Strategy analysis and choice

Learning outcomes
At the end of this module you should be able to:

- identify and explain the different types of strategies from which an organisation can choose;
- identify the strategy evaluation models to appraise different strategy alternatives;
- explain and apply critical questions when screening strategy alternatives;
- develop an appropriate range of strategies for a maritime organisation to pursue;
- explain the role of intuition in strategic choice; and
- explain the role of organisational culture in strategic choice.

Topics
6.1 Defining strategy
6.2 The context of strategy choice
6.3 A framework for classifying strategies
   6.3.1 Strategy levels
   6.3.2 Typology of strategies
6.4 Strategy alternatives
   6.4.1 Master/corporate strategies
   6.4.2 Business strategies
   6.4.3 Functional (or operational) strategies
   6.4.3 A final word on strategy alternatives
6.5 Strategy selection and evaluation
   6.5.1 Screening alternatives
   6.5.3 Evaluation tools
6.6 Further reading
6.7 Global issues for the 21st century

Quotes of note

Don't be afraid to try something new.  
An amateur built the ark.  
Professionals built the Titanic.  
Liba S. of Passaic, NJ

Even if you are on the right track, you'll get run over if you just sit there.  
Will Rogers
Introduction

Without strategy, an organisation is like a ship without a rudder. It may know where it wants to go but has no means of getting there. On the other hand, if it does not know where it wants to go – rudder or no rudder – any route (that is, any strategy) would do: it is pointless worrying over what route to take if you do not know where you are going!

From our previous modules, we have learnt that the mission sets the broad guidelines of where the organisation would like to be in the future, while strategic objectives are the performance standards, the targets if you like, that are needed to realise the mission.

Strategies and strategic objectives are closely intertwined. Objectives tell us what is to be achieved: strategies, how this can be done. In this module, we shall focus on various strategy alternatives and ways and means of evaluating and selecting the right ones for the job.

6.1 Defining strategy

In today’s ultra-competitive world, the importance of strategy for commercial survival and success is undisputed. Unfortunately, quite a number of people (including those who write about it) still use it more as a buzzword rather than as the powerful tool it actually is. Partly as a result of this lack of understanding, the term strategy is often used loosely.

Consider this

How many times have we heard business people (and politicians, too) proclaim, ‘our strategy is to beat the competition’? Beating the competition is not a strategy; it is a goal. Diversifying so that you can beat the competition: now that is more of a strategy! Remember: goals deal with what is to be achieved (for example, beat the competition); strategy, with how this can be done (by diversifying current operations, having alliances with key suppliers, building up more market share and so on). Put more succinctly:

Strategy is the means by which an organisation can achieve its goals and objectives.

6.2 The context of strategy choice

Choosing appropriate strategies is the one area in strategic management where you must attempt to muster your most creative talents. There is plenty of research to demonstrate that no matter how good your mission, goals and objectives are, it is your choice of strategy that really determines success or failure.
Your choice will of course depend on how well you can think and act strategically – on your ability to be creative and inventive, to see fresh opportunities in even the most tried and tested combinations or in the face of apparently insurmountable threats. The following is a classic example from ancient history about the importance of strategy.

**Example: The Battle of Cannae**

At dawn on the morning of August 2, 216 BC, actions began in what was to become the Battle of Cannae, the most decisive battle in the history of warfare. Hannibal, who had led his Carthaginians across the Alps and into Italy in order to capture the land of his enemies, found his army of 42,000 opposed to a numerically superior force of 72,000 fierce Roman warriors under Varro. Behind Hannibal’s forces was the Aufidus River. He could neither escape nor avoid battle. Hannibal formulated an excellent strategy.

Hannibal divided his forces into an advanced weak centre and strong flanks, both flanks resting on the terrain features that would form a natural obstacle to the Roman advance. He deployed his cavalry on these flanks, the larger group to the left flank and a smaller group to the right. Varro, noting the disposition of the Carthaginian infantry, immediately directed his forces to avoid the flanks and to crush the Carthaginian centre by weight of numbers. Varro divided the Roman cavalry, sending approximately equal numbers to oppose the two Carthaginian cavalry units. This meant the Roman cavalry on the left was weaker than the Carthaginian cavalry opposing it. As Hannibal had planned, about 65,000 Roman infantry were directed against the weaker Carthaginian centre.

