

reviewer

in

MGT

REVIEW

Definition of terms

Environmental scanning:

- > is the **monitoring, evaluation, and dissemination of information** from the external and internal environments to key people within the corporation.
- > A corporation uses this tool **to avoid strategic surprise and to ensure its long-term health**

Identifying External Environmental Variables

Natural environment

includes **physical resources, wildlife, and climate** that are an inherent part of existence on Earth.

Societal environment

mankind's social system that **includes general forces that do not directly touch on the short-run activities of the organization** that can, and often do, influence its long-run decisions.

These factors affect multiple industries and are as follows:

1. **Economic forces:** that **regulate the exchange of materials, money, energy, and information**. ↗ exchange of goods
2. **Technological forces:** that **generate problem-solving inventions**.
3. **Political-legal forces:** that **allocate power and provide constraining and protecting laws and regulations**.
4. **Sociocultural forces:** that **regulate the values, mores, and customs of society**. ↗ social structure

The task environment:

includes **those elements or groups that directly affect a corporation** and, in turn, are affected by it.

NOTE: These are governments, local communities, suppliers, competitors, customers, creditors, employees/labor unions, special-interest groups, and trade associations.

Industry analysis: popularized by **Michael Porter**

refers to an **in-depth examination of key factors within a corporation's task environment**.

The **natural, societal, and task environments** must be monitored to detect the strategic factors that are likely in the future to have a strong impact on corporate success or failure.

By including trends from the natural environment, this scanning can be called **STEEP Analysis**

-- STEEP Analysis is the scanning of **S**ociocultural, **T**echnological, **E**conomic, **E**cological, and **P**olitical-legal environmental forces.

-- It may also be called **PESTEL Analysis** for **P**olitical, **E**conomic, **S**ociocultural, **T**echnological, **E**cological, and **L**egal forces.

Sociocultural	Technological	Economic	Ecological	Political-Legal
Lifestyle changes Career expectations Consumer activism Rate of family formation Growth rate of population Age distribution of population Regional shifts in population Life expectancies Birthrates Pension plans Health care Level of education Living wage Unionization	Total government spending for R&D Total industry spending for R&D Focus of technological efforts Patent protection New products New developments in technology transfer from lab to marketplace Productivity improvements through automation Internet availability Telecommunication infrastructure Computer hacking activity	GDP trends Interest rates Money supply Inflation rates Unemployment levels Wage/price controls Devaluation/revaluation Energy alternatives Energy availability and cost Disposable and discretionary income Currency markets Global financial system	Environmental protection laws Global warming impacts Non-governmental organizations Pollution impacts Reuse Triple bottom line Recycling	Antitrust regulations Environmental protection laws Global warming legislation Immigration laws Tax laws Special incentives Foreign trade regulations Attitudes toward foreign companies Laws on hiring and promotion Stability of government Outsourcing regulation Foreign "sweatshops"

Researchers at George Washington University have identified a number of technological breakthroughs that are already having a significant impact on many industries:
(TECHNOLOGICAL)

1. Portable information devices and electronic networking:

Combining the computing power of the personal computer, the networking of the Internet, the images of the television...

2. Alternative energy sources:

use of wind, geothermal, hydroelectric, solar, biomass, and other alternative energy sources should increase considerably.

3. Precision farming:

The computerized management of crops to suit variations in land characteristics will make farming more efficient and sustainable.

4. Virtual personal assistants:

Very smart computer programs that monitor e-mail, faxes, and phone calls will be able to take over routine tasks, such as writing a letter, retrieving a file...

5. Genetically altered organisms:

convergence of biotechnology and agriculture is creating a new field of life sciences.

6. Smart, mobile robots:

Robot development has been limited by a lack of sensory devices and sophisticated artificial intelligence systems.

Eight current sociocultural trends are transforming North America and the rest of the world:

1. Increasing environmental awareness:

Recycling and conservation are becoming more than slogans.

2. Growing health consciousness:

Concerns about personal health fuel the trend toward physical fitness and healthier living.

3. Expanding seniors market:

As their numbers increase, people over age 55 will become an even more important market.

4. Impact of Generation Y Boomlet:

Born between 1978 and 1994 to the baby boom and X generations, this cohort is almost as large as the baby boom generation.

5. Declining mass market:

Niche markets are defining the marketers' environment. People want products and services that are adapted more to their personal needs.

