SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

BASIC CONCEPTS OF STRATEGIC MANAGEMENT

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BASIC INFORMATION

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Requirements on students:

- Seminar paper
- Final written exam

OUTLINE OF THE LECTURE

1. Strategic Management
2. Strategic Decision Making Process
3. Strategic Management Process

STRATEGIC MANAGEMENT

- *Strategic management emphasizes long-term performance*. Many companies can manager short-term bursts of high performance, but *only a few can sustain it over a longer period* of time.
- To be successful in the long-run, companies must not only be able to execute current activities to satisfy an existing market, but they must also adapt those activities to satisfy new and changing markets.
- Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment.

STRATEGIC DECISION MAKING

- As organizations grow larger and more complex, with more uncertain environments, decisions become increasingly complicated and difficult to make.

- *Strategic decisions deal with the long-run future* of an entire organization and have three characteristics:
    1. **Rare**: Strategic decisions are unusual and typically have no precedent to follow.

    2. **Consequential**: Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.

    3. **Directive**: Strategic decisions set precedents for lesser decisions and future actions throughout an organization.

STRATEGY FORMULATION

Strategy formulation is the *development of long-range plans* for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses.

- It includes defining the ***corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines***.

- An organization's **mission** is the ***purpose or reason for the organization's existence***. **Mission** describes what the organization is now.
- **Vision** describes what the organization would like to become

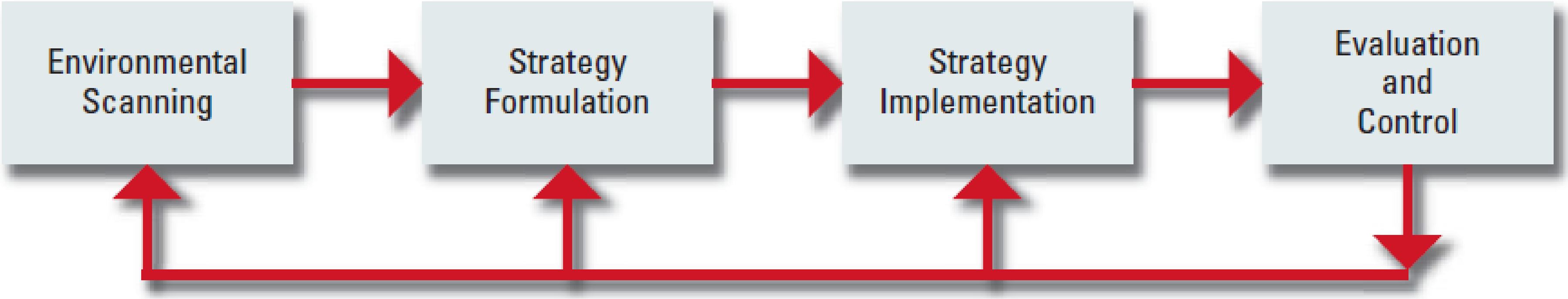
TASK 1: Match the company with their statements:

Statement	Company
1. To be the world`s best quick service restaurant.	A AutoNation
2. To be the most respected global financial services company.	B Avon
3. To become the beauty company most women turn to worldwide.	C Barnes & Noble
4. To provide a global trading platform where practically anyone can trade practically anything.	D CarMax
5. To operate the best speciality retail business in America, regardless of the product we sell.	E Citibank
6. To provide our customers great quality cars at great prices with exceptional customer service.	F Darden Restaurants
7. To nourish and delight everyone we serve.	G eBay
8. To be American` s best run, most profitable automotive retailer.	H Estee Lauder
9. Bringing the best to everyone we touch.	I Facebook
10. To be the world` s largest & best platform for online communities to share & connect.	J Kelly Services
11. To give everyone the power to create and share ideas and information instantly, without barriers.	K KFC
12. To bet he best worldwide provider of higher-value staffing services and the center for quality employment opportunities.	L Manpower
13. To sell food in a fast, friendly environment that appeals to pride-conscious, health-minded consumers.	M McDonald` s
14. To serve our customers, employees, shareholders and society by providing a broad range of staffing services and products.	N Reddit
15. To give the people the power to share and make the world more open and	O Twitter

BASIC ELEMENTS OF THE STRATEGIC MANAGEMENT PROCESS

Strategic management consists of four basic elements:

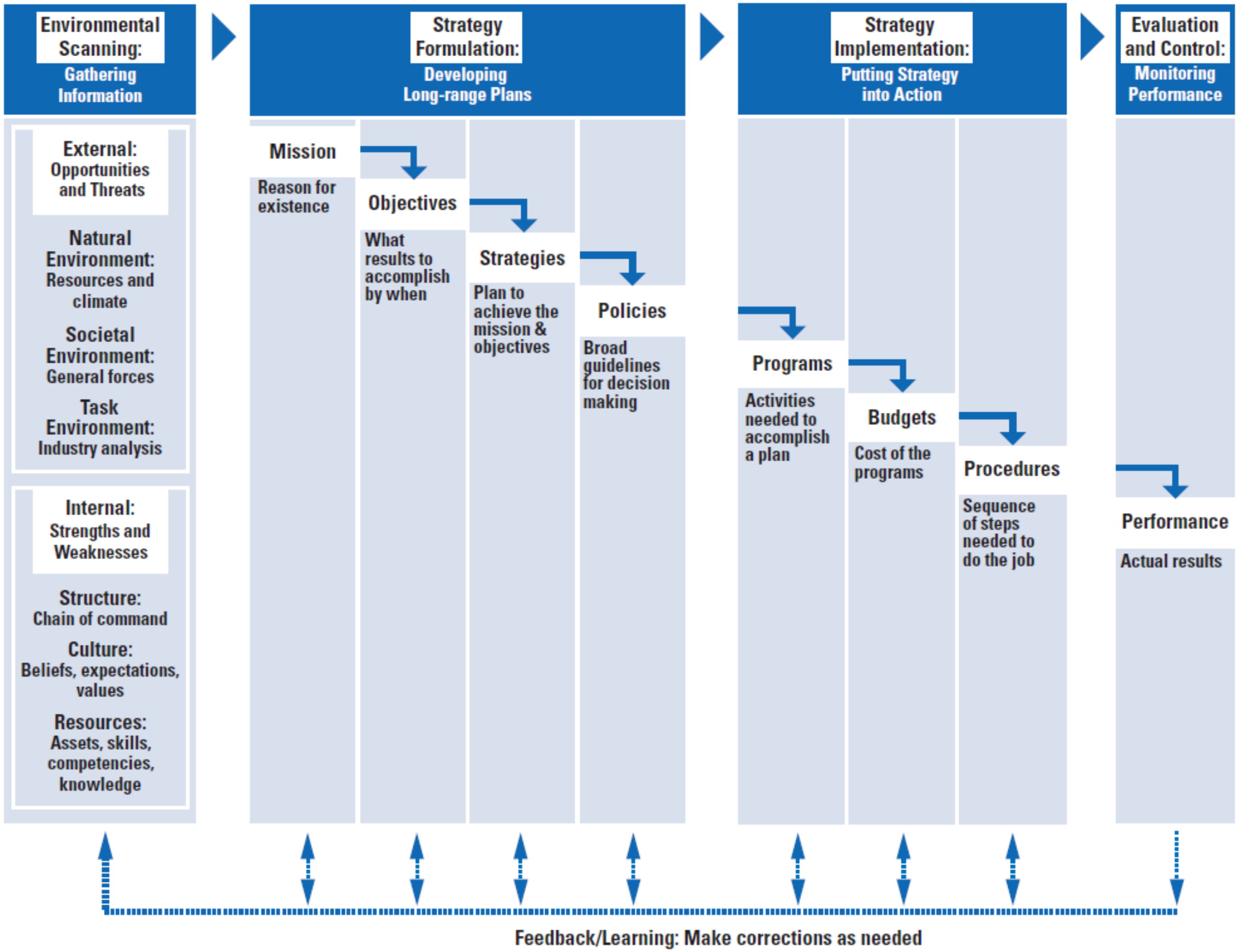
- Environmental scanning
- Strategy formulation
- Strategy implementation
- Evaluation and control



