STRATEGIC CHOICE – JOHNSON AND SCHOLES SUITABILITY, FEASIBILITY, AND ACCEPTABILITY MODEL

(RELEVANT TO PAPER P3)

Introduction

As the environment changes, companies need to change their strategies to adapt to the environment to prosper or just to survive. Within the P3 framework, candidates are required to perform external environmental analysis and internal capability evaluation to determine the companies' strategic positions. Based on the strategic position analysis, possible strategic choices are determined. Each strategic choice is evaluated and an optimal one is selected (Figure 1). This article will focus on how to use the Johnson and Scholes framework of Suitability, Feasibility, and Acceptability as selection criteria to determine the optimal strategic choice.

Strategic choice evaluation and selection is very frequently asked in Part A of P3. For example, this model was used in the ONA case in the December 2007 paper, the greenTech case in the June 2009 paper, and again in the ABCL case in the December 2009 paper.

In these questions, candidates were given several strategic choices to choose from. Candidates were asked to evaluate each strategic choice and provide a recommendation together with support on their decisions. Two points to remember for this type of question. First, candidates will have a lot of information to absorb and it is vital for candidates to be able to recognise and discuss the relevant points. Second, candidates should realise that each strategic choice will have its own advantages and disadvantages. There will be multiple sets of correct answers dependent on how the information is interpreted. More importantly, the number of marks earned will hinge on how clearly the candidates articulate the reasons and rationale for their selections.

When encountered with strategic choice evaluation and selection questions, a common cause of poor performance is the candidates' failure to provide a comprehensive analysis. Candidates will over-write on one or two points and do not reserve enough time for a multi-perspective analysis. In order to achieve a systematic analysis of each strategic choice, candidates can use the Johnson and Scholes framework to ensure a methodological and comprehensive evaluation [1]. Candidates must relate the framework to information specifically provided in the question to maximise their marks. In addition, the number of marks available for the question will dictate the depth and breadth of analysis.

Here we will go through the Johnson and Scholes Suitability, Feasibility, and Acceptability model to clarify what the thought process entail: the framework to apply in each step, and where to focus your efforts.

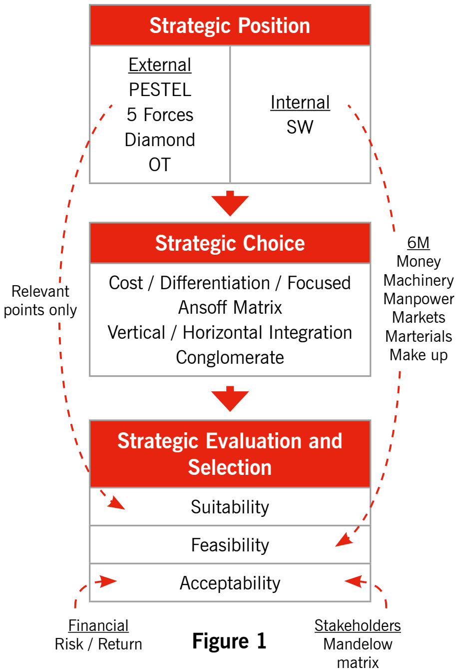

Figure 1

Suitability

Candidates must first determine if the strategic choices are suitable and compatible within the current and expected external environment. For example, high pollution industry or the use of coal fire power plant might be contrary to what is perceived to be suitable within the political, social, environmental, and legal aspect of the PESTEL analysis. Customer and market demand also play a key role in the suitability analysis.

The topics covered are extensive and many marks can be available. The best way to approach the suitability perspective is to determine if the strategic alternatives can help the firm exploit opportunities and overcome or avoid threats in the environment. The chosen strategy should capitalise on the firm's strengths and core competences. It should also be congruent with the firm's existing culture and in alignment with the broader environmental, political, and social context.

To determine suitability, candidates can use external analytical models to evaluate each strategic choice. These models include the PESTEL analysis, Porter's Five Forces, and Porter's Diamond. Other analytical tools that can be used include life-cycle analysis, value chain analysis, positioning of the firm or its products, portfolio analysis, business profile evaluation, gap analysis, and other decision making tools like ranking, decision tree, scenario planning, and sensitivity analysis.

