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Учебное пособие содержит основные материалы по теоретическим и практическим основам управления и теории организации. Авторами сделан первичный шаг на пути реального освоения перспективных методов управления организацией, познания организационных и управленческих технологий XXI века с использованием переводной литературы.

Предназначено для магистрантов направления подготовки 38.04.01 «Экономика», 38.04.02 «Менеджмент». Пособие может использоваться бакалаврами, аспирантами, преподавателями экономического направления подготовки, а также всеми, кого интересует данная проблематика.

The textbook contains the main materials on the theoretical and practical foundations of management and organization theory. The authors made a primary step on the way of real mastering of perspective methods of organization management, knowledge of organizational and management technologies of the XXI century with the use of translated literature.

It is intended for undergraduates in the direction of training 38.04.01 "Economics", 38.04.02 "Management". The manual can be used by bachelors, graduate students, teachers of the economic field of training, as well as by all those who are interested in this topic.

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ВВЕДЕНИЕ.

…….«Недостаточно просто знать менеджмент в экономике. Настоящий студент нуждается в приобретении искусства и компетенций, чтобы быть успешным в своей работе».

В.Н. Попов

Выпускник, освоивший программу магистратуры 38.04.02 «Менеджмент» должен обладать общепрофессиональными компетенциями: ОПК-1 – готовностью к коммуникации в устной и письменной формах на русском и иностранном языках для решения задач профессиональной деятельности, а также профессиональными компетенциями: ПК-7- способностью обобщать и юридически оценивать результаты исследований актуальных проблем управления, полученные отечественными и зарубежными исследователями.

Целью этого учебного пособия является расширение представления у магистрантов о зарубежных взглядах на проблему стратегического управления, пополнение словарного запаса профессиональных терминов на английском языке, а также принятие ими посильного участия в критическом осмыслении теории и практики менеджмента американского происхождения импортированного в нашу страну в конце XX века.

Основное внимание уделяется творческому характеру стратегического управления, анализу внешней среды современных фирм, оценке ресурсной концепции конкурентных преимуществ, иерархическим процедурам построения стратегического управления, а также системам реализации стратегических решений.

Задачи стратегического менеджмента:

- Формирование у магистров представления о современных тенденциях развития стратегического управления, основных подходах к определению стратегии
- Знакомство с основными понятиями и категориями стратегического управления
- Изучение принципов и теоретических основ формирования стратегий

- Освоение методов и инструментов анализа деловой среды бизнеса
- Привитие навыков самостоятельного решения практических задач и ситуаций, возникающих в организациях при осуществлении стратегического управления.

На страницах учебного пособия студенты встретятся с терминами для отечественной литературы по менеджменту, не являющимися традиционными. Так, не нашло широкого применения использование терминов «аудит» и «организационный аудит», применительно к управленческим процессам. Не смотря на то, что очевидно его традиционное содержание (проверка счетов, ревизия), не вполне точно, применительно к менеджменту, так как передается экономическая сущность этого действия.

«…Аудит – это процесс получения и оценка (контроль) объективных данных (имеющихся международные нормативы и стандарты на формы представляемых данных) в соответствующей профессиональной деятельности (имеются стандарты на элементы этой деятельности) устанавливающей уровень их соответствия определенным критериям, нормам и стандартам» [Э.А.Смирнов, 335].

В данном пособии термин «аудит» используется в значении, более широком, чем принято в отечественной литературе, что, несомненно, будет способствовать расширению профессионального кругозора будущих магистров менеджмента.

Отличительной особенностью предлагаемого учебного пособия является широкое применение различных инструментариев для оценки ситуаций, выработки, обоснования и принятия управленческих решений, что позволяет выявить и учесть влияние факторов внешней и внутренней среды организации на стратегию ее развития.

Предложенная классификация элементов, выделение ключевых факторов внешней и внутренней среды будут полезными для будущих высококвалифицированных управленческих кадров в условиях отечественного менеджмента.

Предложенные в пособии инструменты: конкурентный анализ – пятифакторная модель М.Портера; матрица оценки факторов внешней среды (Matrix EFE); матрица конкурентного профиля (CPM); матрица оценки факторов внутренней среды (Matrix JFE) рассмотрены в отечественной литературе, но в предлагаемом пособии они проанализированы более подробно. Весьма ценным для студентов будет проведение сопоставительного анализа методик их применения.

Для закрепления знаний обучающимся предлагается значительное число различных упражнений. По изучаемому курсу желательно использовать материал для анализа, исходя из практики работы отечественных предприятий и организаций.

