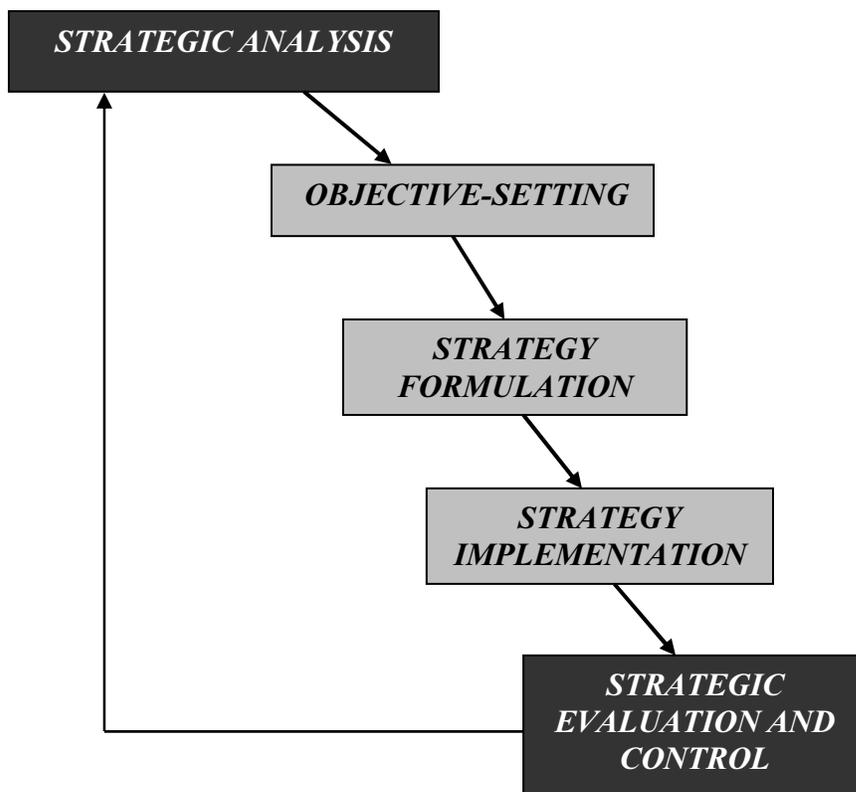


STRATEGIC ANALYSIS OF ORGANIZATIONS

2

From the definition of strategic management that we have put forward in chapter one, we see that there are five components of strategic management process. These components are presented in the following Figure for ready comprehension of the readers. Obviously, the first component or step involved with the strategic management process is strategic analysis of an organization. This part of the book deals with this issue.



School of Business

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Lesson-1: Environmental Analysis: An Overview

Learning Objectives:

After studying this lesson, you should be able to:

- Find out the components of business environment.
- Define macroenvironment.
- Define and identify the elements of general environment.
- Explain the various elements of general environment.
- Analyze the impact of general environmental factors on the operations of business firms.
- Understand the issues related to microenvironment or internal environment.
- Discuss the importance of understanding environmental influence on business
- Discuss how organizations can respond to environment.

Introduction

Every organization, whether business or non-business, has its own environment. Environment of an organization consists of its surroundings—anything that affects its operations, favorably or unfavorably. Environment embraces such abstract thing as organization's image and such remote visible issues as economic conditions of the country and political situation. The environmental forces—abstracts and visibles—need a careful analysis. Systematic and adequate analysis produces information necessary for making judgments about what strategy to pursue. Managers cannot make appropriate and sound strategy simply on the basis of their guesses and instincts. They must use relevant information that directly flows from the analysis of their company's environment.

Environment embraces such abstract thing as organization's image and such remote visible issues as economic conditions of the country and political situation.

The strategic managers need to understand the complexities and challenges of both the remote environmental factors and the immediate operating environmental factors. The remote environmental factors are external and largely uncontrollable; on the other hand, the operating environmental factors are those in the immediate competitive situations of a company, often called task or competitive environment. The strategic managers must consider conditions both in the remote environment and the operating environment. This way, they can become more proactive in strategic planning and more dynamic in grabbing opportunities.

