Selection Techniques for Best Business Strategies

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Abstract

The purpose of this paper is to help businesses to select the strategic plans most suitable for them. This requires using practical and beneficial techniques. To do this, the alternative strategies that are developed for the correspondent opportunities need to be evaluated. Only by making an evaluation as objectively and impartially as possible, the best decision can be achieved. Techniques that may be applied simultaneously or interchangeably to select the best of alternative strategies are as follows:

- Factors analysis
- Strategic option grid
- Risk drivers

Even if the best strategy is selected by any of these techniques listed above, contingency plans are still necessary for the selected strategy in a risky environment. A sensitivity analysis needs to be conducted, taking into consideration the possibility that basic assumptions and parameters do not come out as expected and the measures considered to be taken in this respect need to be identified.

Keywords

Strategy, strategy selection technique, strategy selection, strategic planning, strategic management

1. Introduction

Strategic plan outlines the path between the current status of business and the desired status to achieve (Hunger and Wheelen 2000). It helps the business to establish its objectives, goals as well as the decisions to achieve these objectives and goals (Butuner 2015). It involves a long-term and prospective perspective.

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Even if the best strategy is selected by any of these techniques described below, contingency plans are still necessary for the selected strategy in a risky environment (Pearce and Robinson 2011). A sensitivity analysis needs to be conducted, taking into consideration the possibility that basic assumptions and parameters do not come out as expected and the measures considered to be taken in this respect need to be identified.

2. Factors Analysis

Factors analysis, which is generated by (Muther 2011), can prevent the analyzers overlooking an important factor (Table 1). Besides, it allows the key users and approvers get into the decision making.

Ratings should be done by several persons, to have each make his own ratings independent of the others. Then they can get together to compare the results and resolve any differences.

- Identify each alternative. Label the alternatives with letters
- Establish all pertinent factors, considerations, or objectives affecting the choice of the best alternative
- Assign to each factor a weight value indicating its relative importance to the strategy's effectiveness. Select the most important factor and assign to it a weight of 10. Select the least and assign it a low number like 1, 2, or 3. Weigh the importance to the factor relative to the most important (10) and the least important.
- Rate for each factor the effectiveness of each alternative strategy in achieving that factor's objective – using A, E, I, and O to represent a descending order of effectiveness. Work across the form from side to side rather than from top to bottom in each column. By doing this, be sure to keep the same meaning for a given factor as proceeded from strategy to strategy.
- Convert all letter ratings to numbers (A=4, E=3, I=2, O=1), and multiply by the previously established weights.
- Total the weighted rate values for each alternative. The highest total should indicate the best available alternative.
- If the winning alternative is not clearly evident (more than the dispersion 12% - 15%), there are several things that can be done. First, reevaluate with more, or more precise, factors. Second, reevaluate by inviting other people to participate in the ratings.

3. Strategic Option Grid

For prioritizing mutually exclusive strategies. For evaluating different strategies based on defined criteria, Table 2 can be used (Butuner 2015). Each criteria needs to be rated in terms of its attractiveness to the alternative as

- High
- Medium
- Low

Table 1. Factors analysis form

Weighted by:_____ Rated by:_____ Approved by:

Evaluating description
A = Almost Perfect, O = Ordinary Result
E = Especially Good, U = Unimportant
I = Important Result, X =Not Acceptable

X. _____

Y. _____

Z. _____

V. _____

Factor/consideration		**Wt.**	**Alternative**									
			X		**Y***		**Z**		**V**		**W**	
1.	Strategic Attractiveness	8	E	3	A	4	I	2	A	4		
			24		32		16		32			
2.	Financial Attractiveness	10	E	3	E	3	E	3	A	4		
			30		30		30		40			
3.	Low Implementation Difficulty	8	A	4	E	3	E	3	I	2		
			32		24		24		20			
4.	Low Uncertainty and Risk	6	I	2	E	3	I	2	I	2		
			12		18		12		12			
5.	Acceptability to Stakeholders	5	I	2	A	4	I	2	E	3		
			10		20		10		15			
6.	…											
7.												
8.												
9.												
10.												
Total			**108**		**124**		**92**		**119**			
	Weighted rated down total											

NOTES:

* Best alternative

You need to reverse the ratings of uncertainty and difficulty.