As the Roman mass rushed forward, the Carthaginian cavalry on the left attacked the smaller opposing Roman cavalry and destroyed it. Hannibal’s cavalry then circled behind the Roman army to attack the other wing of Roman cavalry on the other Carthaginian flank. This other Roman cavalry force had been held in place by the smaller Carthaginian cavalry units. With superior numbers of Carthaginians attacking from two directions, the remaining Roman cavalry was defeated and put to flight.

Meanwhile, the main body of Roman infantry continued charging into the Carthaginian centre. On orders from Hannibal the centre was slowly withdrawing, while the flanks held fast to their positions. The mass of Romans, ever increasing in density as Varro rushed more and more troops into what he perceived to be a disintegrating centre, was drawn in between the two strong Carthaginian flanks.

Once the Roman army was completely encircled and without cavalry, Hannibal ordered his withdrawing centre to attack. Simultaneously, the strong Carthaginian infantry units on both flanks attacked. Packed so densely that they could not use their weapons effectively, and with their retreat cut off by Carthaginian cavalry at their backs, the Romans were slaughtered. More than 60,000 Roman soldiers were killed in the Battle of Cannae. Hannibal demonstrated that a well-formulated and implemented strategy can enable an organisation to overcome great odds.


*What were the advantages and disadvantages of this battle strategy? Sure, some of you might say, Hannibal’s success in the battlefield may be uplifting but it offers little guidance to modern-day combatants like us. The right strategy separates the victor from the vanquished, but how do we choose the ‘right’ one, and how do we know if what we have is indeed right?*
It is tempting, particularly in an introductory subject in strategic management, to simply provide basic rules and templates to answer queries such as the ones above. However, this would be doing you a disservice – far better for you to learn now that there are no easy answers. While we may provide you with some tools for analysis, these must always be used with discretion and tailored to suit specific circumstances. While objective measures of assessment are often recommended to accompany any analysis, the final decision will still depend a lot on judgment calls, as well as on your creativity, experience and intuition.

We stress this very important point, because like many other areas of business, the maritime industry has its fair share of organisations that pay lip service to the importance of strategic thinking but do not (or do not know how to) practise it. Instead, they put themselves into straight jackets by sticking to the same strategy even when their environments and competitive position dictate drastic change. Keep this forewarning in mind as we look at some basic rules of the road.

6.3 A framework for classifying strategies

There is a wide array of strategies that you can pick up from the literature on strategic management. The trick is in finding out which strategy is appropriate for what purpose and at what organisational level. This is not always easy to do, because the semantic confusion over the term ‘strategy’ extends to descriptions used in classifying strategies as well. As you will soon find, different authors are likely to give different names to the same concepts, or to offer their own classification system regardless of what the mainstream literature may already have in use.

Let us start with a basic introduction by reading through the relevant chapter of your text. Pay particular attention to Porter’s generic strategies. Note also the guidelines for pursuing strategies as this is a particularly useful guide (which not all authors include). Table 5.2 will be a useful ‘quick reference’.

Reading Revisit


A very popular strategy in modern management is a strategic alliance. The following short reading outlines this - It also covers some strategies to avoid.

Reading (Refer end of Module)

A note on strategic alliances

Strategic alliances and cooperative agreements are a potentially fruitful means for firms to compete on a more global scale.

Strategic alliances can assist companies in a globally competitive industry to strengthen their competitive position while still preserving their independence.

Quick question

Can you think of any examples of a strategic alliance?

The strategic alliances that most people would be familiar with are those of various airlines. At the time of writing the Star Alliance and One World (Qantas, Nuigini Airlines...) are some examples. Some readers will be familiar with the strategic alliances developed with Singapore airlines.

As noted previously, different authors are likely to give different names to the same concepts, or to offer their own classification system regardless of what the mainstream literature may already have in use.

Figure 6.1, parts A and B following, is an attempt to make the task of classifying strategies a little less confusing. Let us analyse this figure carefully so you can get the most out of it.
A. Strategy levels for diversified and single-business companies and their relationship to organisational levels.

