

STRATEGIC FORMULATION MEANING, DEFINITION AND EXPLANATION

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Abstract

This article aims to explore strategic formulation in order to provide more understanding. Strategic formulation is a partial element of strategic management which includes three stages as follows: strategic formulation, strategic implementation and strategic evaluation. In this article, the author would like to focus only on the strategic formulation known as strategic planning stage that assists organizations to achieve their purposes and to shape their directions from the actual state they are to the target where they want to be in the future amidst fluctuating environment. In this article, principles, theories, and summary of strategic formulation will be presented and the author's opinions and applications have been explained for those who are interested. Strategic formulation consists of four elements: analysis of strategic environment; development of mission and vision statements; establishment of long term objectives; and generation of strategic options and selection of particular strategies to implement.

Keywords: Strategic formulation; environmental analysis; mission; vision;
long term objective; strategic options

Introduction

According to strategic management, there are two perplexing definitions between strategic planning and strategic management which were differently explained in various ways. Strategic management can be defined as the art of formulation, implementation and evaluation of cross-functional decisions that enable organizations to achieve their goals. This could be implied that strategic management focuses on integrating management, marketing management, financing/accounting management, producing/operating management, research and development, and computer information system arrangement to achieve organizational success (David, 2001). In this article, the term of strategic formulation is used closely associated with the term of strategic planning which is widely used in business world whereas the former one is frequently used in academic situation. As seen from Figure 1, strategic management consists of three elements: strategic formulation, strategic implementation, and strategic evaluation. The purpose of strategic management is to create opportunities for the future with long range planning including optimizing any chances for the forthcoming days. Strategic formulation is the heart of strategic management. It is believed that the right strategic formulation can retain the organizations more competitive advantage and synergy with the rests: implementing, evaluating and controlling the plan. Therefore, the author would like to explore the details and definitions of strategic formulation (strategic planning) in order to establish the better insight.



Figure 1: Strategic Management Stages

What is Strategic Formulation?

The first stage of strategic management is strategic formulation which involves assessing existing strategies, organization, and environment in order to develop new strategies and strategic plans to enhance future competitive advantage (Schermerhorn, 1999). Wheelen and Hunger (1995) also asserted that strategic formulation is the development of long-range plans for the effective management of environmental opportunities and threats in the light of corporate strengths and weaknesses. Barnat (2014) and The Saylor Foundation (2017) have defined strategic formulation as a process of establishing the organization's mission, objectives, and alternative strategic selection to achieve the organizational goals. This essential process provides a framework for the organizations and their executives to take the actions leading to the anticipated results (Pearce and Robinson, 2000). The approach of strategic formulation is an improvement from the traditional long range planning. David (2001) also added that strategic formulation helps the organizations to commit themselves to specific products, markets, resources, and technologies over an extended period of time. This, moreover, includes decisions of entering to the new businesses or abandoning the non-performing business activities. Business expansion or diversification pedagogies can be counted in this decision making. Some businesses have been entered to the international markets in the forms of merging and acquisition or joint venture in order to escape from the hostile takeover. As the resources are limited, strategists have to be well aware of the consequence of their selected strategies and carefully perform their selection of the most beneficial strategies anticipating availability of resources for implementation. In summary, strategic formulation is the first stage of strategic management for the organizations to shape their future and to identify their strategic positions and directions to follow. The stage of organizational planning commences from where you are now to somewhere in the future, so it is important to formulate the plan so as to create the promising future as can be seen in Figure 2.

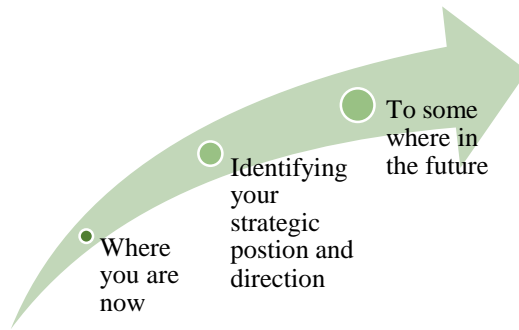


Figure 2: Strategic Formulation Process

The Components of Strategic Formulation

Several researchers have generated the components of strategic formulation as followed: David (2001) states that strategic formulation includes developing vision and mission, identifying organizations' external opportunities and threats, determining internal strengths and weaknesses, establishing long term objectives, generating alternative strategies, and choosing particular strategies to implement. David's claim has been agreed by Wheelen and Hunger (1995) who also added some components of specifying achievable objectives, developing strategies and setting policy guidelines. Moreover, Bowman and David (1978) have added another two components: strategic option specification and strategic selection, as well. Besides, Pearce and Robinson (2000) have inserted the components of creating competitive advantage for business unit, and setting long term objectives. Additionally, Hidayat (2016) has also commented that strategy formulation involves the interplay of interrelated components which enable organizations to compete effectively and survive in the dynamic business world. Hidayat has differently added annual objectives, grand strategy, generic strategy, and functional/operational strategies into strategic components, too.

