

Business Strategy Formulation: A Literature Review

Risdarwanto¹, Harmein Nasution², and Sugiharto Pujangkor³

^{1,2,3}Department of Industrial Engineering, Faculty of Engineering, Universitas Sumatera Utara, Jl. Almamater Kampus USU, Medan, Indonesia 20155

Abstract. Strategy is a series of actions that are formulated to achieve long-term goals by involving resources to achieve competitive advantage. Strategy formulation to develop the business must be adjusted to the wishes of consumers to achieve competitive advantage. Business strategy focuses on growth and profitability by providing a framework for functional and operational strategies in terms of which products should be developed, how they should be priced and distributed, as well as which market segments should be targeted. The strategy formulation is determined in three steps consisting of: input step, matching step and decision-making step. The input step focuses for analyzing Company's Internal and External Factor. The matching step focuses for determining strategies based on Company's Internal and External Factor by using SWOT, SPACE and BCG Matrix. Decision step focuses for determining the best strategy using the Quantitative Strategic Planning Matrix (QSPM). This paper aims to review several studies that use formulation strategy methods in making the best decisions for companies. Without being based on a formulation strategy, it is very difficult for companies in making the best decisions to achieve competitive advantage

Keyword: Strategy Formulation, SWOT Matrix, SPACE Matrix, BCG Matrix, QSPM

Abstrak. Strategi merupakan serangkaian tindakan yang dirumuskan untuk mencapai tujuan jangka panjang dengan melibatkan sumber daya untuk mencapai keunggulan kompetitif. Perumusan strategi untuk mengembangkan usaha harus disesuaikan dengan keinginan konsumen untuk mencapai keunggulan bersaing. Strategi bisnis berfokus pada pertumbuhan dan profitabilitas dengan menyediakan kerangka kerja untuk strategi fungsional dan operasional dalam hal produk mana yang harus dikembangkan, bagaimana harga dan distribusinya, serta segmen pasar mana yang harus ditargetkan. Perumusan strategi ditentukan dalam tiga tahap yang terdiri dari: tahap masukan, tahap pencocokan dan tahap pengambilan keputusan. Tahap input berfokus untuk menganalisis Faktor Internal dan Eksternal perusahaan. Tahap pencocokan berfokus pada penentuan strategi alternatif berdasarkan faktor internal dan eksternal perusahaan dengan menggunakan Matriks SWOT, SPACE dan BCG. Tahap keputusan berfokus pada penentuan strategi terbaik menggunakan *Quantitative Strategic Planning Matrix (QSPM)*. Tujuan dari penulisan ini adalah untuk meninjau beberapa penelitian yang menggunakan metode formulasi strategi dalam pengambilan keputusan yang terbaik bagi perusahaan. Tanpa didasarkan pada suatu formulasi strategi, sangat sulit bagi perusahaan dalam mengambil keputusan yang terbaik untuk mencapai keunggulan bersaing.

Kata Kunci: Perumusan Strategi, Matriks SWOT, Matriks SPACE, Matriks BCG, QSPM

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*Corresponding author at: [Universitas Sumatera Utara, Jl. Almamater, 20155, Medan, Indonesia]

E-mail address: [risdarwanto@gmail.com]

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1. Introduction

Business strategy plays an important role in creating a good direction for the business, and as a guideline to guide the business in the right direction [1]. Many successful companies understand the strategy formulation steps by analyzing the company's internal and external factors for improving operational effectiveness, direct administration in setting commerce needs and objectives, and distributing assets to pick up and keep up competitive advantage [2].

Important strategy formulation steps are coordinated into a three-step decision-making system [3]. The first step, namely the input step, focuses on identifying the company's internal and external factors to formulate a strategy. The second step, namely the matching step focuses on creating alternative strategies using several techniques, namely: Strength-Weakness-Opportunity-Threats (SWOT) matrix, Strategic Position and Action Evaluation (SPACE) matrix, and Boston Consulting Group (BCG) matrix. The third step, namely the decision step, focuses for making decisions using the Quantitative Strategy Planning Matrix (QSPM) [4].