The strategic managers must consider conditions both in the remote environment and the operating environment.

Components of an Organization's Environment

An organization's environment consists of-

- Macroenvironment (or external environment) and
- Microenvironment (or internal environment).

Both the types of environment affect an organization's operations. Therefore, it is essential for the managers to make in-depth analysis of

the elements of the environments so that they can develop in themselves an understanding of the internal and external situations. Based on their understanding they will be better able to set appropriate objectives for their organizations and formulate strategies to achieve those objectives.

MACROENVIRONMENT
(External Environment of an Organization)
What is Macroenvironment?

Microenvironment consists of an organization's external factors that affect its businesses indirectly.

Microenvironment consists of an organization's external factors that affect its businesses indirectly. The organization has no or little control over these factors. The Macroenvironmental factors reside outside the organization, which can lead to opportunities or threats. For convenience of analysis, we can divide macroenvironmental factors into two groups: (a) general environment, and (b) industry environment.

The total external environment impact is shown in Figure 2.1. This total impact is created out of the intersection of *remote* external environment (general environment) and *immediate* industry environment.

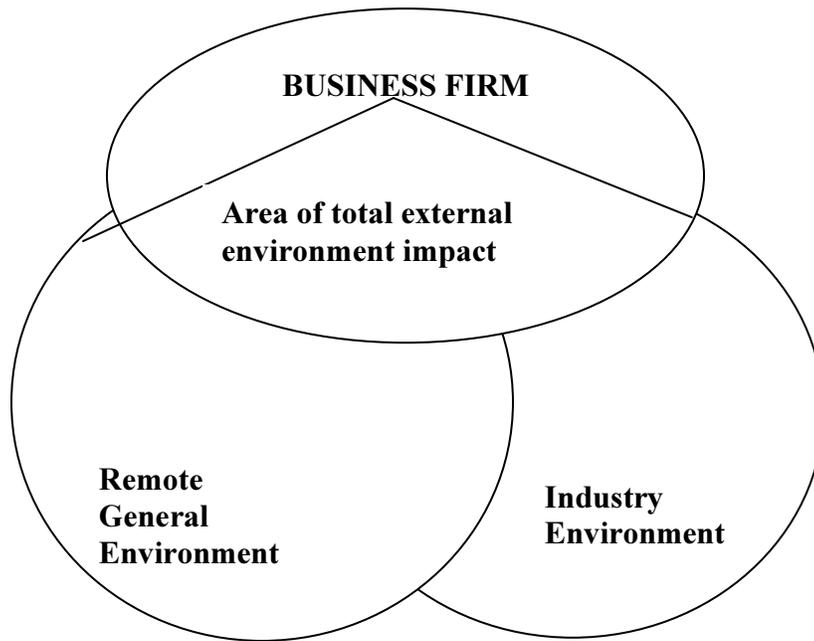


Figure 2.1: Interaction between the general and industry environments

The general environment of a business organization consists of economic factor, technological factor, Economic factors, Technological factors, Sociocultural factors, Demographic factors, Legal factors, Political factors.

In this lesson, we will discuss the elements of the general environment. The issue of industry environment will be addressed in the next lesson.

General Environment

The general environment (often called remote external environment) includes the distant factors in the external environment that are general or common in nature. The general environmental factors such as demographic factors are common in the sense that they affect all organizations in all types of industries, not only a particular organization in a particular industry. The general environment of a business organization consists of the following factors:

- Economic factors
- Technological factors
- Sociocultural factors
- Demographic factors
- Legal factors
- Political factors.