6. Changing pace and location of life:

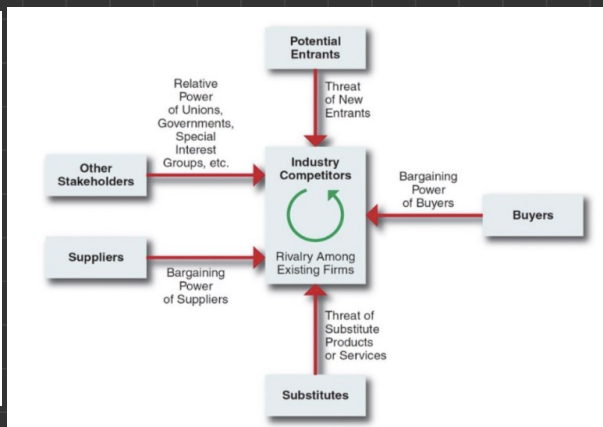
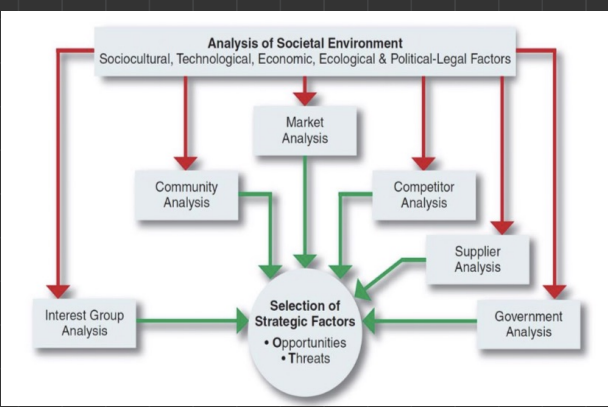
Instant communication via e-mail, cell phones, and overnight mail enhances efficiency, but it also puts more pressure on people.

7. Changing household composition:

Single-person households, especially those of single women with children, could soon become the most common household type in the United States.

8. Increasing diversity of workforce and markets:

Between now and 2050, minorities will account for nearly 90% of population growth in the United States. Over time, group percentages of the total United States population are expected to change as follows: Non-Hispanic Whites—from 90% in 1950 to 74% in 1995 to 53% by 2050; Hispanic Whites—from 9% in 1995 to 22% in 2050; Blacks—from 13% in 1995 to 15% in 2050; Asians—from 4% in 1995 to 9% in 2050; American Indians—1%, with slight increase.



Threat of New Entrants

New entrants:

to an industry typically bring to it new capacity, a desire to gain market share, and substantial resources.

-- They are, therefore, threats to an established corporation.

-- The threat of entry depends on the presence of entry barriers and the reaction that can be expected from existing competitors.

Entry barrier:

is an obstruction that makes it difficult for a company to enter an industry.

Some of the possible barriers to entry are:

- **Economies of scale:**

Scale economies in the production and sale of microprocessors, for example, gave Intel a significant cost advantage over any new rival.

- **Product differentiation:**

Corporations such as Procter & Gamble and General Mills, which manufacture products such as Tide and Cheerios, create high entry barriers through their high levels of advertising and promotion.

- **Capital requirements:**

The need to invest huge financial resources in manufacturing facilities in order to produce large commercial airplanes creates a significant barrier to entry to any competitor for Boeing and Airbus.

- **Switching costs:**

Once a software program such as Excel or Word becomes established in an office, office managers are very reluctant to switch to a new program because of the high training costs.

- **Access to distribution channels:**

Small entrepreneurs often have difficulty obtaining supermarket shelf space for their goods because large retailers charge for space on their shelves and give priority to the established firms who can pay for the advertising needed to generate high customer demand.

- **Cost disadvantages independent of size:**

Once a new product earns sufficient market share to be accepted as the standard for that type of product, the maker has a key advantage.

- **Government policy:**

Governments can limit entry into an industry through licensing requirements by restricting access to raw materials, such as oil-drilling sites in protected areas.

Rivalry Among Existing Firms

In most industries, corporations are mutually dependent. A competitive move by one firm can be expected to have a noticeable effect on its competitors and thus may cause retaliation. According to Porter, intense rivalry is related to the presence of several factors, including:

- **Number of competitors:**

When competitors are few and roughly equal in size, such as in the auto and major home appliance industries, they watch each other carefully to make sure that they match any move by another firm with an equal countermove.

- **Rate of industry growth:**

Any slowing in passenger traffic tends to set off price wars in the airline industry because the only path to growth is to take sales away from a competitor.