Several studies are related to formulating business strategies using decision-making framework techniques. Therefore, this paper aims to review previous research on formulating an integrated business strategy in several steps of a decision-making framework to determine the best decision for the company.

2. Theoretical Foundation

2.1. Strategy and Business Strategy

Strategy is an arrangement of activities to realize long-term objectives and goals, including deciding on assets to realize competitive advantage [5]. Business development is the main driver of change and adjustment in many industries through different strategies to permanently align companies according to customer desires in order to achieve the highest possible market penetration [6]. The strategic management step is multi-layered and the diverse levels of procedure must be steady with the procedures at another level. Alludes to three steps of technique which incorporate corporate, trade, and operational methodologies. Trade procedure centers on development and productivity by giving a system for useful or operational techniques in terms of which items ought to be created, how they ought to be estimated and advanced, and which advertise portions ought to be focused on [7].

2.2. Formulation Strategy

Important steps for strategy formulation are coordinated into a three-step of decision-making system. Step 1 comprises Internal Factor Evaluation (IFE), External Factor Evaluation (EFE), and Competitive Profile Matrix (CPM), which is named the input step as an outline of the essential data required in formulating strategies. Step 2, called the Matching Step, focuses on combining external and internal factors to produce viable alternative strategies. Step 3 is called Decision Step, which determines the best strategy using the Quantitative Strategic Planning Matrix (QSPM) technique [8]. The strategy formulation matrix can be seen in Figure 1 below.

STEP 1: INPUT			
	<i>External Factor Evaluation (EFE)</i>	<i>Competitor Profile Matrix (CPM)</i>	<i>Internal Factor Evaluation (IFE)</i>
STEP 2: MATCHING			
<i>Matrix Boston Consulting Group (BCG)</i>	<i>Matrix Strategic, Position, and Action Evaluation (SPACE)</i>	<i>Matrix Strength-Weakness-Opportunity-Threat (SWOT)</i>	<i>Matrix Internal External (IE)</i>
STEP 3: DECISION Making			

Figure 1 Formulation Strategy Matrix

A. *Input Step*

Results of the input step are obtained from the Internal Factor Evaluation (IFE), Competitive Profile Matrix (CPM), and External Factor Evaluation (EFE) processes. The company's internal factors include the strengths and weaknesses of the company's operations. Information related to the company's internal conditions is obtained through management, financial and production analysis. Information related to the company's external conditions is obtained through market studies, analysis of competitor performance, and evaluation of customer satisfaction. The CPM matrix is used for analyzing competitive level of the company based on success factors [9]. An example of a CPM matrix related to the research identifies the success factors for marketing and selling sanitary ware at the Golsar Sanitary Factory company [10].

CPM		Sina Sanitary		Rose Sanitary		Morvarid Sanitary		Kord Sanitary		Golsar Sanitary	
Vital factors of success	Weight	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Customer loyalty	0.11	1	0.11	2	0.22	2	0.22	2	0.22	4	0.44
Market share	0.11	2	0.11	2	0.22	2	0.22	2	0.22	4	0.44
Marketing and advertisement	0.04	1	0.22	2	0.08	1.5	0.06	1	0.04	2	0.08
Product quality	0.11	1	0.04	2	0.22	2	0.22	1.5	0.16	4	0.44
Financial status	0.11	2	0.11	1	0.11	1	0.11	2	0.22	3	0.33
Research and development	0.11	1.5	0.22	3	0.33	2	0.22	2	0.22	3	0.33
Update technology	0.08	1	0.16	4	0.32	2	0.16	2	0.16	4	0.24
Management Experts	0.11	2.5	0.08	3	0.33	2	0.22	2	0.22	3	0.33
Customer Relationship Management	0.11	1	0.27	3	0.33	2	0.22	2	0.22	4	0.44
Sum	1		1.76		2.49		1.87		1.9		3.4

Figure 2 CPM Matrix

B. *Matching Step*

The IFE and EFE values are used as input to the matrices contained in the matching step, namely:

Boston Consulting Group (BCG) Matrix

BCG Matrix (Boston Consulting Group) is a method commonly used by a company or a group of business units in planning and strategizing by grouping the company's sales results which will later show in what quadrant the company is based on the calculation of relative market share and the results market growth rate [11]. The Boston Consulting Group (BCG) matrix divides an area

with two vertical and horizontal lines into four regions (quadrants). The four areas are named question mark, star, cash cow, and dog. The horizontal line describes the relative position of the company controlled market share, while the vertical line describes the market share growth rate [12].