Details of the general environmental factors are discussed below:

- 1. Economic factors:** Economic environment comprises a distinct variable with which management must be concerned. The economy of a country can be in a situation of boom or recession or depression or recovery or it may be in a state of fluctuation. Managers/strategy-makers must have the ability to predict the state of the economy. The performance of business organizations is affected by the health of a nation's economy. This warrants the necessity of studying the economic environment to identify changes, trends and their strategic implications. Business organizations operate their businesses in markets consisting of people. These people are likely to become customers when they have purchasing power. And purchasing power depends on income, prices, savings, debt and availability of credit. Therefore, business organizations must pay attention to the income and consumption patterns of the customers.
- 2. Technological factors:** Technology has major impacts on product development, manufacturing efficiencies, and potential competition. The business organizations that face problems with changing or unstable technology are always in difficulties in terms of predictability than those organizations that have stable technologies. The effects of technological changes occur primarily through new products, processes and materials. An entire industry may be transformed or revitalized due to use of new technology. Strategic managers need to monitor developments in technology for their particular industry when formulating strategy. Quick and thorough study of technological changes helps managers achieve higher market share because of early adoption of new technology. A firm must be aware of technological changes to avoid obsolescence and promote innovation. It means that strategy managers of an organization must be adept in *technological forecasting*. Technological forecasting can protect and improve the profitability of firms in growing industries.
- 3. Sociocultural Factors:** Sociocultural forces dictate a particular set of values and attitudes with resultant lifestyles. They dictate product demand characteristics. A society's values and attitudes form the cornerstone of a society. They often drive the other conditions and changes. Sociocultural factors differ across countries. In many countries, worker diversity is now a common phenomenon. We find in some countries the increasing life span of population, trend toward fewer children, movement of population from rural areas to urban areas, increasing rate of female education, entry of more and more women into the mainstream workforce, etc. All these have a primary

The performance of business organizations is affected by the health of a nation's economy.

The effects of technological changes occur primarily through new products, processes and materials.

Strategic managers need to monitor developments in technology for their particular industry when formulating strategy.

Socio-cultural forces dictate a particular set of values and attitudes with resultant lifestyles from the cornerstone of a society.

effect on a country's social character and health. Therefore, it is very important for managers of business organizations to study and predict the impact of social and cultural changes on the future of business operations in terms of meeting consumer needs and interests. Business firms must offer products in the society that correspond to its values and attitudes.

Geographic environment is related population's size, age structure, geographic distribution, ethnic mix and income distribution.

4. Demographic factors: The demographic environment is concerned with a country's population. Specifically, it is related population's size, age structure, geographic distribution, ethnic mix and income distribution. The world's population reached six billion in October 1999. Demographic changes are evident all over the world. In some countries there is negative population growth and in some countries couples are averaging fewer than two children. In general, average age is increasing. In many countries, rural-urban migration is rampant. These trends suggest numerous opportunities for firms to develop products and services to meet the needs diversified groups of people in the society. Strategy-makers must make an analysis of the demographic issues, especially, size and growth rate of population, age distribution, ethnic mix, educational level, household patterns, and inter-regional movements.

The political-legal environment consists of laws, government agencies and pressure groups.

5. Political-Legal factors: The political-legal environment consists of laws, government agencies and pressure groups. There are many laws that regulate the business operations of enterprises such as the Factories Act, Industrial Relations Ordinance, the Contract Act, and the Company law, just to name a few. Government agencies include different ministries, the office of the Controller of Imports and Exports, Board of Investment, National Board of Revenue, etc. pressure groups include Consumers Association of Bangladesh, Chambers of Commerce and Industry, and the like. Business laws primarily protect companies from unfair competition, and also protect the consumers from unfair business practices. Business laws also protect the society at large. The business managers must have thorough knowledge about the major laws that protect the business enterprises, consumers and the society. Since the pressure groups put restraints on the business managers, managers should have clear ideas about the actions of these groups.

The most pertinent issues in the natural environment include the availability of raw materials and other inputs, changes in the cost of energy, levels of environmental pollution, and the changing role of government in environmental protection.

6. Natural Environment: Strategy-makers need to analyze the trends in the natural environment of the country or of the region where it is operating its business. The most pertinent issues in the natural environment that strategy-makers should consider include the availability of raw materials and other inputs, changes in the cost of energy, levels of environmental pollution, and the changing role of government in environmental protection.

Review Questions

1. What is environment?
2. What are the components of an organization's environment? Why should managers make an indepth analysis of the components of their organization's environment?
3. Explain the nature of macroenvironment.
4. Diagrammatically show and explain the total external environmental impact.
5. What are the factors that are external to an organization?
6. Briefly discuss the major contents and issues of each of the external (general) environmental factors.