SOURCE: T. L. Wheelen, "Strategic Management Model," adapted from "Concepts of Management," presented to Society for Advancement of Management (SAM)

BASIC ELEMENTS OF THE STRATEGIC MANAGEMENT PROCESS

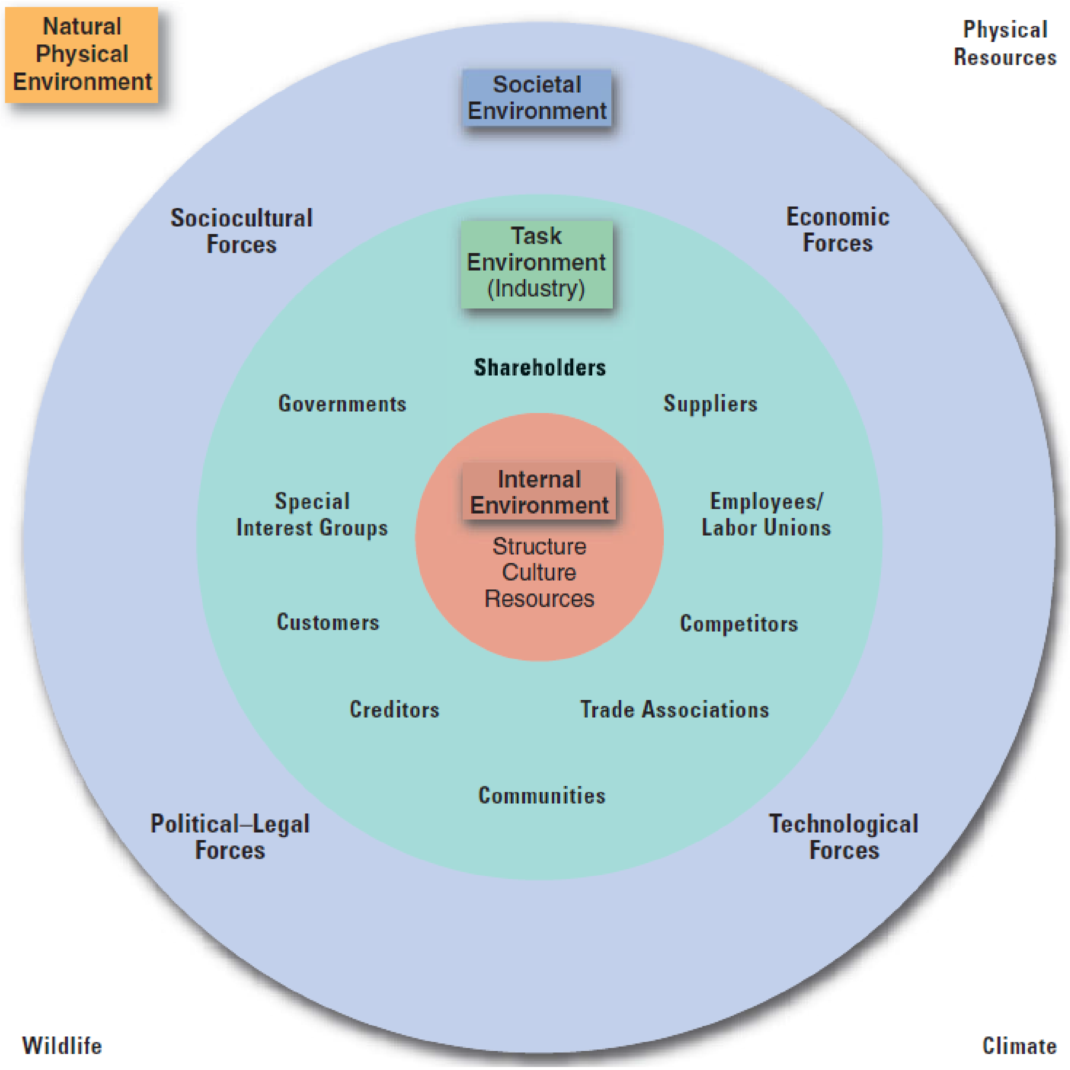
Strategic Management Model



SOURCE: T. L. Wheelen, "Strategic Management Model," adapted from "Concepts of Management," presented to Society for Advancement of Management (SAM)

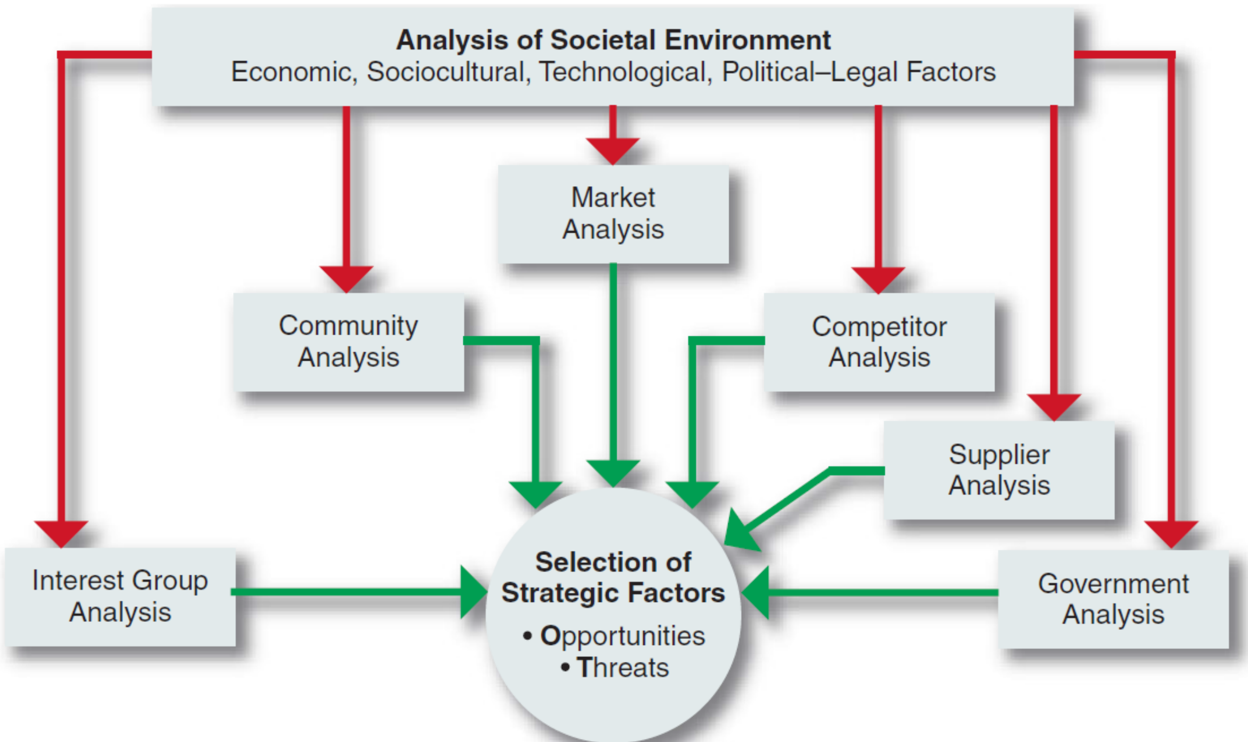
ENVIRONMENTAL SCANNING

Company s environment – general forces and trends within the natural or societal environments or specific factors that affect company



ENVIRONMENTAL SCANNING

- Environmental scanning is the *monitoring, evaluating, and disseminating of information from the external and internal environments* to key people within the corporation.
- A corporation's scanning of the environment includes analyses of all the relevant elements in the task environment



IDENTIFYING EXTERNAL ENVIRONMENTAL VARIABLES - MACROENVIRONMENT

- **Macroenvironment** consists of large-scale fundamental forces that shape opportunities and pose threats to the organization. These forces are largely uncontrollable but must be monitored for purposes of both short- and long-term planning.
- These forces affect companies and are as follows:
  - **Economic forces** that regulate the exchange of materials, money, energy, and information.
  - **Technological forces** that generate problem-solving inventions.
  - **Political–legal forces** that allocate power and provide constraining and protecting laws and regulations.
  - **Sociocultural forces** that regulate the values, mores, and customs of society.