Рассмотренные конкретные методы стратегического менеджмента помогут российским организациям осуществить эффективное реформирование бизнес-процессов в условиях кризиса и глобализации. Приведенный материал соответствует учебной программе курса; «Стратегический менеджмент» поможет магистрам, преподавателям вузов подготовиться к семинарским занятиям и успешной сдаче экзаменов. Для, магистров, преподавателей, менеджеров, специалистов, руководителей предприятий всех форм собственности.

Рассмотренные конкретные методы стратегического менеджмента помогут отечественным организациям осуществить эффективное реформирование бизнес-процессов в условиях кризиса и глобализации. Приведенный материал соответствует учебной программе курса «Стратегический менеджмент» поможет преподавателям и обучающимся вузов подготовиться к семинарским занятиям и успешной сдаче экзаменов.

Для, магистров, преподавателей, менеджеров, специалистов, руководителей предприятий всех форм собственности.

INTRODUCTION

..... "It's not enough to just know the management in the economy. A real student needs to acquire art and competence in order to be successful in their work. "

V.N. Popov

The graduate who mastered the master's program 38.04.02 "Management" should have general professional competencies: GPC-1 - readiness for communication in oral and written forms in Russian and foreign languages for solving professional tasks, as well as professional competencies: PC-7- ability to generalize and legally assess the results of studies of topical management problems received by domestic and foreign researchers.

The purpose of this training tool is to expand the presentation of the master students about foreign views on the problem of strategic management, the replenishment of the vocabulary of professional terms in English, and their acceptance of the feasible participation in the critical interpretation of the theory and practice of management of American origin imported into our country at the end of the twentieth century.

The main attention is paid to the creative character of strategic management, analysis of the external environment of modern firms, evaluation of the resource concept of competitive advantages, hierarchical procedures for building strategic management, and systems for implementing strategic decisions.

Tasks of strategic management:

• Formation of master's ideas about modern trends in the development of strategic management, the main approaches to the definition of strategy

• Introduction to the basic concepts and categories of strategic management

• Study of the principles and theoretical foundations of the formation of strategies

• Mastering business analysis methods and tools

• Encourage the skills to independently solve practical problems and situations that arise in organizations in the implementation of strategic management.

On the pages of the training manual students will meet with terms for the domestic literature on management, which are not traditional. Thus, the use of the terms "audit" and "organizational audit", applied to managerial processes, has not found wide application. Despite the fact that its traditional content (checking accounts, revision) is evident, it is not entirely accurate, with reference to management, as the economic essence of this action is transferred.

"... Audit is the process of obtaining and evaluating (monitoring) objective data (available international standards and standards for the forms of data submitted) in the relevant professional activities (there are standards for the elements of this activity) that determine the level of their compliance with certain criteria, norms and standards" [A.A. Smirnov, p.335].

In this manual, the term "audit" is used in a meaning that is wider than is accepted in the domestic literature, which, undoubtedly, will contribute to the expansion of the professional outlook of future management masters.

A distinctive feature of the proposed training manual is the wide use of various tools for assessing situations, developing, justifying and making managerial decisions, which allows identifying and taking into account the impact of external and internal factors of the organization on its development strategy.

The proposed classification of elements, the identification of key factors of the external and internal environment will be useful for future highly skilled management personnel in the conditions of domestic management.

The tools proposed in the manual: competitive analysis - the five-factor model of M.Porter; matrix of environmental factors assessment (Matrix EFE); matrix of competitive profile (CPM); matrix of the assessment of the factors of the internal environment (Matrix JFE) are considered in the domestic literature, but they are analyzed in more detail in the manual. Very valuable for students will be a comparative analysis of the methods of their application.

To consolidate knowledge, students are offered a large number of different exercises. According to the course, it is desirable to use the material for analysis, based on the practice of domestic enterprises and organizations.

The specific methods of strategic management considered will help Russian organizations to effectively reform business processes in a crisis and globalization. This material corresponds to the curriculum of the course; "Strategic Management" will help the masters, university professors prepare for seminars and successful passing exams. For, masters, teachers, managers, specialists, heads of enterprises of all forms of ownership.

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For, masters, teachers, managers, specialists, heads of enterprises of all forms of ownership.

ГЛАВА 1. ВНЕШНЯЯ ОЦЕНКА

Аннотация. Основная цель раздела-внешний ситуационный анализ - рассмотрение информации о состоянии экономики в целом (факторы макросреды) и об экономическом положении данной конкретной организации, конкуренции, рынках сбыта, наличии необходимых транспортных путей, политической и экологической обстановкой в стране, Законодательного и правового пространства.

