NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: BUS 808

COURSE TITLE: ECFONOMY AND INDUCTRIAL ANALYSIS

CONTENTS

MODULE 1 UNDERSTANDING THE INDUSTRY

UNIT 1 UNDERSTANDING THE INDUSTRY

CONTENTS

1.0 Introduction

Industry is the production of an economic goods or services within an economy. In this unit, we look at the industry within an economy, the cycle of industry, internal and external business environment will also be discussed.

2.0 Objectives

At the end of this unit you should be able to:

- demonstrate knowledge of understanding the industry
- identify the major characteristics of business environment in an economy

3.0 Main Content

3.1 UNDERSTANDING THE INDUSTRY

An industry is best referred to a collection of firms offering goods or services that are close substitutes of each other. Alternatively, an industry consists of firms that directly compete with each other. In other words an industry is a group of firms producing a similar product or service, such as soft drinks or financial services which are differentiated from one another. The force of competition within an industry reflects the interactions among competitors who produce products or services that are close substitutes for each other. These competitors are collectively known as the industry.

3.2 The Cycle of an Industry

Over time most industries evolve through a series of stages form growth through maturity to eventual decline. The industry life cycle is useful for explaining and predicting trends among the six forces driving industry competition. For example, when an industry is new, people often buy the product regardless of price because it fulfils a unique need. A fragmented industry arises where no firm has large market share and each firm serves only a small piece of the total market in competition with others. As new competitors enter the industry, prices drop as a result of competition. Companies/firms thus use the experience curve and economies of scale to reduce costs faster than the competition. Companies integrate to reduce costs even further by acquiring their suppliers and distributors. Competitors try to differentiate their products from one another in order to avoid the fierce price competition common to a maturing industry. By the time an industry enters maturity, products tend to become more like commodities. What result at this stage is called a consolidated industry dominated by a few large firms, where each of the firms struggles to differentiate its products from the competition. As buyers become more sophisticated over time, purchasing decisions are based on better information. Price becomes a dominant concern, given a minimum level of quality and features. As an industry moves through maturity toward possible decline, its products growth rate of sales slows and may even begin to decrease. To the extent that exit barriers are low, firms will begin converting their facilities to alternate uses or will sell them to another firm. The industry tends to consolidate around fewer but larger competitors. Global industries, in contrast, operate worldwide, with multi-national corporations (MNCs) making only small adjustments for country specific circumstances. A global industry is one in which all MNC's activities in one country are significantly affected by its activities in other countries. MNC's produce products or services in various locations throughout the world and sell them, making only minor adjustments for specific country requirements. Examples of global industries are commercial aircraft, television sets, semi-conductors, copiers, automobiles, watches and tires, the largest industrial corporations in terms of dollar sales are, for the most part, multinational corporations operating in global industries. The factors that tend to determine whether an industry will be primarily multi-domestic or primarily global are pressure for coordination within the multinational corporations operating in that industry, pressure for local responsiveness on the part of individual country markets.

3.3 Industry Analysis

An examination of the important stakeholder groups, such as suppliers and customers, in a particular corporation's task environment is a part of industry analysis. An authority on competitive strategy contends that a corporation is most concerned with the intensity of competition within its industry. There are five forces, which work together to determine the type and direction of pressures on profitability that will be found in a given industry. When these forces of competition are favourable, there will be less downward pressure on profitability, and the industry should have a higher average level of profitability. When the structural factors are unfavourable, there will be more downward pressure on profitability and a correspondingly lower average level of profitability. A company, which is competing in an industry with an unfavourable structure, must find ways to gain an advantage over its competitors, which will allow it to earn above average level of profitability. If no competitive advantage can be developed, it may be possible to change the structure of the industry. If changing the structure is not a viable alternative, the company should consider exiting the industry.

3.4 Industry Analysis and environment

Any organization, business or institution is operating under its specific environment. As a consequence, they need to understand and analyze thoroughly those factors in order to achieve the overall goal of the organization. Analysis of the overall environment of the business/industry is one of the first steps in strategic management or the first move from any business perspective in the course of arriving at a decision. It also helps the individual firm or the entire industry to stay up to date on trend and keeping their competiveness ahead of the competitors.

Business environment includes the ‘climate’ or set of conditions: economic, social, political or institutional which have a direct or indirect bearing on the functioning of business which either has the potential to guarantee the realization of the goals of the business or otherwise. It signifies forces, factors and institutions that are either within the control or beyond the control of the business and which affect the functioning of a business enterprise.

Business environment and business decisions are influenced by two sets of factors namely;

(i) Internal factors (The Internal Environment)

(ii) External Factors (The External Environment)

Thus, Business Environment presents two challenges to the enterprise; the challenge to combat the environmental threats and exploit the business opportunities (external environment) and also the task of minimizing its weaknesses and exploring areas of its strength. Environmental analysis is thus one of the first steps in strategic management in the industry.

3.4.1 Internal environment: The internal environment is the environment that has a direct impact on the business. It entails such factors which are internal to the business or industry. These factors have a bearing on the decisions of a business firm and are generally controllable because the company has control over these factors. Such factors include: Value system, Vision, Mission and Objectives, nature and structure of management, Human resources, Company image. Other internal factors include; Labour problems, Credit policy changes, Change in incentive schemes, Inventory shortages, Working capital shortage, New product lines, Expected cost of raw materials, storage, shipping, Product past sales, Change in ownership or shareholders, and internal communication flow chart

3.4.2 External environment: this is further considered at the level of micro environmental factors and macro-environmental factors.

Micro environment consists of the factors in the company's immediate environment that affects the performance of the business. They are more intimately linked with the company but are usually outside the control of the industry. These direct factors (immediate business environmental factors) include; Distributors, Supplier, Alliance, Association, Customer, Competitor etc.

Macro environment consists of larger societal forces that affect all the actors in the company's micro environment. Indirect Factors (macro-environment factors) include, Political, Economic, Social, Technology, Legal, Demography, Physical, International factors etc.

4.0 Conclusion

This unit has informed us about industry in an economy, an industry is best referred to a collection of firms offering goods or services that are close substitutes of each other. Alternatively, an industry consists of firms that directly compete with each other. In other words an industry is a group of firms producing a similar product or service, such as soft drinks or financial services which are differentiated from one another. We have also learnt that examination of the important stakeholder groups, such as suppliers and customers, in a particular corporation's task environment is a part of industry analysis.

5.0 Summary

We have also learnt that examination of the important stakeholder groups, such as suppliers and customers, in a particular corporation's task environment is a part of industry analysis.

The internal environment is the environment that has a direct impact on the business. It entails such factors which are internal to the business or industry. While external environment this is further considered at the level of micro environmental factors and macro-environmental factors. Micro environment consists of the factors in the company's immediate environment that affects the performance of the business. They are more intimately linked with the company but are usually outside the control of the industry. These direct factors (immediate business environmental factors) include; Distributors, Supplier, Alliance, Association, Customer, Competitor

6.0 Tutor-Marked Assignments

1) What are the factors that determine whether an industry will be primarily multi-domestic or primarily global in an economy?

2) Distinguish between internal and external business.

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UNIT 2 UNDERSTANDING BUSINESS ENVIRONMENT

CONTENTS

1.0 Introduction

A business does not operate in a vacuum. It has to act and react to what happens outside the factory and office walls. These factors that happen outside the business are known as external factors or influences**.** These will affect the main internal functions of the business and possibly the objectives of the business and its strategies. As an administrator, knowledge of business environment will aid in your planning and control functions. This explains the reason for this unit.

2.0 Objectives

At the end of this unit you should be able to:

- explain external business environment.
- identify purposes of Environmental Analysis

3.0 Main Content

3.1 Business External Environment

The external environment consists of a general environment and an operating environment. The general environment consists of the economic, political, cultural, technological, natural, demographic and international environments in which a company operates. The operating environment consists of a company's suppliers, customers, market intermediaries who link the company to its customers, competitors and the public. Both the general and operating environments provide business opportunities, harbour uncertainties and generate risks to which a business must adapt. For example, countries with large populations may coincide with a large market size for particular products. However, to offer its products in these markets, a company may be required to contend with a government that erects obstacles to trade in the form of tariffs, product standards and customs procedures.

3.2 Purpose of Environmental Analysis

Successful businesses adapt their internal environment -- including human and financial resources, policies, technologies and operations -- to the external environment. The company performs an environmental analysis to identify the potential influence of particular aspects of the general and operating environments on business operations. This analysis identifies the opportunities and threats in a business environment in terms of a company's strengths and weaknesses. For example, a company may consider the impact of operating in a communist country and the threats posed by government-controlled resources. A company might also consider the opportunities of a government-controlled market in terms of competing products, the implications of well-educated and well-paid consumers to product development and sales and the impact of the location of its primary suppliers in a country in economic crises.

3.3 Environmental Analysis Process

An organization relies on strengths to capture opportunities and recognize weaknesses to avoid becoming a victim of environmental threats. A company performs an environmental analysis to gain an understanding of these strengths, weaknesses, opportunities and threats. The environmental analysis then influences corporate planning and policy decisions. This environmental analysis is a three-step process in which a company first identifies environmental factors that affect its business. For example, the company might consider if a market is “difficult” because of its remote geographic location or the area's unfavourable economic conditions. The company then gathers information about the selected set of environmental factors that are most likely to impact business operations. This information serves as input to a forecast of the impact of each environmental factor on the business. For instance, a company might project the volume of products likely to be sold in a country in light of existing poor economic conditions and significant trade barriers.

3.4 Business/Industry Environment Analysis

Business leaders can control aspects of the internal environment that can positively or negatively affect a company's operating and financial results. For example, leaders shape their company's culture, establish the company's organizational structure and create policies that guide employee behaviour. However, the greatest challenges to business success may be a consequence of the external environment over which a company has little, if any, control. To address these challenges, business leaders must conduct an environmental analysis and develop policies and processes that adapt company operations and products to this environment with the aim of achieving organizational goal.

4.0 Conclusion

Among the important issues discussed in this unit is that of the Business External Environment which consists of a general environment and an operating environment. The general environment consists of the economic, political, cultural, technological, natural, demographic and international environments in which a company operates. The operating environment consists of a company's suppliers, customers, market intermediaries who link the company to its customers, competitors and the public. We also learned that in Environmental Analysis Process, an organization relies on strengths to capture opportunities and recognize weaknesses to avoid becoming a victim of environmental threats. A company performs an environmental analysis to gain an understanding of these strengths, weaknesses, opportunities and threats. In all, the environmental analysis then influences corporate planning and policy decisions.

5.0 Summary

This unit focuses on Understanding Business Environment, the unit exposes us to an understanding of these strengths, weaknesses, opportunities and threats operating in a business environment. However, the greatest challenges to business success may be a consequence of the external environment over which a company has little, if any, control. To address these challenges, business leaders must conduct an environmental analysis and develop policies and processes that adapt company operations and products to this environment with the aim of achieving organizational goal.

6.0 Tutor-Marked Assignments

What are the major benefits to an entrepreneur for understanding the Environmental Analysis Process?

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UNIT 3 TOOLS AND TECHNIQUES IN ENVIRONMENTAL ANALYSIS

CONTENTS

1.0 Introduction

There are many external factors that must be analyzed and understood in order for an organization to succeed; this unit will focus on some external factors that must be put in place before any organization can succeed in any economy. The unit is a significant part of the course in that it deals with tools and techniques in environmental analysis for issues involving economic development organizations.

2.0 Objectives

At the end of this unit you should be able to:

• demonstrate knowledge of the tools and techniques in environmental analysis

• identify the major tools and techniques in environmental analysis

3.0 Main Content

3.1 Environmental Scanning

Environmental scanning is the process that seeks information about events and relationships in a firm's environment, the knowledge of which help top management chart the firm's future. Environmental scanning entails partitioning the external environment into sectors, namely, cultural,economic, political, technological, and so on. This helps establish a firm's information needs within those sectors. Data are usually collected by monitoring and forecasting changes in important variables identified in each sector. That data are then transformed into consolidated information, which is integrated into the firm's strategic planning process. Environmental scanning is used to gather information from the environment. This information is used to craft a strategic plan that will help an organization achieve and maintain a competitive advantage. In order to be successful, the organization must align its strategies and plans with the information gathered from the environmental scanning.

3.2 SWOT Analysis

SWOT (Strengths and Weaknesses, and Opportunities and Threats) is a basic analytical tool in management that has become popular in recent years. SWOT analysis is often used by strategic planners and top management in developing competitive strategies. It is typically used to decide corporate strategies and to make product or market level analyses. SWOT is a widely used thinking framework for identifying Strengths, Weaknesses, Opportunities and Threats. It enables key factors to be visibly recorded as a high-level summary of a business. Strengths and weaknesses are the internal side of a SWOT analysis. SWOT is a tool for auditing an organization and its environment. It is the first stage of planning and helps managers focus on key issues. Once key issues have been identified, they feed into objectives. It can be used in conjunction with other tools for audit and analysis.

SWOT analysis is a summary that is simple but powerful. The technique is commonly used by consultants to document the key factors arising from the review of a particular project or business. The use of SWOT enables an assessment to be made of the overall internal state of a business and the direction in which it is heading, through looking at its Strengths and Weaknesses. It also enables a judgment to be made about aspects of the external business environment, which can affect the performance of the business, through looking at the Opportunities and Threats it faces in the wider world (Elkin 1998). The SWOT analysis on its own is not a strategy. It is merely a tool that helps an organization in making informed decisions. The SWOT analysis is primarily used to identify and analyze the strengths and weaknesses of the organization, as well as the opportunities and threats exposed by the information collected of the external environment. The SWOT analysis is a simple yet useful tool in analyzing both the internal and external environments of the organization. SWOT analysis together with other tools such as PEST (Political, Economic, Social, and Technological) analysis can be used as a basis for the analysis of business and environmental factors.

3.3 PEST Analysis

A PEST analysis looks at the Political, Economic, Social and Technological drivers of a particular industry. PEST are external factors that must be analyzed and understood in order for an organization to succeed but the word PEST is no more than a convenient mnemonic. The PEST analysis focuses on the external forces that affect the organization. It is most useful when used together with other tools such as the SWOT analysis. The PEST analysis is a useful tool for understanding market growth or decline, and as such the position, potential and direction for a business. A PEST analysis is a business measurement tool. It is important to firstly consider each PEST factor as they all play a part singularly and interdependently in determining the overall business environment in which the industry operates.

The PEST analysis is the most common approach for considering the external business environment. PEST analysis stands for Political, Economic, Social, andTechnological analysis and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. The underlying thinking of the PEST analysis is that the enterprise has to react to changes in its external environment. This reflects the idea that strategy requires a fit between capabilities and the external environment and so it is necessary for an enterprise to react to changes. Political changes might be expected to include, for instance, general changes in the domestic political climate, the effects of European integration and the aftereffects of the break-up of the Soviet Union, government change, world power shifts, as well as specific legislation and regulation. Economic changes is likely to include the effects of economic cycles, patterns of world trade, currency conversion rate changes, commodity prices, changes in capital markets, labour markets and rates, and economic effects on suppliers and particular groups of customers. Social change includes the effects of demographic patterns, tastes and habits, and concerns about the environment and sustainable development.

Technological change covers the effects of technological change on products, processes, and distribution channels. The PEST analysis is very general in nature and this makes it difficult to give clear rules on how best to apply it in varying circumstances. Global or geographically dispersed enterprises will have to conduct separate PEST analysis for different regions as trends occur at different rates in different places. The value of the PEST is likely to relate directly to the quality of the effort put into it. This time spent thinking about how external change will affect the enterprise and its industry is likely to be well spent.

Specifically, the factors can be summarized below

- Political Factors – may have direct or indirect impact on the organization's operation. Decisions made by the government may have an effect on the business. The political arena has a big influence on how organizations operate the purchasing power of the customers and other businesses.

- Economic Factors – the organization is affected by economic factors. Economy also affects the purchasing power and behavior of the consumers.
- Sociological Factors – include the demography, lifestyle, cultural aspects of the consumers. These factors have a big influence on the consumer needs and wants. Sociological factors also affect the size of potential markets.
- Technological Factors – technological change plays an important role in shaping how organizations operate. Technological factors are important in gaining competitive advantage. Technological innovations can improve production efficiency, quality and speed. New technology is changing how organizations operate.