- PEST Analysis, the scanning of Political-legal environmental forces, Economic, Sociocultural, and Technological
  - *(It may also be used PESTEL Analysis for Political, Economic, Sociocultural, Technological, Ecological, and Legal forces.)*

IDENTIFYING EXTERNAL ENVIRONMENTAL VARIABLES

Some Important Variables in the Environment

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

TASK 2: PEST ANALYSIS

- Which factors from macroenvironment affect your university? Apply the PEST analysis.

TASK (MARKET) ENVIRONMENT

- The task environment includes those elements or groups that directly affect a corporation and, in turn, are affected by it.
  - These are governments, local communities, suppliers, competitors, customers, creditors, employees/labor unions, special-interest groups, and trade associations.

- A corporation's task environment is typically the environment within which the firm operates.
  - **Industry analysis**
  - **Market analysis**

INDUSTRY ANALYSIS

- An ***industry*** is a **group of firms that produces a similar product or service**, such as soft drinks or financial services. 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.

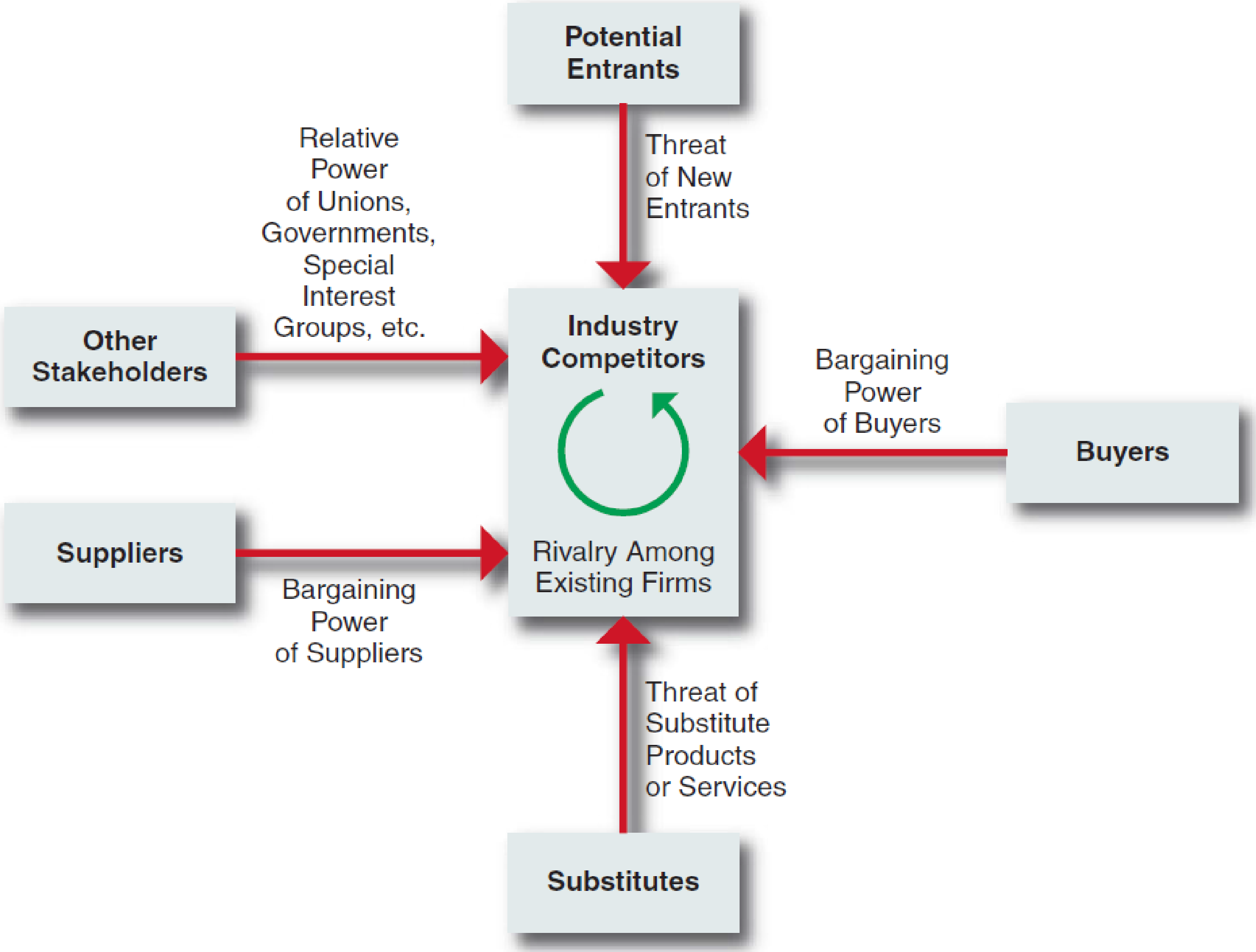
- **Michael Porter**, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry. **The level of this intensity is determined by basic competitive forces**.
  – "The collective strength of these forces," he contends, "determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run return on invested capital."

INDUSTRY ANALYSIS

- In carefully scanning its industry, a corporation must assess the importance to its success of each of **six forces**:
    1. *threat of new entrants,*
    2. *rivalry among existing firms,*
    3. *threat of substitute products or services,*
    4. *bargaining power of buyers,*
    5. *bargaining power of suppliers,*
    6. *and relative power of other stakeholders.*
- The stronger each of these forces, the more limited companies are in their ability to raise prices and earn greater profits.
- Although Porter mentions only five forces, a sixth - other stakeholders - is added here to reflect the power that governments, local communities, and other groups from the task environment wield over industry activities.

INDUSTRY ANALYSIS

Forces Driving Industry Competition



SOURCE: Reprinted with the permission of The Free Press, A Division of Simon & Schuster, from COMPETITIVE ADVANTAGE: Techniques for Analyzing Industries and Competitors by Michael E. Porter.

INDUSTRY ANALYSIS

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.
- ***An 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**
- **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.

INDUSTRY ANALYSIS

Some of the possible barriers to entry are:

- **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 rawmaterials, such as oil-drilling sites in protected areas.

INDUSTRY ANALYSIS

Rivalry among Existing Firms

- 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.

INDUSTRY ANALYSIS

Rivalry among Existing Firms

- According to Porter, intense rivalry is related to the presence of several factors, including:
  - **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.
  - **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.

INDUSTRY ANALYSIS

Threat of Substitute Products or Services

- A substitute product is a product that appears to be different but can satisfy the same need as another product.
- According to Porter, "*Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge*."
- To the extent that switching costs are low, substitutes may have a strong effect on an industry.
  - Tea can be considered a substitute for coffee. If the price of coffee goes up high enough, coffee drinkers will slowly begin switching to tea. The price of tea thus puts a price ceiling on the price of coffee.
- Sometimes a difficult task, the identification of possible substitute products or services means searching for products or services that can perform the same function, even though they have a different appearance and may not appear to be easily substitutable.

