

BHARATHIDASAN UNIVERSITY

MBA LSM (II YEAR)
SUB: STRATEGIC MANAGEMENT
UNIT II

Strategic Management

Unit II

Today we will be discussing about

- Definition of Environment
- Characteristics of Environment
- External and Internal Environment
- Strengths, weakness, opportunity and threat.
- General environment and Relevant environment
- Eight different environmental sectors
- Trends existing in various sectors
- Approaches to environmental scanning
- Sources of information for Information scanning

Strategic Management

- Methods and Techniques used for Environmental Scanning
- Identification of environmental factors for analysis
- Factors affecting Environmental Appraisal
- Organisational analysis
- Developing Strategic Advantage/competitive Advantage.
- Methods and Techniques of organisational Analysis.
- Typical SWOT Matrix
- Strength and weakness of a firm
- opportunities and Threats of a firm
- Environment Threat and Opportunity Profile(ETOP)

Unit -II

Definition of Environment : It is an aggregate of all conditions, events and influences that surround and affect the organization.

Characteristics of Environment :

- Complex
- Dynamic
- Multifaceted
- Far reaching impact.

External and Internal Environment

- The external environment includes all the factors **OUTSIDE** the organization which provide **OPPORTUNITIES** or pose **THREAT** to the organization.
- The Internal Environment include all the factors **WITHIN** the organization which provide **STRENGTHS** or cause **WEAKNESS**
.

Contd..

- OPPORTUNITY: It is the favourable condition on organization's environment which enables organization to consolidate and strengthen its position.
- THREAT: it is an unfavourable condition which creates risk or causes damage to the organisation.
- STRENGTH: It is an inherent capacity which organisation can use to gain strategic advantage. Eg. Superior R & D skills.
- WEAKNESS: It is an inherent Limitation or constraints which creates strategic disadvantage. Eg: Plant situated away from customers.

So developing SWOT analysis helps in matching the STRENGTHS AND WEAKNESS inside the organisation with the OPPORTUNITIES and THREAT .

General environment and Relevant environment

- General environment includes all factors of external environment which includes Int'l economy, National economy, local economy, tech, social changes , demographic variables , political systems etc.

But the immediate concerns of any organisation are confined to just a part of general environment which is of highly strategic relevance to the organisation.

ENVIRONMENTAL SECTORS

- There are 8 different environmental sectors . They are
 - Market Environment
 - Technological environment
 - Supplier environment
 - Economic environment
 - Regulatory environment
 - Political environment
 - Socio cultural environment
 - International sectors

ENVIRONMENTAL SECTORS

Market Environment

- Customers factors
- Product factors
- Competitor related factor

Technological Environment

- All factors related to knowledge applied and materials used in production.
- Eg Rising fuel prices-Fuel economy vehicles-so technology is shifted towards development of vehicles which consumes low fuel.

ENVIRONMENTAL SECTORS

Supplier environment

- Continuous availability and supply of Raw material and cost associated with it.
- Continuous availability and supply of Finance
- Continuous availability and supply of Energy

Economic environment

- Economic system in the country
- Economic planning
- Economic policies
- Economic indices
- Infrastructure

ENVIRONMENTAL SECTORS

Regulatory environment

- Countries own regulations
- International Regulations
- Local policies
- Regulations related to licensing, imports and exports patents trade markets etc.,

Political environment

- The political system existing in the country
- Political processes and philosophy
- Centre state relations

ENVIRONMENTAL SECTORS

- Socio cultural environment : It includes
- Demographic factors
- Social customs, beliefs, attitudes
- Life styles habits
- Family structure and work ethics

International sectors:

Trends in global trade, global financial system, global demographic patterns, global informational systems, regional economic blocks and direction of globalisation

Trends existing in various sectors

Economic sector Trends

- There has been slowdown in economy
- India is emerging as the third largest economy after US and china
- There exist greater economic disparities between Bharat(villages) and India(cities).
- There has been decline in poverty rate.
- Competition has increased tremendously after LPG.
- India is highly hetrogenous so market segmentation is very difficult.
- Debt funded consumption is rising sharply in consumer durable and real estate sectors.
- Organised retail is growing in the form of shopping malls.
- Shortage of power, poor infrastructure and high cost of raw material are affecting economic growth.