**Strategy levels – diversified company**

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master (grand) = Corporate</td>
<td>Master (grand)</td>
</tr>
<tr>
<td>Corporate</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td></td>
</tr>
<tr>
<td>Functional</td>
<td></td>
</tr>
</tbody>
</table>

**Strategy levels – single business**

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master (grand) = Business</td>
<td>Master (grand)</td>
</tr>
<tr>
<td>Corporate</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td></td>
</tr>
<tr>
<td>Functional</td>
<td></td>
</tr>
</tbody>
</table>

*Figure 6.1A  A framework for classifying strategies*
**B Types of strategies according to scope (generic, specific), priority (primary, secondary) and source of funding (internal, external) and their relationship to strategy levels.**

<table>
<thead>
<tr>
<th>Generic strategy</th>
<th>Supporting specific strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary</td>
</tr>
<tr>
<td></td>
<td>Internal</td>
</tr>
<tr>
<td>Master* or corporate</td>
<td>Grow</td>
</tr>
<tr>
<td></td>
<td>Develop</td>
</tr>
<tr>
<td></td>
<td>Stabilise</td>
</tr>
<tr>
<td></td>
<td>Turnaround</td>
</tr>
<tr>
<td></td>
<td>Harvest</td>
</tr>
<tr>
<td>Business</td>
<td>Cost leadership</td>
</tr>
<tr>
<td>Functional</td>
<td>Cost focus</td>
</tr>
<tr>
<td>Functional</td>
<td>Differentiation focus</td>
</tr>
<tr>
<td>Functional</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* Whether diversified or single business

---

**Figure 6.1B  A framework for classifying strategies**

**6.3.1 Strategy levels**

We have said that there are four organisational levels: enterprise, corporate, business and functional. In a typical diversified maritime company, the first two (enterprise and corporate) are collapsed into one level so you end up with only three: corporate, business and functional.

In a typical single-business maritime company, you normally have two: business (which incorporates the enterprise, corporate and business levels) and functional.
When it comes to strategy development, however, you will find that companies, whether diversified or single-business, may decide to add a separate higher-order strategy level, the master or grand strategy. Of what use is a master strategy, as distinct from a corporate (or business) strategy? Essentially, it is to orchestrate the various strategies that may be chosen for specific business or functional units.

Say that you are the head of a diversified company. Your master strategy may be to grow vigorously through technological innovation. To make this happen you may decide to diversify some of your businesses and integrate the others. These strategies, diversification and integration, then become your corporate strategies. For your business strategies, each business chosen to diversify may decide to build economies of scale, widen their scope of operations and focus on advanced technology to reduce overall costs and increase profits. On the other hand, those selected for integration may intensify efforts to provide a more unique service to customers. Given these strategies, each functional area of each business will then be expected to provide the necessary strategic support. Figure 6.2 illustrates this relationship between the master strategy and all lower-order strategies.

![Image](image-url)

**Figure 6.2** Relating master, corporate and business strategy levels

### 6.3.2 Typology of strategies

What strategies are appropriate for each strategy level? As a guide, consider the following well-established ways of classifying strategies.

**Generic versus specific**

**Generic**: a broad group of strategies that have common characteristics and can be applied across a wide variety of situations. In this module we shall look at two types of generic strategies:

1. **Master/corporate strategies** (grow, develop, stabilise, turnaround, harvest), and
Module 6: Strategy analysis and choice

2 Porter’s generic business strategies (cost leadership, differentiation, cost focus, differentiation focus).

We shall examine these two sets of generic strategies later in this section.

Note that generic strategies apply only at the master/corporate and business strategy levels; there are no generic classifications for functional strategies, which are always specific in nature.

Specific: any strategy that is used for a specific purpose and is known by a specific name. As you will see, certain specific strategies are more ideally suited for certain generic strategies than others.

This should not limit you, however, when you go strategy shopping. If properly applied, most strategies can be used in support of any strategy level or type.

Types of specific strategies
Specific strategies tend to proliferate like cane toads, so to put them into some order they are often classified as being

1 primary or secondary and/or
2 internal or external.