INDUSTRY ANALYSIS

Bargaining Power of Buyers

- A buyer or a group of buyers is powerful if some of the following factors hold true:
  - A buyer purchases a large proportion of the seller's product or service
  - A buyer has the potential to integrate backward by producing the product itself (for example, a newspaper chain could make its own paper).
  - Alternative suppliers are plentiful because the product is standard or undifferentiated (for example, motorists can choose among many gas stations).
  - Changing suppliers costs very little.
  - The purchased product represents a high percentage of a buyer's costs, thus providing an incentive to shop around for a lower price.
  - A buyer earns low profits and is thus very sensitive to costs and service differences.
  - The purchased product is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely.

INDUSTRY ANALYSIS

Bargaining Power of Suppliers

- Suppliers can affect an industry through their ability to raise prices or reduce the quality of purchased goods and services. A supplier or supplier group is powerful if some of the following factors apply:
  - The supplier industry is dominated by a few companies, but it sells to many.
  - Its product or service is unique and/or it has built up switching costs.
  - Substitutes are not readily available (for example, electricity).
  - Suppliers are able to integrate forward and compete directly with their present customers (for example, a microprocessor producer such as Intel can make PCs).
  - A purchasing industry buys only a small portion of the supplier group's goods and services and is thus unimportant to the supplier.

TASK 3

- Apply the five forces model to McDonald`s in your country.
- What does this model tell you about the nature of competition in the industry?

CATEGORIZING INTERNATIONAL INDUSTRIES

- According to Porter, **world industries vary on a continuum from multidomestic to global.**

- **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.

  - The activities in a subsidiary of a multinational corporation (MNC) in this type of industry are essentially independent of the activities of the MNC's subsidiaries in other countries.
  - Within each country, it has a manufacturing facility to produce goods for sale within that country.
  - The MNC is thus able to tailor its products or services to the very specific needs of consumers in a particular country or group of countries having similar societal environments.

CATEGORIZING INTERNATIONAL INDUSTRIES

- **Global industries**, in contrast, ***operate worldwide***, with MNCs making only small adjustments for country-specific circumstances.

- In a global industry an MNC's activities in one country are significantly affected by its activities in other countries.

- MNCs in global industries 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, semiconductors, copiers, automobiles, watches, and tires.

CATEGORIZING INTERNATIONAL INDUSTRIES

Continuum of International Industries

Multidomestic

Industry in which companies tailor their products to the specific needs of consumers in a particular country.

- Retailing
- Insurance
- Banking

Global

Industry in which companies manufacture and sell the same products, with only minor adjustments made for individual countries around the world.

- Automobiles
- Tires
- Television sets

CATEGORIZING INTERNATIONAL INDUSTRIES

- **The factors that tend to determine** whether an industry will be primarily multidomestic or primarily global are:

  1. Pressure for **coordination within the MNCs** operating in that industry.
  2. Pressure for **local responsiveness** on the part of individual country markets.

- Between these two extremes lie a number of industries with varying characteristics of both multidomestic and global industries. These are **regional industries**, in which MNCs primarily coordinate their activities within regions, such as the Americas or Asia.

MARKET ANALYSIS

- **Market** consists of individuals and organizations which are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want and who have the resources to engage in such a transaction.
- In the market we can to find these ***market subjects***: buyers, organizational buyers, competition, publics
- Market is usually measured by dollar (euro) sales and/or unit sales for a defined product-market and specified time period. For measurement of market we can use these three measures:
  - *Market potential* is an estimate of the maximum possible sales of a product, a group of products or a service for an entire industry during a specified time period.
  - *Market size* (market capacity) is total sales of product, a group of product or a service of the defined industry during a specified time period.
  - *Market share* is defined as the sales of product, a group of product or a service of the particular company in the defined industry during a specified time period.
- **Market research** is method for monitoring and analyzing of markets, subject of markets, companies etc.

INTERNAL SCANNING

- Analysts must also look within the **corporation itself to identify internal strategic factors** - *critical strengths and weaknesses* that are likely to determine whether a firm will be able to take advantage of opportunities while avoiding threats.
- This *internal scanning*, often referred to as **organizational analysis**, is concerned with identifying and developing an organization’s resources and competencies.

RESOURCES AND CAPABILITIES

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

- They include **tangible assets**, such as its *plant, equipment, finances, and location, human assets, in terms of the number of employees, their skills, and motivation*, and **intangible assets**, such as its *technology (patents and copyrights), culture, and reputation*.
- **Capabilities** refer to a corporation's ability to exploit its resources.
  - A capability is functionally based and is resident in a particular function. Thus, there are marketing capabilities, manufacturing capabilities, and human resource management capabilities. When these capabilities are constantly being changed and reconfigured to make them more adaptive to an uncertain environment, they are called **dynamic capabilities.**

Resources

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Resources and Capabilities

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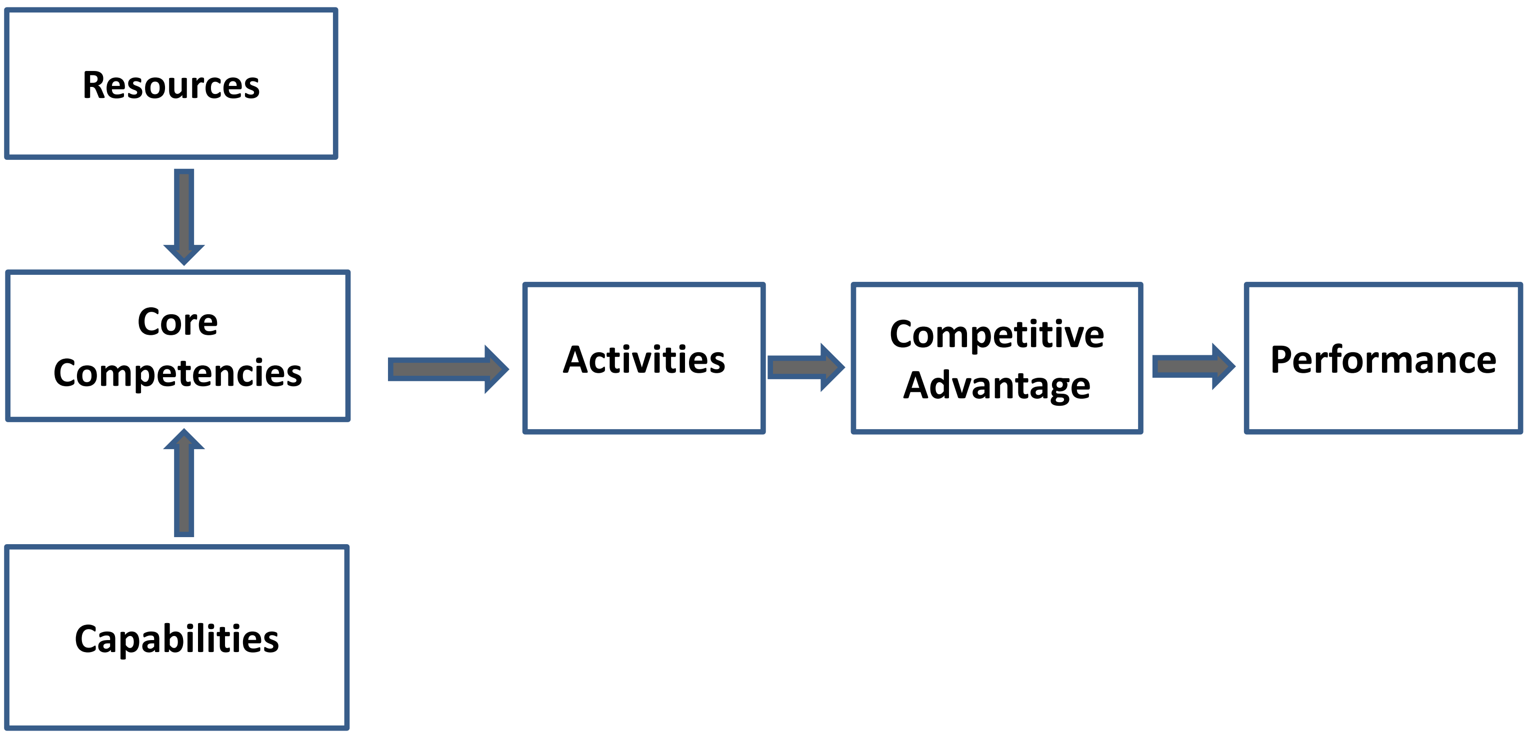