CHAPTER 1. THE EXTERNAL ASSESSMENT

Annotation

The main objective of the section is external situational analysis - consideration of information on the state of the economy as a whole (macro factors) and on the economic situation of this particular organization, competition, markets, availability of necessary transport routes, political and environmental conditions in the country, legislative and legal space.

THE MAIN CONTENT OF THE CHAPTER 1.

After studying this chapter, you should be able to do the following:

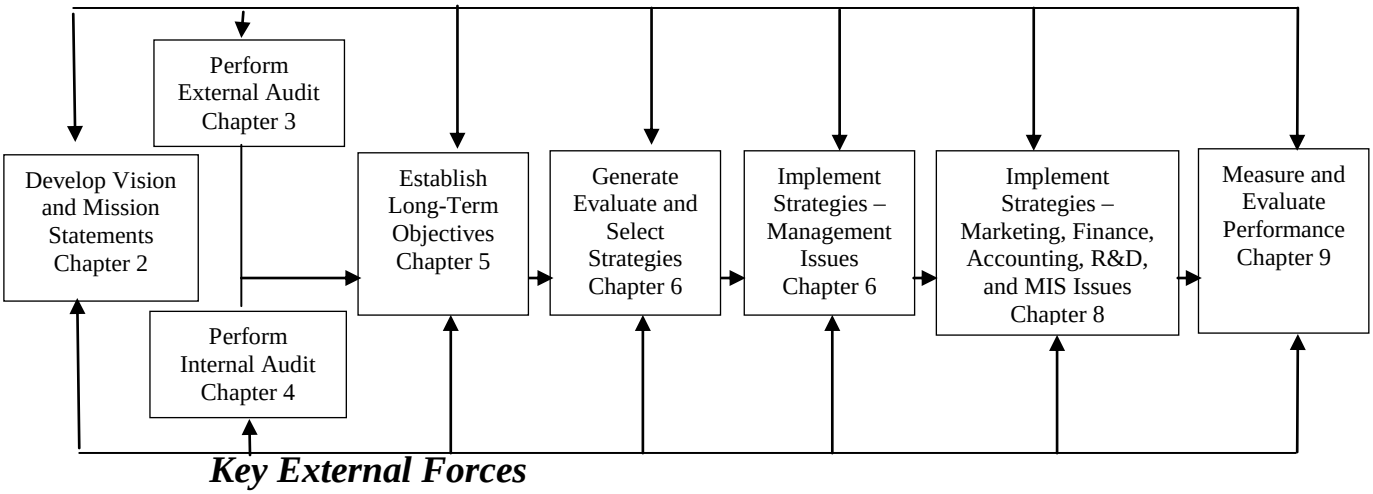
1. Describe how to conduct an external strategic-management audit.
2. Discuss ten major external forces that affect organizations: economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive.
3. Identify key sources of external information, including the Internet.
4. Discuss important forecasting tools used in strategic management.
5. Discuss the importance of monitoring external trends and events.
6. Explain how to develop an EFE Matrix.
7. Explain how to develop a Competitive Profile Matrix.
8. Discuss the importance of gathering competitive intelligence.
9. Describe the trend toward cooperation among competitors.
10. Discuss the economic environment in Russia.
11. Discuss the global challenge facing American Firms.

This chapter examines the tools and concepts needed to conduct an external strategic management audit (sometimes called *environmental scanning* or *industry analysis).* An *external audit* focuses on identifying and evaluating trends and events beyond the control of a single firm, such as increased foreign competition, population shifts to the Sunbelt, an aging society, consumer fear of traveling, and stock market volatility. An external audit reveals key opportunities and threats confronting an organization so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats. This chapter presents a practical framework for gathering, assimilating, and analyzing external information. The Industrial Organization (I/O) view of strategic management is introduced.