If a strategy is given first priority over others, it is called the primary strategy; any alternate or supporting strategy is called secondary. Sometimes you will find that strategies chosen to support primary ones are also called ancillary or contingency strategies.

Where a specific strategy relies solely on the internal capabilities of the company, it is classified as internal; if outside resources are required as well, it is called external.

We shall cover quite a number of specific strategies, so prepare yourself for a bit of confusion as you start to sort out which is which.

The classification system provided in Figure 6.1 should help make sense of the different strategy names that you will encounter from this point on. If you find a classification system different from this one try to see where and how this ‘new’ typology may fit into Figure 6.1’s more established categories.

6.4 Strategy alternatives
As noted in the previous paragraphs, there are many strategy alternatives from which to choose. However, since we are in the business of strategic decision-making, remember that your choices are limited only by your imagination. Whenever necessary, be prepared to go beyond what is offered and invent a few to suit your own requirements. In the meantime, these are a few major ones of which you should be aware.

6.4.1 Master/corporate strategies
Strategies used at the corporate level are classified into generic groups:

- grow/develop (full ahead)
- stabilise (steady as she goes)
- turnaround (ride out the storm)
- harvest (time to salvage)

By way of example the following diagram shows how the different types of generic corporate strategies can be applied over time, depending on the market position of a particular organisation. Note that the organisation is at the turnaround stage: from here, depending on what strategy it chooses, it can either grow or die.

**Figure 6.3 Applying corporate strategies over time**

Figure 6.3 is a simplified demonstration of how corporate strategies can be applied to different market positions. However, never kid yourself into believing that the market position will follow an orderly, predictable pattern. It will not, which is why we must continuously monitor and evaluate our strategies. If you doubt this, then have a look at any graph that plots freight rates over time, or any major share market index over time. If you can spot a clear predictable pattern let me know – we could be very rich together.
6.4.2 Business strategies
While Porter’s work on business strategy is not quite the ‘Holy Grail’, it comes close. His seminal books (Competitive Strategy, 1980; Competitive Advantage, 1985) are still the leading works on the subject. Note that Porter uses the term competitive to describe what we call business strategies; do not worry, both terms can be used synonymously. Some of you were introduced to Porter’s work in the subject International Business, so they should be familiar.

6.4.3 Functional (or operational) strategies
Functional strategies, sometimes referred to as operational strategies, are at the lowest rung of strategy development. They are normally developed as part of the implementation process. We mention them here merely to complete our discussion of strategy levels; we shall cover them in more detail in Module 7.

Functional strategies specify the means by which the different functional areas of a business must contribute to business and corporate strategies. Say a diversified maritime company has one business – a shipping agency – that is in deep financial trouble. At the corporate level, the strategy is to turn this business around so that it will not drag the company down.

At the business level, this means competing by means of, say, a cost-focus strategy. Each functional area of the business must then come up with a particular strategy to implement both the business and corporate strategies. This relationship is shown in Figure 6.4.

![Diagram of Corporate, Business and Functional Strategies](image)

**Figure 6.4** Corporate, business and functional strategies
### Example: P&O's strategy mix

Remember the P&O example? Let us use it again to pull together our discussion on strategy alternatives. Based on the results of the SWOT analysis, P&O’s areas of growth were identified and appropriate (generic and specific) strategies chosen.

These choices are summarised in Table 6.1 on the following two pages.