Application Discussion Questions

1. Visit a business organization close to your work place or observe your own organization if it is a business organization. Study the general environment of the unit and make a list of the elements of the environment.
2. Make a list of some sociocultural factors of our society and then explain how these factors affect our country's social character and health.

Lesson-2: The Industry Environment

Learning Objectives:

After studying this lesson, you should be able to:

- Clarify the meaning of industry environment.
- Explain the characteristics of industry environment.
- Identify the factors that constitute industry environment.
- Discuss why understanding of industry environment is crucial for managers.

Meaning of Industry Environment

The industry environment is the immediate external environment, a company competes on its performance.

The industry environment is the ‘immediate’ external environment of a company that substantially affects its operations such as suppliers or customers. In the industry environment, a company competes on its performance. Every company operates its business in an industry and therefore company’s activities are directly affected by any change in the industry environment.

Changes in the general environment can have direct impact on any of the factors in the industry environment. An organization has greater control over the industry-related environmental factors than the general environmental factors.

Elements of Industry Environment

As a manager or entrepreneur, you should be able to identify the various elements of industry environment so that you can take appropriate steps to respond to them effectively in order to survive in the industry. In this lesson, we make an attempt to identify the elements or factors that are integral part of industry environment in general.

Customers competitors (both existing and potential), substitute products.

The factors that constitute industry environment in general are suppliers, customers, competitors (both existing and potential), substitute products, and industry-related economic forces, technological factors and the like. Figure 2.2 below shows the elements of industry environment.

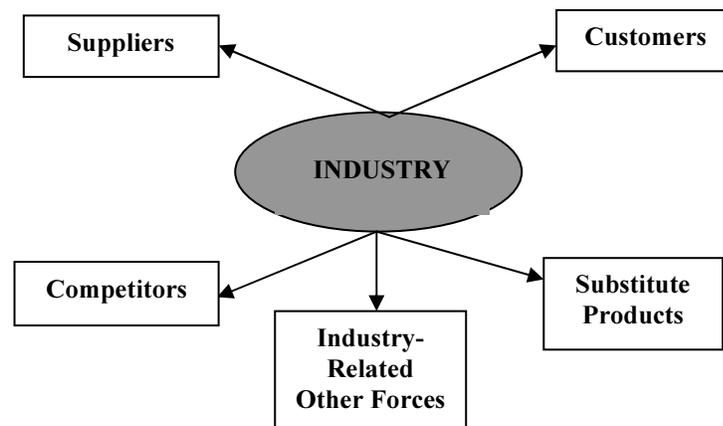


Figure 2.2: Elements of Industry Environment

We now turn our attention to the details of the elements of the industry environment:

1. **Suppliers:** Suppliers are sources of resources such as raw materials, components, financial support, services, equipment, and other supplies. In order to ensure long-term survival and growth of a company, it is essential to develop a dependable relationship between a business-firm and its suppliers. In relation to its competitive position with suppliers, a company should address the following questions.¹
 - a) Are suppliers' prices competitive? Do suppliers offer attractive quantity discounts? How costly are their shipping charges?
 - b) Are vendors (suppliers) competitive in terms of production standards? In terms of deficiency rates?
 - c) Are suppliers' abilities, reputation, and services competitive?
 - d) Are suppliers reciprocally dependent on the firm?
2. **Customers:** Strategy managers must understand the composition of the company's customers. With this end in view, they need to develop an exhaustive customer profile of both the present and potential customers. Managers will be in a better position to pragmatically plan the firm's strategic operations, anticipate changes in the size of the markets and anticipate demand patterns. While constructing a customer profile, managers need to use information regarding geographic location of customers, demographic characteristics of buyers, psychographic issues and buyer behavior.
3. **Competitors (existing and potential):** A company needs to analyze the competitors, that is, competitive position in the industry in order to improve its chance of designing winning strategies. Many companies develop a 'competitor profile' to more accurately forecast its short-and-long-term growth and profit potentials. A competitor profile may include such variables as market share, product line, effectiveness of sales, distribution, price competitiveness, advertising and promotion effectiveness, location and age of facility, production capacity, raw material costs, financial position, etc.
4. **Substitute Products:** In an industry there may exist many substitute products which compete with each other for the same group of customers. This warrants a clear understanding and knowledge of the nature and number of substitute products in the industry. The strategy managers need to develop a 'substitute products profile' to understand the nature of competition that stems from these products. The profile may include such information as names and brands of substitute products, nature of the market in which these products have been introduced such as mass market or niche market, financial and marketing strengths of the producers of the substitute products, prices ranges, distribution channels used, advertising and other promotional programs undertaken for each of the products, quality and demand, acceptability among the customers and so on.