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COMPANY EXAMPLES OF CORE COMPETENCIES

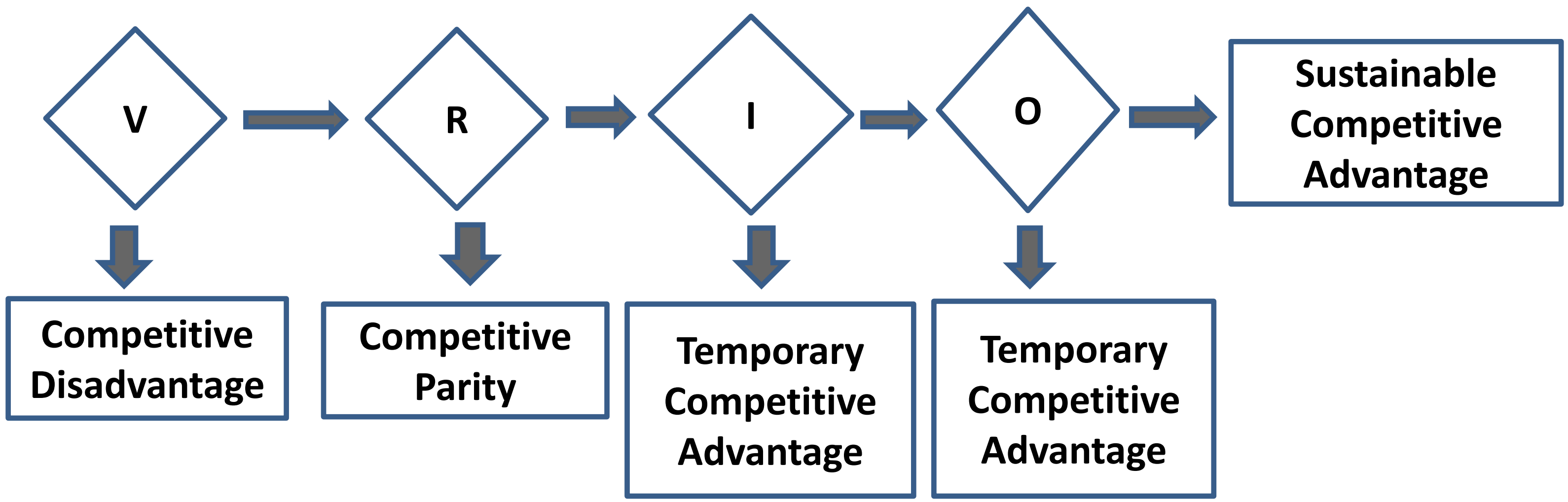
Company	Core competencies	Application examples
Amazon.com	Superior IT capabilities	Online retailing: largest selection of items online
Apple	Superior marketing and retailing experience Superior industrial design in integration of hardware and software	Creation of innovative and category-defining mobile devices and software services
Coca-Cola	Superior marketing and distribution	Leveraging one of the world´s most recognized brands Gloal availability of products
Honda	Superior engineering of small but powerful and highly reliable internal combustion enegines	Motorcycles, cars, sporting boats, snowmobiles, small aircraft

RESOURCES AND CAPABILITIES

- ***Barney***, in his **VRIO framework** of analysis, proposes four questions to evaluate a firm's competencies:

  1. **Value**: Does it provide customer value and competitive advantage?
  2. **Rareness**: Do no other competitors possess it?
  3. **Imitability**: Is it costly for others to imitate?
  4. **Organization**: Is the firm organized to exploit the resource?

Applying the VRIO



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A RESOURCE-BASED APPROACH

- Proposing that a company's sustained competitive advantage is primarily determined by its resource endowments, Grant proposes a five-step, resource-based approach to strategy analysis.
    1. Identify and classify the firm's resources in terms of strengths and weaknesses.
    2. Combine the firm's strengths into specific capabilities and core competencies.
    3. Appraise the profit potential of these capabilities and competencies in terms of their potential for sustainable competitive advantage and the ability to harvest the profits resulting from their use. Are there any distinctive competencies?
    4. Select the strategy that best exploits the firm's capabilities and competencies relative to external opportunities.
    5. Identify resource gaps and invest in upgrading weaknesses.

A RESOURCE-BASED APPROACH

Determining the sustainability of an advantage

- Just because a firm is able to use its resources, capabilities, and competencies to develop a competitive advantage does not mean it will be able to sustain it.
- Two characteristics determine the sustainability of a firm's distinctive competency(ies): **durability** and **imitability**.

- **Durability** is the rate at which a firm's underlying resources, capabilities, or core competencies depreciate or become obsolete. New technology can make a company's core competency ***obsolete or irrelevant***.
  - For example, Intel's skills in using basic technology developed by others to manufacture and market quality microprocessors was a crucial capability until management realized that the firm had taken current technology as far as possible with the Pentium chip.

A RESOURCE-BASED APPROACH

Determining the sustainability of an advantage

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

- To the extent that a firm's distinctive competency gives it competitive advantage in the marketplace, competitors will do what they can to learn and imitate that set of skills and capabilities.
- Competitors' efforts may **range from reverse engineering** (*which involves taking apart a competitor's product in order to find out how it works*), to hiring employees from the competitor, to outright patent infringement.

- A core competency can be easily imitated to the extent that it is **transparent**, **transferable**, and **replicable**.

A RESOURCE-BASED APPROACH

Determining the sustainability of an advantage

- **Transparency** is the speed with which other firms can understand the relationship of resources and capabilities supporting a successful firm's strategy.
  - For example, Gillette has always supported its dominance in the marketing of razors with excellent R&D.
  - A competitor could never understand how the Sensor or Mach 3 razor was produced simply by taking one apart.
  - Gillette's razor design was very difficult to copy, partially because the manufacturing equipment needed to produce it was so expensive and complicated.

A RESOURCE-BASED APPROACH

Determining the sustainability of an advantage

- **Transferability** is the ability of competitors to gather the resources and capabilities necessary to support a competitive challenge.
  - For example, it may be very difficult for a winemaker to duplicate a French winery's key resources of land and climate, especially if the imitator is located in Iowa.

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

TASK 4

Looking inside yourself: What is my competitive advantage?

- Write down your own strengths and weaknesses.
- Are your strengths and weaknesses different today from what they were five years ago?
- Are some of your strengths valuable, rare, and costly to imitate?
- What are you doing to make sure your capabilities are dynamic?

VALUE-CHAIN ANALYSIS

- A **value chain is a linked set of value-creating activities** that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with distributors getting the final goods into the hands of the ultimate consumer.
- The focus of value-chain analysis is to examine the corporation in the context of the overall chain of value-creating activities, of which the firm may be only a small part.