#### Table 6.1  Strategies selected for P&O, based on P&O’s SWOT analysis and strategic objectives

<table>
<thead>
<tr>
<th>Areas of growth</th>
<th>Objectives</th>
<th>Generic</th>
<th>Primary means of strategy type</th>
<th>Contingency strategy achieving strategy type</th>
</tr>
</thead>
</table>
| Trade Growth    | Set out policies now:  
- reduce over-capacity  
- build scale  
- recognise competition  
- work to homogenise local tastes  
Consolidate & build up SBUs in order to capitalise on growth areas. | Growth | Diversification: Diversification by mergers with key companies that ‘fit’ into corporate plans. | New game strategy: Most competitors follow ‘same game’ acquisitions/consortia of strategies’ in that they tend to mirror/imitate current success factors. P&O is strong enough to pursue this type of strategy; management has enough entrepreneurial flair. |
| EC trade        |            |         |                               |                                             |
| Pacific Rim trade|            |         |                               |                                             |
| Group Business Growth | Current SBUs act as insurance for group but greater synergies can be achieved by SBUs being inter-related. | Growth | Diversification: Using the same means as above (diversification) but with greater refinement on diversification type. Concentric diversification is necessary to build up synergy of the group. Investment in ports & port services is one natural area. |                                             |
| Greater synergy with SBUs. |            |         |                               |                                             |
| Expand into higher earning areas to boost returns | SBUs are providing quality assets and earnings but mediocre returns. Emphasis on investment & divestment of good and low performers; strategic consolidation. | Growth | Differentiation focus: focus on providing a unique high quality service to customers. P&O has the reputation, market positioning & managerial skills to offer such services. Total & Through Transport Services is one such area. |                                             |
Table 6.2 Strategies selected for P&O, based on P&O’s SWOT analysis and strategic objectives (continued)

<table>
<thead>
<tr>
<th>Areas of growth</th>
<th>Objectives</th>
<th>Generic</th>
<th>Primary means of strategy type</th>
<th>Contingency strategy achieving strategy type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Business Growth</td>
<td>Expand into competitors’ environment</td>
<td></td>
<td>Diversification: Conglomerate diversification initially – leading to concentric. Airline industry is important area of growth. This would complement sea modes by joint schemes. Differentiation strategies would merge in well here: high quality service &amp; higher earnings. Airlines would give good synergy to passenger shipping; alternatively it could substitute for passenger shipping, as airlines are just as prestigious, have greater stability &amp; provide higher earnings.</td>
<td></td>
</tr>
<tr>
<td>Opportunity led growth</td>
<td>Look for limited periods where the fit between key requirements of a market are at an optimum for investing and divesting.</td>
<td></td>
<td>Strategic Windows: P&amp;O is experienced in this field. It also has sufficient resources and infrastructure to support it. R&amp;D in market investment &amp; development would have to be increased.</td>
<td></td>
</tr>
</tbody>
</table>

6.4.3 A final word on strategy alternatives

One final word of advice before we close our discussion on strategy alternatives:

- The literature never gives us the ‘right’ strategy on a plate. It provides broad guidance, but not the specifics. For example, even if we use the focus (niche) strategy we still need to know exactly which market segment(s) to target.
- Therefore, the best strategies are developed when the following conditions are met:
  - when we use the literature as lessons in history: as a broad guide to tell us what seems to work and what does not, and how best to use and implement what. Note, however, that we should never limit ourselves to only those choices.
  - when we really know and understand our business and environment. Only then can we develop practical and workable strategies.
  - when we use strategic thinking: the strategist has to be creative and innovative, and to investigate all the alternatives so as to come up with a strategy that outperforms the competition: a strategy which seeks to redefine the ways others are forced to compete if they are to survive.
**Key strategic management concept**

The best strategies for an organisation are ultimately a unique construction reflecting its own particular circumstances.

### 6.5 Strategy selection and evaluation

So you have come up with a few strategy alternatives that an organisation could pursue. Which do you choose; which ones are best? This section will provide some guidance on this issue. You should be starting to realise the importance of a good financial analysis of strategy alternatives. After you have completed this section we will cover three evaluation models particularly useful in the maritime industry.

Sometimes the choice of a strategy becomes self evident to the strategic manager; often it does not, which is why it is always prudent to conduct a systematic evaluation of likely options. Essentially, this means following two steps:

- screening alternatives
- using an appropriate strategy evaluation tool to appraise those alternatives that have passed the test and determine the best strategy or mix of strategies.

We will now consider those two steps.

#### 6.5.1 Screening alternatives

The real issue to be resolved when screening strategy alternatives is whether or not the proposed strategy is the best means of achieving the organisation’s objectives. Here is a checklist, containing what the mainstream literature considers critical questions to answer:

1. Is the strategy consistent with:
   - strategic analysis results: do the findings from the environmental assessment support the strategy?
   - strategic objectives: will the strategy enable the strategic objectives to be achieved?