3.4 Political Environment

Thus, when looking at political factors emphasis of consideration is on the impact of any political or legislative changes that could affect the performance of the business. Political factors include aspects such as laws on maternity rights, data protection and even environmental policy: these three examples alone have an impact on employment terms, information access, product specification and business processes in many businesses globally.The inter-relationship between the PEST factors is evident in practicality as the industry is not affected by just a single factor without the influence of other factors on that particular factor. For instance, many political changes result from changes in the economy or in social and cultural elements. Thus although tax rates are generally decided by politicians, tax decisions generally also include economic considerations such as what is the state of the economy. In Europe for instance, the politicians drove the introduction of the euro currency but the impacts include economic factors: cross-border pricing, European interest rates, bank charges, price transparency and so on. Other economic factors include exchange rates, inflation levels, income growth, debt and saving levels (which impact available money) and consumer and business confidence. There can also be narrow industry measures that become important. Issues such as the availability of skilled labour or raw-material costs can impact industries in different ways.

3.5 Technological Environment

Advances in technology can have a major impact on business success, with companies that fail to keep up often going out of business. Technological change also affects political and economic aspects, and plays a part in how people view their world. Just as one example, the Internet has had a major influence on the ways consumers and businesses research and purchase products. Whereas in the early and mid-1990s, it was rare for consumers to consider cross-border purchases this is now becoming common via services such as, with the result that even small businesses can now serve a global market. Politicians are still coming to grips with the tax issues involved. Meanwhile the music industry has still not found an effective solution to the threat posed by the successors to Napster, and the cinema/movie industry is also being challenged by the availability of peer-to-peer networks facilitating easy and free downloads of the latest blockbuster films. Environmental factors to consider here include the impact of climate change: water and winter fuel costs could change dramatically if the world warms by only a couple of degrees.

3.6 Social Environment

Ultimately, however, the various PEST factors are governed by the socio-cultural factors. These are the elements that build society. Social factors influence people's choices and include societal beliefs, values and attitudes. So understanding changes in this area can be crucial, as they lead to political and societal change. When looking at socio-cultural factors, you need to consider

- demographic changes and also consumer views on your product & industry;

- environmental issues (especially if your product involves hazardous or potentially damaging production processes);
- lifestyle changes and attitudes to health, wealth age (children, the elderly, etc.), gender, work and leisure.

Added complications when looking at social and cultural factors are differences in ethnic and social groups. Not all groups have the same attitudes - and this influences how they view various products and services.

Table 1. Illustration of the SEEPT (Social, Economic, Environmental, Political and Technological) Framework for Identifying External Forces.

The Social Indicators of Development, Country Political and Institutional Assessment information, United Nations Development Programme (UNDP) Human Development Indicators, and the World Development Indicators are useful sources of data.

Social	Social factors	Education levels, social priorities, cultural and class tensions, land and water rights, differentiated membership in groups and associations, gender issues
	Demographic Patterns	Age, family, household, and ethnic structures; regional and national migration patterns; wealth distribution, including regional and national poverty rates
Economic	Macro-Economic Conditions	GNP, balance of trade, rate of inflation, exchange rate; current and future relations with international financial markets, current debt levels; governmental expenditures, deficits. Changes in the economic structure of nation (dependence on single export, percentage of exports in finished goods), formation of new regional trading blocs
	Micro-Economic conditions	Change in size, type and ownership of firms; formal and informal labor force structure by region; changes in economies of scale/structure of key industries
	Market Forces	Spending patterns of consumers (urban/rural, national/regional), international demand for key exports. Distribution and efficiency of rural and urban markets, impact of the informal sector, sources of competition (national, regional, international)
	Impacts of Global Economy and Development	Volume of assistance from multilateral and bilateral agencies, conditions for assistance (policies, requirements)/harmonization Risk tolerance and conditions for entry and exit by international firms, stake in local economy by international firms.
Environmental	Physical Environment	Air/water/land pollution trends and locations, environmental quality issues (global warming).
	Natural	Energy prices and availability (likelihood/impact of an oil

	Resources	shock), raw materials (rate of depletion, ease of access), land use (farming methods, erosion levels), sustainability (strategic use of resources) regional distribution of natural resources.
Political	Geopolitical	Trends in international relations; relationship with other nations in region (regional trading blocs, military alliances); levels of tension, conflict (regional, international); trade and protectionism.
	National	Change in governmental development strategy and policy (privatization); changes in legislation (including regulation, creation of enabling environment); changes in structure and responsibility of ministries; changes in rules governing formation and functioning of parties; stability of government, likelihood of change/overthrow.
Technological	Infrastructure	Level of technology in key industries, emerging technologies, capacity to manufacture technology for export
	Future Directions	Basic research and technical education trends in nation; "digital divide" – computer and telecom infrastructure/trends; potential for the rapid diffusion of new technologies from abroad.

Source: Wilson 1987.

3.7 Porter's Five Forces Analysis

Porter identified the five forces model of competitive strategy. He identified the five forces as:

- The threat of new entrants and the appearance of new competitors
- The degree of rivalry among existing competitors in the market
- The bargaining power of buyers
- The bargaining power of suppliers
- The threat of substitute products or services which could shrink the market

The strength of each of these forces varies from industry to industry, buttaken together they determine long-term profitability. They help shape the process firms can charge, the costs they must pay for resources and the level of investment that will be needed to compete. The threat of new entrants limits market share and profit; powerful buyers or suppliers, using their superior bargaining power, can drive down prices or push costs up, eroding margins and so on (Witzel 2003). The five factors affect the strategy of the organization. It is important to analyze and study these five forces to be able to craft a successful strategy. To be successful, the organization must respond effectively to the pressures of these five forces.

4.0 Conclusion

This unit has opened our mind on the need for tools and techniques in environmental analysis; there are many external factors that must be analyzed and understood in order for an organization to succeed. Some of these tools are environmental scanning, SWOT analysis, PEST analysis and so on. This unit had succeeded in putting these together for yourn understanding.

5.0 Summary

This unit has informed us about the environmental scanning as the process that seeks information about events and relationships in a firm's environment, the knowledge of which help top management chart the firm's future. We also learnt that environmental scanning is used to gather information from the environment. This information is used to craft a strategic plan that will help an organization achieve and maintain a competitive advantage. In order to be successful, the organization must align its strategies and plans with the information gathered from the environmental scanning. On the other hands, SWOT (Strengths and Weaknesses, and Opportunities and Threats) is a basic analytical tool in management that has become popular in recent years. SWOT analysis is often used by strategic planners and top management in developing competitive strategies. It is typically used to decide corporate strategies and to make product or market level analyses. SWOT is a widely used thinking framework for identifying Strengths, Weaknesses, Opportunities and Threats. A PEST analysis looks at the Political, Economic, Social and Technological drivers of a particular industry. PEST are external factors that must be analyzed and understood in order for an organization to succeed but the word PEST is no more than a convenient mnemonic. The PEST analysis focuses on the external forces that affect the organization.

6.0 Tutor-Marked Assignments

Identify Porter's five forces model of competitive strategy

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UNIT 4 MARGINAL ANALYSIS IN THE INDUSTRY (INTERNAL ENVIRONMENT ANALYSIS)

CONTENTS

1.0 Introduction

Marginal revenue and marginal cost are useful concepts on their own, But combining them allow a business owner to find the optimal level of output and price that will lead to maximum profits. This unit elucidates the importance marginal analysis in the industry especially in internal environment analysis.

2.0 Objectives

At the end of this unit, you should be able to:

- Explain Marginal cost analysis
- Differentiate between environment analysis from environmental forecasting
- Recall implications of Trends and Changes in the Business Environment

3.0 Main Content

3.1 MARGINAL ANALYSIS IN THE INDUSTRY (INTERNAL ENVIRONMENT ANALYSIS)

Marginal analysis can be a powerful tool for business owners. Marginal revenue and marginal cost are useful concepts on their own, but combining them allows a business owner to find the optimal level of output and price that will lead to maximum profits. Marginal analysis can even help with hiring and wage decisions.

3.1.2 Marginal Revenue Analysis

Marginal revenue is the amount of revenue added only by the last unit of output sold. For example, if a business sold 10 televisions, their total revenue is 10 times the price of the televisions, and the marginal revenue of the 10th television sold is the total revenue minus the total revenue after 9 televisions were sold. Marginal revenue always begins to decline eventually, to reflect that the market becomes saturated and fewer customers want to buy the output. Tracking marginal revenue allows a business to make changes when demand warrants. If the price drops too low, the company might want to consider raising prices -- there is little to be gained from selling at a low marginal revenue, because the extra business does not bring in that much money.

3.1.3 Marginal Cost Analysis

Marginal cost is similar to marginal revenue, in that it deals with the changes to the business due to the last unit of output. It examines the additional costs brought on by producing the last unit of output. Examining marginal cost is a good way of thinking about production decisions; if marginal cost is starting to increase too rapidly, it may be a sign to cut back on production.

3.1.4 Profit Maximization

When combined, marginal revenue and marginal cost provide business owners with the theoretical optimal level of output. By manufacturing until marginal revenue and marginal cost are equal, a business owner guarantees that they will achieve the highest possible amount of profit. It is possible to produce past this point, but although output will increase, decreasing marginal revenue and increasing marginal cost mean that profit can only decrease.

3.1.5 Marginal Labor Analysis

Marginal analysis also can be useful in hiring and paying workers. When the cost of labor is fixed, analyzing the marginal output of workers can lead to the optimal level of employees. The relevant statistic is the marginal product of labor -- the amount of revenue that each worker adds to the company. When the marginal product of labor for the last worker hired equals price, the business has achieved the optimal amount of employees.

3.1.6 Limitations of Environmental Analysis

An environmental analysis reviews current environmental conditions to forecast a future business environment. The static nature of the analysis ensures that unexpected environmental changes are not considered in a company's business projections. In addition, the environmental analysis is but one source of information that's evaluated as a company develops a strategic plan. As a result, the analysis does not guarantee business success. The benefit of the analysis is also limited by the reliability and timeliness of data used in the analysis.

3.2 Environmental forecasting

Environmental scanning, monitoring, and competitive intelligence are important inputs for analyzing the external environment. However, they are of little use unless they provide raw material that is reliable enough to help managers make accurate forecasts. Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change, its purpose is to predict change. No one can deny that economic, technological, political, and social change is a part of organizational life. To say the least, forecasting is a most difficult process. At this point it may be consoling to recall some humorous forecasting rules. Several studies have examined the impact of environmental analysis and forecasting on organizational performance. One study found that increased knowledge, through environmental analysis and forecasting was positively correlated to profitability.

Brainstorming is a technique that is primarily used to produce creative ideas for solving-problems, but it can also-be-used in forecasting. Basically, brainstorming involves presenting a particular subject to a group of people and allowing them to present their forecasts on the subject. Brainstorming generally consists of three phases. In phase one, members of the group are asked to present spontaneously their ideas on the future of the subject under study. The group is told that producing a large quantity of their ideas is desired, and that they should not be concerned about the quality of their ideas.

Basic rules are observed in the first phase. No criticism of forecasts is allowed. No praise of forecasts is allowed. No questions or discussion of forecasts is allowed.

Combination and improvements of forecasts that have been presented are encouraged. During the second phase, the merits of each forecast are reviewed, which often leads to additional alternatives. Alternatives with little merit are eliminated in this phase. In the third phase, one of the alternatives is selected, normally through group consensus.

Trend-impact analysis is also used in environmental forecasting and is conducted along the following general steps. Past history of a particular phenomenon is extrapolated with the help of a computer. Panel of experts specifies a set of unique future events, which could have a bearing on the phenomenon under study.

Panel of experts indicates how the trend extrapolation would be affected by the occurrence of each of these events. Computer then modifies the trend extrapolation using these judgments. Panel of experts then reviews, the adjusted extrapolation, and modifies the inputs.

3.3 Implication of Trends and Changes in the Business Environment

Environmental uncertainty is the degree of complexity plus the degree of change existing in an organization’s external environment. Environmental uncertainty is a threat to strategic managers because it hampers their ability to develop long-range plans and to make strategic decisions to keep the corporation in equilibrium with its external environment. Most industries today are facing an ever increasing level of environmental uncertainty. They are becoming more complex and more dynamic.

Industries that used to be multi-domestic are becoming global. New flexible, aggressive, innovative, competitors are moving into established markets to rapidly erode the advantages of large previously dominant firms.

Distribution channels vary from country to country and are being altered daily through the use of sophisticated information systems. Closer relationships with suppliers are being forged to reduce costs, increase quality, and gain access to new technology. Companies learn to quickly imitate the successful strategies of market leaders, and it becomes harder to sustain any competitive advantage for very long. Consequently, the level of competitive intensity is increasing in most industries. In hypercompetitive industries such as computer, competitive advantage comes from an up-todate knowledge of environmental trends and competitive activity coupled with a willingness to risk a current advantage for a possible new advantage.

It is sometimes argued that it is so difficult to forecast the future that it is better not to attempt forecasting at all. Scenario planning offers a fundamentally different approach that does not depend on forecasting the future. Rather it postulates possible future scenarios without making any assessment of the likelihood that any one scenario will occur. Scenario planning was pioneered in Shell. Scenario planning involves the creation of a number typically two to four complete scenarios of the future, each of which is self-consistent but significantly different form the others. Under scenario planning, the purpose of the strategy process is to help managers to develop better mental models so that they can deal with change as it occurs. It turns planning into learning exercises and places the emphasis on the process of planning rather than the resulting plans. It is therefore reason of the Learning and Cognitive schools.

Scenario planning is being used to an increasing extent, but it does require considerable time and effect to achieve the best results.

3.4 Delphi Method of Business Forecasting

Attempting to predict the future has been the ambition of countless individuals since antiquity. In the business sector, accurately predicting the future of demand, cash flows, and other factors is crucial.

Yet in many instances, such as projecting the effects of a new product or technology, quantitative forecasting methods are not an option because historical data is typically not available. In such cases a reliable forecast must be obtained using qualitative means. The Delphi Method is a reliable and unique methodology appropriate for these instances.

The origin of the Delphi method was attributed first to the RAND project of the United States of America in 1948 when the United States Air Force realized the need to anticipate future advancements in technology to protect America. The RAND project was formed to tackle these predictions. The existing methods of forecasting were insufficient to adequately prepare the needed report, because no historical data for this subject was available. As they explored new methods of forecasting, the Delphi method was born. Today businesses, governmental agencies, and organizations use the Delphi method to forecast future events and make appropriate plans for the future.

The Delphi method is a combination of qualitative and quantitative processes that draws mainly upon the opinions of identified experts to develop theories and projections for the future. A group of experts is drawn from several disciplines and professions. A multiple-round survey system is administered to this group over an extended period of time. The goal of this method is to reach a consensus among the group by the end of this multiple-round questionnaire process. The uniqueness of Delphi lies in its reliability, given the variableness of human opinion, and in its ability to be administered remotely and without direct participant interaction. It is best used for a fairly simple assessment of new products and developments, but it is one of the most complex methodologies available.

The first step toward implementing the Delphi method is to organize the process in a very specific and thorough manner. Questionnaires should be designed, administrative processes determined, and total costs evaluated before starting the actual procedures. When a complete outline for the process is finished, the expert-selection process can begin.

The size of the project being completed will determine the number of expert panels the Delphi

Method requires, but each panel should consist of approximately 10 to 18 members. The size of the panel is ultimately determined by the needs and budget of those administering the process. A simple random sampling of respondents is not adequate to form this panel. Unlike traditional statistical surveying, the goal is not to select a representative sample of the population. The whole premise behind the

Delphi theory is that the panel members are in fact experts in their field in order to yield more accurate results. The criteria that qualifies an individual as a panel “expert” is determined by those administering the process.

Once the expert selection process is finished, a questionnaire is distributed to each panel member for completion. The members are encouraged to draw upon their experiences, and use any historical data, research, or other available resources to help in answering the posed questions. However, panel experts should not consult others regarding questionnaire material, in part to avoid accidental contact with other members of the panel.

The first questionnaire usually consists of one or two questions. These are meant to be open-ended questions related to the issue being researched. The experts give their opinion and return the questionnaire to the panel director. The panel director then reviews the responses and uses this information to develop more specific questions to be used in the second questionnaire.

The second questionnaire has two major parts: first, the results and responses from the first questionnaire are presented in an orderly format (such as a list or table). The experts rank the result items to establish priorities, and are allowed to review their responses in light of the opinions of other experts, add comments, and change their responses if desired. Second, the new questions formulated by the panel director are posed to the panel. Panel members then return the answers to these questions, along with any revisions to their previous answers, to the panel director. It is in this questionnaire that they are able to explain the reasoning behind their responses. The panel director once again processes this information and prepares the third questionnaire.