- **Product or service characteristics:**

A product can be very unique, with many qualities differentiating it from others of its kind or it may be a commodity, a product whose characteristics are the same, regardless of who sells it.

- **Amount of fixed costs:**

Because airlines must fly their planes on a schedule, regardless of the number of paying passengers for any one flight, they offer cheap standby fares whenever a plane has empty seats.

- **Capacity:**

If the only way a manufacturer can increase capacity is in a large increment by building a new plant (as in the paper industry), it will run that new plant at full capacity to keep its unit costs as low as possible—thus producing so much that the selling price falls throughout the industry.

- **Height of exit barriers:**

Exit barriers keep a company from leaving an industry. The brewing industry, for example, has a low percentage of companies that voluntarily leave the industry because breweries are specialized assets with few uses except for making beer.

- **Diversity of rivals:**

Rivals that have very different ideas of how to compete are likely to cross paths often and unknowingly challenge each other's position.

Threat of Substitute Products or Services

Substitute product:

a product that appears to be different but can satisfy the same need as another product.

Bargaining Power of Buyers

Buyers affect an industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other.

Bargaining Power of Suppliers

Suppliers can affect an industry through their ability to raise prices or reduce the quality of purchased goods and services.

CATEGORIZING INTERNATIONAL INDUSTRIES

Multidomestic industries

are specific to each country or group of countries. This type of international industry is a collection of essentially domestic industries, such as retailing and insurance.

Global industries

operate worldwide, with MNCs making only small adjustments for country-specific circumstances.

Regional industries

In which MNCs primarily coordinate their activities within regions, such as the Americas or Asia.

STRATEGIC TYPES

a category of firms based on a common strategic orientation and a combination of structure, culture, and processes consistent with that strategy.

These general types have the following characteristics:

- **Defenders:**

are companies with a limited product line that focus on improving the efficiency of their existing operations. This cost orientation makes them unlikely to innovate in new areas.

- **Prospectors**

are companies with fairly broad product lines that focus on product innovation and market opportunities. This sales orientation makes them somewhat inefficient. They tend to emphasize creativity over efficiency.

- **Analyzers**

are corporations that operate in at least two different product-market areas, one stable and one variable. In the stable areas, efficiency is emphasized. In the variable areas, innovation is emphasized.

- **Reactors**

are corporations that lack a consistent strategy-structure-culture relationship. Their (often ineffective) responses to environmental pressures tend to be piecemeal strategic changes.

Hypercompetition

An industry situation in which the frequency, boldness, and aggressiveness of dynamic movement by the players accelerates to create a condition of constant disequilibrium and change.

COMPETITIVE INTELLIGENCE

Competitive intelligence

a formal program of gathering information on a company's competitors.

--Often called business intelligence, it is one of the fastest growing fields within strategic management.

Sources of Competitive Intelligence

◆ Informationbrokers

◆ Industrialespionage

◆ Internet

◆ Investigatoryservices

SWOT ANALYSIS

Identification of strengths, weaknesses, opportunities, and threats that may be strategic factors for a specific company.

Strategy formulation, often referred to as strategic planning or long-range planning, is concerned with developing a corporation's mission, objectives, strategies, and policies.

SWOT is an acronym used to describe the particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company.

SWOT analysis, by itself, is not a panacea. Some of the primary criticisms of SWOT analysis are:

- It generates lengthy lists.
- It uses no weights to reflect priorities.
- It uses ambiguous words and phrases.
- The same factor can be placed in two categories (e.g., a strength may also be a weakness).
- There is no obligation to verify opinions with data or analysis.
- It requires only a single level of analysis.
- There is no logical link to strategy implementation.

Generating Alternative Strategies by Using a TOWS Matrix

TOWS MATRIX

- > TOWS is just another way of saying SWOT illustrates how the external opportunities and threats facing a particular corporation can be matched with that company's internal strengths and weaknesses to result in four sets of possible strategic alternatives.
- > a good way to use brainstorming to create alternative strategies that might not otherwise be considered.

INTERNAL SCANNING

RESOURCES

are an organization's assets and are thus the basic building blocks of the organization.

CAPABILITIES

refer to a corporation's ability to exploit its resources.

COMPETENCY

is a cross-functional integration and coordination of capabilities.

CORE COMPETENCY

is a collection of competencies that crosses divisional boundaries, is widespread within the corporation, and is something that the corporation can do exceedingly well.

VRIO FRAMEWORK

Value: Does it provide advantage?

Rareness: Do no other competitors possess it?