2. Are the right people available to support the strategy? Is the organisational culture and managerial skill sufficient for the strategy to work?

3. Are there sufficient resources (like capital, facilities, managerial expertise and so on) to make the strategy work?

4. Does the strategy offer a genuine competitive advantage? Is it based upon something which is important to customers, and something which the organisation can do better than its competitors?
5 Does the strategy offer an acceptable level of risk (relative to return) that the organisation is happy to live with?

6 Is there sufficient flexibility in the strategy? Is there enough ‘slack’ in the strategy so that if the environment gives the organisation a surprise, the strategy may be adapted or modified?

7 Is the strategy socially acceptable? Would society find the strategy to be within the norms of ethical behaviour?

8 Is the strategy clear and communicable enough for all to understand?

9 Can the strategy be measured so that it can be compared against other alternatives and its ability to meet its target monitored?

10 Is the strategy achievable enough – challenging so that people will be motivated to make it work, yet not so easy or conservative that they lose interest in it?

If the answer to these questions is ‘yes’, then the strategy selection goes to the next step – evaluation.

6.5.3 Evaluation tools

Evaluating strategy alternatives requires a lot of good analysis, both qualitative and quantitative. Make sure, therefore, that the evaluation tool you choose allows you to collect both hard (statistics) and soft (intuitive judgments) data.

There are many evaluation models you can use; some include the portfolio models we covered in Module 4 (you may wish to turn back to Module 4 to refresh your memory). Portfolio models are used mostly for evaluating corporate strategies (they are particularly suited for complex analysis, as is normally the case when several businesses are evaluated against one another), but if properly used they can also be used to evaluate business strategies.

At this introductory level we do not recommend that you delve too deeply into the various portfolio models available; it is enough that you learn how to use the following three evaluation models. These are:

- the generic strategy evaluation model;
- the SWOT portfolio model; and
- Porter’s model.
The generic strategy evaluation model

<table>
<thead>
<tr>
<th>Key success factors</th>
<th>Rating of importance</th>
<th>Strategy alternatives</th>
</tr>
</thead>
</table>
| Internal            |                      | S1        S2        S3        ...
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
| External            |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
|                     |                      |           |           |           |
| Overall score       |                      |           |           |           |

Legend

<table>
<thead>
<tr>
<th>Strategy alternatives</th>
<th>Rating scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1 = Strategy name</td>
<td>1 = Least critical/attractive</td>
</tr>
<tr>
<td>S2 = Strategy name</td>
<td>5 = Most critical/attractive</td>
</tr>
<tr>
<td>S3 = Strategy name</td>
<td>etc</td>
</tr>
</tbody>
</table>

1. List all relevant key success factors for the company.
2. Using a 5-point scale, with 1 = least critical and 5 = most critical, rate each success factor according to importance.
3a List selected strategy alternatives (It’s up to you to decide what code name to give each strategy, provided you identify them in the ‘legend’ section.)
3b Using a 5-point scale, with 1 = least attractive and 5 = most attractive, rate each strategy according to its ability to support each success factor.
3c For each success factor, calculate the score of each strategy by multiplying the result of Step 2 by the result of Step 3b.
4 For each strategy, calculate an overall score by adding up the result of Step 3c.

Figure 6.5  The generic strategy evaluation model
As Figure 6.5 indicates, to use this model effectively you should follow four steps:

1. **List all relevant key success factors.**
   Ask yourself: What are the key success factors that the organisation must do well in? This should come from your internal and external assessment (the SWOT analysis).

2. **Using a 5-point scale, with 1 as least critical and 5 as most critical, rate each success factor according to importance.**
   This is where the strategist must use a lot of judgement and draw from both internal and external expertise to help establish the best ratings.

3 a. **List selected strategy alternatives.**
   These are the alternatives that have survived the screening test.

3 b. **Using a 5-point scale, with 1 as least attractive and 5 as most attractive, rate each strategy according to its ability to support each success factor.**
   As in step 2 above, this is where the strategist must use a lot of intuitive judgement and may have to call on others to help quantify a reasonable and realistic attractiveness rating.

3 c. For each success factor, calculate the score of each strategy by multiplying the result of step 2 by the result of step 3b.
   This step is fairly straightforward since all the information is provided.