1.1. The Nature of an External Audit

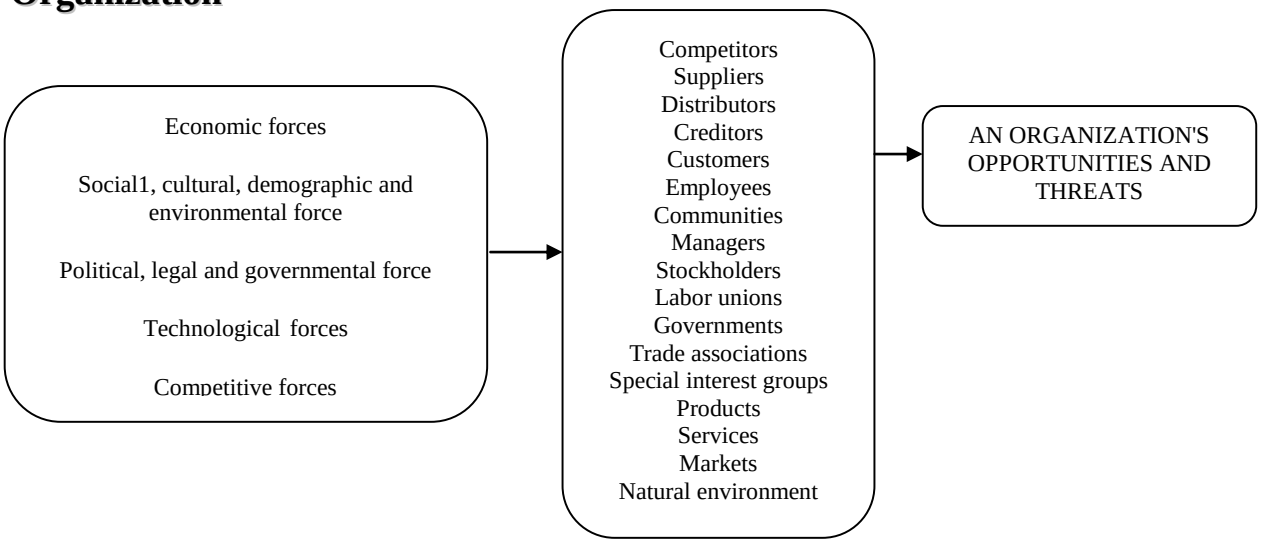
The purpose of an *external audit* is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term *finite* suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. Figure 3-1 illustrates how the external audit fits into the strategic-management process.

FIGURE 3-1 A Comprehensive Strategic-Management Model



External forces can be divided into five broad categories: (1) economic forces; (2) social, cultural, demographic, and environmental forces; (3) political, governmental, and legal forces; technological forces; and (5) competitive forces. Relationships among these forces and an organization are depicted in Figure 3-2. External trends and events significantly affect all products, services, markets, and organizations in the world.

FIGURE 3-2 Relationships Between Key External Forces and an Organization



Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributers. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The increasing complexity of business today is evidenced by more countries developing the capacity and will to compete aggressively in world markets. Foreign businesses and countries are willing to learn, adapt, innovate, and invent to compete successfully in the marketplace. There are more competitive new technologies in Europe and the Far East today than ever before. American businesses can no longer beat foreign competitors with ease.

1.1.1. The process of performing an external audit

The process of performing an external audit must involve as many managers and employees as possible. As emphasized in earlier chapters, involvement in the strategic management process can lead to understanding and commitment from organizational members. Individuals appreciate having the opportunity to contribute ideas and to gain a better understanding of their firm's industry, competitors, and markets. To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit. This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information.

Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm. These key external factors should be listed on flip charts or a blackboard. A prioritized list of these factors could be obtained by requesting that all managers rank the factors identified, from 1 for the most important opportunity/threat to 20 for the least important opportunity/threat. These key external factors can vary over time and by industry. Relationships with suppliers or distributors are often a critical success factor. Other variables commonly used include market share, breadth of competing products, world economies, foreign affiliates, proprietary and key account advantages, price competitiveness, technological advancements, population shifts, interest rates, and pollution abatement.

Freund emphasized that these key external factors should be (1) important to achieving long-term and annual objectives, (2) measurable, (3) applicable to all competing firms, and (4) hierarchical in the sense that some will pertain to the overall

company and others will be more narrowly focused on functional or divisional areas.[1] A final list of the most important key external factors should be communicated and distributed widely in the organization. Both opportunities and threats can be key external factors.

1.2. The Industrial organization (I/O) View

The *Industrial Organization (I/O)* approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm achieving competitive advantage. Proponents of the I/O view, such as Michael Porter, contend that organizational performance will be primarily determined by industry forces. Porter's Five-Forces Model, presented later in this chapter, is an example of the I/O perspective, which focuses upon analyzing external forces and industry variables as a basis for getting and keeping competitive advantage. Competitive advantage is determined largely by competitive positioning within an industry, according to I/O advocates. Managing strategically from the I/O perspective entails firms striving to compete in attractive industries, avoiding weak or faltering industries, and gaining a full understanding of key external factor relationships within that attractive industry. I/O research was mainly conducted from the 1960s to the 1980s and provided important contributions to our understanding of how to gain competitive advantage.