The factors that constitute external environment in general are suppliers, customers, competitors, substitute products etc.

Review Questions

1. Explain the concept of industry environment.
2. Discuss the major elements of industry environment.
3. What are the questions or issues in relation to its competitive position that a company has to address?
4. What is the use of analyzing competitors in the industry? What variable are usually included in a competitor profile?
5. Why should the strategy managers understand the nature of substitute products available in the industry in which their company is operating businesses?

Discussion Application Questions

1. Consider yourself a manager in a pharmaceutical company located at Barisal. Identify the major industry-related environmental forces and explain how these forces are affecting the operations of your company's business.
2. Prepare a suppliers profile of your company.

Lesson-3: Microenvironment of Business Organizations (Internal Environment of an Organization)

Learning Objectives:

After studying this lesson, you should be able to:

- Define microenvironment in relation to a business organization.
- Explain the concept of ‘internal environment.’
- Understand the nature of microenvironment.
- Identify and explain the various elements of microenvironment.
- Understand the elements that are internal of an organization.

Microenvironment: Meaning and Nature

The conditions and forces that exist within an organization constitute its microenvironment. Microenvironment is an organization’s ‘in-house’ situations. It has full control over these situations. Unlike the external environment, internal environment is much more directly controllable. It includes such factors as owners/shareholders, board of directors, employees and trade union, and corporate culture.

Microenvironment is an organization's 'in-house' situations.

Elements of Microenvironment of Business Organizations

The following elements are internal of an organization Figure 2.3 below shows the internal environment of an organization.

- a. Resources of the organization such as physical resources, human resources, financial resources, informational resources and technological resources;
- b. Owners/stockholders;
- c. Board of Directors;
- d. Organization’s culture; and
- e. Organization’s image/goodwill.

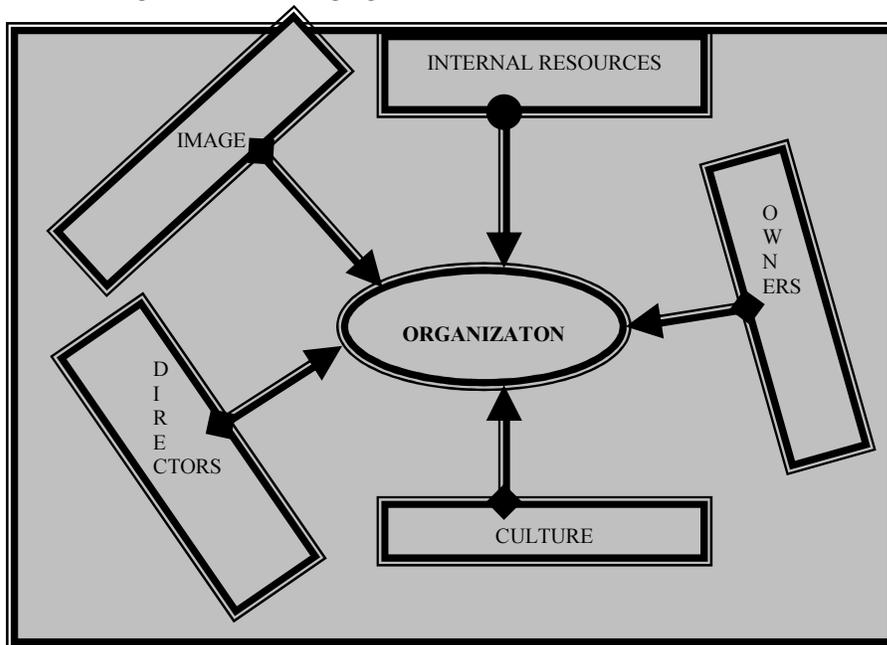


Figure 2.3: Internal Environment of an Organization

Out of all these factors, some are more important than others. So, managers need to clearly understand which factors are critically significant and influence the organization's activities substantially. They also need to predict how the importance of different factors may increase in the future.

