CHAPTER 2

LITERATURE REVIEW

Strategy

The word strategy derives from the Greek word 'strategos' which means a general in command of an army ('stratos', army; '-ag', to lead). In early Greek times, strategy literally meant the art and science of directing military forces. In modern times, the term is used in business to describe how an organisation works toward achieving its mission and objectives in a competitive environment. This can be viewed from dual perspectives. That is, from the perspective of what an organization intends to do, and from the perspective of what an organization eventually does.

Strategy as defined by Johnson and Scholes (1993) is the direction and scope of an organisation over the long term: which matches its resources to its changing environment, and in particular its markets, customers, or clients so as to meet stakeholder expectations.

Strategic Management

Studies have shown how corporate planning developed in the U.S.A. in the 1960s and spread rapidly in the U.K. and Europe in the early 1970s (Hussey, 1983).

Since then, it has evolved into strategic planning and strategic management on the basis of acquired experience. Indeed, strategic management has become a standard fixture of the management process from a global standpoint since the 1980s. The process by which managers jointly formulate future direction has been given the name of strategic planning (Ansoff, 1984). It is the making of decisions within the frame work of a limited total resource. Therefore, it is envisaged that strategic decisions deal with a choice of resource commitments among alternatives. As such, it is important to understand the priorities, alternatives and the strategies available to the decision maker. The current concept of strategic management as defined by Davis (1995) is the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objectives.

New input of ideas into the territory of strategic management include the value discipline model expounded by Wiersema and Treacy (1995). Their research shows that no company can be all things to all people. It must find the unique value that it alone can deliver excellently to a chosen market. Choosing one discipline to master does not mean that the company abandons the other two, only that it picks up a dimension of value on which to stake its market reputation over the long term. The three distinct operating models are operational excellence, product leadership and customer intimacy. Operational excellence provides middle-of-the-market products with the best prices while the second value proposes to customers an offer of the best products. Finally, customer-intimate companies focus on delivering not what the market wants but what specific customers want. There are also discussions of paradigm shifts to world-class quality from the old where commitment leadership, consistent decisions, process and customer focus, experts all, continuous improvement, flat and flexible structure, shared values and vision, tough on competition, and wealth creating are the new norms (Ching, Paul et.al, 1993)

Levels of Strategy

It is generally propounded that 3 levels of strategy exists :-

1) Corporate level

2) Business level

3) Functional level

Corporate level strategy is formulated at the corporate level to oversee the overall scope of the company's activities as is influenced by the mission of the company. It looks at the whole gamut of business opportunites. Therefore, it strives to achieve the highest aggregate performance from individual businesses. Business level strategy is concerned with managing the interests and operations of a particular business. It is often referred to as competitive strategy as it is about how to compete in market. Business level strategy is more likely to be related to a unit within the organisation while corporate strategy involves decisions about the organisation as a whole. Finally, functional level strategy creates the framework for the management of different functions or operations of the enterprise -marketing, finance and so on - that subsequently contributes to other levels of strategy. It is these operational methods and 'value adding' activities that management choses for its business. It cannot be denied that the contribution and interplay among all levels of strategy is necessary to create the successful business organisation as they are dependent on each other.

A Basic Model of the Strategic Management Process

Most strategic management frameworks are in linear form and are laid out in an orderly sequence of steps. However, it is argued that the significance of interlinks between the components is ignored. For instance, strategic analysis is often an on-going activity and will overlap with the implementation of strategy. Therefore, the model by Johnson and Scholes (1993) is chosen to be elaborated upon as it is representative of most models that exists and yet illustrates the relationships of each component to each other. Figure 2.1 shows the Johnson and Scholes model of the strategic management process.

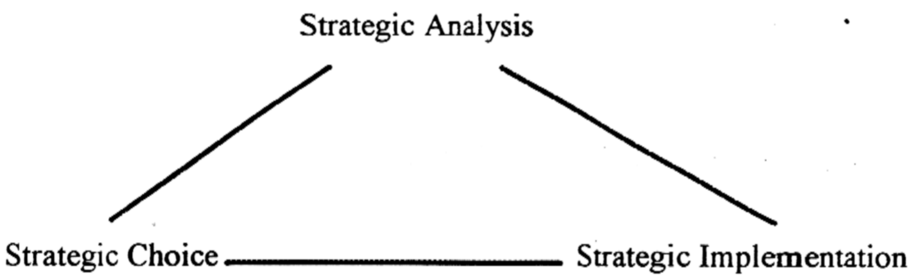

Figure 2.1 A basic model of the strategic management process.

Strategic Analysis pertains to the understanding of the strategic position of the organisation . Aspects of strategic analysis are the competitive environment, resources of the organisation and its strategic capability, culture and shareholder expectations.

In short, its aim is to form a view of the key influences on the present and future well-being of the organisation and therefore has great bearings on the choice of strategy.