I/O theorists contend that the industry in which a firm chooses to compete has a stronger influence on the firm's performance than do the internal functional decisions managers make in marketing, finance, and the like. Firm performance, they contend, is primarily based more on industry properties, such as economies of scale, barriers to market entry, product differentiation, and level of competitiveness than on internal resources, capabilities, structure, and operations. Research findings suggest that approximately 20 percent of a firm's profitability can be explained by the industry, whereas 36 percent of the variance in profitability is attributed to the firm's internal factors (see the RBV discussion in the next chapter).[2]

The I/O view has enhanced our understanding of strategic management. However, it is not a question of whether external or internal factors are more important

in gaining and maintaining competitive advantage. Effective integration and understanding of *both* external and internal factors is the key to securing and keeping a competitive advantage. In fact, as will be discussed in Chapter 6, matching key external opportunities/threats with key internal strengths/weaknesses provides the basis for successful strategy formulation.

1.3. Economic forces

As domestic and global economies slowly recover from recession, consumer confidence and disposable income are the lowest in a decade, whereas unemployment and consumer debt are the highest in a decade. Stock prices, interest rates, corporate profits, exports, and imports are all very low in the United States and abroad.

Increasing numbers of two-income households is an economic trend in America. As affluence increases, individuals place a premium on time. Improved customer service, immediate availability, trouble-free operation of products, and dependable maintenance and repair services are becoming more important. Americans today are more willing than ever to pay for good service if it limits inconvenience.

Economic factors have a direct impact on the potential attractiveness of various strategies. For example, when interest rates rise, funds needed for capital expansion become more costly or unavailable. Also, when interest rates rise, discretionary income declines, and the demand for discretionary goods falls. When stock prices increase, the desirability of equity as a source of capital for market development increases. Also, when the market rises, consumer and business wealth expands. A summary of economic variables that often represent opportunities and threats for organizations is provided in Table 3—1.

Trends in the dollar's value have significant and unequal effects on companies in different industries and in different locations. For example, the pharmaceutical, tourism, entertainment, motor vehicle, aerospace, and forest products industries benefit greatly when the dollar falls against the yen and euro.

Table 3-1 Key Economic Variables to Be Monitored

Shift to a service economy in the United States Availability of credit Level of disposable income Propensity of people to spend Interest rates Inflation rates Money market rates Federal government budget deficits Gross domestic product trend Consumption patterns Unemployment trends Worker productivity levels Value of the dollar in world markets Stock market trends Foreign countries' economic condition:	Import/export factors Demand shifts for different categories of goods and services Income differences by region and consumer groups Price fluctuations Export of labor and capital from the United States Monetary policies Fiscal policies Tax rates European Economic Community (EEC) policies Organization of Petroleum Exporting Countries (OPEC) policies Coalitions of Lesser Developed Countries (LDC) policies

A gricultural and petroleum industries are hurt by the dollar's rise against the currencies of Mexico, Brazil, Venezuela, and Australia. Generally, a strong or high dollar makes American goods more expensive in overseas markets. This worsens America's trade deficit. When the value of the dollar falls, tourism-oriented firms benefit because Americans do not travel abroad as much when the value of the dollar is low; rather, foreigners visit and vacation more in the United States.

A low value of the dollar means lower imports and higher exports; it helps U.S. companies' competitiveness in world markets. In 2004, the dollar fell to four-year lows against the euro and yen, which makes U.S. goods cheaper to foreign consumers and combats deflation by pushing up prices of imports. However, European firms such as Volkswagen AG, Nokia Corp., and Michelin complain that the strong euro hurts their financial performance. The low value of the dollar benefits the U.S. economy in many ways. First, it helps to stave off the risks of deflation in the U.S. and also reduces the U.S. trade deficit. In addition, the low value of the dollar raises the foreign sales and profits of domestic firms, thanks to dollar-induced gains, and encourages foreign countries to lower interest rates and loosen fiscal policy, which stimulates worldwide economic expansion. Some sectors, such as consumer staples, energy, materials, technology, and health care, especially benefit from a low value of the dollar. Manufacturers in many domestic industries in fact benefit because of a weak dollar, which forces foreign rivals to raise prices and extinguish discounts. Domestic firms with

big overseas sales, such as McDonald's, greatly benefit from a weak dollar.

In Europe, there are ten countries from Eastern Europe, the Baltics, and the Mediterranean scheduled to join the twelve-country European Union (EU) in May 2004. These countries are excited about adopting the euro as their currency. However, Sweden, in late 2003, rejected the euro as its currency although it has been an EU member since 1994. Denmark and Britain have delayed a vote until 2006 on whether to adopt the euro. Some European countries are having trouble meeting the euro requirement that a member country keep its federal budget deficits below 3 percent of gross domestic product (GDP). Germany and France have conspicuously and brazenly violated this rule since 2001, although they strongly demanded budget discipline as a condition for EU membership in 1997. Both countries' deficit is about 4 percent of GDP.