The third and all subsequent questionnaires contain three major parts. First, they include the answers to all previous questions, along with some statistical data so experts can view how their responses related to those of other panel members. Second, they include comments and reasoning that panel members included with their answers. Third, they provide an opportunity for experts to review and revise any of their previous answers. Once again, panel members fill out the questionnaire and return it to the panel director.

This process continues until a consensus is reached by the group. Usually a minimum of three questionnaires is needed to reach a consensus, but the number of questionnaires could be five or more.

A key ingredient to this process is the anonymity of the panel members. No member knows the identity of the other panel members. This allows a true consensus to be reached and eliminates many problems that arise from bias and peer influence among the participants.

As stated previously, the Delphi Method was created and first applied in the early 50s when the United States Air Force wanted to prepare for the possibility of an atomic war with the Soviet Union.

The goal was to project how many atomic bombs that the Soviet Union would deploy in the event of war. The results from the first round of expert responses showed estimates ranging from 50 to 5000 bombs. After proceeding through four more iterations of the survey and response process, that estimate reached a consensus: 167 to 360 bombs. Using the repeated-ranking process of the Delphi methodology, a professional and focused prediction was obtained.

Other examples where the Delphi method has been used include the forecasting of the long-term impact of modern terrorism on U.S. Society, the effectiveness of an AIDS vaccination in Switzerland, predicting the use and extent of information technology, and projecting how future events will affect the U.S. lodging industry. In each example, the long-term effects of a newly-introduced idea are desired, but not obtainable by quantitative means.

4.0 Conclusion

This unit has brought into focus the marginal Cost Analysis that it is similar to marginal revenue, in that it deals with the changes to the business due to the last unit of output. It examines the additional costs brought on by producing the last unit of output. Examining marginal cost is a good way of thinking about production decisions; if marginal cost is starting to increase too rapidly.

5.0 Summary

This unit has tutored you that when combined marginal revenue and marginal cost together, it provide business owners with the theoretical optimal level of output. By manufacturing until marginal revenue and marginal cost are equal, a business owner guarantees that they will achieve the highest possible amount of profit. Also, environmental scanning, monitoring, and competitive intelligence are important inputs for analyzing the external environment. However, they are of little use unless they provide raw material that is reliable enough to help managers make accurate forecasts.

We also learnt in this unit about the implication of trends and changes in the business environment are the degree of complexity plus the degree of change existing in an organization's external environment. In all, most industries today are facing an ever increasing level of environmental uncertainty. In the next study unit, you will be taken through the three trends that influence the business environment at any level. They are demography, identity and technology.

6.0 Tutor-Marked Assignments

What are the implications of trends and changes in the business environment

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MODULE 2 TRENDS AND CHANGES IN THE BUSINESS ENVIRONMENT

UNIT 1 TRENDS AND CHANGES IN THE BUSINESS ENVIRONMENT

CONTENTS

1.0 Introduction

The three trends that influence the business environment at any level are demography, identity and technology. This unit will tutor you on how each trend affects business environment in an economy.

2.0 Objectives

At the end of this unit you should be able to:

- Demonstrate knowledge of the trends and changes in the Business Environment.
- Differentiate how demography, identity and technology influence their business environment.

3.0 Main Content

3.1 Trends and changes in the Business Environment

The section examines demography, identity and technology and shows that these three trends

influence the business environment at any level. Unlike technology, and to a lesser degree demography, identity is not identified in other literature concerning the global business environment. The discussion on identity is, therefore, an important contribution to the understanding of the determinants of the trend of business practice.

Demography, identity and technology are central to the emergence of globalization, a phenomenon that refers to the concept of the world as a global village. The three factors identified, particularly technology, are also a central force in the emergence of a post-Fordist era. This era is identified as being based on information and services, rather than manufacturing and agriculture. This section considers some of the more commonly occurring organizational responses to these macro trends. Although these responses are not all positive, it does show that managers are genuinely attempting to grapple with the context within which their organizations are operating.

3.1.1 Demography

Anthropologists are fascinated with lost civilizations. Christians are engrossed in the events surrounding the year zero AD. Sociologists are trapped in the present in their attempts to understand the complexities of a world that appears to be continuously on the edge of chaos. This century alone has witnessed unprecedented growth and development. Despite being rocked by two world wars and a number of significant economic tremors, we have achieved much. We have sent men to the moon, developed replacement body parts, designed commercial airliners that can travel in excess of one thousand kilometres an hour, and developed computer technologies that allow us to have instantaneous conversations with friends and associates around the world by Internet. This is progress nonetheless. The view on progress is however subjective, it depend on individuals’ own values and assumptions. There is no doubt the world is changing, and changing rapidly. Some may doubt that the presence of change is any different to previous times. However, there are few who would disagree that the pace of change has increased, that the discontinuities caused by change are more frequent, and that time and speed have become more critical in daily work activities. We need to identify and understand some of the critical forces at play at the macro level and be able to articulate how these macro forces influence the business environment and the nature of work.

The first factor to be discussed herein is demography. Demography is the most vital aspect of the forces that are currently shaping and reshaping the world (McRae 1994). Demography relates to the features of societies. These features include the size of different populations, the distribution of age and gender, and the distribution of wealth. It is also associated with trends that relate to these characteristics.

Population growth is the most disturbing feature of the world's demography. Between 1950 and 1992, the world's population grew from 2.5 billion to 5.5 billion people. (McRae 1994) Most of this increase was associated with the developing world, particularly India and China.

With population growth, comes increased demand for products and services, thereby creating business opportunities. In China, for instance, there has recently been increased entry by Western firms to explore new markets created by government deregulation and a population that is increasingly able to afford consumer goods. However, such growth has strained natural resources and increased the levels of competition for business opportunities. Concern over the plundering of the world's natural resources has created the Green movement, championed by Green Watch.

In Western countries, population trends are very different. Many Western countries are experiencing declining birth rates resulting in an ageing of the population. The baby boomers are partly, but not solely, responsible for this trend. An ageing population puts pressure on the retirement age, on female participation in the workforce, on the use of part-time work, and on the use of voluntary labour (McRae 1994). From the work of Hannan and Freeman (1977) on population ecology, we can appreciate the contextual significance of demographic factors for organizations. The population ecology perspective, in particular, explains why certain forms and species of organizations survive and others die. Organizations are immersed in the macro environment through membership of certain populations of organizations. Hence, those that are more likely to survive are those that meet the needs of the market place at the least cost, that is, those that are more efficient and effective.

While demography can be viewed as an outcome of other forces and factors in the general environment, it is, nonetheless, a self-perpetuating force in its own right. Growth and decline in different populations have consequences. The huge growth in population worldwide has shifted the emphasis on national sustainability to global sustainability. Shifts in the age and gender balance do have major consequences around the globe in terms of the types of products and services required. Better-educated populations seek and create more information. In addition, particular trends in demography have influenced a greater fluency of transactions across national borders to a point where global trends clearly surpass domestic trends.

3.1.2 Identity

The second major factor that is having a significant impact on the business environment is identity. Identity relates to the central bonding attributes of different communities and cultures, large and small. From an organizational perspective, an organization can be viewed as a social system with a collective identity (Caplow 1964) which is recognizable by its enduring, central and unique attributes (Dutton and Penner 1993). The world is a social environment consisting of diverse and numerous groups of people.

These groups are divided on ethnic and historical values. They are divided on ideological grounds involving the interpretations of communism and capitalism, east and west, and green and brown. They are also divided on religious affiliations. Identity indicates who we are individually and collectively and our affiliations can be diverse. For example, Asian immigrants first came to Australia during the gold rush era of the 1850s. Immigration then increased again after the demise of the white Australia policy. This has lead to Australia becoming a multicultural nation, which has increased the diversity of both organizations and the community.

An organization is an identity within larger ethnic, national, industrial and religious identities. These cultural influences provide a rich context in which a particular organization establishes and maintains its own sense of being. For instance, the Russian people embraced communism in the 1917 revolution. Their leaders attempted to consume the world with a new world order and a powerful Soviet Republic was constructed. In the latter part of the 20th century, a new Russian leader emerged to reflect the changing sense of identity among Russians and their allies. Gorbachev's policies of Glasnost (openness) and Perestroika (restructuring) were instrumental in a realignment and re-establishment of eastern block identities. Even in Western Europe, an interesting realignment of identities is taking place. The European Union (EU) has been formed to gain collective advantages of size and integration, as evidenced by the introduction of the Eurodollar. However, the EU also advocates the importance of retaining and promoting the individual sovereignties of national and ethnic groups. Such identities, based on varying cultural foundations, set the parameters for organizing. An interesting facet of identity is that it does not always lead to rational economic decisions.

It may also lead to opposition of rational decisions that have been made by organizations and governments. In Australia, we voted in a government whose policy was to sell part of Telstra. While this may make economic sense, a number of people were opposed to this idea as it could lead to foreign ownership of something that was previously completely Australian.

Similarly, when a company such as Arnott’s was sold we felt that we lost an Australian icon.

The complex nature of relationships and affiliations between people creates a dynamic network of identities based on a diverse range of values, beliefs, and transactions. These networks change continuously to accommodate people's preferences, whims and aspirations.

The shifting nature of group identities, in particular, is a powerful force because it reflects the dynamic set of influences at play as relationships and affiliations change through continuous competition and collaboration. This dynamic is central to the fluency of global relationships and organizational transformation and transition.

3.1.3 Technology

The third major factor impacting on the business environment is technology. Technology relates to the means of development and survival. Technology is not an end in itself, but an enabling factor. 'Technological approaches to organizational development focus directly on the work that is performed in organizations.' (Ivancevich, Olekalns and Matteson 1997. p. 644) Through advances in technology, we have been able to build infrastructure and organize work in innovative and productive ways. In the last two decades, there have been rapid advances in technology. Burrell and Stutchbury (1995) point out that current gain in productivity in

Australia must be sustained by ongoing investments in new and more productive technology.

A major advance was the invention of the microchip and the resultant spread of personal computers (PC). When mainframe computers occupied entire floors, it was only the largest of organizations that used computer technology. The PC not only occupied less space, but it also led to price reductions thereby making computer technology affordable even for small organizations. Further advances in technology in recent years have included the Internet, electronic mail, and networking, all of which have influenced the way work is organized.

Although computers have had an immense impact on businesses worldwide there are many other forms of technology that have not enjoyed the same amount of media attention. These include new technologies in transportation, engineering, and non-computerized equipment and machinery. Technological change and technology diffusion are undeniable features of an organization's context, and part of an organization's identity is how it acquires and uses technology. Technology provides the most obvious indication of forces that break down domestic, local and national barriers and enable the business sector to transact, commute and learn across artificial boundaries.

3.1.4 Globalisation

Among other forces, the trends discussed above have been significant in shaping the dynamics of the macro environment of business organizations through:

- The changing demographics, including population growth, aging populations, wealth distribution, standards of living, and shifting centres of population concentrations;
- The realignment of identities, their demarcation rules, rites of entry, and multicultural attributes; and
- The enabling influence of new technologies that have improved communication, transportation, knowledge management and infrastructure for trade and development.

Demographics, identity and technology, in particular, are strongly associated with a phenomenon known as globalization. Globalization refers to the removal of the main barriers, both technical and political, between the various national economies so that the world is increasingly perceived as a single marketplace for open competition (Brown 1997).

Accelerated globalization, technological innovation, and a rise in demand for customized products and services will increase the intensity of business competition. This has implications for HR practice as well as broader organizational responses. According to the 1998 Vision in Manufacturing study, these forces will have a profound impact on manufacturers, consumers and governments around the world. This international study examined various industry sectors including technological, chemical, aerospace and defence, automotive, consumer product, and pharmaceutical industries. It uncovered a number of key areas that manufacturers, in particular, must address if they are going to survive. The key areas include:

- confronting the realities of globalization;
- crafting a new agenda for product innovation;
- integrating the global supply chain; and
- aligning the organization to compete.

While globalization emphasises the changing nature of the marketplace, there are a range of factors involved in the internationalization of business activity. According to McRae, '… the single greatest change in the world economy since the Second World War has been the extent to which it has gone international: money has become international; physical trade has become international; service trade is increasingly becoming international' (1994 p. 141).

National monetary systems were previously insulated. Now, the rise of strong global financial markets has eroded the power of national governments to influence the flow of capital.

Globalization and the development of influential international finance markets have put a new challenge to the Australian economy in general, and the Australian manufacturing industry in particular. This is demonstrated by the Asian currency crisis. On the one hand, it has been suggested that Australia could benefit from the current crisis due to the reduced costs of building and operating factories in Southern Asia (Chowdhury and Paul, 1997). On the other hand, it has been argued that the lower demand for products has resulted in some organizations cancelling planned expansion into the area (Chow 1997). Furthermore,

Australians who have invested in Asia face potential losses as a result of current devaluations. It seems that with Asian countries being our major trading partners, we do not have much to gain economically from the current crisis. However, we cannot afford to ignore global trends, as the Asian example illustrates.

3.2 Post-Fordism

Changes in demography, identity and technology are relevant to what is occurring in the macro business environment. In particular, globalization has been identified as one pattern that has emerged in the context of these changes. However, there are other important patterns that have also been identified in the context of these changes and are important contextually for understanding organizations. One in particular that is repeated throughout the current literature on management is the move from an industrial society to an information society.

This has also been described in terms of a movement from Fordism to post-Fordism or post-industrialization (Genus 1998).

According to McDonald (1997), we are experiencing the end of an economic era that has been based on mass production and mass consumption. This era, which supported the production of large numbers of homogenous products, economies of scale and repetitive work with little task identity, has become a source of rigidity and diseconomies in recent years. This has been accompanied not only by the search for niche markets, but by a general decline in the manufacturing industry. The new focus is on services and information, rather than manufacturing and agriculture. Australia, New Zealand and most developed countries of Europe and North America have been transformed from industrial to service economies. This has resulted in substantial economic growth of the services industry and, hence, employment growth in the industry (Lipsig-Mumme 1997).

One factor that may have contributed to the post-Fordist era was the realization that people are not machines. While work simplification and other aspects of scientific management were rife in the manufacturing industry, research was being conducted that examined how productivity could be increased without coercing and closely supervising workers. This led to a range of theories regarding job redesign and motivation.

An important point is that these ideas are based on a very different paradigm. Scientific management was based on the belief that workers should be given simplified tasks with no autonomy or responsibility. Managers did the thinking while employees did the physical work. Job redesign and motivation theories recognized that this does not maximize efficiency.

Indeed, it was discovered that by offering more challenging and diverse jobs, workers could actually achieve higher performance outcomes because they were more highly motivated.

The forces that shape and influence the business environment cannot be dealt with in a simplified way. They are numerous, interdependent and mutually reinforcing. The interplay between them is complex and to a large extent unpredictable. However, the trends we identify are the patterns that emerge from these complex interactions. In this section, we have pointed to the significance of demography, identity and technology as central features of a business environment that can be described by at least two patterns of change — the move to greater globalization and the move to an era of post-Fordism. These trends are contextual realities for business organizations and need to be fully understood by all managers.

4.0 Conclusion

The unit examines demography, identity and technology and shows that these three trends influence the business environment at any level. Unlike technology, and to a lesser degree demography, identity is not identified in other literature concerning the global business environment. Demography, identity and technology are central to the emergence of globalization, a phenomenon that refers to the concept of the world as a global village.

5.0 Summary

This unit examines trends and challenges in the business environment. Demography, identity and technology are the trends that influence the business environment at any level. The unit also discussed each trend as they affect global business environment. Identity relates to the central bonding attributes of different communities and cultures, large and small. From an organizational perspective, an organization can be viewed as a social system with a collective identity; Technology relates to the means of development and survival. Technology is not an end in itself, but an enabling factor. ‘Technological approaches to organizational development focus directly on the work that is performed in organizations. While demography can be viewed as an outcome of other forces and factors in the general environment.

6.0 Tutor-Marked Assignments

Briefly discuss how each trend influences business environment.

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UNIT 2 TRENDS AND CHANGES IN THE BUSINESS ENVIRONMENT : DEMOGRAPHY

CONTENTS

1.0 INTRODUCTION

The Unit as well as two additional Units examines demography, identity and technology and shows that these three trends influence the business environment at any level. Unlike technology, and to a lesser degree demography, identity is not identified in other literature concerning the global business environment. The discussion on identity is, therefore, an important contribution to the understanding of the determinants of the trend of business practice.

Demography, identity and technology are central to the emergence of globalization, a phenomenon that refers to the concept of the world as a global village. The three factors identified, particularly technology, are also a central force in the emergence of a post-Fordist era. This era is identified as being based on information and services, rather than manufacturing and agriculture. These Units consider some of the more commonly occurring organizational responses to these macro trends. Although these responses are not all positive, it does show that managers are genuinely attempting to grapple with the context within which their organizations are operating.