4. **For each strategy, calculate an overall score by adding up the results of step 3c for all rows.**
   As in step 3c above, this step is straightforward. The strategies with the highest scores would naturally be the best strategies to pursue.

Figure 6.6 demonstrates how this model is applied to our P&O example. As you can see from this example, of the two alternatives, the strategic window strategy provides the best results and should therefore be the preferred choice.
## Figure 6.6 Applying the generic strategy evaluation model

The generic strategy evaluation model has several advantages over others:

- It takes into consideration most of the qualities of existing portfolio models.
- It provides a good mix of qualitative and quantitative analysis.
- It is very flexible and can be used across all strategy levels (enterprise, corporate, business, functional).
- It focuses on key success factors rather than on the narrow focus of many portfolio models.

<table>
<thead>
<tr>
<th>Key success factors</th>
<th>Rating of importance</th>
<th>Strategy DF</th>
<th>Alternatives SW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to capital</td>
<td>4</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Quality asset base and earning</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Entrepreneurial orientation and leadership</td>
<td>5</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Ability to meet changing technology</td>
<td>3</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Depressed market, weak competition</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Changing trade patterns</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Rising trade protectionism</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Good growth due to EC 1992</td>
<td>4</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Overall score</td>
<td>76</td>
<td>94</td>
<td></td>
</tr>
</tbody>
</table>
Its main disadvantage is that the results are only as good as the data on which it is based. The quality of the results is highly dependent on the ability of the strategist to accurately determine and rate key success factors and strategy alternatives.

**SWOT portfolio model**

Another evaluation tool you can use is the SWOT portfolio model that can be used to evaluate corporate strategies. It is presented in Figure 6.7.

![SWOT portfolio model diagram]

**Figure 6.7 The SWOT portfolio model**

As you can see, the model has two dimensions: it identifies (a) the appropriate type(s) of strategy on the basis of (b) the organisation’s competitive position. Matching strategy to competitive position is rather typical of all portfolio type models. The big advantage of this one over others is its simplicity: most people find it easy relating to internal capabilities in the form of strengths and weaknesses, and to the external environment in the forms of opportunities and threats. The ease with which you can plot results is an added advantage.

So how does it work? Say, for instance, that a port or shipping company is faced with many opportunities and few serious threats in its external environment and at the same time possesses many internal strengths and relatively few weaknesses. If this were all plotted on the matrix, then a strategy such as growth would clearly be...
an obvious choice, while strategies like harvest or turnaround would simply be inappropriate. This is illustrated in Figure 6.8.

![Figure 6.8 Applying the SWOT portfolio model](image)

Where many people come unstuck when using this model (and other portfolio-type models) is when strategies fall in between categories. This can happen, for instance, when a company has many strengths and few weaknesses with only a few opportunities and many threats to contend with.

Under these circumstances, the company would have to choose between a ‘stabilise’, ‘grow’ or ‘harvest’ strategy! As there is an enormous difference between stabilising, growing and harvesting, choosing the right one becomes very dicey. What should you do? The answer, as always in strategy development, lies in good intuitive judgement: no matter how strong your internal capabilities are, if you have as many threats as you have opportunities, then you are operating in a very uncertain and risky environment. It can even be downright hostile.

So check your competitive position: is it strong enough to enable you to pursue a ‘grow’ strategy? Would it be more prudent to wait and see (and choose a ‘stabilise’ strategy)? Or would we be better off in the long term to adopt a ‘harvest’ strategy?
now? Being on the borderline is always tricky so take special care when you find yourself in this situation.

**Porter’s model**

Figure 6.9 presents Porter’s model, which is useful for business strategy evaluation.