In the United States, inflation is as low as the Federal Reserve (Fed) wants, even so low that the economy could move into deflation. Yet the Fed's main weapon to guard against deflation is the federal funds rate (the interest rate at which banks can borrow money) which is at a forty-five-year low of 1 percent. With unemployment rates over 6 percent, the Fed is holding interest rates constant, but many analysts forecast rising interest rates as the economy improves.

Every business day, thousands of American workers learn that they will lose their jobs. More than 500,000 annual employee layoffs by U.S. firms in the 1990s led to terms such as *downsizing, rightsizing,* and *recruiting becoming* common. European firms, too, are downsizing. The U.S. and world economies face a sustained period of slow, low-inflationary expansion, global overcapacity, high unemployment, price wars, and increased competitiveness. Thousands of laid-off workers are being forced to become entrepreneurs to make a living. The United States is becoming more entrepreneurial every day.

In Europe, an economic rebound still eluded most countries as 2003 came to an end. Rising joblessness and nervousness about the euro coupled with rising unemployment still curtails consumer spending. In Japan, the economy is in its healthiest state in three years despite lower corporate profits due to a soaring yen. The Japanese

government expects GDP to rise 2.1 percent in 2004 with slow but steady economic improvement. Interest rates are low but are expected to rise as economies improve.

1.3.1. Russia's Economy

As the year 2004 begins, Russia's economy has never been healthier. Gross domestic product is growing 6 percent annually, investment is growing 14 percent annually, inflation is falling, foreign debt is low, foreign exchange reserves are mushrooming, and government finances are in surplus.[3] Higher prices for Russian oil are building trade surpluses by $30 billion annually, which is increasing the country's money supply by 40 percent each year. Real incomes of the Russian people are increasing 10 percent annually and the Russian stock market advanced over 30 percent in 2003. Real estate in Moscow increased 25 percent in 2003. However, the question is whether President Putin will make needed reforms before or after the March 2004 election. He should be cutting bureaucracy, overhauling tax and legal procedures, reducing organized crime, toughening up regulations on banks, and making sure Russia's economy does not grow too fast for its own good. In addition, many Russians are struggling to make ends meet. However, President Putin easily won re-election. One-fourth of Russia's population still lives below the poverty line, and this group of people is the main source of support for the Communist Party.[4]

Although Russia is still not a member of the World Trade Organization (WTO), President Putin has made joining the global group of trading partners one of his main economic goals. Moody's Investors Service granted Russia an investment-grade credit rating in October 2003 for the first time ever. One sticking point is that Russia continues to fight hard to limit foreign access to its banking, insurance, and telecommunications markets and also highly regulates prices of its natural gas and fuel exports. In the Fall of 2004, General Motors will begin producing the Opel Astra at its plant in the Southern Russian town of Togliatti. GM has a joint venture with the Russian firm Avtovaz.

1.3.2 Social, cultural, demographic, and environmental forces

Social, cultural, demographic, and environmental changes have a major impact upon virtually all products, services, markets, and customers. Small, large, for-profit and non-profit organizations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and environmental variables. In every way, the United States is much different today than it was yesterday, and tomorrow promises even greater changes.

The United States is getting older and less Caucasian. The oldest members of America's 76 million baby boomers plan to retire in 2011, and this has lawmakers and younger taxpayers deeply concerned about who will pay their social security, Medicare, and Medicaid. Individuals age 65 and older in the United States as a percent of the population will rise to 18.5 percent by 2025.

By the year 2075, the United States will have no racial or ethnic majority. This forecast is aggravating tensions over issues such as immigration and affirmative action. Hawaii, California, and New Mexico already have no majority race or ethnic group.

Population of the world passed 6 billion on October 12,1999; the United States has less than 300 million people. That leaves billions of people outside the United States who may be interested in the products and services produced through domestic firms. Remaining solely domestic is an increasingly risky strategy, especially as the world population continues to grow to estimated numbers of 7 billion in 2013, 8 billion in 2028, and 9 billion in 2054.

Social, cultural, demographic, and environmental trends are shaping the way Americans live, work, produce, and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies. There are now more American households with people living alone or with unrelated people than there are households consisting of married couples with children. American households are making more and more purchases online, but still are not that comfortable purchasing clothes online—as indicated in the "E-Commerce Perspective." Federated Stores is one of many brick-and-mortar firms pulling back from Internet operations. Federated is substantially reducing its macys.com and its

bloomingdales.com Internet catalog operations. Federated has found that customers shopping online are more comfortable buying hard goods, such as jewelry and gifts, than apparel. These two Federated Web sites have never been profitable, but they still remain in operation, primarily as marketing sites. Other traditional retailers are scaling back their Internet operations, including, Kmart with bluelight.com and Wal-Mart with walmart.com, as well as Toys "R" Us and Saks Fifth Avenue.