Typical Value Chain for a Manufactured Product

VALUE-CHAIN ANALYSIS

Industry value chain

- The value chains of most industries can be split into two segments, upstream and downstream segments.
  - In the petroleum industry, for example, upstream refers to oil exploration, drilling, and moving of the crude oil to the refinery, and downstream refers to refining the oil plus transporting and marketing gasoline and refined oil to distributors and gas station retailers.
- In analyzing the complete value chain of a product, note that even if a firm operates up and down the entire industry chain, it usually *has an area of expertise where its primary activities lie*. A company's **center of gravity** is the part of the chain that is **most important** to the company and the point where its greatest expertise and capabilities lie - its core competencies.
  - After a firm successfully establishes itself at this point by obtaining a competitive advantage, one of its first strategic moves is to move *forward or backward* along the value chain in order to reduce costs, guarantee access to key raw materials, or to guarantee distribution - this process, called ***vertical integration***.

VALUE-CHAIN ANALYSIS

Corporate value chain

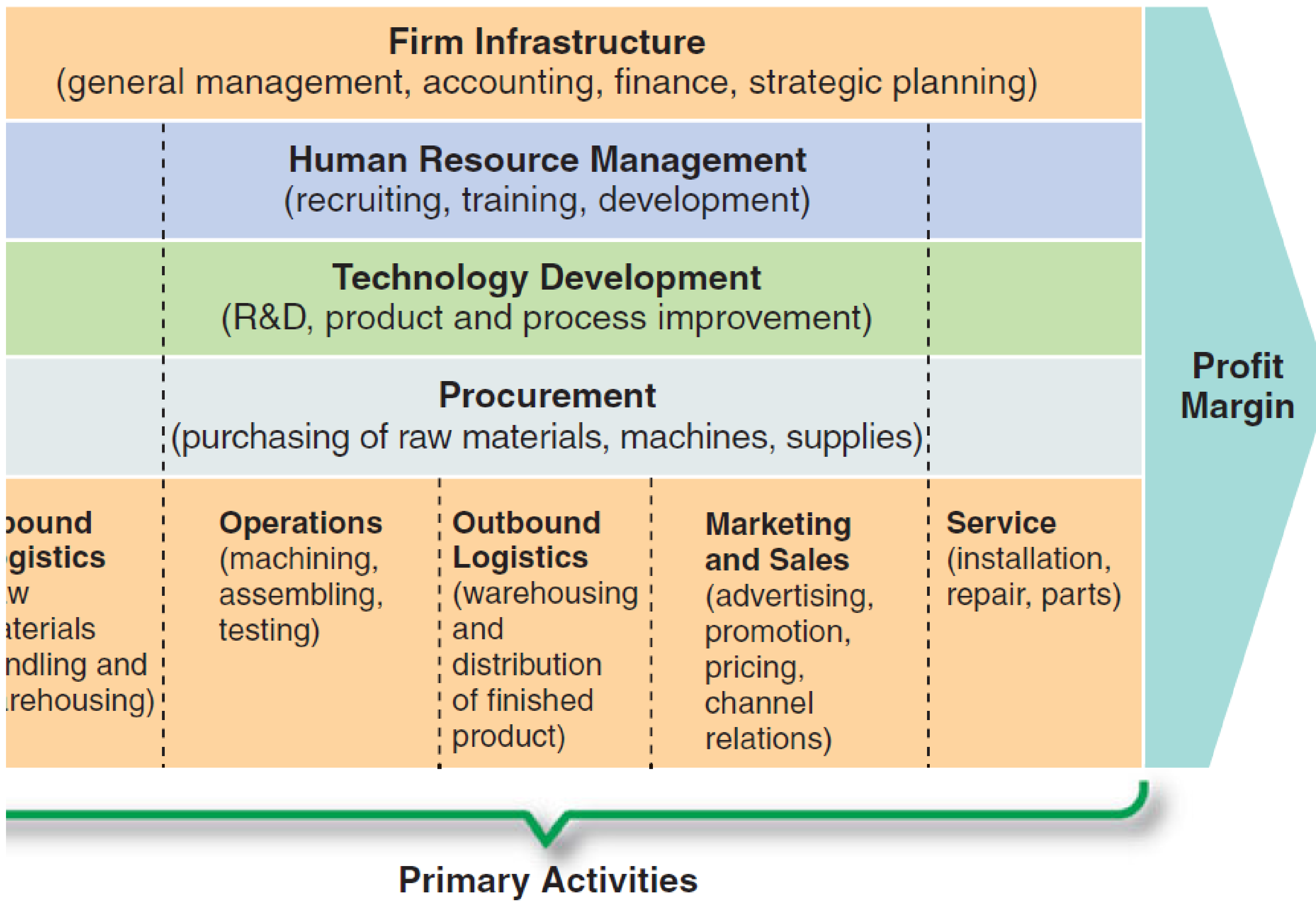
- Each corporation has its own internal value chain of activities.

- Porter proposes that a manufacturing firm's **primary activities** usually begin with *inbound logistics* (raw materials handling and warehousing), go through an operations process in which a product is manufactured, and continue on to outbound logistics (warehousing and distribution), to marketing and sales, and finally to service (installation, repair, and sale of parts).

- Several **support activities**, such as procurement (purchasing), technology development (R&D), human resource management, and firm infrastructure (accounting, finance, strategic planning), ensure that the primary value chain activities operate effectively and efficiently.

VALUE-CHAIN ANALYSIS

Corporate value chain



SOURCE: COMPETITIVE ADVANTAGE: Creating and Sustaining Superior Performance by Michael E. Porter.

SCANNING FUNCTIONAL RESOURCES AND CAPABILITIES

Strategic Marketing Issues

- The marketing manager is a company's primary link to the customer and the competition. The manager, therefore, must be especially ***concerned with the market position and marketing mix of the firm*** as well as with the overall reputation of the company and its brands.

Marketing Mix Variables

Product	Place	Promotion	Price
Quality Features Options Style Brand name Packaging Sizes Services Warranties Returns	Channels Coverage Locations Inventory Transport	Advertising Personal selling Sales promotion Publicity	List price Discounts Allowances Payment periods Credit items

SOURCE: KOTLER, PHILIP, MARKETING MANAGEMENT, 11th edition

SCANNING FUNCTIONAL RESOURCES AND CAPABILITIES

Strategic Financial Issues

- A financial manager must ascertain the ***best sources of funds, uses of funds, and control of funds***.
  - All strategic issues have financial implications. Cash must be raised from internal or external (local and global) sources and allocated for different uses. The flow of funds in the operations of an organization must be monitored.

- 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.

SCANNING FUNCTIONAL RESOURCES AND CAPABILITIES

Strategic Research and Development Issues

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

  1. choosing among alternative new technologies to use within the corporation,
  2. developing methods of embodying the new technology in new products and processes, and
  3. deploying resources so that the new technology can be successfully implemented.

SCANNING FUNCTIONAL RESOURCES AND CAPABILITIES

Strategic Human Resource (HRM) Issues

- The primary task of the manager of human resources is to ***improve the match between individuals and jobs***.
  - Research indicates that companies with good HRM practices have higher profits and a better survival rate than do firms without these practices.
- A good HRM department should know how to use attitude surveys and other feedback devices to ***assess employees' satisfaction*** with their jobs and with the corporation as a whole.
- HRM managers should also use job analysis to obtain job description information about what each job needs to accomplish in terms of quality and quantity.

SCANNING FUNCTIONAL RESOURCES AND CAPABILITIES

Strategic Information Systems/Technology Issues

- The primary task of the manager of information systems/technology is to d***esign and manager the flow of information in an organization*** in ways that improve productivity and decision making.
- Information must be collected, stored, and synthesized in such a manner that it will answer important operating and strategic questions.
- A corporation's information system can be a strength or a weakness in multiple areas of strategic management.