Table 2. Strategic option grid

OPTIONS / CRITERIA	OPTION 1	OPTION 2*	OPTION 3	OPTION 4
STRATEGIC ATTRACTIVENESS	M	H	L	H
FINANCIAL ATTRACTIVENESS	M	M	M	H
IMPLEMANTATION DIFFICULTY	L	M	M	H
UNCERTAINTY AND RISK	H	M	H	H
ACCEPTABILITY	L	H	L	M

* Best option

4. Risk Drivers

It is necessary to review the main risks envisaged during the period of strategic plan (Table 3). Alternative strategies are ranked from least to most risky (considering the probability of actualization.)

The probability of actualization should be determined by evaluating the profitability of alternative strategies and the risk factors from which they are affected (Butuner 2015). The probability of actualization an alternative, within the framework of plans, is determined by reviewing its overall impacts on labor force, management, clients and level of profitability. The answer to the question *"which risk factors affect the profitability of alternative?"* may be as follows (Wickham 2004):

Systematic risks: These are the risks posed by changes in economic, political and other environmental conditions. They are risks originating from changes in interest rate, while production and prices are at their normal levels, affecting investment instruments in the same direction but at various degrees. Sources of systematic risks which are not possible to be kept under control and eliminated

- Changes on the purchasing power
- Changes on the interest rates
- Changes on supply and demand

Non-systematic risks: These are risks of changes that affect capital market independently and are not systematic. Non-systematic risks, which relate to only an industry and business, vary from one industry to other and from one business to other. The non-systematic risk of each instrument is different since it originates from the characteristics of the business which the investment instrument represents as well as from its specific circumstances. These are:

- Industry risks
- Financial risks
- Managerial risks

While it is impossible to control systematic risk, it is possible to control and eliminate non-systematic risks whose sources are mentioned above.

Table 3. Certainty–importance grid

	VERY CERTAIN	**UNCERTAIN**
VERY IMPORTANT	Alt. Y*	Alt. V
LOW IMPORTANCE		Alt. Z

* Best alternative

5. Conclusion

In order to let businesses to select the most suitable strategic plans, they should make evaluations as objectively and impartially as possible. Accordingly, the purpose of this paper has come into picture and that is to help businesses to find out their best strategic plans by offering them totally new practical and effective analysis techniques.

To do this, they need to evaluate the alternative strategies that are developed for the correspondent opportunities. Techniques that may be applied simultaneously or interchangeably to select the best of alternative strategies are as follows:

- Factors analysis
- Strategic option grid
- Risk drivers

Even if the best strategy is selected by any of these techniques, contingency plans are still necessary for the selected strategy in a risky environment. A sensitivity analysis needs to be conducted, taking into consideration the possibility that basic assumptions and parameters do not come out as expected and the measures considered to be taken in this respect need to be identified.

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Biography

Hakan Butuner received his B.Sc. in Industrial Engineering from Middle East Technical University; MBA from Bilkent University; and Ph.D. in Engineering Management from the University of Missouri-Rolla. He has been active both in academic and professional fields for several years as a project manager in overseas; as a strategic planning and business development director; and as an operations improvement program manager. During the same periods, he has been lecturing in the Business Schools and/or Industrial Engineering Departments of well-known Universities. Currently, he is acting as the affiliates of several US companies in industrial management and engineering consulting and training fields. Additionally, he is the president of Institute of Industrial Engineers – Turkish professional chapter; and board member of Institute of High Performance Planners in Kansas City. During his career path, he has participated in several projects. Plus, he has several publications and books (especially in Operations Management and Improvement and Strategic Planning).