The United States Census Bureau projects that the number of Hispanics will increase to 15 percent of the population by 2021, when they will become a larger minority group than African Americans in America. Revenues of Hispanic-owned companies in the U.S. are growing faster than other firms.[5] The five largest domestic firms owned by Hispanics are Burt Automotive in Englewood, Colorado, Goya Foods in Secaucus, New Jersey, and three firms in Miami: Brightstar, MasTec, and Related Group of Florida.

During the 1990s, the number of individuals age fifty and over increased 18.5 percent- to 76 million. In contrast, the number of Americans under age fifty grew by just 3.5 percent. The trend toward an older America is good news for restaurants, hotels, airlines, cruise lines, tours, resorts, theme parks, luxury products and services, recreational vehicles, home builders, furniture producers, computer manufacturers, travel services, pharmaceutical firms, automakers, and funeral homes. Older Americans are especially interested in healthcare, financial services, travel, crime prevention, and leisure. The world's longest-living people are the Japanese, with Japanese women living to 86.3 years and men living to 80.1 years on average. By 2050, the Census Bureau projects that the number of Americans age 100 and older will increase to over 834,000 from just under 100,000 centenarians in the United States in 2000. Senior citizens are also senior executives at hundreds of American companies. Examples include 87-year-old William Dillard at Dillard's Department Stores; 79-year-old Sumner Redstone, CEO of Viacom; 71-year-old Ellen Gordon, president of Tootsie Roll Industries; 77-year-old Richard Jacobs, CEO of the Cleveland Indians; 76-year-old Leslie Quick, CEO of Quick & Reilly; 83-year-old Ralph Roberts, chairman of Comcast; and 76-year-old Alan Greenspan, chairman of the Federal Reserve. Americans age 65 and over will

increase from 12.6 percent of the U.S. population in 2000 to 20.0 percent by the year 2050.

The aging American population affects the strategic orientation of nearly all organizations. Apartment complexes for the elderly, with one meal a day, transportation, and utilities included in the rent, have increased nationwide. Called *life care facilities,* these complexes now exceed 2 million. Some well-known companies building these facilities include Avon, Marriott, and Hyatt. By the year 2005, individuals age 65 and older in the United States will rise to 13 percent of the total population; Japan's elderly population ratio will rise to 17 percent, and Germany's to 19 percent.

Americans are on the move in a population shift to the South and West (Sunbelt) and away from the Northeast and Midwest (Frost Belt). The Internal Revenue Service provides the Census Bureau with massive computer files of demographic data. By comparing individual address changes from year to year, the Census Bureau publishes extensive information about population shifts across the country.

For example, Nevada is the fastest-growing state. Arizona, Colorado, and Florida are close behind. States incurring the greatest loss of people are North Dakota, West Virginia, Iowa, Louisiana, and Pennsylvania. This type of information can be essential for successful strategy formulation, including where to locate new plants and distribution centers and where to focus marketing efforts.

Americans are becoming less interested in fitness and exercise. Fitness participants declined in the United States by 3.5 percent annually in the 1990s. Makers of fitness products, such as Nike, Reebok International, and CML Group—which makes NordicTrack—are experiencing declines in sales growth. *American Sports Data* in Hartsdale, New York, reports that "the one American in five who exercises regularly is now outnumbered by three couch potatoes."

Except for terrorism, no greater threat to business and society exists than the voracious, continuous decimation and degradation of our natural environment. The U.S. Clean Air Act went into effect in 1994. The U.S. Clean Water Act went into effect in 1984. A summary of important social, cultural, demographic, and environmental variables that represent opportunities or threats for virtually all organizations is given in

Table 3-2.

1.3.3. The U.S.-Mexican borders

Stretching 2,100 miles from the Pacific Ocean to the Gulf of Mexico, this 180-mile-wide strip of land is North America's fastest-growing region. The two nations meet along this border, where there are shantytowns just down the street from luxury residential neighborhoods.

There are now over 1,500 maquiladoras (assembly plants) on the Mexican side of the border. However, the maquiladoras have been under slow, steady assault from China despite the SARS epidemic there. China replaced Mexico in 2003 as the largest exporter to the U.S. For the first time in 2002 and again in 2003, China replaced the U.S. as the world's hottest destination for foreign direct investment. Because of China, Asia overtook Europe for the first time in 2003 as the continent receiving the most foreign direct investment. China has cheaper labor than Mexico and China gives companies more site location incentives than Mexico. An assembly-line worker in Guadalajara, Mexico, earns $2.50 to $3.50 an hour, whereas his counterpart in Guangdong, China, makes 50 cents to 80 cents.