Inimitability: Is it costly for others to imitate?

Organization: the firm organized to exploit the resource?

DETERMINING THE SUSTAINABILITY OF ADVANTAGE

Durability

is the rate at which a firm's underlying resources, capabilities, or core competencies depreciate or become obsolete.

Inimitability

the rate at which a firm's underlying resources, capabilities, or core competencies can be duplicated by others.

Explicit Knowledge

knowledge that can be easily articulated and communicated

Tacit Knowledge

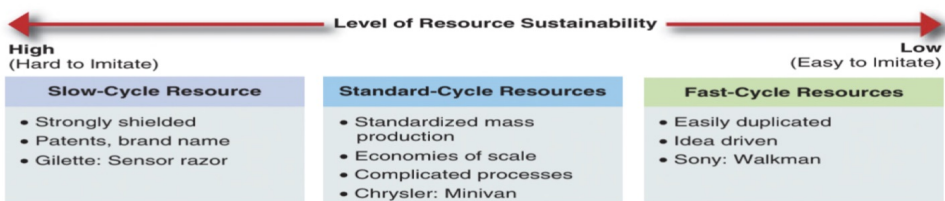
is knowledge that is not easily communicated because it is deeply rooted in employee experience a corporation's culture.

Transparency is the speed with which other firms can understand the relationship of resources and capabilities supporting a successful firm's strategy.

Transferability is the ability of competitors to gather the resources and capabilities necessary to support a competitive challenge.

Replicability is the ability of competitors to use duplicated resources and capabilities to imitate the other firm's success.

FIGURE 5-1
Continuum of
Resource
Sustainability

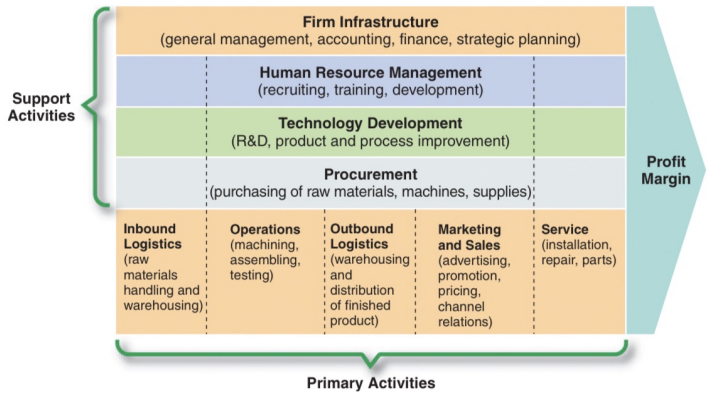


Business model is a company's method for making money in the current business environment.

Value chain
A linked set of value-creating activities that begins with basic raw materials coming from suppliers and ends with distributors getting the final goods into the hands of the ultimate consumer.