Thus, it can be summarized that there are four components of strategic formulation as follows: developing organization mission and vision, analyzing environment by applying SWOT analysis, establishing long-term objectives, and, choosing the right strategies to implement, as seen in Figure 3. As far as

annual objectives are concerned, it could be excluded from strategic formulation components because its function should be deployed in the stage of strategic implementation.

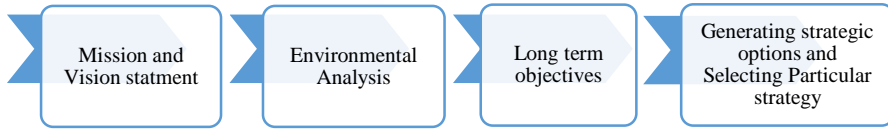


Figure 3: Strategic Formulation Components.

Organizational Mission and Vision Statements

Mission statements

Developing a mission and vision statement is the first step of strategic formulation. Katsioloudes (2006) has coined the definition of organizational vision and mission statement that it is described as the purpose and the reason to commence the organization. Mission statement can be narrow or broad in scope. Wheelen and Hunger (1995), David (2001), Osen and Osen (2011), Schermerhor (1999) and Hidayat (2016) have also asserted that statement of mission helps the organizations to determine their objectives, strategies and policies. A good mission statement can reflect the value and priority of decision making and differentiate the company from others and to identify the unique scopes of the company's operation, products offered and market served that meet the customers' demands. Apart from that, Hidayat (2016) also included technological areas of thrust into mission statement. Businessdictionary (2017) illustrates a comment that a mission statement, sometimes focusing 'present day' situations, helps company to lay out the promising plans to achieve its objectives. This would be the answers for employees, shareholders, and others who inquire about the business of the company and the reasons of business operations.

The mission of a business seems to be an endless future as if the firm were immortal.

In order to write a mission statement, the organization should answer the following questions:

- What is the purpose of your business?

- What do you intend to accomplish on behalf of your customers?
- In the light of the needs you see, why does your business exist?
- Which needs can your organization resolve or serve?

Vision statements

A vision statement provides the road map for the organizations in the future. Number of researchers (Harrison, 2003; Miller, 1998; Osen and Osen, 2011; Hidayat, 2016) have defined 'vision statement' as the image the companies would like to be in the future. This could include the guidance and frame of thinking for the companies to create and declare their short term and the long term goals. During the course of time, the companies may change or adapt their business activities in order to achieve their desired targets with the meaningful action. By having purposeful visions, everyone in the organization has been inspired to perform his tasks with motivation and this has kept the organization ascending to the intended direction (Businessdictionary, 2017 and Hidayat, 2016). Collins and Porras (2011) have generated the components of vision statement into two major components: core ideology and envisioned future.

Hidayat (2016) has suggested questions for the companies to answer so as to set up their vision statements.

- What will your business look like in 5 and 10 years from now?
- What new things do you intend to pursue?
- What future customer needs do you want to satisfy?

A mission and a vision are standard and essential elements of a company's strategy. Most recognized organizations always develop organizational mission statements and vision statements which serve as foundational guides in the establishment of company objectives (Gudhate, 2016).

Benefits of Establishing a Vision and Mission Statements:

- The vision and mission statements provide a reason of purpose to organizations' activities and inspire the employees with the sense of belonging. This could serve as the identity of organization with the organizational dogma and motto.

- A vision and mission statement defines types of organizational operation since it reasons of the existence of the organization and it represents the indicators of the direction to the actual goals.
- The vision and mission statements are considered as central points and directions for the employees to identify themselves in the organization.
- The vision and mission statements help organizations to transform the objectives into task and job descriptions that can be generated to those who are responsible for.
- Finally, vision and mission statements provide a philosophy of the organization to the employees.

Hence, meaningful vision and mission statements are closely connected with assigned tasks, actionable parameters and the spirit of the organization. It can be summarized that mission statements are underlying the reason for the organizational existence. This difficult task is still continued and has never been achieved. It seems like the sailor taking the journey to the North Star. In contrast, the organization's vision cannot be achieved within a short period of time. Once, when the vision is achieved and completed, such vision can be shifted into the new one.