<table>
<thead>
<tr>
<th>Competitive score</th>
<th>Competitive advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad target</td>
<td>Lower cost</td>
</tr>
<tr>
<td></td>
<td>1 Cost leadership</td>
</tr>
<tr>
<td>Narrow target</td>
<td>Differentiation</td>
</tr>
<tr>
<td></td>
<td>2 Differentiation</td>
</tr>
<tr>
<td></td>
<td>3a Cost focus</td>
</tr>
<tr>
<td></td>
<td>3b Differentiation focus</td>
</tr>
</tbody>
</table>

**Figure 6.9 Porter’s model**


Porter’s model is used in exactly the same way as the SWOT portfolio model. It has two dimensions: competitive advantage and competitive scope. Say you head a liner shipping company and to remain competitive you decide to cut overall costs by at least 20% and focus more on core businesses. Based on your current operations and future predictions, the best means of achieving these objectives is by narrowing your scope of operations so there are fewer markets in which to compete, and by offering the lowest rates to customers within these markets.

If you look at Porter’s model in Figure 6.10, the strategy most suited to these two tasks is a cost-focused strategy. Facing hard times, you decide to cut overall costs by 30% and concentrate only on core business units. Say also that two different strategies have been proposed to you – cost focus and cost leadership. Which one would you choose? According to the model, you would choose a cost focus: it would allow costs to be reduced and would force you to target your market scope a lot more. This is illustrated in Figure 6.10.
### Competitive advantage

<table>
<thead>
<tr>
<th></th>
<th>Lower cost</th>
<th>Differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad target</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Competitive scope</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Narrow target</td>
<td>3a Focus on core business</td>
<td>3b Cut costs by at least 20%</td>
</tr>
</tbody>
</table>

Appropriate strategy types:

1 = Cost leadership
2 = Differentiation
3a = Cost focus
3b = Differentiation focus

**Figure 6.10** Applying Porter’s model  

### 6.6 Further reading

By now you will have realised that applying strategies in a maritime company is very much a matter of choice. There are many strategy alternatives and evaluation tools to choose from.

Skim read the following chapter concentrating more from p. 223.

#### Textbook


The following article is provided to strengthen what you have learnt in this module. The amount of time you spend on this should depend on your grasp of the topic so far.

#### Reading (Refer end of Module)


---

22 Strategic Management
6.7 Global issues for the 21st century

- The international implications of corporate growth strategies are increasing. Even if an organisation is not planning to enter an international market, many of its suppliers and customers will be located in other nations.

- A disadvantage of vertical growth for a company operating in a global industry is that its functional value chain will be spread, making logistics and communication especially important. Consider the impacts of natural disasters, politics or national revolutions and the impact on service.

- Conglomerate diversification has been criticised as providing less value than did concentric diversification, primarily because it is more difficult to keep track of unrelated businesses. As more companies become involved in international operations like strategic alliances and other options (thus complicating management even further) it is likely that conglomerate diversification will become even less popular.

- As more companies become involved in international operations it is likely that corporate culture and human resources will increase in importance in a highly competitive global industry. New products and new technologies are easier to duplicate than the intangible aspects of corporate culture and human resources. This has implications for the maritime industry, which is service (as opposed to product) orientated.

Conclusion

A strategy can be defined as the means by which the organisation can achieve its objectives. To do this it must deal with the ‘how to do’ side of things.

As with objectives, strategies can be developed across all organisational levels. In diversified maritime companies it is common for enterprise and corporate levels to be collapsed into one; in single businesses, the first three (enterprise, corporate, business) are collapsed into one.

At the corporate level, there are four generic types of strategies: grow/develop; stabilise; turnaround and harvest.

Even though these generic corporate strategies have a number of ideally suited specific strategies, this does not mean that they cannot be used in other combinations. If other combinations can help the organisation outperform competitors, then they should be used. Always remember that the type or mix of strategies should be contingent upon the predicament facing the organisation, and how well the strategy can be implemented.

At the business level there are three generic types of strategies: cost leadership; differentiation and (cost, differentiation) focus.

Good strategies are developed when we make use of whatever knowledge is available in the literature and when we really know and understand our business and...
the environment in which it competes. Then, we can apply strategic thinking principles to come up with creative and innovative ways of outperforming competitors.

The key to strategy selection and evaluation is to ensure that the strategy is the best means of achieving objectives and that there is a clear match between the strategy type(s) and the organisation’s competitive position in the market place.

Strategy evaluation normally involves screening alternatives. Then, using appropriate evaluation tools, we can evaluate the alternatives that have passed the test, in order to determine the best alternatives.

References