Contd...

Politico-legal Trends

- India is a stable political and democratic country.
- Business houses fund political parties .
- Indian economy is mainly planned and controlled one.
- Judiciary has become more active which is resisted by legislations and bureaucracy.
- Political corruption is widespread.

Contd.

Socio-cultural trends

- Family structure and values are changing rapidly in metros.
- Educational levels and literacy rate are rising.
- Mass media has become very powerful.
- Crime against women is increasing.
- Gender disparity is increasing.
- Migration from rural to urban areas is increasing.
- Social instability, unemployment, under-employment, labour over supply threaten economic growth.
- Middle class has merged as a very large and powerful group in India.

Contd....

Technological Trends

- Transfer of foreign technology to India takes place rapidly.
- Several foreign companies has established R&D facilities in India.
- Some Indian companies have acquired R&D facilities abroad.
- Knowledge based industries and service sector are growing rapidly.
- India has emerged as Hub of Information technology industry.

Contd...

Global Trends

- Market and Production are internationalizing
- Well educated Indians are migrating abroad and are increasingly occupying top positions in global firms.
- There is also a 'Reverse brain Drain' as many Indian working abroad are coming back to India.
- Several Indian companies have raised capital abroad and are listed on stock exchanges in US and Europe.
- Indian companies are increasingly acquiring firms in US, Europe ,Middle east etc.

ENVIRONMENTAL SCANNING

It is the process by which organizations monitor their relevant environment to identify opportunities and threat affecting their business.

Factors to be considered for environmental scanning :

The factors are EVENTS, TRENDS, ISSUES AND EXPECTATIONS

Events: These are important and specific occurrences taking place in different sectors.

Trends: These are general tendencies or courses of action along with events takes place.

Issues: These are current concerns that arise in response to events and trends.

Expectations: These are demand made by interest groups in light of these trends.

Approaches to environmental scanning

- Systematic approach: In this approach, information for environmental scanning is collected systematically. Information like organization's business, Govt. policy, market and customers , changes in legislation and regulations.
- Ad-hoc approach: In this approach, organisation conduct special survey and studies to deal with specific environmental issues.
- Processed form approach: In this approach, organisation uses information in a processed form available from different sources both inside and outside the organisation.

Sources of information for Information scanning

- Secondary sources: it includes publications like news papers, magazine, news letters ,trade and industry associations news letter.
- Mass media: Radios, Televisions and Internet
- External Sources: Customers, suppliers, govt.agencies, trade associations.
- Internal Sources: company files and documents, Mgmt information systems, databases and company employees.
- Formal studies: these are conducted by employees , market research agencies.
- Spying and surveillance: ex-employees of competitors.

Methods and Techniques used for Env'n. Scanning

- Simple variable extrapolation
- Theoretical –limit analysis
- Dynamic modes
- Mapping
- Multi variable interaction analysis
- Unstructured expert opinion
- Unstructured un-expert opinion
- Structured expert opinion
- Structured Un-expert opinion
- Speculations

ORGANISATIONAL ANALYSIS

Organisational analysis is done to identify organization's strengths and weakness.

Organisational analysis/Internal Environmental Analysis: It refers to all factors within the organisation that influences its capability to achieve its strategic intent.

It is done to determine the capabilities of the organisation.

Process of Organisational analysis

- Identify the key factors: The key factors include organational structure, mgmt. patterns ,personnel, finance ,marketing and manufacturing.
- Assessing the importance of factors: All factors identified are not important. Those factors which contribute towards achievement of results are important.
- Evaluating strengths and weakness of key factors: If a factor is making positive contribution towards achievement of objectives then it is strength of a key factor. But if a factor is making negative contribution towards achievement of objectives then it is weakness .

Process of Organisational analysis

- Preparing Organisational capability profile: Based on the strengths and weakness identified, Organisational capability profile is prepared. This profile can be qualitative/quantitative.
- Relating Organisational capability profile to strategy: Those factors which are strengths are related to the strategy. if weakness is there, the they can be converted into positive.

Developing Strategic Advantage/Competitive Adv.