Environmental Analysis

After organizations have completed developing mission and vision statements, environment assessment, second element of strategic formulation, can be applied thereafter to identify opportunities, threats, strengths and weaknesses of the organizations. It is important for the organizations to keep their business surviving and to achieve some more degree of match between their supplies and the demands by initiating favorable strategies based on information given. Bateman and Snell (2002) have commented that it is crucial for the managers to predict opportunities and threats that are likely to take place from both internal and external environment. Apart from those strategic tools, PESTLE analysis (2015) can be also added. Then, the results of environmental analysis can be transformed into the decision-making process which helps the executives to arrange the proper strategies associating with the organizations' environment. Stoner and Freeman (1992) also supported that claim and

commented that not only can environmental analysis make change organizations' economic, technology, socio-culture, but political and legal environments also influence the organizations and the others who involve in their business activities. Moreover, Hidayat (2016) has included an external environment, an uncontrollable factor, which can give an impact to strategic options and competitive position. The external environment can be divided into two types: the operating environment and the remote environment. The operating environment can be competitors, consumers, and vendors which directly influence to organizational performance. The remote environment, on the other hand, includes political, social, economic, and demographic factors. An internal analysis helps the company to determine its capabilities and developing an internal profile reflecting the strengths and weaknesses as well as evaluating past performance. This can be done to assess the capabilities of the company in the future.

Capozzi (2017) claimed that external environment has given an impact to the decision making in the stage of environmental analysis. Grant (as cited in Capozzi, 2017) has categorized environmental influences as either source or proximity. In the terms of source, it can be defined as PEST analysis referring to political, economic, social and technological factors. Some are beyond control, so the company needs to plan some potential solution ahead based on environmental analysis. Besides the PEST analysis, the SWOT analysis also plays a crucial part to look into external circumstances together with internal counterparts as well. Some factors can be taken place only at some companies, such as, business's leadership abilities, patents and intellectual property, technology availability and the power of its brand name. Gregory (2017) has supported that the SWOT analysis is the strategic planning tool helping the business owners to construct their marketing plan and to generate business strategies commencing from the discussing inside the company. By applying the SWOT analysis, the company will be able to maintain and increase their wealth in a number of situations.

In summary, environmental factors could greatly affect to the wealth of the company, so the company should carefully lay out the plans aligning with the surrounding situations which could happen currently or in the future. A good

use of the SWOT analysis, one of strategic managing tools, could assist the company to define its own strength, weakness, opportunity and threat from both inside and outside environments. This also helps the company emphasize the best practice and manage the failures that have been happened. Finally, the company will be able to optimize the results with a better planning.

Long Term Strategic Objective

Developing long term objective is the third element of strategic formulation. Wheelen and Hunger (1995) have stated that objectives are the end results of planned activities. Additionally, Osen and Osen (2011) have given explanation that objectives are the areas where the effort has to be made to drive organizations from mission to vision or from motive to action. This helps an organization define its targets both programmatically and organizationally. This can be arranged as broad categories that are non-measurable and continuous. Besides, David (2001) has further added about the importance of setting the objectives which helps organizations to state the direction and evaluation, to create synergy, to reveal priorities, to focus coordination, and to initiate a tool for motivation plan and controlling activities during the long period of time which could be more than one year. Kaufman et al. (2003) have also claimed that setting the objectives has to be laid out before committing any business activities and establishing expectations from job performance as well as measurable standards. They also suggest that any kinds of incentive have to be aligned with the expected outcome of performance as reinforcement in the short or long term goals. Apart from this, Hidayat (2016) has pointed out about the two types of objectives: long-term and annual objectives. Long-term objectives can be completed over a number of years. These can be set as targets in various areas such as market share, return on assets, profitability, technological leadership, employee relations, social responsibility, and employee development.

There are two questions to be aware before the setting strategic objectives

- Which areas need to be involved in order to accomplish the company's vision?
- Which areas need to be continued actively in the next five years?

In summary, long term objectives can be compared as a bridge connecting between visions and goals in order to create concrete ways of business activities. This also acts like a broad of action statement that can be a guidance to achieve the vision in the future. If the long term objectives have been clearly established, it is easy for the organizations to identify goals to be reached in the short term period (1-3 years). After short term goals have been fulfilled, the long term objectives can be achieved which means the organization vision can be accomplished. Without long term objectives, the organization cannot achieve its vision.