However, in this Unit, we shall consider demography specifically.

2.0 OBJECTIVES

After a careful study of this Unit, you should be able to:

- Identify the three trends that influence the business environment;
- Explain the concept of demography, and how it is shaping and reshaping the world.

3.0 MAIN CONTENT

3.1 DEMOGRAPHY

Anthropologists are fascinated with lost civilizations. Christians are engrossed in the events surrounding the year zero AD. Sociologists are trapped in the present in their attempts to understand the complexities of a world that appears to be continuously on the edge of chaos. This century alone has witnessed unprecedented growth and development. Despite being rocked by two world wars and a number of significant economic tremors, we have achieved much. We have sent men to the moon, developed replacement body parts, designed commercial airliners that can travel in excess of one thousand kilometres an hour, and developed computer technologies that allow us to have instantaneous conversations with friends and associates around the world by Internet. This is progress nonetheless. The view on progress is however subjective, it depend on individuals' own values and assumptions. There is no doubt the world is changing, and changing rapidly. Some may doubt that the presence of change is any different to previous times. However, there are few who would disagree that the pace of change has increased, that the discontinuities caused by change are more frequent, and that time and speed have become more critical in daily work activities. We need to identify and understand some of the critical forces at play at the macro level and be able to articulate how these macro forces influence the business environment and the nature of work.

The first factor to be discussed herein is demography. Demography is the most vital aspect of the forces that are currently shaping and reshaping the world (McRae 1994). Demography relates to the features of societies. These features include the size of different populations, the distribution of age and gender, and the distribution of wealth. It is also associated with trends that relate to these characteristics.

Population growth is the most disturbing feature of the world's demography. Between 1950 and 1992, the world's population grew from 2.5 billion to 5.5 billion people. (McRae 1994) Most of this increase was associated with the developing world, particularly India and China.

With population growth, comes increased demand for products and services, thereby creating business opportunities. In China, for instance, there has recently been increased entry by Western firms to explore new markets created by government deregulation and a population that is increasingly able to afford consumer goods. However, such growth has strained natural resources and increased the levels of competition for business opportunities. Concern over the plundering of the world's natural resources has created the Green movement, championed by Green Watch.

In Western countries, population trends are very different. Many Western countries are experiencing declining birth rates resulting in an ageing of the population. The baby boomers are partly, but not solely, responsible for this trend. An ageing population puts pressure on the retirement age, on female participation in the workforce, on the use of part-time work, and on the use of voluntary labour (McRae 1994). From the work of Hannan and Freeman (1977) on population ecology, we can appreciate the contextual significance of demographic factors for organizations. The population ecology perspective, in particular, explains why certain forms and species of organizations survive and others die. Organizations are immersed in the macro environment through membership of certain populations of organizations. Hence, those that are more likely to survive are those that meet the needs of the market place at the least cost, that is, those that are more efficient and effective.

While demography can be viewed as an outcome of other forces and factors in the general environment, it is, nonetheless, a self-perpetuating force in its own right. Growth and decline in different populations have consequences. The huge growth in population worldwide has shifted the emphasis on national sustainability to global sustainability. Shifts in the age and gender balance do have major consequences around the globe in terms of the types of products and services required. Better-educated populations seek and create more information.

SELF-ASSESSMENT EXERCISE

Why is the view on progress subjective?

4.0 CONCLUSION

Particular trends in demography have influenced a greater fluency of transactions across national borders to a point where global trends clearly surpass domestic trends.

5.0 SUMMARY

In this Unit, we have been able to:

- Mention that the trends of demography, identity and technology, influence the business environment at any level;
- Discuss the relevance of demography in shaping and reshaping the world.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the relevance of demography in shaping and reshaping the world.

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UNIT 3 TRENDS AND CHANGES IN THE BUSINESS ENVIRONMENT: IDENTITY

CONTENTS

1.0 INTRODUCTION

Following from the previous Unit, we shall continue with the discussion on trends and changes in the business environment. In this Unit, we shall consider 'identity' and 'technology', as major factors that have significant impact on the business environment.

2.0 OBJECTIVES

After a careful study of this Unit, you should be able to:

- Explain 'identity' as a major factor that has a significant impact on the business environment;
- Explain 'technology' relative to how it impacts on the business environment.

3.0 MAIN CONTENT

3.1 IDENTITY

The second major factor that is having a significant impact on the business environment is identity. Identity relates to the central bonding attributes of different communities and cultures, large and small. From an organizational perspective, an organization can be viewed as a social system with a collective identity (Caplow, 1964) which is recognizable by its enduring, central and unique attributes (Dutton and Penner, 1993). The world is a social environment consisting of diverse and numerous groups of people.

These groups are divided on ethnic and historical values. They are divided on ideological grounds involving the interpretations of communism and capitalism, east and west, and green and brown. They are also divided on religious affiliations. Identity indicates who we are individually and collectively and our affiliations can be diverse. For example, Asian immigrants first came to Australia during the gold rush era of the 1850s. Immigration then increased again after the demise of the white Australia policy. This has lead to Australia becoming a multicultural nation, which has increased the diversity of both organizations and the community.

An organization is an identity within larger ethnic, national, industrial and religious identities. These cultural influences provide a rich context in which a particular organization establishes and maintains its own sense of being. For instance, the Russian people embraced communism in the 1917 revolution. Their leaders attempted to consume the world with a new world order and a powerful Soviet Republic was constructed. In the latter part of the 20th century, a new

Russian leader emerged to reflect the changing sense of identity among Russians and their allies. Gorbachev's policies of Glasnost (openness) and Perestroika (restructuring) were instrumental in a realignment and re-establishment of eastern bloc identities. Even in Western Europe, an interesting realignment of identities is taking place. The European Union (EU) has been formed to gain collective advantages of size and integration, as evidenced by the introduction of the Eurodollar. However, the EU also advocates the importance of retaining and promoting the individual sovereignties of national and ethnic groups. Such identities, based on varying cultural foundations, set the parameters for organizing. An interesting facet of identity is that it does not always lead to rational economic decisions.

It may also lead to opposition of rational decisions that have been made by organizations and governments. In Australia, we voted in a government whose policy was to sell part of Telstra. While this may make economic sense, a number of people were opposed to this idea as it could lead to foreign ownership of something that was previously completely Australian.

Similarly, when a company such as Arnott's was sold we felt that we lost an Australian icon.

The complex nature of relationships and affiliations between people creates a dynamic network of identities based on a diverse range of values, beliefs, and transactions. These networks change continuously to accommodate people's preferences, whims and aspirations.

The shifting nature of group identities, in particular, is a powerful force because it reflects the dynamic set of influences at play as relationships and affiliations change through continuous competition and collaboration. This dynamic is central to the fluency of global relationships and organizational transformation and transition.

SELF-ASSESSMENT EXERCISE 1

Explain 'identity' as a major factor that has a significant impact on the business environment.

3.2 TECHNOLOGY

The third major factor impacting on the business environment is technology. Technology relates to the means of development and survival. Technology is not an end in itself, but an enabling factor. 'Technological approaches to organizational development focus directly on the work that is performed in organizations.' (Ivancevich, Olekalns and Matteson 1997. p. 644) Through advances in technology, we have been able to build infrastructure and organize work in innovative and productive ways. In the last two decades, there have been rapid advances in technology. Burrell and Stutchbury (1995) point out that current gain in productivity in

Australia must be sustained by ongoing investments in new and more productive technology. A major advance was the invention of the microchip and the resultant spread of personal computers (PC). When mainframe computers occupied entire floors, it was only the largest of organizations that used computer technology. The PC not only occupied less space, but it also led to price reductions thereby making computer technology affordable even for small organizations. Further advances in technology in recent years have included the Internet, electronic mail, and networking, all of which have influenced the way work is organized. Although computers have had an immense impact on businesses worldwide there are many other forms of technology that have not enjoyed the same amount of media attention. These include new technologies in transportation, engineering, and non-computerized equipment and machinery. Technological change and technology diffusion are undeniable features of an organization's context, and part of an organization's identity is how it acquires and uses technology.

4.0 CONCLUSION

Technology provides the most obvious indication of forces that break down domestic, local and national barriers and enable the business sector to transact, commute and learn across artificial boundaries.

5.0 SUMMARY

In this Unit, we have been able to:

- Discuss ‘identity’ as a major factor that has a significant impact on the business environment;

- Discuss ‘technology’ relative to how it impacts on the business environment.

6.0 TUTOR-MARKED ASSIGNMENT

Assess the impact of ‘identity’ and ‘technology’ on the business environment.

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UNIT 4 TRENDS AND CHANGES IN THE BUSINESS ENVIRONMENT:GLOBALIZATION AND POST-FORDISM

CONTENTS

1.0 INTRODUCTION

At the beginning, we had said that demography, identity and technology are central to the emergence of globalization, a phenomenon that refers to the concept of the world as a global village. The three factors identified, particularly technology, are also a central force in the emergence of a post-Fordist era. In this Unit therefore, we shall conclude our discussion on the trends and changes in the business environment with globalization and post-Fordism.

2.0 OBJECTIVES

After a careful study of this Unit, you should be able to:

- Explain the concept of globalization;
- Assess the factors that may have contributed to the post-Fordist era.

3.0 MAIN CONTENT

3.1 GLOBALISATION

Among other forces, the trends discussed in the previous units have been significant in shaping the dynamics of the macro environment of business organizations through:

- The changing demographics, including population growth, aging populations, wealth distribution, standards of living, and shifting centres of population concentrations;
- The realignment of identities, their demarcation rules, rites of entry, and multicultural attributes; and
- The enabling influence of new technologies that have improved communication, transportation, knowledge management and infrastructure for trade and development.

Demographics, identity and technology, in particular, are strongly associated with a phenomenon known as globalization. Globalization refers to the removal of the main barriers, both technical and political, between the various national economies so that the world is increasingly perceived as a single marketplace for open competition (Brown 1997).

Accelerated globalization, technological innovation, and a rise in demand for customized products and services will increase the intensity of business competition. This has implications for HR practice as well as broader organizational responses. According to the 1998 Vision in Manufacturing study, these forces will have a profound impact on manufacturers, consumers and governments around the world. This international study examined various industry sectors including technological, chemical, aerospace and defence, automotive, consumer product, and pharmaceutical industries. It uncovered a number of key areas that manufacturers, in particular, must address if they are going to survive. The key areas include:

- confronting the realities of globalization;
- crafting a new agenda for product innovation;
- integrating the global supply chain; and
- aligning the organization to compete.

While globalization emphasizes the changing nature of the marketplace, there are a range of factors involved in the internationalization of business activity. According to McRae, '… the single greatest change in the world economy since the Second World War has been the extent to which it has gone international: money has become international; physical trade has become international; service trade is increasingly becoming international' (1994 p. 141).

National monetary systems were previously insulated. Now, the rise of strong global financial markets has eroded the power of national governments to influence the flow of capital.

Globalization and the development of influential international finance markets have put a new challenge to the Australian economy in general, and the Australian manufacturing industry in particular. This is demonstrated by the Asian currency crisis. On the one hand, it has been suggested that Australia could benefit from the current crisis due to the reduced costs of building and operating factories in Southern Asia (Chowdhury and Paul, 1997). On the other hand, it has been argued that the lower demand for products has resulted in some organizations cancelling planned expansion into the area (Chow 1997). Furthermore, Australians who have invested in Asia face potential losses as a result of current devaluations. It seems that with Asian countries being our major trading partners, we do not have much to gain economically from the current crisis. However, we cannot afford to ignore global trends, as the Asian example illustrates.

SELF-ASSESSMENT EXERCISE 1

Explain the concept of globalization.

3.2 POST-FORDISM

Changes in demography, identity and technology are relevant to what is occurring in the macro business environment. In particular, globalization has been identified as one pattern that has emerged in the context of these changes. However, there are other important patterns that have also been identified in the context of these changes and are important contextually for understanding organizations. One in particular that is repeated throughout the current literature on management is the move from an industrial society to an information society.

This has also been described in terms of a movement from Fordism to post-Fordism or post-industrialization (Genus 1998).

According to McDonald (1997), we are experiencing the end of an economic era that has been based on mass production and mass consumption. This era, which supported the production of large numbers of homogenous products, economies of scale and repetitive work with little task identity, has become a source of rigidity and diseconomies in recent years. This has been accompanied not only by the search for niche markets, but by a general decline in the manufacturing industry. The new focus is on services and information, rather than manufacturing and agriculture. Australia, New Zealand and most developed countries of Europe and North America have been transformed from industrial to service economies. This has resulted in substantial economic growth of the services industry and, hence, employment growth in the industry (Lipsig-Mumme 1997).

One factor that may have contributed to the post-Fordist era was the realization that people are not machines. While work simplification and other aspects of scientific management were rife in the manufacturing industry, research was being conducted that examined how productivity could be increased without coercing and closely supervising workers. This led to a range of theories regarding job redesign and motivation.

An important point is that these ideas are based on a very different paradigm. Scientific management was based on the belief that workers should be given simplified tasks with no autonomy or responsibility. Managers did the thinking while employees did the physical work. Job redesign and motivation theories recognized that this does not maximize efficiency.

Indeed, it was discovered that by offering more challenging and diverse jobs, workers could actually achieve higher performance outcomes because they were more highly motivated.

The forces that shape and influence the business environment cannot be dealt with in a simplified way. They are numerous, interdependent and mutually reinforcing. The interplay between them is complex and to a large extent unpredictable. However, the trends we identify are the patterns that emerge from these complex interactions.

4.0 CONCLUSION

In this and the previous units, we have pointed to the significance of demography, identity and technology as central features of a business environment that can be described by at least two patterns of change — the move to greater globalization and the move to an era of post-Fordism. These trends are contextual realities for business organizations and need to be fully understood by all managers.

5.0 SUMMARY

In this Unit, we have been able to:

- Consider that demographics, identity and technology, in particular, are strongly associated with a phenomenon known as globalization;
- See that globalization refers to the removal of the main barriers, both technical and political, between the various national economies so that the world is increasingly perceived as a single marketplace for open competition;
- Consider the movement from Fordism to post-Fordism.

6.0 TUTOR-MARKED ASSIGNMENT

Assess the factors that may have contributed to the post-Fordist era.

7.0 REFERENCES/FURTHER READING

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MODULE 3 CONTEMPORARY ORGANISATIONAL RESPONSES

Unit 1 Contemporary Organizational Responses
Unit 2 Types Of Restructuring
Unit 3 Reasons For Restructuring
Unit 4 Scenarios

UNIT 1 CONTEMPORARY ORGANISATIONAL RESPONSES

CONTENTS

1.0 Introduction

There is no doubt that there has been significant restructuring going on in both the public and private sectors for the past ten years and there is speculation that it will continue for a number of years yet. This unit presents different strategies and case studies

2.0 Objectives

At the end of this unit, you should be able to:

- describe the contemporary organizational responses to their environment
- Presents case studies of the Environment of Businesses
- Identify and discuss the various the processes of designing a Scenario:

3.0 Main Content

3.1 CONTEMPORARY ORGANISATIONAL RESPONSES

Organizations have responded in different ways to the changes that have been occurring in the environment. There is no doubt that there has been significant restructuring going on in both the public and private sectors for the past ten years and there is speculation that it will continue for a number of years yet. The restructuring includes various strategies. Downsizing, mergers, acquisitions, and outsourcing are some of the more common strategies employed.

After managers have downsized their workforce they like to think that they have achieved greater employee productivity. However, in a lot of cases, this means achieving more and facing more challenges with fewer staff. To cope with this conundrum, attempts to achieve greater productivity have focused attention on developing team-based organizations, reducing hierarchy, empowering workers, and developing creativity in organization (Theobald 1994).

Downsizing has been very prominent in recent years and consists of a reduction in employees aimed at reducing costs and/or altering the organization’s structure (Cummings and Worley 1997). Telstra is just one example of an Australian organization that has downsized heavily during the 1990s and is continuing to do so. Telstra plans to eliminate 23 000 staff by 1999 as part of its three-year corporate plan (Pullar-Strecker 1997). However, despite increased competition that occurred due to industry deregulation, Telstra has continued to record high profit levels. What is the catalyst for Telstra’s slashing of jobs?

According to Cummings and Worley (1997), downsizing can occur because of organizational decline, changes in organizational structure, or the belief that smaller, leaner and more flexible organizational forms are better. Studies have shown that downsizing often fails to deliver the intended results. Many companies that have downsized have since rehired staff. In some cases, they have rehired the same staff they previously dismissed (Cummings and Worley 1997). In other cases they have hired new staff resulting in increased training and development costs and loss of organizational memory or strategic knowledge.