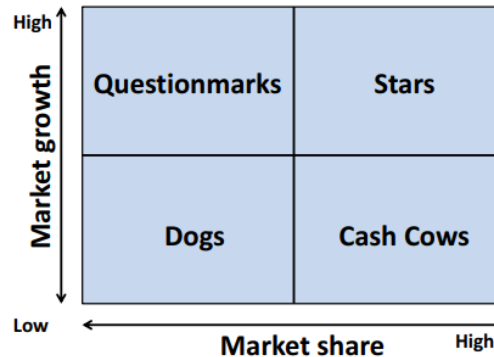


Figure 3 BCG Matrix

Figure 3. explains that four areas can be distinguished depending on the placement of product combinations in one quadrant of the BCG Matrix with the following categories; (a) Question Mark, a high unit but in a market with relatively low market share growth, if it is in the question quadrant, investment is needed and is expected to increase market share; (b) Star, business in this position is facing very fast growth with a large market share. This business requires investment to strengthen its dominant position in a growing market; (c) Cash Cow, dairy cows generate much cash for the company; if market growth drops to less than 10%, the star gets to be a cash cow in the event that it still contains a relatively large advertise share. Company's advised to invest in Stars or Question Marks; (d) Dog companies in this condition face a very low market share in a slow growth condition.

SPACE Matrix

Four important elements are mentioned in the four quadrants of the SPACE Matrix. The primary two components are called inner measurements comprising Financial Positions (FP) and Competitive Positions (CP), and the second element is called outside measurements compromising of Stability Position (ES) and Industrial Position (IP) [13]. The SPACE matrix is divided into four quadrants where each quadrant represents; (a) Financial Positions (FP), which includes measures to indicate the company's financial condition, such as profitability, liquidity, cash stream, and economies of scale; (b) Industry Position (IP), consist of measures to demonstrate a company's strengths, such as development potential, technology, efficiency, and capital intensity; (c) Competitive Positions (CP): incorporates measures to depict a company's competitive advantage, such as item quality, client dependability, showcase share, Capital utility; (d) Stability Position (SP): includes measures to reflect all environmental instability of the company, such as technological changes, inflation rates, market changes, and intensity of competition.

Internal Factor Position	Rate	External Factors Position	Rate
Financial Positions (FP)		Stability Position (SP)	
Total		Total	
Competitive Position (CP)		Industry Position (IP)	
Total		Total	

Figure 4 SPACE Matrix

SWOT Matrix

SWOT matrix (Strength, Weakness, Opportunity, Threat) to be able to get a strategy, certain companies use each factor on strengths, weaknesses, opportunities, and threats [14]. The following is how to determine a strategy with a SWOT Matrix:

	Strenght (S) Strenght Factor	Weakness (W) Weakness Factor
Opportunity (O)	SO Strategy Use strengths and take advantage of opportunities	WO Strategy Minimize weaknesses and take advantage of opportunities
Threat (T)	ST Strategy Use strength to avoid threats	WT Strategy Minimize weaknesses and avoid threats

Figure 5 SWOT Matrix

C. Decision-Making Step

The final step of the procedure is called the decision-making step, which is portrayed within the Quantitative Strategic Planning Matrix (QSPM). Pointers are determined by past inside and outside factors. It is utilized to decide or rank the finest elective commerce techniques. Based on QSPM decides the relative engaging quality of various procedures based on the degree to which elective techniques will permit the company to require advantage of qualities and openings, make strides shortcomings, and dodge or decrease outside dangers [15].