- It is developed through its organizations' resources , Organisational strengths , weakness , synergic effects , competencies and capabilities.

Organisational resources: Orgn's resources are Tangible and Intangible one. Those organisation which possess superior resource can produce more effectively leading to strategic advantage. An organisation which possess resources of high quality, low cost and adequacy of resources has a strategic advantage.

Organisational Behaviour: OB refers to Manifestations of various forces and influences operating within organisation. Some forces and influences like organisation's climate and culture , Organisational politics and use of power shapes organisation's Behaviour.

cont....

- Strengths and weakness: Strengths are inherent capability which organisation can use to gain strategic advantage over competitors.

Weakness is an inherent limitation which creates strategic disadvantage for organisation. Eg: low cost of capital- strength, Inexperienced mgmt. – weakness.

- Synergistic effect: When marketing dept. and Prod. dept support each other , then there is operating synergy existing in these departments.

Competencies: These are unique qualities that enables the organisation to withstand competitive pressures in market place. There are two types :

- ❖ Core competencies: It is an enduring strength that makes significant contribution to end product for customers, provides potential access to wide variety of markets and it is difficult to imitate. Eg: Honda Motors- Auto engines, Sony- Miniatures

Cont....

- ❖ Distinctive competence: It is an unique capability that organisation possess exclusively over competitors. Eg: Low cost Production , Ability to mobilize huge resources.
- Organisational capability: It is an inherent capacity or potential to use its strengths to overcome weakness and thereby face threats in external environment.

Thus strategic advantage cannot be achieved merely by having some capability. It is important that how the capability is used. Eg: Raymond's- strong in textiles- Entered into cement business- loss-exited .

Methods and Tech. of organisational Analysis

• Internal Analysis

- VRIO Analysis
- Value analysis method
- Quantitative analysis
 - Financial Analysis
 - Non Financial analysis

Comprehensive analysis

Key factor analysis
Balanced Score card

Comparative analysis

- Historical analysis
- Industry Norms
- Benchmarking

SWOT analysis

Internal analysis (Analysis of Strength and weakness)

The techniques used are

- VRIO analysis

Valuable , Rare ,Inimitable , Organised for usage.

Valuable: These are capabilities that enable the organisation to generate revenues by capitalizing on opportunities or to reduce costs by neutralizing threats. Eg: ability to provide high quality after sales service.

Rare: These capabilities that one or few firms in the industry exclusively possess.

Eg. Highly motivated workforce, capabilities of Honda motors to build high quality cars at relatively low costs.

Contd.

- Inimitable: These are capabilities which competitors cannot duplicate, if they do so only it is at high costs. Eg. Excellent corporate image.
- Organised for usage: These capabilities which an organisation can use through its appropriate structure, business processes , control and reward system. Eg: Ability of competent R&D personnel and research lab to bring innovative products.
- Value Chain Analysis: Value chain analysis is used to measure how each activity in the chain creates value.
- Primary activities: Activities which are directly related to creation of product/service.

Cont.....

These include

- a) Inbound logistics: Includes receiving, storing and transporting inputs of production process.
- b) Operations: All activities involved into transformation of production process.
- c) Out Bound Logistics: All activities used for receiving ,storing and transporting finished products.
- d) Marketing and sales: All activities used to market and sell products to customers.
- e) Service: All activities used for enhancing and maintaining a product's value.

Contd...

- Support activities: All activities which provide support to primary activities.
 1. Firm infrastructure: Includes accounting, finance ,legal.
 2. Human Resource Mgmt: Includes recruitment ,selection and training.
 3. Technology dev: Includes R&D , product design , equipment design.
 4. Procurement: Obtaining raw materials .parts ,supplies, machinery , equipment.

Contd...

- Quantitative analysis

It is divided into two: Financial analysis and Non financial analysis.

- Financial analysis:

1. Ratio analysis: Liquidity , Profitability ,and Leverage ratios are used.
2. Economic value added(EVA) analysis: This measures profitability in terms of returns on capital above the cost of servicing the capital employed.
3. Activity based costing (ABC) analysis: It helps to measure the cost of each activity in the value chain.

- Non financial analysis: Employee absenteeism and turnover, advertising recall rate, Production cycle time, service call rate .