We provide below an explanation of the various internal environmental factors.

1. Resources of the organization:

An organization's resources can be discussed under five broad heads: physical resources, human resources, financial resources, informational resources and technological resources.

An organization's resources can be discussed under five broad heads: physical resources, human resources, financial resources, informational resources and technological resources. Physical resources include land and building, warehouses, all kinds of materials, equipments and machinery. Examples are office buildings, computers, furniture, fans and airconditioners. Human resources include all employees of the organization from the top level to the lowest level of the organization including the organized labor union members. Examples are teachers in a university, marketing executives in a manufacturing company, accountants, and manual workers in a factory. Financial resources include capital used for financing the operations of the organization including working capital. Examples are investment by owners, profits, reserve funds, and revenues received out of sale. Informational resources encompass 'usable data needed to make effective decisions. Examples are sales forecasts, price lists from suppliers, market-related data, employee profile and production reports.

2. Owners/stockholders:

In public enterprises the government of the country is the owner.

Owners of an organization may be an individual in the case of a sole proprietorship business, partners in a partnership firm, shareholders or stockholders in a limited company or members in a cooperative society involved in business. In public enterprises the government of the country is the owner. Whoever the owners, they are an integral part of the organization's internal environment. Owners play an important role in influencing the affairs of the business. This is the reason why managers should take more care of the owners of their organizations.

3. Board of Directors:

Board of Directors are responsible for top-level strategy making and providing directions to the company.

In our country every registered company (private or public limited company) must have a board of directors as per the Companies Act, 1994. What would be the number of directors in the board is stipulated in the company's Memorandum of Association. They are responsible for top-level strategy making and providing directions to the company. They are strategic decision-makers and planners. They oversee and monitor the overall functioning of the company. Some organizations have no board of directors, rather they have 'board of trustees' (such as in a university or charitable organization or a hospital) or 'Managing Committee' (such as in an NGO or non-government school) or a Governing Body (such as in a college).

4. Organization's culture:

An organization's culture is viewed as the foundation of its internal environment. Organizational or corporate culture significantly influences employee behavior. Culture is important to every employee including managers who work in the organization. Strong culture helps a firm achieve its goals better than a firm having a weak culture. Culture in an organization develops and 'blossoms' over many years, starting from the practices of the founder(s). Since culture is an important internal environmental concern for an organization, managers need to understand its influence on organizational activities.

Organizational or corporate culture significantly influences employee behavior.

5. Organization's image/goodwill:

Reputation of an organization is a very valuable intangible asset. High reputation or goodwill develops a favorable image of the organization in the minds of the public (so to say, in the minds of the customers). 'No-reputation' cannot not create any positive image. Negative image destroys the organization's efforts to attract customers in a competitive world.

Review Questions

1. What do you mean by microenvironment?
2. Does a company have full control over the microenvironmental forces?
3. Discuss the factors that can be included in the microenvironment of an organization?
4. Why is a company's culture viewed as a foundation of its internal environment?
5. Why is a company's reputation a very valuable intangible asset?

Discussion Application Questions

1. Analyze the internal affairs of a business organization and identify the microenvironmental factors in that organization.

Lesson-4: Environmental Influences and Responding to Environment

Learning Objectives:

After studying this lesson, you should be able to:

- Discuss the importance of understanding environmental influences on a business organization.
- Suggest ways for responding to environmental influences.