There have been a high number of mergers, acquisitions and strategic alliances that have prompted restructuring. Many people perceive a merger as a union of two organizations with equal power bases. In most cases, however, a merger results in the dominance of one of the companies involved. An acquisition, on the other hand, refers to a firm being procured

(Hogan and Overmyer-Day 1994). Mergers and acquisitions become part of an organization's strategy for diversification, or for further development of its current core competencies. Other forms of strategic alliances include joint ventures where companies collaborate to pool their resources in order to explore and develop new business opportunities.

There are a number of consequences for people who work in those organizations involved. Mergers and acquisitions can result in high stress levels, uncertainty, anxiety, and feelings of job insecurity and betrayal. For the firm, this can result in higher staff turnover, absences, lateness, and poor job performance. Redundancies are also common, which erodes the image of the parent company and creates survivor syndrome (Hogan and Overmyer-Day 1994).

Outsourcing, or contracting-out, is another strategy employed by organizations in order to develop a competitive edge (Salt and Leighton 1998). Contracting-out services occurs when businesses buy particular services from other companies, rather than having their own staff perform these functions. Common services that are contracted out include cleaning, payroll services, security and specialized consultancies such as information technology and specialized areas within human resource management (Nankervis, Compton and McCarthy 1999). Bridges (1997) predicts that outsourcing will continue to the extent that organizations will outsource their core activities and, in effect, become organizations that merely write and manage contracts.

Contracting-out is a way for companies to save on business tax, reduce the payroll, increase efficiency and incorporate flexibility into the workforce (Pynes 1997). These benefits occur because contractors are hired on a project basis, rather than on an hourly rate. Business tax is reduced because the service providers are not considered to be employees of the firm. They are either employees of another firm or they are self-employed. Furthermore, contractors are not entitled to benefits that full-time workers are entitled to such as sick pay and holiday leave. Contracting-out does not increase unemployment, but it does change working conditions and wages and creates higher levels of uncertainty due to wage instability. The shift to contracts can be a difficult time for staff and the organization involved. Some organizations have fired staff or given voluntary redundancies only to hire the same staff back on a contract basis (Simmons and Bramble 1996). This can create a situation where other staff feel robbed — not only did they miss out on a redundancy package, but they are now being paid less than their co-workers on contracts. This, of course, does not occur in all situations and depends on the services being contracted-out and the methods of implementing the change.

Contracting-out can often result in industrial unrest. This occurred, for instance, when the Brisbane City Council contracted out its waste removal services and also when SEQEB (South-East Queensland Electricity Board, now called Energex) attempted to implement contract arrangements with its linesmen. In the case of SEQEB, over 1000 workers were dismissed and only 250 were reinstated. Originally, only linesmen were to be contracted, however, this expanded to include tree-trimming, disconnections and reconnections, overhead and substation maintenance and meter-reading (Simmons and Bramble 1996).

While the above discussion highlights that globalization and increased competition in the marketplace has lead to a number of negative responses by organizations this is not the case in all organisations. The first point that needs to be made here is that not all companies that have restructured have done so because of global or competitive impacts. For some companies restructuring may have been attributable to the organization’s life cycle stage. For others, poor management practices may have been to blame.

Another point that needs to be made is that some managers have embraced the changes that have been occurring and have managed to increase the size and/or the financial position of their organizations (Littler, Dunford, Bramble and Hede 1997). For some this has meant dramatic changes such as changing the purpose of the organization or altering its core activities so as to better meet market needs. For other organizations, such as Qantas, the changes have meant improving the way they conduct their activities and aiming to be the best in the field.

Clearly, globalization has changed the nature of competition and re-contextualized the nature of doing business. The strategies that have been employed by managers are strongly embedded in the mindsets that pervade the general business environments. The consequences of the strategies discussed above demonstrate that managers within organizations must appreciate the dynamics of environments as being fundamental to organizations and their contexts.

3.2 Scenarios: Case Studies of the Environment of Businesses

Scenario planning is a method of preparing for unplanned events. It entails the analysis of the scenarios the firm plans and execute. Out of scenario analysis needs to come lessons learned and action plans for your business. Scenario planning or analysis, is a strategic planning method that some organizations use to make flexible long-term plans. It is in large part an adaptation and generalization of classic methods used by military intelligence.

The original method was that a group of analysts would generate simulation games for policy making process of decision makers. The games combine known facts about the future, such as demographics, geography, military, political, industrialinformation, and mineral reserves, with plausible alternative social, technical, economic, environmental, educational, political and aesthetic (STEEEPA) trends which are key driving forces. In business applications, the emphasis on gaming the behaviour of opponents was reduced (shifting more toward a game against nature).

Scenario planning and scenario analysis is a tool which helps the firm/business unit in its business decision making process with a potential for a resultant efficient business decisions; it also helps to sharpen the corporate strategic thinking of the firm. While scenario planning in business is becoming more popular; it has been used in military organizations or operations for a number of years.

In the private sector, Scenario analysis has been used since the last 25 years to manage risk and develop robust strategic plans in the face of an uncertain future. Its success in helping firms manage large capital investments and change corporate strategy has made it a standard tool for medium- to long-term strategic planning. Scenarios have helped public sector agencies plan for population growth and regional development, state transportation investments, and the distribution of landfills. In the developing world, scenarios have been used to highlight the opportunities, risks, and trade-offs in national policy debates. Scenario analysis is a tool with a strong track record and significant potential, but it needs to be adapted and piloted before it can be more widely used in the firm or sector with due consideration of the specificity and intricacies of the firm/sector or country.

This section describes a scenario process designed to be the cornerstone of a strategic plan. It also suggests ways to use the key concepts of scenario thinking in shorter exercises designed to help decision makers minimize risk, address key uncertainties, and more effectively share their thinking with stakeholders about a program and the firm/sector/country's future.

High, medium, and low scenarios look at different rates of progress along a path that is based on a single set of projections. Scenario analysis focuses on the areas of greatest uncertainty for a country or an operation, systematically develops several plausible alternative future environments in which the operation might be implemented, and determines how they would affect its success. This structured approach to thinking about the future helps the business unit make strategic choices about where and how to direct lending over the medium term in several ways.

3.3 Uses and Advantages of the Scenario Planning/Analysis

- Managing risk; Scenarios that look at future paths for a country help decision makers manage risk and develop concrete contingency plans and exit strategies. Describing how and why possible futures might occur enables decision makers to reflect on how political, social, and economic changes affect the operation and to plan accordingly.
- Building consensus for change; Scenarios are a logically rigorous, transparent means to give stakeholder representatives a role in planning. Because a number of possible futures are created, many perspectives can be included, and the discussion does not revolve around the advocacy of fixed positions. All participants take part in formulating the core elements of all scenarios, and later break into smaller groups to write each of the four or five scenarios. This process helps decision makers share their thinking about uncertainty and risk, develop mutually understood contingency plans, and defuse blame-casting when forces outside their control lead to a change in strategic direction.
- Augment understanding about the future; Scenarios are designed to bring up issues that otherwise would not be considered by exposing the underlying forces in a sector or region. They are most effective when dealing with big issues and strategic directions, rather than tactical decisions, and should not be used for short-term planning.

Scenario Analysis: A Tool for Task Managers Monitoring progress and scanning changes in the environment. Scenario analysis can help establish indicators that create a framework to monitor the execution of a strategy. Decision makers then “scan” the external environment for the agreed indicators that the country or region is beginning to move toward a different scenario (or to a different stage along a scenario path). The focus on key drivers of change makes explicit the assumptions underlying lending and speeds mobilization of resources in response to changes in the external environment.

3.4 The Process of Designing a Scenario:

Scenario analysis follows a systematic process to create a set of four to five plausible and vividly contrasting narratives that describe possible evolutions of key areas of uncertainty. These narratives, known as scenarios, examine the social, political, economic, and technological forces that will impact on a project or strategy. Scenarios are arrived at by a team composed of key decision makers, experts, and stakeholder representatives during two or three one-day workshops held over a period of weeks or months. Because they focus on areas of uncertainty and the potential for unexpected future discontinuities, scenarios provide a perspective not captured through projections based on past data.

Scenario analysis involves constructing or developing scenarios (steps 1-4 below), and integrating the content of scenarios into decision making (steps 5-8 below). During the exercise itself, it is important that both of these elements receive equal attention and that mutually acceptable triggers and measures of success be agreed as outcomes of the process. The process entails the following;

1. Define a focal issue or decision. Scenarios are best suited to looking at the future through the lens of a specific issue, such as the likely outcome of a national election leading to a transfer of power or currency devaluation. Without this grounding, there is a danger that they will be too general.

2. Identify driving forces. These are the social, economic, environmental, political, and technological factors that are most relevant to the focal issue. They should be prioritized by the scenario team according to their level of predictability and importance in affecting the desired outcome.

3. Write scenario plots. These are the stories that explain how driving forces interact and what effects they have on the operation or strategic direction being discussed.

4. Flesh out scenarios. Good scenarios combine a solid understanding of relevant present trends with a clear focus on the outcomes sought by decision makers. They should incorporate lessons revealed by analysis of quantitative and qualitative data relevant to the assumptions underlying each scenario.

5. Look at implications. After scenarios have been fully developed, decision makers should study their implications for the outcomes being sought by the operation.

6. Choose “leading indicators.” These indicators should help decision makers monitor changes in the external environment as well as developments in the project.

7. Disseminate scenarios. Once scenarios have been built and refined, they should be written in succinct, easy-to-read language and disseminated within implementing organizations and to the public.

8. Integrate scenario outcomes in daily procedures.

Change the incentive system in affected agencies and areas to ensure concerted movement toward the strategic goals that have been formed on the basis of the scenarios. Use or modify existing systems to monitor progress toward operational goals as well as changes in the external environment.

3.4.2 Scenarios in Practice

The two primary situations in which scenario analysis has been used by the public and private sectors are:

1. When considering a significant capital investment decision or sectoral strategy

2. When developing or reformulating national or corporate strategy.

Scenario Analysis for Capital Investments

Scenario analysis is extensively used in the private sector by companies that make large investments in productive capital or research and development. Utilities, hospitals, oil companies, and pharmaceutical companies all invest significant amounts of money in research, development, and site construction.

They need to make all possible efforts to ensure that their investments will remain viable over the long term. Scenario analysis has helped them examine the political and regulatory environments, the likely attitudes of consumers, and other relevant factors to attempt to ensure that their investments continue to be profitable as conditions change.

3.5 Case Study 1

Scenario Analysis for Capital Investment: Shell Oil Company

Scenarios to assess the riskiness of an investment strategy need not be simplistic. The process of identifying the real focal issue behind an investment is often quite revealing. For example, Shell Oil Company has used scenario analysis since the 1960s. When Shell began looking into investing in new oil fields in the late 1970s, it asked its scenario team to evaluate the investment in terms of forces that would affect the price of oil in Western Europe.

The team came back with several scenarios. One cited the risk of the collapse of the Organization of Petroleum-Exporting Countries (OPEC) due to internal tensions and external pressure. Another looked at the demographics and political situation in the Soviet Union and noted that a relaxing of tensions with the West could lead to large amounts of oil from Central Asia being exported to Europe. Another looked at a future in which the pressure of high prices and environmental organizations led to technological breakthroughs that reduced the dependence of Western Europe on oil and gasoline.

All of these scenarios were plausible, and, indeed, all did come to pass to a degree. Shell planned its investments to take advantage of potential technological breakthroughs and to grow through a flexible series of small expansions. When OPEC was no longer able to control enough of the oil supply to keep prices high, Shell's conservative position allowed it to rise from seventh in the industry to third. Its small investments remained profitable while competitors lost significant amounts of money as riskier oil fields tapped during a period of high prices failed to perform.

3.5.2 In the public sector

Scenarios have been used to guide large capital investments in transportation, landfill development, and city planning. These scenarios deal with potential changes in user behaviour, the utility of capital investments to a mobile population, and the economic and social pressures likely to develop on a national scale over time. Special emphasis is also placed on likely voter pressures, larger political and demographic trends, and ways to ensure continued political support for projects once they are underway. Scenarios can help create the best long-term strategies for continued growth and flexibility for states and regions. When used in the public sector, strategic scenarios have the goal of helping decision- makers and key stakeholders agree on substantive messages about possibilities for future change. The process helps create informal networks and understanding among the participants that can lead them to become champions of the policy recommendations that come out of scenario discussions. The second function of public sector scenarios is to engage public opinion. The completed scenarios are simplified and broadcast in the mass media, explained at local meetings, and highlighted in leaflets and policy bulletins. Shaping public debate about issues of national concern is made easier by the flexibility of the scenario methodology.

Scenarios are stories that bring together the key elements of policy in a narrative that can be understood by the public. Because each scenario can illustrate plausible changes along many dimensions, discussion begins to focus on the interactions among forces, rather than on specific issues.

3.6 Running a Scenario Exercise

The following description of the stages of a scenario exercise will give task managers a background in its practical requirements. This description should enable task managers to lead a simplified scenario analysis process, make a significant contribution to a scenario team, or work knowledgeably with private sector consultants.

Stages of the Scenario Process

There are no fixed rules for how to carry out a scenario analysis, but several stages occur in almost every case. The actual creation of scenarios takes place with a group in a workshop.

The organizers need to carry out a number of activities before the first and last workshops. The four broad stages to the process follow.

1. Preparation. A number of tasks need to be carried out before the scenario workshops. They include defining the scope of scenario use, choosing and interviewing the scenario team, and preparing background material for the workshops. These are crucial steps in the process, because they help the task manager build confidence in the scenario exercise and gain an early understanding of the issues that will be most important to participants.

2. Building the scenarios. This process can occur in one workshop, or two held back to back. Together the scenario team determines the focus of the intervention identifies and prioritizes the key external factors that will affect its success, sets them in a matrix to differentiate their effects, and writes simple scenario plots.

3. Investigating and writing the scenarios. This exercise is carried out between workshops. The task manager and core team gather relevant qualitative and quantitative information to determine whether the assumptions made in the scenarios are accurate. Decision makers from the scenario team should write more finished drafts of the scenarios.

4. Using the scenarios to plan strategy. In this workshop, the scenario team goes over the finished scenarios and looks at the implications for the strategic decision being made. Specific external "signposts" of changes in the key forces are also identified at this stage.

4.0 Conclusion

Scenarios have been used to guide large capital investments in transportation, landfill development, and city planning. Special emphasis is also placed on likely voter pressures, larger political and demographic trends, and ways to ensure continued political support for projects once they are underway. Scenarios can help create the best long-term strategies for continued growth and flexibility for states and regions. The unit also presents stages of scenario process; although there are no fixed rules for how to carry out a scenario analysis, but several stages occur in almost every case. However, the following processes were suggested by the unit; these are: Managing risk; Building consensus for change; Augment understanding about the future;

5.0 Summary

There is no doubt that there has been significant restructuring going on in both the public and private sectors for the past ten years and there is speculation that it will continue for a number of years yet. The restructuring includes various strategies. Downsizing, mergers, acquisitions, and outsourcing are some of the more common strategies employed. This unit has made you to understand that after managers have downsized their workforce they like to think that they have achieved greater employee productivity. However, in a lot of cases, this means achieving more and facing more challenges with fewer staff. To cope with this conundrum, attempts to achieve greater productivity have focused attention on developing team-based organizations, reducing hierarchy, empowering workers, and developing creativity in organization (Theobald 1994).

Downsizing has been very prominent in recent years and consists of a reduction in employees aimed at reducing costs and/or altering the organization's structure

6.0 Tutor-Marked Assignments

What are the Stages of the Scenario Process?

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UNIT 2 TYPES OF RESTRUCTURING

CONTENTS

1.0 INTRODUCTION

Organizations have responded in different ways to the changes that have been occurring in the environment. There is no doubt that there has been significant restructuring going on in both the public and private sectors for the past ten years and there is speculation that it will continue for a number of years yet. The restructuring includes various strategies. Downsizing, mergers, acquisitions, and outsourcing are some of the more common strategies employed.

OBJECTIVES

By the end of this unit, you should be able to;

. explain downsizing

. explain mergers/acquisition

. explain outsourcing

3.0 MAIN CONTENT

3.1 Downsizing

After managers have downsized their workforce they like to think that they have achieved greater employee productivity. However, in a lot of cases, this means achieving more and facing more challenges with fewer staff. To cope with this conundrum, attempts to achieve greater productivity have focused attention on developing team-based organizations, reducing hierarchy, empowering workers, and developing creativity in organization (Theobald 1994).