- Qualitative Analysis: It includes corporate image, corporate culture and employee morale.

Contd...

- Comparative analysis:

- a) Historical analysis: organization's strengths and weakness are compared over different time period. It shows whether strengths are improving/declining.
- b) Industry Norms: Each industry has certain norms and standards for key parameters of performance. The performance levels of the firm can be compared with the norms of the industry.

Eg. Costs levels of Hyundai may be compared against costs standards in car industry.

contd...

Benchmarking: It is the reference point for measurement and comparison. It is process of identifying, understanding and adapting outstanding practices from within the same industry to help improve performance.

- a) Performance Benchmarking: Comparing one's performance with industry's best organization's performance.
- b) Process Benchmarking : Comparing one's best methods and practices with industry's best organization.
- c) Strategic Benchmarking: Comparing one's strengths with industry's best organization.

Contd.

Key factor analysis:

Under key factor analysis, all the key factor are discussed ,analyzed to judge their positive and negative impact in the functioning of organisation.

Balanced score card: It is a comprehensive method to analyze the organisation's strength and weakness. The four key performance measures used in Score card are

1. Financial perspective: How do shareholders look at us?
2. Customer perspective: How do customers look at us?
3. Internal business process Prospective: What must we excel at?
4. Learning and innovative perspective: Can we continue to improve and create value?

Contd..

Business Intelligence systems: Data from various internal and external sources are used to evaluate strategic directions and operational performance. Here data mining , data warehouses and analytical reports are used.

SWOT Analysis/TOWS analysis

Strengths and weakness can be identified through organisational appraisal or by analysis of internal environment . Environmental analysis helps to identify opportunities and threats facing the organisation.

The SWOT analysis is also expresses in different terms like SCOT(Strengths, Constraints, Opportunity and Threat) or WOTS (Weakness, Opportunities, Threat and Strengths)

Factors affecting Environmental Appraisal

Factors related to strategist: The characteristics related to strategist like age, education , experience motivation level ,ability to withstand pressures etc., play a vital role in formulation of strategy.

Factors related to organisation: The factors like size of business organisation, its age and complexity ,nature of markets and products/services .

Factors related to the environment: The nature of environment depends upon its complexity , volatility , turbulence ,hostility and diversity affects the environmental appraisal.

Identification of environmental factors for analysis

After environmental analysis, a mass of information related to the different sectors of the environment and some may be relevant to the organisation and some may not be.

Some factors may affect the organisation very seriously and some lightly. so from organisation's point of view, not all factors are relevant. so the strategist will take into consideration only those factors which are relevant and which will impact the business.

Identification of environmental factors for analysis

So the strategist may have to identify the important factors which will have an extent of impact .for this he has to construct a matrix by taking two variables :

a)impact on business ;

b)Probablity of impact .

Based on these matrix he will be able to find the high priority environmental factors.

The matrix is as follows:

Identification of environmental factors for analysis

Matrix : Identifying High Priority Environmental factors (Issues)

<i>Probability of Impact</i>	<i>Degree of Impact on business</i>		
	<i>High</i>	<i>Medium</i>	<i>Low</i>
High	Critical	High Priority	Low Priority
Medium	High Priority	High Priority	Low Priority
Low	To be watched	Low Priority	Low Priority

According to the above matrix, those factors which fall in the category of 'critical' and 'High priority' must be analysed. Those factors under the category of 'High Impact' but the 'probability of impact is low' may be kept under watch.

Environmental scanning leads to identification of many 'Issues'/ 'factors' that affect the organisation. By this the environmental issues/ factors could be distributed among the nine cells of the matrix.

Those issues which are most likely to have high level of impact in an organisation are critical issues and these need to have immediate attention by the organisation.

High priority issues those which have a medium to low probability of occurrence need to be watched.

Those issues which are considered as low priority which require continuous monitoring may change later.