1. SYNTHESIS OF EXTERNAL FACTORS – EFAS TABLE

Synthesis of External Factors

1. Using key success factors to create an ***industry matrix*** - within any industry there are usually *certain variables* - ***key success factors*** - that a company's management must understand in order to be successful.
   – Key success factors are variables that can significantly affect the overall competitive positions of companies within any particular industry.
   – An industry matrix summarizes the key success factors within a particular industry. The matrix gives a **weight for each factor** based on how important that factor is for success within the industry.
   – The matrix also specifies **how well various competitors in the industry are responding to each factor**.
   – To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:

1. SYNTHESIS OF EXTERNAL FACTORS – EFAS TABLE

Synthesis of External Factors

- To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:
  1. **In Column 1** (***Key Success Factors***), list the 8 to 10 factors that appear to determine success in the industry.
  2. **Column 2** (***Weight***), assign a weight to each factor, from 1.0 (Most Important) to 0.0 (Not Important) based on that factor's probable impact on the overall industry's current and future success. (All weights must sum to 1.0 regardless of the number of strategic factors.)

Key Success Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
1	2	3	4	5	6
Total	1.00				

1. SYNTHESIS OF EXTERNAL FACTORS – EFAS TABLE

Synthesis of External Factors

- To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:
    3. **In Column 3 *(Company A Rating*)**, examine a particular company within the industry.
        - for example, Company A. Assign a rating to each factor from 5 (Outstanding) to 1 (Poor) based on Company A's current response to that particular factor. Each rating is a judgment regarding how well that company is specifically dealing with each key success factor.

Key Success Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
1	2	3	4	5	6
Total	1.00				

1. SYNTHESIS OF EXTERNAL FACTORS – EFAS TABLE

Synthesis of External Factors

- To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:
    4. **In Column 4** (***Company A Weighted Score***), multiply the weight in Column 2 for each factor by its rating in Column 3 to obtain that factor's weighted score for Company A**.**
    5. **In Column 5** (***Company B Rating***), examine a second company within the industry – in this case, Company B.
        4. Assign a rating to each key success factor from 5.0 (Outstanding) to 1.0 (Poor), based on Company B's current response to each particular factor.
    6. **In Column 6** (***Company B Weighted Score***), multiply the weight in Column 2 for each factor times its rating in Column 5.
    7. **The total weighted score indicates** how well each company is responding to current and expected key success factors in the industry's environment.

1. SYNTHESIS OF EXTERNAL FACTORS – EFAS TABLE

Synthesis of External Factors - EFAS

– Using an **EFAS** (*External Factors Analysis Summary*) **Table** is one way to ***organize the external factors*** into the generally accepted categories of opportunities and threats as well as to analyze how well a particular company's management (rating) is responding to these specific factors in light of the perceived importance (weight) of these factors to the company.

Example of External Factor Analysis Summary (EFAS Table)

External Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Opportunities				
■ Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
■ Demographics favor quality appliances	.10	5.0	.50	Maytag quality
■ Economic development of Asia	.05	1.0	.05	Low Maytag presence
■ Opening of Eastern Europe	.05	2.0	.10	Will take time
■ Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel
Threats				
■ Increasing government regulations	.10	4.3	.43	Well positioned
■ Strong U.S. competition	.10	4.0	.40	Well positioned
■ Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
■ New product advances	.05	1.2	.06	Questionable
■ Japanese appliance companies	.10	1.6	.16	Only Asian presence in Australia
Total Scores	1.00		3.15	

2. SYNTHESIS OF INTERNAL FACTORS – IFAS TABLE

Synthesis of Internal Factors

- This **IFAS** (*Internal Factor Analysis Summary*) **Table** is one way to ***organize the internal factors*** into the generally accepted categories of strengths and weaknesses as well as to analyze how well a particular company's management is responding to these specific factors in light of the perceived importance of these factors to the company.

- Use the **VRIO framework** (Value, Rareness, Imitability, & Organization) to assess the importance of each of the factors that might be considered strengths.

- Except for its internal orientation, this *IFAS Table is built the same way as the EFAS Table.*

2. SYNTHESIS OF INTERNAL FACTORS – IFAS TABLE

Synthesis of Internal Factors

Example of InternalFactor Analysis Summary (IFAS Table)

Internal Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Strengths				
■ Quality Maytag culture	.15	5.0	.75	Quality key to success
■ Experienced top management	.05	4.2	.21	Know appliances
■ Vertical integration	.10	3.9	.39	Dedicated factories
■ Employer relations	.05	3.0	.15	Good, but deteriorating
■ Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
Weaknesses				
■ Process-oriented R&D	.05	2.2	.11	Slow on new products
■ Distribution channels	.05	2.0	.10	Superstores replacing small dealers
■ Financial position	.15	2.0	.30	High debt load
■ Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
■ Manufacturing facilities	.05	4.0	.20	Investing now
Total Scores	1.00		3.05	

3. SITUATION ANALYSIS

- **Strategy formulation**, often referred to as ***strategic planning or long-range planning***, is concerned with developing a corporation's mission, objectives, strategies, and policies.
- It **begins with situation analysis**: ***the process of finding a strategic fit between external opportunities and internal strengths while working around external threats and internal weaknesses.***
  - As shown in the Strategic Decision-Making Process is analyzing strategic factors in light of the current situation using SWOT analysis.
  - 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.

3. SITUATION ANALYSIS

Generating a Strategic Factors Analysis Summary SFAX matrix

- The EFAS and IFAS Tables plus the SFAS Matrix have been developed to deal with the criticisms of SWOT analysis.

- When used together, they are a ***powerful analytical set of tools*** for strategic analysis.

- The **SFAS** (Strategic Factors Analysis Summary) **Matrix** summarizes an organization's strategic factors by combining the external factors from the EFAS Table with the internal factors from the IFAS Table.

3. SITUATION ANALYSIS

Generating a Strategic Factors Analysis Summary SFAX matrix

- The SFAS Matrix requires a strategic decision maker to condense these strengths, weaknesses, opportunities, and threats into fewer than 10 strategic factors.

- This is done by reviewing and revising the weight given each factor. The revised weights reflect the priority of each factor as a determinant of the company's future success.

- The highest-weighted EFAS and IFAS factors should appear in the SFAS Matrix.

3. SITUATION ANALYSIS

Generating a Strategic Factors Analysis Summary SFAX matrix – can create following these steps:

1. **In Column 1** (***Strategic Factors***), list the most important EFAS and IFAS items.
   - After each factor, indicate whether it is a Strength (S), Weakness (W), an Opportunity (O), or a Threat (T).
2. **In Column 2** (***Weight***), assign weights for all of the internal and external strategic factors. This means that the weights calculated earlier for EFAS and IFAS will probably have to be adjusted.
3. **In Column 3** (***Rating***), assign a rating of how the company's management is responding to each of the strategic factors.
   - These ratings will probably (but not always) be the same as those listed in the EFAS and IFAS Tables.
4. **In Column 4** (***Weighted Score***), multiply the weight in Column 2 for each factor by its rating in Column 3 to obtain the factor's rated score.
5. **In Column 5** (***Duration***), indicate short-term (less than one year), intermediate-term (one to three years), or long-term (three years and beyond).
6. **In Column 6** (***Comments***), repeat or revise your comments for each strategic factor from the previous EFAS and IFAS Tables. The total weighted score for the average firm in an industry is always 3.0.