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According to Cummings and Worley (1997), downsizing can occur because of organizational decline, changes in organizational structure, or the belief that smaller, leaner and more flexible organizational forms are better. Studies have shown that downsizing often fails to deliver the intended results. Many companies that have downsized have since rehired staff. In some cases, they have rehired the same staff they previously dismissed (Cummings and Worley 1997). In other cases they have hired new staff resulting in increased training and development costs and loss of organizational memory or strategic knowledge.

3.2 Mergers/Acquisitions/Strategic alliances

There have been a high number of mergers, acquisitions and strategic alliances that have prompted restructuring. Many people perceive a merger as a union of two organizations with equal power bases. In most cases, however, a merger results in the dominance of one of the companies involved. According to Daft (2008) a merger occurs when two or more organizations combine to become one. An acquisition, on the other hand, refers to a firm being procured (Hogan and Overmyer-Day 1994). Mergers and acquisitions become part of an organization's strategy for diversification, or for further development of its current core competencies. Other forms of strategic alliances include joint ventures where companies collaborate to pool their resources in order to explore and develop new business opportunities.

There are a number of consequences for people who work in those organizations involved. Mergers and acquisitions can result in high stress levels, uncertainty, anxiety, and feelings of job insecurity and betrayal. For the firm, this can result in higher staff turnover, absences, lateness, and poor job performance. Redundancies are also common, which erodes the image of the parent company and creates survivor syndrome (Hogan and Overmyer-Day 1994).

3.3 Outsourcing, or Contracting out

Outsourcing, or contracting-out, is another strategy employed by organizations in order to develop a competitive edge (Salt and Leighton 1998). Contracting-out services occurs when businesses buy particular services from other companies, rather than having their own staff perform these functions. Common services that are contracted out include cleaning, payroll services, security and specialized consultancies such as information technology and specialized areas within human resource management (Nankervis, Compton and McCarthy 1999). Bridges (1997) predicts that outsourcing will continue to the extent that organizations will outsource their core activities and, in effect, become organizations that merely write and manage contracts.

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Contracting-out can often result in industrial unrest. This occurred, for instance, when the Brisbane City Council contracted out its waste removal services and also when SEQEB (South-East Queensland Electricity Board, now called Energex) attempted to implement contract arrangements with its linesmen. In the case of SEQEB, over 1000 workers were dismissed and only 250 were reinstated. Originally, only linesmen were to be contracted, however, this expanded to include tree-trimming, disconnections and reconnections, overhead and substation maintenance and meter-reading (Simmons and Bramble 1996).

4.0 CONCLUSION

In this unit, we have learnt about the different restructuring strategies that firms may use to respond to changes in their business environment. These strategies are downsizing, mergers/acquisition and outsourcing.

5.0 SUMMARY

Downsizing consists of a reduction in employees with the aim of reducing costs or altering the organization structure. It could occur as a result of decline, changes in organization structure or the belief that smaller and more flexible organizational forms are better. Merger is a union of two organizations sometimes with equal power bases, in most cases, a merger results in the dominance of one of the companies involved. An acquisition results when another firm completely takes over another company. Mergers and acquisition can result in high staff turnover, absences, lateness and poor job performance. Redundancies are also common. Outsourcing or contracting out occurs when businesses buy particular services from other companies, rather than having their own staff perform these functions.

6.0 TUTOR MARKED ASSIGNMENT

Discuss the various strategies that firms may use in restructuring their organizations.

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UNIT 3 REASONS FOR RESTRUCTURING ORGANIZATIONS

1.0 INTRODUCTION

This unit discusses the reasons for restructuring organizations by addressing such issues as Global or competitive impacts, Organization's life cycle, poor management practices,

2.0 OBJECTIVES

By the end of this unit, you should be able to;

. the reasons for restructuring organizations.

3.0 MAIN CONTENT

3.1 Global or Competitive impacts

Globalization and increased competition in the market place is amajor force that is reshaping organizations. Global has lead to a number of negative responses by organizations this is not the case in all organisations. The first point that needs to be made here is that not all companies that have restructured have done so because of global or competitive impacts.

3.2 Organization's life cycle: For some companies restructuring may have been attributable to the organization's life cycle stage. According to Nelson and Quick,(2003), organizational life cycle is the differing stages of an organization's life from birth to death. Shorter life cycles put more pressure on the organization to be both flexible and efficient at the same time. Further, as flexible organizations use design to their competitive advantage, discrete organizational life cycles may give way to a kaleidoscope of continuously emerging, efficiency-seeking organizational designs. The manager's challenge in this context becomes one of creating congruency among various organizational design dimensions to fit continuously changing markets and locations.

3.3 Poor management practices

For others, poor management practices may have been to blame.

Another point that needs to be made is that some managers have embraced the changes that have been occurring and have managed to increase the size and/or the financial position of their organizations (Littler, Dunford, Bramble and Hede 1997). For some this has meant dramatic changes such as changing the purpose of the organization or altering its core activities so as to better meet market needs. For other organizations, such as Qantas, the changes have meant improving the way they conduct their activities and aiming to be the best in the field.

Clearly, globalization has changed the nature of competition and re-contextualized the nature of doing business. The strategies that have been employed by managers are strongly embedded in discussed above demonstrate that managers within organizations must appreciate the dynamics of environments as being fundamental to organizations and their contexts.

4.0 CONCLUSION

In this unit, we have seen that there are reasons why an organization may restructure its design.

5.0 SUMMARY

The reasons why organizations may restructure their designs are as follows; Global or competitive impacts, Organization's life cycle, and poor management practices,

6.0 TUTOR MARKED ASSIGNMENT

Discuss the reasons why organizations restructure their designs.

7.0 REFERENCES AND FURTHER READING

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UNIT 4 SCENARIOS

1.0 INDRODUCTION

This unit discusses scenarios, case studies of the environment of business, uses and advantages of the scenario planning analysis, the process of designing scenario and scenarios in practice.

2.0 OBJECTIVES

By the end of this unit, you should be able to:

- explain the meaning of scenario:

a) case studies of the environment of business,

b) uses and advantages of the scenario planning/analysis,

c) the process of designing scenario

d) scenarios in practice.

3.0 MAIN CONTENT

3.1 Scenarios: Case Studies of the Environment of Businesses

Scenario planning is a method of preparing for unplanned events. It entails the analysis of the scenarios the firm plans and execute. Out of scenario analysis needs to come lessons learned and action plans for your business. Scenario planning or analysis, is a strategic planning method that some organizations use to make flexible long-term plans. It is in large part an adaptation and generalization of classic methods used by military intelligence.

The original method was that a group of analysts would generate simulation games for policy making process of decision makers. The games combine known facts about the future, such as demographics, geography, military, political, industrialinformation, and mineral reserves, with plausible alternative social, technical, economic, environmental, educational, political and aesthetic (STEEEPA) trends which are key driving forces. In business applications, the emphasis on gaming the behaviour of opponents was reduced (shifting more toward a game against nature).

Scenario planning and scenario analysis is a tool which helps the firm/business unit in its business decision making process with a potential for a resultant efficient business decisions; it also helps to sharpen the corporate strategic thinking of the firm. While scenario planning in business is becoming more popular; it has been used in military organizations or operations for a number of years.

In the private sector, Scenario analysis has been used since the last 25 years to manage risk and develop robust strategic plans in the face of an uncertain future. Its success in helping firms manage large capital investments and change corporate strategy has made it a standard tool for medium- to long-term strategic planning. Scenarios have helped public sector agencies plan for population growth and regional development, state transportation investments, and the distribution of landfills. In the developing world, scenarios have been used to highlight the opportunities, risks, and trade-offs in national policy debates. Scenario analysis is a tool with a strong track record and significant potential, but it needs to be adapted and piloted before it can be more widely used in the firm or sector with due consideration of the specificity and intricacies of the firm/sector or country.

This section describes a scenario process designed to be the cornerstone of a strategic plan. It also suggests ways to use the key concepts of scenario thinking in shorter exercises designed to help decision makers minimize risk, address key uncertainties, and more effectively share their thinking with stakeholders about a program and the firm/sector/country's future.

High, medium, and low scenarios look at different rates of progress along a path that is based on a single set of projections. Scenario analysis focuses on the areas of greatest uncertainty for a country or an operation, systematically develops several plausible alternative future environments in which the operation might be implemented, and determines how they would affect its success. This structured approach to thinking about the future helps the business unit make strategic choices about where and how to direct lending over the medium term in several ways.

3.2 Uses and Advantages of the Scenario Planning/Analysis

- Managing risk; Scenarios that look at future paths for a country help decision makers manage risk and develop concrete contingency plans and exit strategies. Describing how and why possible futures might occur enables decision makers to reflect on how political, social, and economic changes affect the operation and to plan accordingly.
- Building consensus for change; Scenarios are a logically rigorous, transparent means to give stakeholder representatives a role in planning. Because a number of possible futures are created, many perspectives can be included, and the discussion does not revolve around the advocacy of fixed positions. All participants take part in formulating the core elements of all scenarios, and later break into smaller groups to write each of the four or five scenarios. This process helps decision makers share their thinking about uncertainty and risk, develop mutually understood contingency plans, and defuse blame-casting when forces outside their control lead to a change in strategic direction.
- Augment understanding about the future; Scenarios are designed to bring up issues that otherwise would not be considered by exposing the underlying forces in a sector or region. They are most effective when dealing with big issues and strategic

directions, rather than tactical decisions, and should not be used for short-term planning.

Scenario Analysis: A Tool for Task Managers Monitoring progress and scanning changes in the environment. Scenario analysis can help establish indicators that create a framework to monitor the execution of a strategy. Decision makers then “scan” the external environment for the agreed indicators that the country or region is beginning to move toward a different scenario (or to a different stage along a scenario path). The focus on key drivers of change makes explicit the assumptions underlying lending and speeds mobilization of resources in response to changes in the external environment.

3.3 The Process of Designing a Scenario:

Scenario analysis follows a systematic process to create a set of four to five plausible and vividly contrasting narratives that describe possible evolutions of key areas of uncertainty. These narratives, known as scenarios, examine the social, political, economic, and technological forces that will impact on a project or strategy. Scenarios are arrived at by a team composed of key decision makers, experts, and stakeholder representatives during two or three one-day workshops held over a period of weeks or months. Because they focus on areas of uncertainty and the potential for unexpected future discontinuities, scenarios provide a perspective not captured through projections based on past data.

Scenario analysis involves constructing or developing scenarios (steps 1-4 below), and integrating the content of scenarios into decision making (steps 5-8 below). During the exercise itself, it is important that both of these elements receive equal attention and that mutually acceptable triggers and measures of success be agreed as outcomes of the process. The process entails the following;

1. Define a focal issue or decision. Scenarios are best suited to looking at the future through the lens of a specific issue, such as the likely outcome of a national election leading to a

transfer of power or currency devaluation. Without this grounding, there is a danger that they will be too general.

2. Identify driving forces. These are the social, economic, environmental, political, and technological factors that are most relevant to the focal issue. They should be prioritized by the scenario team according to their level of predictability and importance in affecting the desired outcome.

3. Write scenario plots. These are the stories that explain how driving forces interact and what effects they have on the operation or strategic direction being discussed.

4. Flesh out scenarios. Good scenarios combine a solid understanding of relevant present trends with a clear focus on the outcomes sought by decision makers. They should incorporate lessons revealed by analysis of quantitative and qualitative data relevant to the assumptions underlying each scenario.

5. Look at implications. After scenarios have been fully developed, decision makers should study their implications for the outcomes being sought by the operation.

6. Choose "leading indicators." These indicators should help decision makers monitor changes in the external environment as well as developments in the project.

7. Disseminate scenarios. Once scenarios have been built and refined, they should be written in succinct, easy-to-read language and disseminated within implementing organizations and to the public.

8. Integrate scenario outcomes in daily procedures.

Change the incentive system in affected agencies and areas to ensure concerted movement toward the strategic goals that have been formed on the basis of the scenarios. Use or modify existing systems to monitor progress toward operational goals as well as changes in the external environment.

3.4 Scenarios in Practice

The two primary situations in which scenario analysis has been used by the public and private sectors are:

1. When considering a significant capital investment decision or sectoral strategy
2. When developing or reformulating national or corporate strategy.

Scenario Analysis for Capital Investments

Scenario analysis is extensively used in the private sector by companies that make large investments in productive capital or research and development. Utilities, hospitals, oil companies, and pharmaceutical companies all invest significant amounts of money in research, development, and site construction.

They need to make all possible efforts to ensure that their investments will remain viable over the long term. Scenario analysis has helped them examine the political and regulatory environments, the likely attitudes of consumers, and other relevant factors to attempt to ensure that their investments continue to be profitable as conditions change.

4.0 CONCLUSION

In this unit, we have seen that Scenario planning is a method of preparing for unplanned events. Scenario planning or analysis, is a strategic planning method that some organizations use to make flexible long-term plans

5.0 SUMMARY

In this unit we have discussed Scenarios: Case studies of the Environment of Business,

uses and advantages of the scenario planning/analysis, the Process of designing scenario scenarios in practice.

6.0 TUTOR MARKED ASSIGNMENT

What are the uses and advantages of the scenario planning/analysis?

7.0 REFERENCE/ FURTHER READING

Thompson A.A and Strickland, (1998), Strategic management concepts and cases, Boston, McGraw Hill

MODULE 4 PITFALLS IN DEVELOPING SCENARIOS

UNIT 1 PITFALLS IN DEVELOPING SCENARIOS

CONTENTS

1.0 Introduction

In this unit, we look at the pitfalls in developing scenarios; several key issues to address when deciding the decision focus such as desired outcome of the intervention; desired outcome of the scenario process; time frame and so on were discussed. This unit also discussed the common pitfalls that scenario team should avoid.

2.0 Objectives

At the end of this unit you should be able to:

- Demonstrate knowledge of how to build scenarios
- Identify the common pitfalls in developing Scenarios
- Discuss the key issues to be addressed when deciding the decision focus?

3.0 Main Content

3.1 Building the Scenarios

The first step of the scenario workshop is to clarify the decision focus of the exercise. This should have been outlined to individuals when they were invited to participate, but it is important for the group to work together to clarify the issue. As this discussion can become contentious, it is best to state clearly within the first 10 minutes of the meeting the behavior expected during the meeting. Propose, or ask the group to agree on, whether a facilitator is needed, and, if so, who it will be; a system to recognize speakers; a time limit on the length of comments; and other basic procedures of the meeting.

Discussion of the decision focus forces all participants to concentrate on the goals sought by the development intervention rather than on the specific process that will be used to reach those goals. This separation of means from objectives is key to giving the group the conceptual space needed to come up with new approaches.

Several key issues should be addressed when deciding the decision focus:

1. Desired outcome of the intervention. This discussion should begin with input from the organizers of the event but then will be open to further discussion. The group may come up with a different formulation of the desired outcome than was originally brought to the table. This reformulation will guide the group's understanding of the forces that will affect it.

2. Desired outcome of the scenario process. Once the outcome of the intervention is clarified, the role that scenarios will play should be explained.

Will they be used as a way to test existing strategies for riskiness, as a tool to formulate new strategies, or as a means to build a shared vision for governmental or organizational reform? The organizers should clarify how they envision the scenarios being applied to strategy, and explain any internal business tools that will be used to put that strategy into practice. For example, if the goal is the creation of a medium-term framework to guide the sequencing of a program of adjustment loans, the group needs to understand.

Scenario Analysis: A Tool for Task Managers how the program of loans works and where scenarios fit in.

3. Time frame. The time frame will significantly affect the range of issues a scenario can address. The technological and economic shifts that should be considered in a 20-year time horizon may have no relevance for a 5-year plan. Scenarios should be conceived of as ways to shape strategy within the medium term. The time frame should be long enough for significant changes to occur in the driving forces, ideally 3 to 5 years.

3.2 Common Pitfalls in Developing Scenarios

Despite its usefulness, scenario analysis is not a panacea. Scenarios are a process, not a product.

To become truly effective, they need to be used and refined over time. This requires sustained commitment on the part of high-level decision makers and a skilled and dedicated scenario team. It also requires the government to carefully develop and track indicators to help decision makers tie what are going on in the outside world to the scenarios.

Scenario development is not easy. The process demands significant effort, thought, and creativity of the scenario team. To help the scenario team avoid mistakes made by others, common pitfalls are listed below.