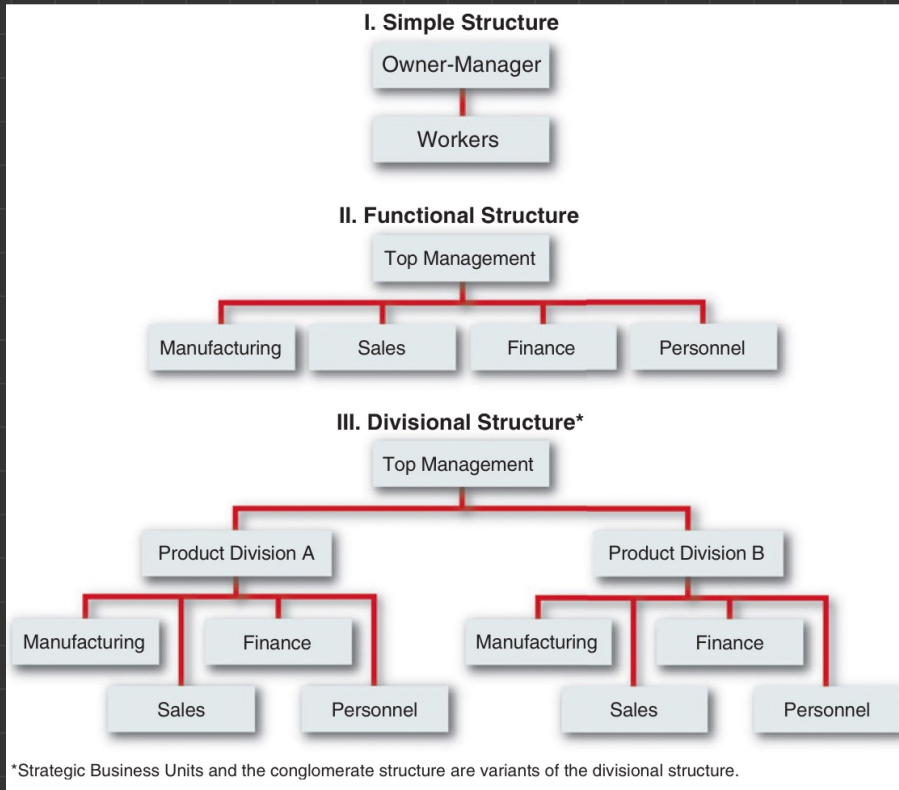
CORPORATION'S VALUE ANALYSIS

FIGURE 5-3
A Corporation's
Value Chain



BASIC ORGANIZATIONAL STRUCTURES

Three Basic Organizational Structures



- **Simple structure** has no functional or product categories and is appropriate for a small, entrepreneur-dominated company with one or two product lines that operates in a reasonably small, easily identifiable market niche. This is a Stage I company.
- **Functional structure** is appropriate for a medium-sized firm with several product lines in one industry. Employees tend to be specialists in the business functions that are important to that industry, such as manufacturing, marketing, finance, and human resources. This is a Stage II company.
- **Divisional structure** is appropriate for a large corporation with many product lines in several related industries.

CORPORATE CULTURE: THE COMPANY WAY

Corporate Culture

is the collection of beliefs, expectations, and values learned and shared by a corporation's members and transmitted from one generation of employees to another.

-- generally, reflects the values of the founder(s) and the mission of the firm.

Cultural intensity:

is the degree to which members of a unit accept the norms, values, or other culture content associated with the unit.

Cultural integration:

is the extent to which units throughout an organization share a common culture.

Corporate culture:

shapes the behavior of people in a corporation, thus affecting corporate performance.

The Global Issue

A change in mission, objectives, strategies, or policies is not likely to be successful if it is in opposition to the accepted culture of a firm.

-- As with structure, if an organization's culture is compatible with a new strategy, it is an internal strength.

-- But if the corporate culture is not compatible with the proposed strategy, it is a serious weakness.

STRATEGIC MARKETING ISSUES

Marketing manager

is a company's primary link to the customer and the competition.

Market Position and Segmentation

deals with the question, "Who are our customers?" It refers to the selection of specific areas for marketing concentration and can be expressed in terms of market, product, and geographic locations.

Marketing mix

refers to the particular combination of key variables under a corporation's control that can be used to affect demand and to gain competitive advantage.

Product life cycle

is a graph showing time plotted against the monetary sales of a product as it moves from introduction through growth and maturity to decline.

Brand and Corporate Reputation:

A brand is a name given to a company's product which identifies that item in the mind of the consumer. Over time and with proper advertising, a brand connotes various characteristics in the consumers' minds.

A corporate reputation:

is a widely held perception of a company by the general public. It consists of two attributes: (1) stakeholders' perceptions of a corporation's ability to produce quality goods and (2) a corporation's prominence in the minds of stakeholders.

STRATEGIC FINANCIAL ISSUES

Financial Leverage

The concept of financial leverage (the ratio of total debt to total assets) is helpful in describing how debt is used to increase the earnings available to common shareholders.

Capital Budgeting

is the analyzing and ranking of possible investments in fixed assets such as land, buildings, and equipment in terms of the additional outlays and additional receipts that will result from each investment.

STRATEGIC RESEARCH AND DEVELOPMENT (R&D) ISSUES

The R&D manager is responsible for suggesting and implementing a company's technological strategy in light of its corporate objectives and policies.

R&D INTENSITY

is a principal means of gaining market share in global competition.

TECHNOLOGICAL COMPETENCE

in both the development and the use of innovative technology

TECHNOLOGICAL TRANSFER

it is a company should also be proficient, process of taking a new technology from the laboratory to the marketplace

R&D Mix

Most corporations will have a mix of basic, product, and process R&D, which varies by industry, company, and product line. The balance of these types of research is known as the R&D mix and should be appropriate to the strategy being considered and to each product's life cycle.

Impact of Technological Discontinuity on Strategy (technological discontinuity)

is a frequent and strategically important phenomenon.

STRATEGIC OPERATIONS ISSUES

The experience curve suggests that unit production costs decline by some fixed percentage (commonly 20%–30%) each time the total accumulated volume of production in units doubles.