Key Factor	Weight	Alternative Strategies							
		1		2		3		4	
		AS	TAS	AS	TAS	AS	TAS	AS	TAS
Strengths									
Weakness									
Opportunities									
Threats									
Total	1.00								

Figure 6 QSPM Matrix

3. Methodology

The strategy utilized in this paper may be a writing survey think about. This literature survey is composed of the most excellent universal and national diaries. Look at diaries by collecting

methodology detailing subjects with decision-making system strategies. Diaries are collected through the Google Researcher database.

4. Result and Discussion

4.1. Result

Abdallah et al. [16], have investigated the development of business strategies based on company and environmental factors that influence the strategy formulation process, which is categorized and arranged into SWOT factors to develop External Factor Evaluation (EFE) and Internal Factor Evaluation (IFE). The results show that companies must focus on aggressive and intensive strategies.

Anh [17], has researched the strategy of Nguyen Hoang Group companies in Vietnam using the SWOT Matrix, SPACE Matrix, BCG, and QSPM matrix. The study results recommend that companies take full advantage of existing competitive advantages and anticipate new trends to adapt to daily changes.

Shri et al [18], have examined the advancement of fitting trade techniques for Small and Medium Enterprises (SMEs) in India based on the company's inside and outside variables displayed within the SWOT matrix, SPACE framework, and Quantitative Key Arranging Framework (QSPM). The comes about of SPACE matrix appear that a forceful procedure is required for the improvement of the SMEs commerce.

Abdiputra [19], has determined the right business strategy to develop a bakery business using the IFE Matrix, EFE Matrix, Competitive Profile Matrix (CPM), SWOT Matrix, SPACE Matrix, and QSPM. Based on the QSPM matrix, it is known that the highest value is in Alternative 1, which is to expand the network to add consumers and make new variant products with higher quality.

Amalia [20], has formulated the business strategy of PT. Integra Kreasitama Solusindo based on observations of the company's external and internal environment using Fred R. David's Theory with the tools used is the EFE Matrix, IFE, Competitive Profile Matrix (CPM), SWOT, BCG, SPACE, and Grand Strategy. The result of strategy formulation based on the QSPM matrix is that the company must focus on market penetration and market development.

4.2. Discussion

Strategy formulation using several steps of a decision-making framework based on the Fred R. David method has been implemented by many companies by examining the company's internal and external factors as the basis for determining the right strategy to achieve competitive advantage. Evaluating internal and external factors involves using several tools, such as SWOT Matrix, BCG Matrix, and SPACE Matrix, to obtain several alternative strategies. The alternative strategy obtained is then determined as the best using the Quantitative Strategic Planning Matrix (QSPM), as the final step of decision-making.

5. Conclusion

The company's internal and external analysis is the basis for making decisions to increase or maintain competitive advantage. The company's internal management has widely used SWOT analysis to determine and assess strategies by looking at strengths and weaknesses, as well as opportunities and threats. However, in determining long-term strategic decisions, the function of using SWOT Analysis still needs to be improved. Thus, other techniques are needed to support the process of determining business strategy. Fred R. David has formulated a framework for the decision-making step by involving several alternative strategy selection techniques obtained from the BCG Matrix, SPACE Matrix, and SWOT Matrix.

BCG Matrix can recommend strategies that are classified into several categories based on the company's position on market share growth rate. SPACE Matrix recommends a strategy based on indicators of the company's internal and external factors, namely financial condition, competition, stability, and company position. Several strategies were obtained from the BCG Matrix, SPACE Matrix, and SWOT Matrix; then, the best and most objective strategic decisions were determined using the Quantitative Strategic Planning Matrix (QSPM).

6. Future Research

This paper has reviewed the theory of decision-making framework according to Fred R. David and several studies on determining business development strategies. Previous research has yet to use technical methods in the decision-making framework step fully. Based on this paper, it is hoped that further research can use several technical methods at the decision-making framework step in order to obtain the best and most objective long-term strategy.

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