Strategic Choice can be broken into three parts: generation of strategic options, evaluation of strategic options and selection of strategy. It is often the basis for strategic analysis.

Strategy Implementation is the translation of strategy into action. Its components are the planning and allocation of resources, organisation structure and design and managing strategic change.

Need for a Competitive Analysis Framework

It has been generally recognised that organizations must adapt to their environments to survive and prosper. Executives and entrepreneurs have recognized that strategic planning may be one of the best alternatives for any organization interested in its survival and development through a better interaction with the competitive environment in which the organization operates (Filho, P.V., 1985) Therefore, an actual knowledge of the environmental reality is imperative for the development of an effective strategic plan. The influence of the competitive environment factors may be indirect and abstract but, each firm may experience different effects according to Thomas (1974)

Charan and Freeman (1980) believed that each company should scan and monitor the relevant changes in the environment and meet the challenges presented by those challenges. According to some authors, in order to be proactive with changing conditions, an environmental scanning should be administered. This would enable executives to be informed about changes in their organization's external environment. Godiwalla, Meinhart and Warde (1980) asserted that the effectiveness of strategic planning was directly related to the capacity for environmental planning. The major findings of their study, which was based upon the experiences and insights of 295 chief executives in North America, indicated that the levels of difficulty experienced in accomplishing a firm's objectives and goals depended upon the perceived complexity, unpredictability and dynamism of the firm's strategic environments.

Hamel, C.K. and Pralahad, P.K. (1994) have a new view of strategy whose premises are to create and dominate emerging opportunities. The goal would be to develop an independent view about tomorrow's opportunities and how to exploit them. It is therefore argued, that industry foresight as a precedent must be sought analytically and objectively. It follows that a situation analysis of the environment be made. This will form the backdrop to which strategic decisions are made and provide insights into the future. Michael Porter's structural analysis framework is chosen as it leads to a comprehensive environmental assessment of industry attractiveness and the competitive position of the firm. The core of the framework pinpoints the five competitive forces at work as shown earlier in Figure 1.1. The collective strength of these five forces determines the fundamental potential for firms in the industry to earn returns on investment in excess of the opportunity cost of capital. According to Porter

(1980), competitive strategy, viewed in the context of the framework, is a creation of a defensible position vis-a-vis the five competitive forces. This *defendable* position may be in the form of an offensive or defensive action. Broadly, this may involve the following :

1) positioning the firm so that its capabilities provide the best defense against the existing array of competitive forces;

2) the firm through strategic moves can influence every one of the five competitive forces in its favour and thereby improving the firm's position; or

3) anticipating shifts in the factors underlying the forces and choosing a proactive strategy before rivals recognise it.

Studies on the Merchant Banking Industry

There have been limited studies done on the local merchant banking industry. The most recent one by Yew Wan Kup, in his thesis for the Master of Business Administration at University of Malaya, "Purchase of Merchant Banking Services By Listed Companies" (1993) examines the determinants that exist in the purchase of merchant banking services. His study reveals that personal sources of information are integral to merchant bank services marketing. Further, it is discovered that pricing does not play an important role in the selection of a merchant bank as credibility in terms of support and innovations are more important. Security, competence and responsiveness are also critical factors. Public listed companies also emphasize the importance of the merchant bank's reliability as a competitive advantage. It was also found that public listed companies preferred other financial institutions to merchant banks for both investments and borrowings; and dependence on merchant banks' advisory services is declining.

Jaya Lakshmi Menon in her thesis for the Master of Economics at the University of Malaya entitled "The Role Of Merchant Banking in the Implementation of the New Economic Policy in the 1970s" (1982) examines the role of domestic merchant banks within the context of the New Economic Policy in the 1970s. This role is examined in the light of merchant banks equity restructuring, related services and their lending activities to the priority sectors. It is found that the merchant banks have fulfilled their socio-economic obligations to some extent, acting as important financial intermediary in assisting companies comply with the restructuring goal of the NEP. In addition, the positive steps taken by merchant banks to increase industrial lending have helped accelerate the pace of national industrialization. Badariah bt. Sahamid studied the problems of the industry from a social and legal standpoint in her dissertation for the Bachelor of Laws at the University of Malaya entitled "Some Problems of the Merchant Banking Industry in Malaysia" (1977). She gave a broad overview of the services rendered then, the legal issues involved and highlighted common problems of the day.

Across the causeway, Gan Chiew Mong in her Master of Business Administration thesis at the National University of Singapore entitled "Singapore Merchant Banking-Challenges in the Nineties" (1990) discovered that the main challenge is the possible shortage of qualified people to meet the growing demands of the industry. In addition, she concluded that the success of the merchant banks in

Singapore depends on the abilities of the bank to create a niche, develop market penetration and placement power, and to establish an efficient regional network.

It can be concluded that none of the above research have examined the Malaysian merchant banking industry and its competitive underpinnings in detail. This research soughts to fill that lacuna.