Candidates must keep in mind that for the suitability analysis, these models are applied differently than when they are used for external analysis. Within this context, candidates should think through the models but only relevant and important factors are to be discussed in the answer (Figure 1). Candidates should not spend time discussing every aspect of the model(s) in their answer.

Each strategic choice will have their unique advantages and disadvantages. One of the candidates' major tasks is to determine their importance and incorporate these factors in the decision making process qualitatively. It is inevitable that candidates will perceive and interpret the case information in their own ways and arrive at different recommendations. Fortunately, marks are allocated to the "why" of the candidates' decisions. As a result, candidates must explain clearly the reasons and the rationale for their decisions.

For non-profit oriented NGOs or governmental departments, the public sector portfolio matrix can be used to evaluate the suitability of public services to be provided.

To conclude, suitability analysis evaluates each strategic choice to determine their viability given conditions that exist in the external environment.

Feasibility

Feasibility focuses on whether the organisation has the resources to pursue the strategic choices. Feasibility analysis is an evaluation of the internal capabilities of the company. At this point, some candidates might find that a firm does not have adequate resources to pursue some of the strategic choices and can decide to exclude these choices from further evaluation after providing adequate written support.

As in suitability analysis, numerous internal analytical models are available to the candidates. The most common is the 6M model [2], which stands for money, machinery, manpower, markets, materials, and make-up (Figure 1). These six factors do not need to be discussed in this order. In most cases, some factors would be more relevant and they should be discussed first and in more details.

Money. The financial resources available or required must be determined for each strategic choice. Three financial resources considerations must be determined. They are financing availability, the cost of the financing, and the repayment capacity of the strategic choice. For availability, candidates need to ensure that financial resources are available throughout the term of the strategy. Even good strategies can fail when financing is curtailed with a slight setback or during economic downturn. The cost of the financing will determine the margin for profits. If the cost of financing is low, there will be higher margin for safety. For financing availability and cost, candidates should be aware that financing is always readily available and cheap when it is not needed; but always unavailable or expensive when it is required. The repayment capacity of each strategic choice would also interact with the financing, and the repayment profile should be consistent with the expect cash flows of each strategic choice. Candidates should also consider the differing level of repayment commitments and their consequences when breached. For example, bankruptcy cost must be included when debt financing is used to fully account for the risk embedded within this financing alternative.

Machinery. For each strategic choice, the candidates have to determine if the company has the production systems in place or the spare capacity to handle the output requirement of each alternative. The effect on production of existing items must also be considered. For example, if a differentiation or high quality strategy is being pursued, then the ability of the production system to provide the customer perceived differentiation or the quality required must be assessed.

Manpower. Every strategic change will entail some form of personnel change. For each strategic choice, candidates should determine if the existing employees and management have the required knowledge and skill set. For employees, if the skills required are not available within the company, can existing staff be trained or can external recruits solve this gap? There are many real life examples of failed strategies because of this skill factor. For example, during the Internet boom, many companies had grand plans to expand to high growth high profit product space, and they restructured the whole company based on these plans. Then these companies found out that they were not able to recruit the required personnel because of political, economic, social, or supply reasons. For management, candidates should realise that different management skills are required for different strategic choices. For example, a strategic plan to grow by acquisition would require a very different management skill set than a plan to grow organically. There are three steps to this analysis:

First, does the existing management team have the experience and foresight to see all the viable strategic alternatives? The scope of this question relates to the first half of the P3 syllabus on performing external and internal analysis, and determining alternatives that are available.

Second, does the existing management team have the knowledge and the ability to select the most viable strategic alternative? This part relates mostly to this particular article in that a comprehensive evaluation must be performed on each alternative and the optimal choice selected.

Third, does the existing management team have the experience and skills to implement the selected strategy? This would

relate more to the second half of the P3 syllabus where more detailed implementation issues are studied. Candidates should be sensitive to potential agency problem as well. The strategic choices proposed by top management would inevitably include themselves as the main characters;

management never plan themselves out of a job. Candidates should consider whether there are agency issues limited the choice set or the selection process.