Typical SWOT Matrix

<p><i>STRENGTHS</i></p> <ul style="list-style-type: none">✓ Good corporate Image✓ Favourable location✓ Wide distribution network✓ ISO quality certification✓ Ample reserves and surplus	<p><i>WEAKNESSES</i></p> <ul style="list-style-type: none">✓ Inexperienced management✓ High cost of production✓ High prices✓ Poor relations with banks and financial institutions
<p><i>OPPORTUNITIES</i></p> <ul style="list-style-type: none">✓ Liberal government policies✓ Existence of niche target market✓ Reliable foreign partners✓ Increasing education level	<p><i>THREATS</i></p> <ul style="list-style-type: none">✓ Intense competition✓ Political instability✓ Stagnant demand✓ Rising customer expectations.

Strength and weakness of a firm

Probable Strengths & Weaknesses of a Firm	
<i>Strengths</i>	<i>Weaknesses</i>
Production	
Economies of Scale Efficient input sourcing Efficient inventory management State of the art technology Strong R&D support	High Cost due to small scale Inefficient input sourcing Poor inventory management obsolete technology No R&D Support
Marketing	
Strong brand image Strong Distribution network Motivated Sales Force High quality product	Poor brand image Weak Distribution Poor sales force Poor product quality
Finance	
Comfortable Debt-Equity ratio Large internal accruals High dividends and market capitalisation High credit rating	Lopsided Capital Structure Very high interest payments Poor reserves Low credit rating
Management	
Cooperative and efficient Board of Directors Efficient and motivated Managers Managers work as a team	Inefficient Board of Directors with unhealthy conflicts Inefficient Managers and conflict with members of the Board Groupism serving the interest of Board members
Human Resource	
Qualified and experienced People Motivated human resource Good industrial relations Good human resource management	People with little experience and poor qualification Poor Morale Poor Industrial relations Poor human resource management

Probable opportunities and Threats of a firm

Probable Opportunities and Threats of a Firm	
<i>Opportunities</i>	<i>Threats</i>
Economic	
Boom Steady and fast increase in income	Recession Economic instability
Social / Demographic	
Favourable change in consumer attitude Increase in Population Growth of consumerism Growth of environmentalism	Unfavourable change in consumer attitude Stagnation / declining population Growth of consumerism Growth of environmentalism
Political / Regulatory	
Delicensing Dereservations Import liberalisation MRTP Act relaxation Liberalisation of foreign investment & Technology Capital Market reforms Price decontrol	Delicensing Dereservations Import liberalisation MRTP Act relaxation Liberalisation of foreign investment & Technology Political instability Price control

Environment Threat and Opportunity Profile(ETOP)

This is the technique to structure the environmental appraisal.

ETOP is a summarised depiction of the environmental factors and their likely impact on the organisation.

In this process, identification of different components of relevant environment is done. Here each major components is divided into sub components as done in environmental analysis.

So in case of economic environment it may be divided into sub factors like rate of economic growth, rate of inflation, monetary policy, fiscal policy. At this stage importance of environmental factors is assessed.

The degree of importance can be in qualitative terms like High, Medium or low or it can be quantified like 3,2,1.

Environment Threat and Opportunity Profile(ETOP)

An environment factor which is relevant may pose threat or provide opportunities depending upon the nature of environment factors and their behaviour. Positive impact of a factor means that it is an opportunity and negative impact is threat.

Combining the IMPORTANCE and IMPACT of factors give a clear impact of the industry sector.

Below is an EXAMPLE of ETOP prepared for a bicycle manufacturing company which is for domestic and export market.

Environment Threat and Opportunity Profile(ETOP)

Environmental Threat and Opportunity Profile (ETOP) for a bicycle company		
<i>Environmental Sector</i>	<i>Nature of impact</i>	<i>Impact of each sector</i>
Market	+	Industry growth rate is 8 per cent per year and sports cycle growth rate is 30 per cent. Very good demand.
Technological	+	Technological upgradation of industry in progress. Import of machinery for that is very simple.
Economic	+	Growing affluence among urban consumers. Exports potential promising.
Supplier	+	Parts and components are supplied by ancillaries and associated companies. Imported raw material is easily available.
Regulatory	+	Bicycle industry a thrust area for exports.
Socio-cultural	+	Customers' preference indicate larger preference for sports cycles which are easy to ride and also durable.
Political	=	No significant factor
International	-	Emerging threat from cheap imports from China.

(+ indicates favourable impact; - indicates unfavourable impact; and = indicates neutral impact)

THANKYOU