Introduction

Environmental factors influence the businesses in many ways. The influences may be positive or negative. There are some forces in the environment that may retard the growth of a business organization. Similarly, there are some forces that may give a sudden boost to the growth of an organization. It is, therefore, essential for the strategy managers to understand the importance of environmental influences on the operations of their businesses. Based on such understanding they can devise ways to respond to the environmental forces.

Importance of Understanding Environmental influences on Business Organizations

Managers are benefited in several ways when they have a deep understanding and appreciation of the impact of environmental factors on business:

1. Knowledge of environment helps managers identify the direction to which they should proceed. They will travel along with a distinct way of changing direction, whenever necessary. Without an understanding of environment, managers are like a bicycle without a handlebar – no way of maneuvering while riding on a street.
2. Managers can isolate those factors, especially in the external environment, which are of specific interest to the organization.
3. Managers can take preparation to deal with predicted crisis in any of the factors in the environment. They can develop crisis plans for overcoming crises that affect organization.
4. The key to achieving organizational effectiveness is understanding the environment in which the organization operates its businesses. No knowledge or inadequate knowledge is very likely to lead managers to ineffectiveness because of ‘running on the wrong road for reaching the goals.

How Organizations Can Respond to Environment

A business organization can employ several ways to respond to its environment. We discuss here some common measures:

1. Lobbying: Companies can hire strong lobbyists to bargain with regulators to change any law or refrain them from enacting new law that may adversely affect business activities. Bangladesh Federation of The Chambers and Commerce (FBCCI) is a very influential lobbyist. FBCCI

representatives often undertake efforts to influence government agencies/ministries /committees.

2. Influencing customers: Organizations can influence their customers in different ways. Managers may devise new uses of a product. Managers may create new set of a product. They may create new set of customers for products or they may direct their efforts toward taking customers away from competitors. Managers can also that they need by convincing them that they need something new.

3. Influencing suppliers: One of the ways to directly influence environment is to establish a long-lasting relationship with suppliers. Organizations can do it by signing long-term contracts with fixed prices. This sort of action would help the organization protect against inflation. Organizations can also protect itself from supply-related crisis by establishing backward linkage, that is, producing their own materials. For example, a mineral water firm may start producing bottles by itself or a soft-drink/fruit-processing firm might become its own supplier of cans.

4. Boundary spanning: A firm may engage itself in boundary spanning for learning about what other organizations are doing. A person is called a boundary spanner who collects information from outside the organization while he/she is working in the field. Salespeople, purchasing agents, relationship managers are most suitable as boundary spanners.

5. Environmental scanning: Organizations can influence external environment based on information collected through regular observation and analysis. This is known as environmental scanning. When followed, environmental scanning can actively monitor the environment. Using both boundary spanner and environmental scanning organizations can gather and organize relevant information for assisting managers in making decisions.

6. Strategic response: A firm may alter its strategy to deal with the environmental changes. The strategy-alteration may take any of the following forms:

- Slight change in the strategy;
- Adopting an entirely new strategy; or
- Maintain status quo, which one would better meet the demands of its competitive environment depends on situations that prevail.

7. Organizational combinations: In order to enter into new markets or uphold prominence in the current market or for some other strategic reasons, a firm may resort to merger, acquisition, takeover or alliance. Two or more firms may combine together (merge) to create a new firm. A firm may buy another firm to acquire its assets. In the case of acquisition (or takeover), the acquired firm may continue to operate as a subsidiary of the acquiring firm, or the acquired (taken-over) firm may cease to exist and become part of the acquiring company. When two or more firms undertake a new venture, it becomes a strategic alliance.

Review Questions

1. Distinguish between macroenvironment and microenvironment of business.
2. Discuss the importance of Managers' understanding environmental influences on business organizations.
3. What are your suggestions for responding to environmental influences?
4. How do organizations respond to the influences of external environment?

Application Discussion Questions

1. Suppose you are responsible in your company for dealing with the environmental influences. Make a list of the approaches that you would adopt for dealing with the external influences on your business enterprise.

NOTES

1. John A. Pearce and Richard B. Robinson, *Strategic Management* (Homewood, Illinois: Richard D. Irwin, 1985), p. 112.