1. Failure to gain the support of key decision makers.

To be credible, scenarios need to be integrated in the decision making apparatus of the organization in which they will be implemented. Without real buy-in at the top, the scenarios will not be implemented.

2. Unrealistic goals and expectations. Scenarios do not produce action plans; they help decision makers envision what will happen.

The methodology is not suited to addressing specific tactical issues. It is meant to provide a broad view of the uncertainties facing an intervention. Strategic decisions flow from this understanding, but they are not a direct product of the exercise.

3. Failure to develop a clear map of the future with monitorable indicators. It is essential that the team develop clear, monitorable milestones of progress toward the various scenarios. These milestones should have a direct relationship to the goals and planned outcomes of the intervention.

4. Scenarios that is not credible. Scenario workshops are not brainstorming sessions. Scenarios must be based on solid quantitative as well as qualitative projections if they are to be credible to those implementing them. Because scenarios do not assign probabilities or project against current trends, it is important to make sure that they are based on strong research.

5. Scenarios that are not tied to the planning process. The indicators and thinking in scenarios must be directly built into the way that an intervention is planned. Scenario indicators should be closely monitored and associated with explicit changes in strategy, including exit strategies. Similarly, scenarios should be related to the client's and the Bank's budget and policy cycles.

6. Not enough time to carry out the scenario process. The process requires discipline and attention. It can be divided in two phases: scenario building and relating scenarios to strategy. Although these two phases may take place at separate times to conform with the Bank's project cycle and the client's policy cycle, the scenario team should have enough time to think through the logic of the scenarios and ensure that they are properly researched.

7. Inappropriate time frame and scope. Scenarios that focus on current crises and existing problem areas rather than looking at the interaction of broader forces do not generate the kind of new thinking necessary to jump-start an agenda.

8. Mistaking projections for scenarios. Projections are based on past data and often posit a continuation, or slight variation, of current trends. Projections are not well suited to dealing with the potential for significant discontinuities brought on by external events. Scenarios are designed to highlight “what if?” situations for decision makers. Scenarios should be built around the forces that shape society. Trends are symptoms of these forces rather than their cause. These unexpected changes cannot be predicted with a study of current trends.

9. Failure to tell a dynamic, internally consistent story. Scenarios should be movies, not still frames. Each scenario should be a smooth narrative that makes intuitive sense to the reader. The main aspects of the future should be internally consistent; the outcomes postulated for the two key uncertainties should be able to coexist; and the actions of stakeholders should be compatible with their interests.

10. Lack of diversity of inputs. If the scenario team members are of homogeneous educational backgrounds and institutional affiliations, they will be much less likely to come up with innovative solutions. To build successful scenarios, the participation of a diverse group of people is essential.

3.3 Building a Team for Scenario Planning

In the broadest sense, the scenario team is the group of leaders and experts who gather to create four or five distinct narratives about the future over the course of several workshops.

Each of the members gives his or her time, energy, leadership experience, and technical expertise to the group for the duration of the workshops. Team members should be chosen based on their ability to represent distinct viewpoints on the issue being discussed, be it technical or political. Ideally, all also will be champions of the scenario process and generate support for its ideas among their colleagues and communities.

There is also a smaller group within the scenario team that plays an active role before, between, and after the series of workshops during which the scenarios are created. This smaller group, known as the core scenario team, should be led by key decision makers at the Bank and in the country. The finished scenarios need to be authored by, or in collaboration with, the people who will be asked to lead the implementation of the intervention. Other members of this smaller core team will conduct preliminary interviews, analyze the country situation, and ground-truth the assumptions in each scenario.

3.4 Assembling the Scenario Team: A Preliminary Checklist

Although it may not be possible to include multiple representatives from each group listed below, the best scenario teams are diverse. Below is a list of individuals likely being part of a scenario team:

1. Decision makers. The task manager and a senior representative from the borrower government should jointly lead the process and write the final scenarios.

2. People with a thorough knowledge of the World Bank and its role in the country. A representative from the Country Office or the task manager can fill this role.

3. People with an understanding of the borrower government and its role in the sector/field (when appropriate). This includes senior staffs at the appropriate ministry and officials who are interested in the scenario process and are active in the field.

4. Experts and specialists. This includes Bank, engineers/technical specialists, local academicians, and other relevant experts from other donor agencies or international NGOs.

5. Line ministry staff and/or implementing NGOs. These individuals will carry out the operation if it is an investment loan. In a strategy context, the net can be cast more broadly, but there is nonetheless a clear need for practitioners to give input on the realities of implementation.

6. Leaders from the private sector and from trade unions. In an investment loan, these representatives should come from the industry or field most closely related to the project. In a

strategy context, a diverse group of dynamic business persons can be considered. It is important that both local and international interests be represented when they will be equally affected by the intervention.

7. Leaders from NGOs, activist groups, religious organizations, and beneficiary organizations.

8. Politicians. Members of all relevant political parties should be included in strategy discussions.

4.0 Conclusion

This unit has informed us about building the scenarios; the first step of the scenario workshop is to clarify the decision focus of the exercise and this should have been outlined to individuals when they were invited to participate. Common pitfalls in developing scenarios was also discussed; building a team for scenario planning which in a broadest sense, the scenario team is the group of leaders and experts who gather to create four or five distinct narratives about the future over the course of several workshops. Each of the members gives his or her time, energy, leadership experience, and technical expertise to the group for the duration of the workshops. Team members should be chosen based on their ability to represent distinct viewpoints on the issue being discussed, be it technical or political. Also, list of individuals likely being part of a scenario team:

5.0 Summary

The first step of the scenario workshop is to clarify the decision focus of the exercise. This should have been outlined to individuals when they were invited to participate, but it is important for the group to work together to clarify the issue. As this discussion can become contentious, it is best to state clearly within the first 10 minutes of the meeting the behavior expected during the meeting. Discussion of the decision focus forces all participants to concentrate on the goals sought by the development intervention rather than on the specific process that will be used to reach those goals. Several key issues that should be addressed when deciding the decision focus were discussed; so also common pitfalls in developing scenarios were fully discussed. Lastly, various a list of individuals likely being part of a scenario team were discussed.

6.0 Tutor-Marked Assignments

1) Give expressive list of individuals to be part of a scenario team.

2) What are the key issues to be addressed when deciding the decision focus?

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UNIT 2 SCENARIO ANALYSIS

CONTENTS

1.0 INTRODUCTION

Scenarios to assess the riskiness of an investment strategy need not be simplistic. The process of identifying the real focal issue behind an investment is often quite revealing. For example, Shell Oil Company has used scenario analysis since the 1960s. When Shell began looking into investing in new oil fields in the late 1970s, it asked its scenario team to evaluate the investment in terms of forces that would affect the price of oil in Western Europe.

The team came back with several scenarios. One cited the risk of the collapse of the Organization of Petroleum-Exporting Countries (OPEC) due to internal tensions and external pressure. Another looked at the demographics and political situation in the Soviet Union and noted that a relaxing of tensions with the West could lead to large amounts of oil from Central Asia being exported to Europe. Another looked at a future in which the pressure of high prices and environmental organizations led to technological breakthroughs that reduced the dependence of Western Europe on oil and gasoline.

All of these scenarios were plausible, and, indeed, all did come to pass to a degree. Shell planned its investments to take advantage of potential technological breakthroughs and to grow through a flexible series of small expansions. When OPEC was no longer able to control enough of the oil supply to keep prices high, Shell's conservative position allowed it to rise from seventh in the industry to third. Its small investments remained profitable while competitors lost significant amounts of money as riskier oil fields tapped during a period of high prices failed to perform.

2.0 OBJECTIVES

At the end of the reading of this unit, the reader should be able to understand:

- The meaning and necessity for scenario analysis
- How to plan and run a scenario exercise
- How to build a team for scenario planning

3.0 MAIN CONTENT

3.1 Scenario Analysis in the Public Sector

Scenarios have been used to guide large capital investments in transportation, landfill development, and city planning. These scenarios deal with potential changes in user behavior, the utility of capital investments to a mobile population, and the economic and social pressures likely to develop on a national scale over time. Special emphasis is also placed on likely voter pressures, larger political and demographic trends, and ways to ensure continued political support for projects once they are underway. Scenarios can help create the best long-term strategies for continued growth and flexibility for states and regions. When used in the public sector, strategic scenarios have the goal of helping decision- makers and key stakeholders agree on substantive messages about possibilities for future change. The process helps create informal networks and understanding among the participants that can lead them to become champions of the policy recommendations that come out of scenario discussions. The second function of public sector scenarios is to engage public opinion. The completed scenarios are simplified and broadcast in the mass media, explained at local meetings, and highlighted in leaflets and policy bulletins. Shaping public debate about issues of national concern is made easier by the flexibility of the scenario methodology.

Scenarios are stories that bring together the key elements of policy in a narrative that can be understood by the public. Because each scenario can illustrate plausible changes along many dimensions, discussion begins to focus on the interactions among forces, rather than on specific issues.

3.2 Running a Scenario Exercise

The following description of the stages of a scenario exercise will give task managers a background in its practical requirements. This description should enable task managers to lead a simplified scenario analysis process, make a significant contribution to a scenario team, or work knowledgeably with private sector consultants.

Stages of the Scenario Process

There are no fixed rules for how to carry out a scenario analysis, but several stages occur in almost every case. The actual creation of scenarios takes place with a group in a workshop.

The organizers need to carry out a number of activities before the first and last workshops. The four broad stages to the process follow.

1. Preparation. A number of tasks need to be carried out before the scenario workshops. They include defining the scope of scenario use, choosing and interviewing the scenario team, and preparing background material for the workshops. These are crucial steps in the process, because they help the task manager build confidence in the scenario exercise and gain an early understanding of the issues that will be most important to participants.

2. Building the scenarios. This process can occur in one workshop, or two held back to back. Together the scenario team determines the focus of the intervention identifies and prioritizes the key external factors that will affect its success, sets them in a matrix to differentiate their effects, and writes simple scenario plots.

3. Investigating and writing the scenarios. This exercise is carried out between workshops. The task manager and core team gather relevant qualitative and quantitative information to determine whether the assumptions made in the scenarios are accurate. Decision makers from the scenario team should write more finished drafts of the scenarios.

4. Using the scenarios to plan strategy. In this workshop, the scenario team goes over the finished scenarios and looks at the implications for the strategic decision being made. Specific external “signposts” of changes in the key forces are also identified at this stage.

3.3 Building the Scenarios

The first step of the scenario workshop is to clarify the decision focus of the exercise. This should have been outlined to individuals when they were invited to participate, but it is important for the group to work together to clarify the issue. As this discussion can become contentious, it is best to state clearly within the first 10 minutes of the meeting the behavior expected during the meeting. Propose, or ask the group to agree on, whether a facilitator is needed, and, if so, who it will be; a system to recognize speakers; a time limit on the length of comments; and other basic procedures of the meeting.

Discussion of the decision focus forces all participants to concentrate on the goals sought by the development intervention rather than on the specific process that will be used to reach those goals. This separation of means from objectives is key to giving the group the conceptual space needed to come up with new approaches.

Several key issues should be addressed when deciding the decision focus:

1. Desired outcome of the intervention. This discussion should begin with input from the organizers of the event but then will be open to further discussion. The group may come up with a different formulation of the desired outcome than was originally brought to the table. This reformulation will guide the group’s understanding of the forces that will affect it.

2. Desired outcome of the scenario process. Once the outcome of the intervention is clarified, the role that scenarios will play should be explained.

Will they be used as a way to test existing strategies for riskiness, as a tool to formulate new strategies, or as a means to build a shared vision for governmental or organizational reform? The organizers should clarify how they envision the scenarios being applied to strategy, and explain any internal business tools that will be used to put that strategy into practice. For example, if the goal is the creation of a medium-term framework to guide the sequencing of a program of adjustment loans, the group needs to understand.

3. Time frame. The time frame will significantly affect the range of issues a scenario can address. The technological and economic shifts that should be considered in a 20-year time horizon may have no relevance for a 5-year plan. Scenarios should be conceived of as ways to shape strategy within the medium term. The time frame should be long enough for significant changes to occur in the driving forces, ideally 3 to 5 years.

3.4 Common Pitfalls in Developing Scenarios

Despite its usefulness, scenario analysis is not a panacea. Scenarios are a process, not a product.

To become truly effective, they need to be used and refined over time. This requires sustained commitment on the part of high-level decision makers and a skilled and dedicated scenario team. It also requires the government to carefully develop and track indicators to help decision makers tie what are going on in the outside world to the scenarios.

Scenario development is not easy. The process demands significant effort, thought, and creativity of the scenario team. To help the scenario team avoid mistakes made by others, common pitfalls are listed below.

1. Failure to gain the support of key decision makers.

To be credible, scenarios need to be integrated in the decision making apparatus of the organization in which they will be implemented. Without real buy-in at the top, the scenarios will not be implemented.

2. Unrealistic goals and expectations. Scenarios do not produce action plans; they help decision makers envision what will happen.

The methodology is not suited to addressing specific tactical issues. It is meant to provide a broad view of the uncertainties facing an intervention. Strategic decisions flow from this understanding, but they are not a direct product of the exercise.

3. Failure to develop a clear map of the future with monitorable indicators. It is essential that the team develop clear, monitorable milestones of progress toward the various scenarios. These milestones should have a direct relationship to the goals and planned outcomes of the intervention.

4. Scenarios that is not credible. Scenario workshops are not brainstorming sessions. Scenarios must be based on solid quantitative as well as qualitative projections if they are to be credible to those implementing them. Because scenarios do not assign probabilities or project against current trends, it is important to make sure that they are based on strong research.

5. Scenarios that are not tied to the planning process. The indicators and thinking in scenarios must be directly built into the way that an intervention is planned. Scenario indicators should be closely monitored and associated with explicit changes in strategy, including exit strategies. Similarly, scenarios should be related to the client's and the Bank's budget and policy cycles.

6. Not enough time to carry out the scenario process. The process requires discipline and attention. It can be divided in two phases: scenario building and relating scenarios to strategy. Although these two phases may take place at separate times to conform with the Bank's project cycle and the client's policy cycle, the scenario team should have enough time to think through the logic of the scenarios and ensure that they are properly researched.

7. Inappropriate time frame and scope. Scenarios that focus on current crises and existing problem areas rather than looking at the interaction of broader forces do not generate the kind of new thinking necessary to jump-start an agenda.

8. Mistaking projections for scenarios. Projections are based on past data and often posit a continuation, or slight variation, of current trends. Projections are not well suited to dealing with the potential for significant discontinuities brought on by external events. Scenarios are designed to highlight "what if?" situations for decision makers. Scenarios should be built around the forces that shape society. Trends are symptoms of these forces rather than their cause. These unexpected changes cannot be predicted with a study of current trends.

9. Failure to tell a dynamic, internally consistent story. Scenarios should be movies, not still frames. Each scenario should be a smooth narrative that makes intuitive sense to the reader. The main aspects of the future should be internally consistent; the outcomes postulated for the two key uncertainties should be able to coexist; and the actions of stakeholders should be compatible with their interests.

10. Lack of diversity of inputs. If the scenario team members are of homogeneous educational backgrounds and institutional affiliations, they will be much less likely to come up with innovative solutions. To build successful scenarios, the participation of a diverse group of people is essential.

3.5 Building a Team for Scenario Planning

In the broadest sense, the scenario team is the group of leaders and experts who gather to create four or five distinct narratives about the future over the course of several workshops.

Each of the members gives his or her time, energy, leadership experience, and technical expertise to the group for the duration of the workshops. Team members should be chosen based on their ability to represent distinct viewpoints on the issue being discussed, be it technical or political. Ideally, all also will be champions of the scenario process and generate support for its ideas among their colleagues and communities.

There is also a smaller group within the scenario team that plays an active role before, between, and after the series of workshops during which the scenarios are created. This smaller group, known as the core scenario team, should be led by key decision makers at the Bank and in the country. The finished scenarios need to be authored by, or in collaboration with, the people who will be asked to lead the implementation of the intervention. Other members of this smaller core team will conduct preliminary interviews, analyze the country situation, and ground-truth the assumptions in each scenario.

3.6 Assembling the Scenario Team: A Preliminary Checklist

Although it may not be possible to include multiple representatives from each group listed below, the best scenario teams are diverse. Below is a list of individuals likely being part of a scenario team:

1. Decision makers. The task manager and a senior representative from the borrower government should jointly lead the process and write the final scenarios.

2. People with a thorough knowledge of the World Bank and its role in the country. A representative from the Country Office or the task manager can fill this role.

3. People with an understanding of the borrower government and its role in the sector/field (when appropriate). This includes senior staffs at the appropriate ministry and officials who are interested in the scenario process and are active in the field.