Flexible Manufacturing

for Mass Customization permits the low-volume output of custom-tailored products at relatively low unit costs through economies of scope.

STRATEGIC HUMAN RESOURCE (HRM) ISSUES

Increasing Use of Teams Management is beginning to realize that it must be more flexible in its utilization of employee in order for human resources to be classified as a strength.

UP-TO-DATE JOB DESCRIPTIONS

essential not only for proper employee selection, appraisal, training, and development for wage and salary administration, and for labor negotiations, but also for summarizing the corporate-wide human resources in terms of employee-skill categories.

Union Relations and Temporary/Part-Time Workers

If the corporation is unionized, a good human resource manager should be able to work closely with the union.

Quality of Work Life and Human Diversity Human

resource departments have found that to reduce employee dissatisfaction and unionization efforts (or, conversely, to improve employee satisfaction and existing union relations), they must consider the quality of work life in the design of jobs.

Autonomous (self-managing)

work teams in which a group of people work together without a supervisor to plan, coordinate, and evaluate their own work.

Cross-functional work teams.

Instead of developing products in a series of steps—beginning with a request from sales, which leads to design, then to engineering and on to purchasing, and finally to manufacturing. In a process called concurrent engineering, the once-isolated specialists now work side by side and compare notes constantly in an effort to design cost-effective products with features customers want.

Virtual teams

are groups of geographically and/or organizationally dispersed coworkers that are assembled using a combination of telecommunications and information technologies to accomplish an organizational task.

ENVIRONMENTAL sustainability issue

Human diversity

refers to the mix in the workplace of people from different races, cultures, and backgrounds

STRATEGIC INFORMATION SYSTEMS/TECHNOLOGY ISSUES

The primary task of the manager of information systems/technology is to design and manage the flow of information in an organization in ways that improve productivity and decision Making.

GOOD HUMAN RESOURCE

ENSURE THAT PEOPLE ARE TREATED FAIRLY ON THE JOB AND NOT HARASSED BY PREJUDICED CO-WORKERS OR MANAGERS

ORGANIZATION'S HUMAN RESOURCE

KEY TO ACHIEVING A SUSTAINABLE COMPETITIVE ADVANTAGE MANAGER

COMPETITIVE STRATEGIES

ARE MORE SUCCESSFULLY EXECUTED IN THOSE COMPANIES WITH A HIGH LEVEL OF COMMITMENT TO THEIR EMPLOYEES THAN IN THOSE FIRMS WITH LESS COMMITMENT

Impact on Performance

USED TO AUTOMATE EXISTING BACK-OFFICE PROCESSES, SUCH AS PAYROLL, HUMAN RESOURCE RECORDS, ACCOUNTS PAYABLE AND RECEIVABLE, AND TO ESTABLISH HUGE DATABASES

USED TO AUTOMATE INDIVIDUAL TASKS, SUCH AS KEEPING TRACK OF CLIENTS AND EXPENSES, THROUGH THE USE OF PERSONAL COMPUTERS WITH WORD PROCESSING AND SPREADSHEET SOFTWARE

USED TO ENHANCE KEY BUSINESS FUNCTIONS, SUCH AS MARKETING AND OPERATIONS.

IS USED TO DEVELOP COMPETITIVE ADVANTAGE.

INTRANET

INFORMATION NETWORK WITHIN AN ORGANIZATION THAT ALSO HAS ACCESS TO THE EXTERNAL WORLDWIDE INTERNET

EXTRANET

AN INFORMATION NETWORK WITHIN AN ORGANIZATION THAT IS AVAILABLE TO KEY SUPPLIERS AND CUSTOMERS

SUPPLY CHAIN MANAGEMENT

SUPPLY CHAIN MANAGEMENT

FORMING OF NETWORKS FOR SOURCING RAW MATERIALS, MANUFACTURING PRODUCTS OR CREATING SERVICES, STORING AND DISTRIBUTING THE GOODS, AND DELIVERING THEM TO CUSTOMERS AND CONSUMERS

INTEGRATING MODERN INFORMATION SYSTEM

TO HARMONIZE COMPANY WIDE EFFORTS AND TO ACHIEVE COMPETITIVE ADVANTAGE

RADIO-FREQUENCY IDENTIFICATION (RFID)

CONTAINING PRODUCT INFORMATION IS USED TO TRACK GOODS THROUGH INVENTORY AND DISTRIBUTION CHANNELS