Markets. This is an evaluation of the markets available for each strategic choice. This is a customer or downstream focused evaluation. The main input comes from external analysis consisting of PESTEL and Porter's Five Forces. The output of the evaluation are expected market size and its growth, customers' openness to the new products or services, the competitive landscape, and other customer and market related information. Another aspect of markets is whether the company has become a competitor to its customers. An example of this can be found in the greenTech case in the June 2009 paper in which one of the strategic alternatives would put greenTech into direct competition with its customers who are more experienced and better equipped.

Materials. While markets focus on the customers, materials focus on the suppliers. The supply of vital input must be assured for the success of each strategic choice. Other considerations for materials would be the implications of the relationships with suppliers, potential backward integration, and the risk of forward integration by suppliers.

Make-up. The make-up aspect considers two major areas, the organisation structure and the culture of the company. The organisation structure of the company must be consistent with the strategic choice. If the strategy is to become a decentralised global company, the organisation structure must evolve as well if this strategy were to succeed. The culture of the company is also very important because any change to existing "ways of doing things around here" would be resisted. In the National Museum case from the December 2008 paper, all changes were put on hold because the resisting forces due to cultural reasons were too great to overcome. In these situations, stakeholder analysis should be performed to determine the appropriate responses.

To summarise, feasibility analysis evaluates each strategic choice within the context of the resources available within the company.

Acceptability

Acceptability focuses on two other aspects of the strategic choices: the financial aspect and the stakeholder aspect. The financial aspect focuses on the return to risk profile of each alternative. The stakeholder aspect focuses on the interaction between the strategic choices and the stakeholders' reaction to these choices.

Financial aspect. The financial aspect covers the expected return and the risk associated with each strategic choice. The potential financial return of the strategic choices can be calculated using various financial measurements like net present value (NPV), internal rate of return (IRR), cost benefit analysis, economic value added (EVA), and shareholder value analysis (SVA). The risk of the choices can be evaluated using sensitivity and probability analysis, proforma financials and ratios, to the more advanced value at risk (VaR) analysis. Within the context of P3, it is unlikely that adequate information will be available to prepare detailed financial analysis on return and risk; however, many valuable marks can still be obtained by alerting the company to the financial aspects of the strategic choices.

Stakeholder aspect. New strategic direction would encompass changes which might be discomforting for some stakeholders. The stakeholder aspect of the acceptability analysis evaluates how each strategic choice will affect the stakeholders and their likely reactions. The stakeholder aspect is quite qualitative but important because any new strategy selected can only succeed if there is stakeholder support. For example, in the ONA case in the December 2007 paper, one of the major factors inhibiting ONA's becoming a budget airline is the powerful unionised employees of the company. For stakeholder analysis, the Mendelow power interest matrix can be used to determine the likely stakeholder reaction and the approach to manage any adverse stakeholder actions. During the analysis, be aware of potential movements of stakeholder positioning within the Mendelow power interest matrix as they react to the new strategy. For example, employees having high interest but low power might decide to organise themselves into a union in order to influence management decisions. Once unionised, employees become "Key Player" with higher power and this group can hinder the implementation of some strategies.

Summary

Strategic choice questions are relatively common. To handle this type of questions well, candidates need to analyse the external and internal environments of the company, have knowledge on a wide topic range, and be able to focus on the relevant factors. The Johnson and Scholes Suitability, Feasibility, and Acceptability model provides candidates with a logical and comprehensive approach to manage this type of strategic choice questions. ■

[1] In addition to the Johnson and Scholes framework, there are other approaches that candidates can use. For example, there is a strategic selection method by Lynch using the criteria of consistency, suitability, validity, feasibility, business risk, and attractiveness to stakeholders. Another strategic selection tool by Thompson uses appropriateness, feasibility, and desirability as selection criteria.

[2] Other internal analytical models include the 7S model, value chain analysis, product life cycle, BCG matrix, resource based analysis, business attractiveness matrix, core competency agenda matrix, and of course SWOT analysis.

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