3. SITUATION ANALYSIS

Summary SFAX matrix

Internal Strategic Factors (1)	Weight (2)	Rating (3)	Weighted Score (4)	Comments (5)
Strengths				
S1 Quality Maytag culture	.15	5.0	.75	Quality key to success
S2 Experienced top management	.05	4.2	.21	Know appliances
S3 Vertical integration	.10	3.9	.39	Dedicated factories
S4 Employee relations	.05	3.0	.15	Good, but deteriorating
S5 Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
Weaknesses				
W1 Process-oriented R&D	.05	2.2	.11	Slow on new products
W2 Distribution channels	.05	2.0	.10	Superstores replacing small dealers
W3 Financial position	.15	2.0	.30	High debt load
W4 Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
W5 Manufacturing facilities	.05	4.0	.20	Investing now
Total Scores	1.00		3.05	

External Strategic Factors (1)	Weight (2)	Rating (3)	Weighted Score (4)	Comments (5)
Opportunities				
O1 Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
O2 Demographics favor quality appliances	.10	5.0	.50	Maytag quality
O3 Economic development of Asia	.05	1.0	.05	Low Maytag presence
O4 Opening of Eastern Europe	.05	2.0	.10	Will take time
O5 Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel
Threats				
T1 Increasing government regulations	.10	4.3	.43	Well positioned
T2 Strong U.S. competition	.10	4.0	.40	Well positioned
T3 Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
T4 New product advances	.05	1.2	.06	Questionable
T5 Japanese appliance companies	.10	1.6	.16	Only Asian presence is Australia
Total Scores	1.00		3.15	

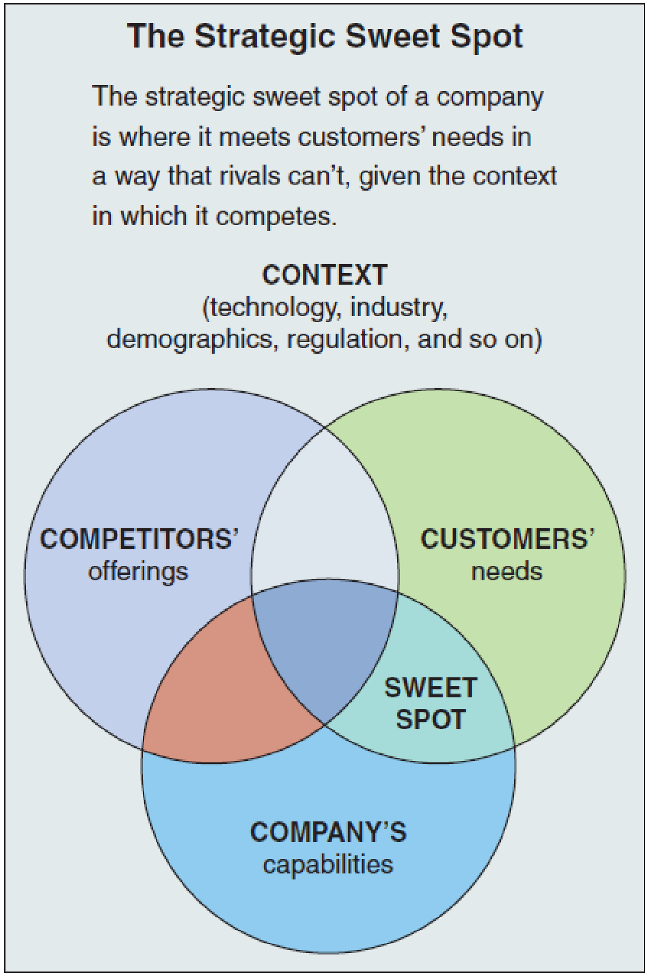
3. SITUATION ANALYSIS

Generating SFAX matrix

1	2	3	4	Duration		5	6
Strategic Factors (Select the most important opportunities/threats from EFAS, Table 4–5 and the most important strengths and weaknesses from IFAS, Table 5–2)	**Weight**	**Rating**	**Weighted Score**	**SHORT**	**INTERMEDIATE**	**LONG**	**Comments**
S1 Quality Maytag culture (S)	.10	5.0	.50			X	Quality key to success
S5 Hoover's international orientation (S)	.10	2.8	.28	X	X		Name recognition
W3 Financial position (W)	.10	2.0	.20	X	X		High debt
W4 Global positioning (W)	.15	2.2	.33		X	X	Only in N.A., U.K., and Australia
O1 Economic integration of European Community (O)	.10	4.1	.41			X	Acquisition of Hoover
O2 Demographics favor quality (O)	.10	5.0	.50		X		Maytag quality
O5 Trend to super stores (O + T)	.10	1.8	.18	X			Weak in this channel
T3 Whirlpool and Electrolux (T)	.15	3.0	.45	X			Dominate industry
T5 Japanese appliance companies (T)	.10	1.6	.16			X	Asian presence
Total Scores	1.00		3.01				

3. SITUATION ANALYSIS

Finding a Propitious Niche - The strategic sweet spot



3. SITUATION ANALYSIS

Review of Mission and Objectives

- A **reexamination of an organization's current mission and objectives** must be made before alternative strategies can be generated and evaluated.
- Even when formulating strategy, **decision makers tend to concentrate on the alternatives** - the action possibilities - rather than on a mission to be fulfilled and objectives to be achieved.
- The end result is that **we often choose strategies that set our objectives for us** rather than having our choices incorporate clear objectives and a mission statement.
  – The mission does not provide a common thread (a unifying theme) for a corporation's businesses, managers may be unclear about where the company is heading. Objectives and strategies might be in conflict with each other. Divisions might be competing against one another rather than against outside competition.

3. SITUATION ANALYSIS

Generating Alternative Strategies by Using a TOWS Matrix

- The **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.

- This is a good way to ***use brainstorming to create alternative strategies*** that might not otherwise be considered.

- It forces strategic managers to ***create various kinds of growth as well as retrenchment strategies***. It can be used to generate corporate as well as business strategies.

3. SITUATION ANALYSIS

Generating Alternative Strategies by Using a TOWS Matrix

INTERNAL FACTORS (IFAS) / EXTERNAL FACTORS (EFAS)	**Strengths (S)** List 5 – 10 *internal* strengths here	**Weaknesses (W)** List 5 – 10 *internal* weaknesses here
Opportunities (O) List 5 – 10 *external* opportunities here	**SO Strategies** Generate strategies here that use **strengths** to take **advantage** of **opportunities**	**WO Strategies** Generate strategies here that take **advantage** of **opportunities** by **overcoming weaknesses**
Threats (T) List 5 – 10 *external* threats here	**ST Strategies** Generate strategies here that use **strengths** to **avoid threats**	**WT Strategies** Generate strategies here that **minimize weaknesses** and **avoid threats**

3. SITUATION ANALYSIS

Top build a TOWS Matrix, take´ the following steps:

1. **In the Opportunities** (O) block, list the external opportunities available in the company's or business unit's current and future environment from the EFAS Table.

2. **In the Threats** (T) block, list the external threats facing the company or unit now and in the future from the EFAS Table.

3. **In the Strengths** (S) block, list the specific areas of current and future strength for the company or unit from the IFAS Table.

4. **In the Weaknesses** (W) block, list the specific areas of current and future weakness for the company or unit from the IFAS Table.

3. SITUATION ANALYSIS

Top build a TOWS Matrix, take the following steps:

5. **Generate a series of possible strategies** for the company or business unit under consideration based on particular combinations of the four sets of factors:
   - **SO Strategies** are generated by thinking of ways in which a company or business unit could use its strengths to take advantage of opportunities.
   - **ST Strategies** consider a company's or unit's strengths as a way to avoid threats.
   - **WO Strategies** attempt to take advantage of opportunities by overcoming weaknesses.
   - **WT Strategies** are basically defensive and primarily act to minimize weaknesses and avoid threats.