Generating Strategic Option and Selecting Particular Strategy

After environmental analysis and long-term objectives have been completed, generating strategic options and selecting particular strategy can be deployed as the last step in strategic formulation. This is because SWOT analysis has been explored during the environmental analysis process together with Internal and External Matrix, BCG Matrix, GE matrix and SPACE Matrix. These tools are essential to implement strategic alternatives.

Strategic toolkit (2016) has stated that selecting proper strategic choice is a central process for making sustainable strategic decisions.

The future of the company can be well crafted with effective strategies with ability of prioritizing and good decision making.

Generating alternatives can be hard and easily ignored for several reasons

- It is a waste of time because everyone knows what we are going to do already (“groupthink”)
- Aren’t we better off “focusing on execution” instead of debating theoretical alternatives
- The more radical the alternative, the more change is required.

This is where the creative strategy takes place alongside with the extra possibilities in the business. During the strategic analysis process, it is recommended that “opportunity” should be listed. However, some unexpected events may appear at the start. David (2001) has suggested that not all

alternatives can be fitted in the business operations as there could be number of implementation methods for those alternative actions. Therefore, a manageable set of the most attractive alternative strategies must be developed relating to advantages, disadvantages, trade-off, cost and benefits.

Hence, it is important for the executives to employ internal and external factors to specify the strategies for the organization so as to maintain and boost up its competitive advantages leading to the synergy. Despite various strategic availabilities, the executives need to generate the strategic options based upon internal and external factors. Then, numbers of these tools analysis, such as EFE and IFE Matrix, TOWS Matrix, BCG Matrix, and GE Matrix, need to be deployed to create favourable strategic options.

Conclusion

It can be concluded that strategic formulation is the first stage of strategic management which does not end at the strategic planning process. There are three components of strategic management: strategic formulation, strategic implementation and strategic evaluation and control. During this stage, strategic position and direction have to be portrayed to lead the organizations systematically to the desired success, to keep the organizations surviving in difficult circumstances and to maintain competitive advantages over the rivals with limited resources.

The responsibility of setting strategic formulation is usually fallen upon the executives identifying mission and vision statesmen carefully. Then, environmental analysis needs to be made in order to spot the strength, weakness, opportunity and threat. There are two components of external environmental analysis: general environment analysis which can be made by applying PESTLE analysis (Political, Economic, Social, Technology, Legal, and Environmental), and competitive environmental analysis which can be made by applying Porter's Five Force Model (Porter, 2011). An internal environmental analysis can be deployed in the fields of organizational strategies, staff's capabilities, corporate value, supply chain, financial statement and organizational past performance in order to gain the insight of

weakness and strength of the organizations. After that, long term objectives have to be illustrated so as to fulfil the organizational vision. Next, a number of strategies have been generated and the most proper ones will be selected to apply, as seen in Figure 4.

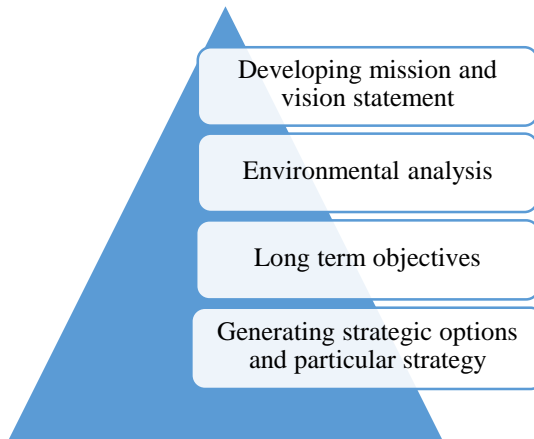


Figure 4: Pyramid of Strategic Formulation

It can be easily concluded that strategic formulation has been systematically arranged starting from developing of vision and mission statements and long term goals as known as vision which is an organizational desire in the future. On the other hand, mission is the frame and reason of organizational existence which is customer's oriented. Long term objective can be compared as a bridge which links between the goals and the organizational vision in the future. In terms of strategies, these can be utilized correlating to the internal and external environmental factors so as to achieve the goals. The strategic management process does not stop when the firm decides what strategies to pursue, but it must be transformed from strategic thought into strategic action.

Last but not least, the organizations could not archive their plan without applying strategic formulation. Moreover, it is undeniable that strategic implementation, evaluation and control are crucial elements to make the strategic formulation become realistic and concrete in order to complete the management cycle which could lead the organization to success.

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