4. Experts and specialists. This includes Bank, engineers/technical specialists, local academicians, and other relevant experts from other donor agencies or international NGOs.

5. Line ministry staff and/or implementing NGOs. These individuals will carry out the operation if it is an investment loan. In a strategy context, the net can be cast more broadly, but there is nonetheless a clear need for practitioners to give input on the realities of implementation.

6. Leaders from the private sector and from trade unions. In an investment loan, these representatives should come from the industry or field most closely related to the project. In a strategy context, a diverse group of dynamic business persons can be considered. It is important that both local and international interests be represented when they will be equally affected by the intervention.

7. Leaders from NGOs, activist groups, religious organizations, and beneficiary organizations.

8. Politicians. Members of all relevant political parties should be included in strategy discussions.

4.0 CONCLUSION

Scenario Analysis is a process to ascertain and analyze possible events that can take place in the future. This is an important tool in the world of finance and economics, and is used extensively to make projections for the future. This constitutes an important tool for decision making in the financial world, be it at the macro or the micro level. It is used extensively in the financial world for forecasting and analyzing possible future events. Mathematics/statistics play a crucial role in such analyses. Based on the conclusions arrived through the analysis, financial institutions prepare their action plan for the future and build their portfolios.

Scenario analysis is an important instrument to gain insight in risk and return. The quality of the various simulation techniques is highly dependent on the data used, the methodology of the models and integration of economic knowledge.

The goal is that scenarios provide the most realistic possible image of the potential developments of the economy, so that the advisor can test to what extent the client's objectives are financially realistic and feasible.

Besides a better information supply by providing insight in risk and return, scenario analysis can also help in the grounding of a solid advice and as a result honor the duty of care that is so important these days. But, above all, scenario analysis is an instrument to manage the expectations of consumers much better and as a consequence it can restore and improve their trust in the financial advisor and the financial world itself.

5.0 SUMMARY

This unit tackled scenario analysis. Scenario analysis is a process of analyzing possible future events by considering alternative possible outcomes (sometimes called "alternative worlds"). Thus, the scenario analysis, which is a main method of projections, does not try to show one exact picture of the future. Instead, it presents consciously several alternative future developments. Consequently, a scope of possible future outcomes is observable. Not only are the outcomes observable, also the development paths leading to the outcomes. In contrast to prognoses, the scenario analysis is not using extrapolation of the past. It does not rely on historical data and does not expect past observations to be still valid in the future. Instead, it tries to consider possible developments and turning points, which may only be connected to the past. In short, several scenarios are demonstrated in a scenario analysis to show possible future outcomes. It is useful to generate a combination of an optimistic, a pessimistic, and a most likely scenario. Although highly discussed, experience has shown that around three scenarios are most appropriate for further discussion and selection. More scenarios could make the analysis unclear.

For example, in economics and finance, a financial institution might attempt to forecast several possible scenarios for the economy (e.g. rapid growth, moderate growth, slow growth) and it might also attempt to forecast financial market returns (for bonds, stocks and cash) in each of those scenarios. It might consider sub-sets of each of the possibilities. It might further seek to determine correlations and assign probabilities to the scenarios (and sub-sets if any). Then it will be in a position to consider how to distribute assets between asset types (i.e. asset allocation); the institution can also calculate the scenario-weighted expected return (which figure will indicate the overall attractiveness of the financial environment). It may also perform stress testing, using adverse scenarios.

Depending on the complexity of the problem scenario analysis can be a demanding exercise. It can be difficult to foresee what the future holds (e.g. the actual future outcome may be entirely unexpected), i.e. to foresee what the scenarios are, and to assign probabilities to them; and this is true of the general forecasts never mind the implied financial market returns. The outcomes can be modeled mathematically/statistically e.g. taking account of possible variability within single scenarios as well as possible relationships between scenarios. In general, one should take care when assigning probabilities to different scenarios as this could invite a tendency to consider only the scenario with the highest probability.

6.0 TUTOR MARKED ASSIGNMENT (TMA)

1. What is scenario analysis?
2. Explain the stages of a scenario process.
3. What are the key issues to be addressed when deciding the decision focus?
4. List some common pitfalls of scenario planning.

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UNIT 3 Marginal Analysis In The Industry (Internal Environment Analysis)

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1.0 INTRODUTION

Marginal analysis can be a powerful tool for business owners. Marginal revenue and marginal cost are useful concepts on their own, but combining them allows a business owner to find the optimal level of output and price that will lead to maximum profits. Marginal analysis can even help with hiring and wage decisions.

2.0 OBJECTIVE

After studying this unit, you should be able to;

(a) understand the meaning of Marginal Analysis

(b) classify marginal analysis

3.0 Marginal Revenue Analysis

Marginal revenue is the amount of revenue added only by the last unit of output sold. For example, if a business sold 10 televisions, their total revenue is 10 times the price of the televisions, and the marginal revenue of the 10th television sold is the total revenue minus the total revenue after 9 televisions were sold. Marginal revenue always begins to decline eventually, to reflect that the market becomes saturated and fewer customers want to buy the output. Tracking marginal revenue allows a business to make changes when demand warrants. If the price drops too low, the company might want to consider raising prices -- there is little to be gained from selling at a low marginal revenue, because the extra business does not bring in that much money.

3.2 Marginal Cost Analysis

Marginal cost is similar to marginal revenue, in that it deals with the changes to the business due to the last unit of output. It examines the additional costs brought on by producing the last unit of output. Examining marginal cost is a good way of thinking about production decisions; if marginal cost is starting to increase too rapidly, it may be a sign to cut back on production.

3.3 Profit Maximization

When combined, marginal revenue and marginal cost provide business owners with the theoretical optimal level of output. By manufacturing until marginal revenue and marginal cost are equal, a business owner guarantees that they will achieve the highest possible amount of profit. It is possible to produce past this point, but although output will increase, decreasing marginal revenue and increasing marginal cost mean that profit can only decrease.

3.4 Marginal Labour Analysis

Marginal analysis also can be useful in hiring and paying workers. When the cost of labor is fixed, analyzing the marginal output of workers can lead to the optimal level of employees. The relevant statistic is the marginal product of labor -- the amount of revenue that each worker adds to the company. When the marginal product of labour for the last worker hired equals price, the business has achieved the optimal amount of employees.

4.0 CONCLUSION

Marginal analysis is the most powerful tool for business owners.

5.0 SUMMARY

We have explained marginal revenue and marginal cost useful concept on their own, combining them will allows business owner to find the optimal level of output and price that lead to maximum profits.

6.0 TUTOR MARKED ASSIGNMENT

1. Explain the difference between the following;

A Marginal Revenue Analysis,

B Marginal Cost Analysis,

C Profit Maximization.

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UNIT 4 LIMITATIONS OF ENVIRONMENTAL ANALYSIS

Table of content

1.0 INTRODUCTION

An environmental analysis reviews current environmental conditions to forecast a future business environment. The static nature of the analysis ensures that unexpected environmental changes are not considered in a company's business projections. In addition, the environmental analysis is but one source of information that's evaluated as a company develops a strategic plan. As a result, the analysis does not guarantee business success. The benefit of the analysis is also limited by the reliability and timeliness of data used in the analysis.

2.0 OBJECTIVE

After studying this unit, you should be able to;

(a) review the static nature of the analysis of unexpected environmental changes;

(b) highlight the provisions of environmental forecasting;

3.0 MAIN CONTENT

3.1 Environmental forecasting

Environmental scanning, monitoring, and competitive intelligence are important inputs for analyzing the external environment. However, they are of little use unless they provide raw material that is reliable enough to help managers make accurate forecasts. Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change, its purpose is to predict change. No one can deny that economic, technological, political, and social change is a part of organizational life. To say the least, forecasting is a most difficult process. At this point it may be consoling to recall some humorous forecasting rules. Several studies have examined the impact of environmental analysis and forecasting on organizational performance. One study found that increased knowledge, through environmental analysis and forecasting was positively correlated to profitability.

Brainstorming is a technique that is primarily used to produce creative ideas for solving problems, but it can also-be-used in forecasting. Basically, brainstorming involves presenting a particular subject to a group of people and allowing them to present their forecasts on the subject. Brainstorming generally consists of three phases. In phase one, members of the group are asked to present spontaneously their ideas on the future of the subject under study. The group is told that producing a large quantity of their ideas is desired, and that they should not be concerned about the quality of their ideas.

Basic rules are observed in the first phase. No criticism of forecasts is allowed. No praise of forecasts is allowed. No questions or discussion of forecasts is allowed.

Combination and improvements of forecasts that have been presented are encouraged. During the second phase, the merits of each forecast are reviewed, which often leads to additional alternatives. Alternatives with little merit are eliminated in this phase. In the third phase, one of the alternatives is selected, normally through group consensus.

Trend-impact analysis is also used in environmental forecasting and is conducted along the following general steps. Past history of a particular phenomenon is extrapolated with the help of a computer. Panel of experts specifies a set of unique future events, which could have a bearing on the phenomenon under study.

Panel of experts indicates how the trend extrapolation would be affected by the occurrence of each of these events. Computer then modifies the trend extrapolation using these judgments. Panel of experts then reviews, the adjusted extrapolation, and modifies the inputs.

4.0 CONCLUSION

Increased knowledge through environmental analysis and forecasting is positively correlated to profitability.

5.0 SUMMARY

The benefit of the analysis is also limited by the reliability and timeliness of data used in the analysis.

6.0 TUTOR MARKED ASSIGNMENT

1. What do you use to review an environmental condition to forecast a future business environment?

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UNIT 5 IMPLICATION OF TRENDS AND CHANGES IN THE BUSINESS ENVIRONMENT

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1.0 INTRODUCTION

Environmental uncertainty is the degree of complexity plus the degree of change existing in an organization’s external environment. Environmental uncertainty is a threat to strategic managers because it hampers their ability to develop long-range plans and to make strategic decisions to keep the corporation in equilibrium with its external environment. Most industries today are facing an ever increasing level of environmental uncertainty. They are becoming more complex and more dynamic.

2.0 OBJECTIVE

After studying this unit, you should be able to;

(a) Understand the trends and changes in the business environment.

3.0 MAIN CONTENT

3.1 IMPLICATION OF TRENDS AND CHANGES IN THE BUSINESS ENVIRONMENT.

Industries that used to be multi-domestic are becoming global. New flexible, aggressive, innovative, competitors are moving into established markets to rapidly erode the advantages of large previously dominant firms.

Distribution channels vary from country to country and are being altered daily through the use of sophisticated information systems. Closer relationships with suppliers are being forged to reduce costs, increase quality, and gain access to new technology. Companies learn to quickly imitate the successful strategies of market leaders, and it becomes harder to sustain any competitive advantage for very long. Consequently, the level of competitive intensity is increasing in most industries. In hypercompetitive industries such as computer, competitive advantage comes from an up-todate knowledge of environmental trends and competitive activity coupled with a willingness to risk a current advantage for a possible new advantage.

It is sometimes argued that it is so difficult to forecast the future that it is better not to attempt forecasting at all. Scenario planning offers a fundamentally different approach that does not depend on forecasting the future. Rather it postulates possible future scenarios without making any assessment of the likelihood that any one scenario will occur. Scenario planning was pioneered in Shell. Scenario planning involves the creation of a number typically two to four complete scenarios of the future, each of which is self-consistent but significantly different form the others. Under scenario planning, the purpose of the strategy process is to help managers to develop better mental models so that they can deal with change as it occurs. It turns planning into learning exercises and places the emphasis on the process of planning rather than the resulting plans. It is therefore reason of the Learning and Cognitive schools. Scenario planning is being used to an increasing extent, but it does require considerable time and effect to achieve the best results.

3.2 DELPHI METHOD OF BUSINESS FORECASTING

Attempting to predict the future has been the ambition of countless individuals since antiquity. In the business sector, accurately predicting the future of demand, cash flows, and other factors is crucial.

Yet in many instances, such as projecting the effects of a new product or technology, quantitative forecasting methods are not an option because historical data is typically not available. In such cases a reliable forecast must be obtained using qualitative means. The Delphi Method is a reliable and unique methodology appropriate for these instances.

The origin of the Delphi method was attributed first to the RAND project of the United States of America in 1948 when the United States Air Force realized the need to anticipate future advancements in technology to protect America. The RAND project was formed to tackle these predictions. The existing methods of forecasting were insufficient to adequately prepare the needed report, because no historical data for this subject was available. As they explored new methods of forecasting, the Delphi method was born. Today businesses, governmental agencies, and organizations use the Delphi method to forecast future events and make appropriate plans for the future.

The Delphi method is a combination of qualitative and quantitative processes that draws mainly upon the opinions of identified experts to develop theories and projections for the future. A group of experts is drawn from several disciplines and professions. A multiple-round survey system is administered to this group over an extended period of time. The goal of this method is to reach a consensus among the group by the end of this multiple-round questionnaire process. The uniqueness of Delphi lies in its reliability, given the variableness of human opinion, and in its ability to be administered remotely and without direct participant interaction. It is best used for a fairly simple assessment of new products and developments, but it is one of the most complex methodologies available.

The first step toward implementing the Delphi method is to organize the process in a very specific and thorough manner. Questionnaires should be designed, administrative processes determined, and total costs evaluated before starting the actual procedures. When a complete outline for the process is finished, the expert-selection process can begin.

The size of the project being completed will determine the number of expert panels the Delphi

Method requires, but each panel should consist of approximately 10 to 18 members. The size of the panel is ultimately determined by the needs and budget of those administering the process. A simple random sampling of respondents is not adequate to form this panel. Unlike traditional statistical surveying, the goal is not to select a representative sample of the population. The whole premise behind the

Delphi theory is that the panel members are in fact experts in their field in order to yield more accurate results. The criteria that qualifies an individual as a panel "expert" is determined by those administering the process.

Once the expert selection process is finished, a questionnaire is distributed to each panel member for completion. The members are encouraged to draw upon their experiences, and use any historical data, research, or other available resources to help in answering the posed questions. However, panel experts should not consult others regarding questionnaire material, in part to avoid accidental contact with other members of the panel.

The first questionnaire usually consists of one or two questions. These are meant to be open-ended questions related to the issue being researched. The experts give their opinion and return the questionnaire to the panel director. The panel director then reviews the responses and uses this information to develop more specific questions to be used in the second questionnaire.

The second questionnaire has two major parts: first, the results and responses from the first questionnaire are presented in an orderly format (such as a list or table). The experts rank the result items to establish priorities, and are allowed to review their responses in light of the opinions of other experts, add comments, and change their responses if desired. Second, the new questions formulated by the panel director are posed to the panel. Panel members then return the answers to these questions, along with any revisions to their previous answers, to the panel director. It is in this questionnaire that they are able to explain the reasoning behind their responses. The panel director once again processes this information and prepares the third questionnaire.

The third and all subsequent questionnaires contain three major parts. First, they include the answers to all previous questions, along with some statistical data so experts can view how their responses related to those of other panel members. Second, they include comments and reasoning that panel members included with their answers. Third, they provide an opportunity for experts to review and revise any of their previous answers. Once again, panel members fill out the questionnaire and return it to the panel director.

This process continues until a consensus is reached by the group. Usually a minimum of three questionnaires is needed to reach a consensus, but the number of questionnaires could be five or more.

A key ingredient to this process is the anonymity of the panel members. No member knows the identity of the other panel members. This allows a true consensus to be reached and eliminates many problems that arise from bias and peer influence among the participants.

As stated previously, the Delphi Method was created and first applied in the early 50s when the United States Air Force wanted to prepare for the possibility of an atomic war with the Soviet Union.

The goal was to project how many atomic bombs that the Soviet Union would deploy in the event of war. The results from the first round of expert responses showed estimates ranging from 50 to 5000 bombs. After proceeding through four more iterations of the survey and response process, that estimate reached a consensus: 167 to 360 bombs. Using the repeated-ranking process of the Delphi methodology, a professional and focused prediction was obtained.

Other examples where the Delphi method has been used include the forecasting of the long-term impact of modern terrorism on U.S. Society, the effectiveness of an AIDS vaccination in Switzerland, predicting the use and extent of information technology, and projecting how future events will affect the U.S. lodging industry. In each example, the long-term effects of a newly-introduced idea are desired, but not obtainable by quantitative means.

4.0 CONCLUSION

Industries that used to be multi domestic are becoming global.

5.0 SUMMARY

The existing methods of forecasting were insufficient to adequately prepare the needed report, because no historical data for this subject is available,as they explored new methods of forecasting, the Delphi method was bord.

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