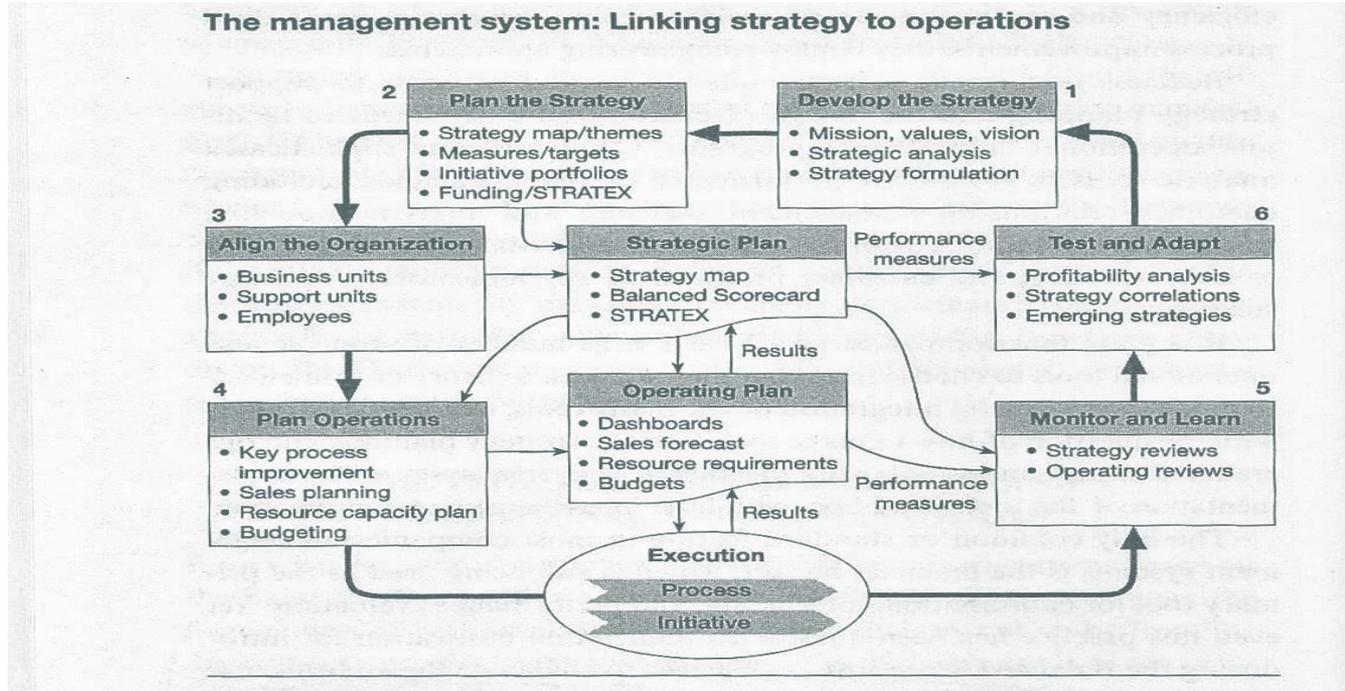
Balanced Scorecard



establishes measures and targets for each objective

Business Strategies – Backup - BSC: An integrating Management System III

Management system of Balanced Scorecard: **Integrating strategy planning and operational execution**

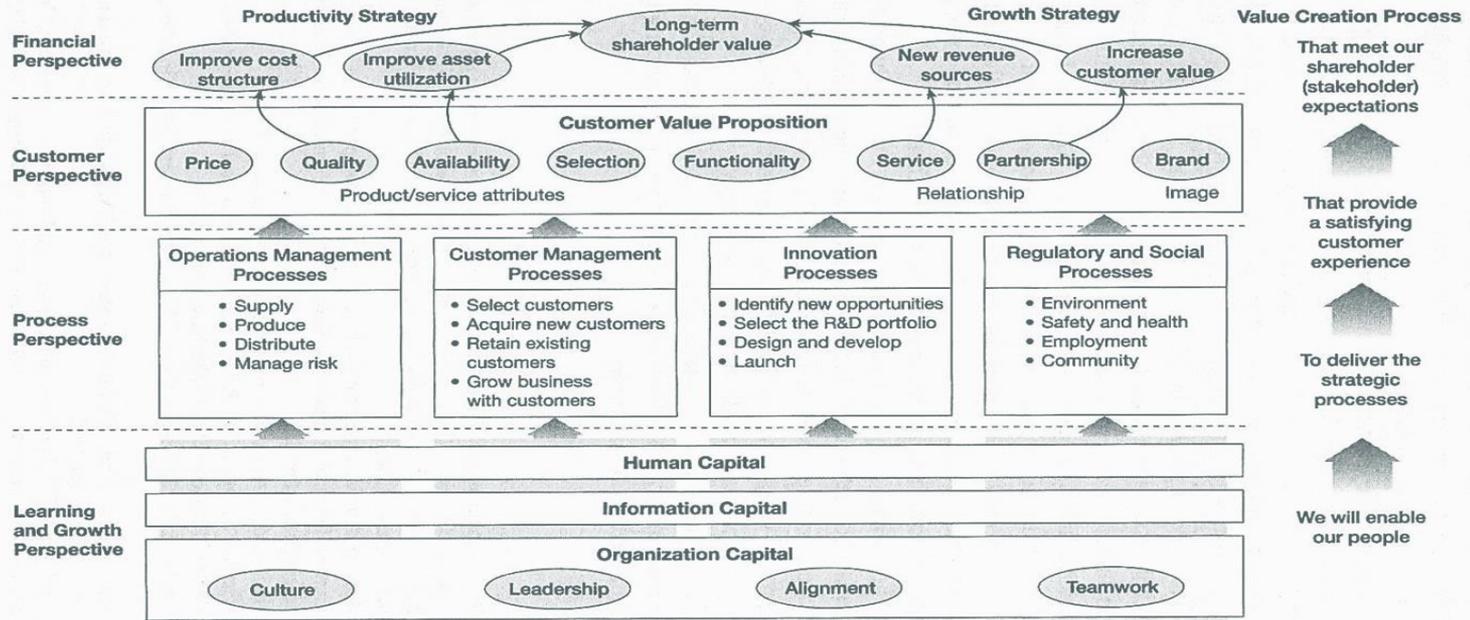


Source: Kaplan/ Norton 2008, p. 8

Business Strategies – Backup - BSC: Strategy Map I

FIGURE 3-A1

The strategy map describes the way the organization intends to create value for its stakeholders



Source: Kaplan/Norton, 2008, p.99

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6.5. Execute and Communicate a Strategy IV

Align the organization and communicate the strategy



LEARNING MAP: THIS IS THE VISUAL METAPHOR UTILIZED FOR TRAINING: A RALLY WITH A TEAM GUIDED BY A MAP, WORKING TOGETHER TO ACHIEVE THE OBJECTIVE: TO WIN THE COMPETITION



GIGA, THE MASCOT OF THE ACT TO WIN PROGRAM.
GIGA ALSO PHYSICALLY PARTICIPATES IN SPECIAL VWB EVENTS