China joined the World Trade Organization (WTO) in 2001 and now has thousands of seasoned supplier companies available to firms locating there. Mexico's exports to the U.S. grew 1.2 percent in 2002 while China's exports to the U.S. surged 19 percent.6 China is a ferocious technological competitor, whereas Mexico recently ranked number forty-seven by the World Economic Forum behind Botswana in technological development. Mexico's corporate income tax rate is 34 percent, double China's rate. Mexico's electricity rates are 40 percent higher than China's. Not all companies are relocating from Mexico to China, but hundreds are, and thousands more are choosing China over Mexico for new operations. The impact of this trend on the economic well-being of both Mexico and the U.S. is profound.

TABLE 3-2 Key Social, Cultural Demographic, and Environmental Variables

Childbearing rates Number of special interest groups Number of marriages Number of divorces Number of births Number of deaths Immigration and emigration rates Social security programs Life expectancy rates Per capita income Location of retailing, manufacturing, and service businesses Attitudes toward business Lifestyles Traffic congestion Inner-city environments Average disposable income Trust in government Attitudes toward government Attitudes toward work Buying habits Ethical concerns Attitudes toward saving Sex roles Attitudes toward investing Racial equality Use of birth control Average level of education Government regulation	Attitudes toward retirement Attitudes toward leisure time Attitudes toward product quality Attitudes toward customer service Pollution control Attitudes toward foreign peoples Energy conservation Social programs Number of churches Number of church members Social responsibility Attitudes toward careers Population changes by race, age, sex, and level of affluence Attitudes toward authority Population changes by city, county, state, region, and country Value placed on leisure time Regional changes in tastes and preferences Number of women and minority workers Number of high school and college graduates by geographic area Recycling Waste management Air pollution Water pollution Ozone depletion Endangered species

1.3.4. Political, governmental, and legal forces

Federal, state, local, and foreign governments are major regulators, deregulators, sub-seizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations.

For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit. Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly. The U.S. Justice Department offers excellent information at its Web site (www.usdoj.gov) on such topics.

In the world of biopolitics, Americans are still deeply divided over issues such as assisted suicide, genetic testing, genetic engineering, cloning, stem-cell research, and

abortion. Americans are also divided regarding feelings toward the natural environment policies and practices of the Bush administration—as indicated in the "Natural Environment Perspective." Political issues have great ramifications for companies in many industries, ranging from pharmaceuticals to computers.

The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

For example, the United States, Japan, and Europe are critical of the Chinese government for its fixed exchange rate, which analysts contend takes jobs from other countries and artificially cuts the cost of China's exports by significantly undervaluing its currency. A rise in the value of China's currency would make Chinese-made goods more expensive abroad. China's currency is called the yuan, which is fixed at 8.30 yuan to $ 1.00.

In Europe, many large multinational firms such as John Deere, Polo Ralph Lauren, Gillette, Cargill, and General Mills are moving their headquarters from France, Netherlands, and Germany to Switzerland and Ireland in order to avoid costs associated with *tax harmonization*—a term that refers to the EU's effort to end competitive tax breaks among member countries. In the World Economic Forum's most recent annual report on global competitiveness, ratings for the Netherlands, Belgium, France, and Germany plunged while the ratings for Switzerland, a non-EU member, surged. Although the EU strives to standardize tax breaks, member countries vigorously defend their right to politically and legally set their own tax rates. Behind Switzerland as the most attractive European location for corporations, Ireland keeps its corporate tax rates low which is why Ingersoll-Rand recently moved much of its operations there. About 650 American companies already have operations in Switzerland.

Political forecasting can be especially critical and complex for multinational firms that depend on foreign countries for natural resources, facilities, the distribution of products, special assistance, or customers. Strategists today must possess skills that enable them to deal more legalistically and politically than previous strategists, whose attention was directed more toward economic and technical affairs of the firm.

Strategists today are spending more time anticipating and influencing public policy actions. They spend more time meeting with government officials, attending hearings and government-sponsored conferences, giving public speeches, and meeting with trade groups, industry associations, and government agency directors. Before entering or expanding international operations, strategists need a good understanding of the political and decision-making processes in countries where their firms may conduct business. For example, republics that made up the former Soviet Union differ greatly in wealth, resources, language, and lifestyle.

Increasing global competition accents the need for accurate political, governmental, and legal forecasts. Many strategists will have to become familiar with political systems in Europe, Africa, and Asia and with trading currency futures. East Asian countries already have become world leaders in labor-intensive industries. A world market has emerged from what previously was a multitude of distinct national markets, and the climate for international business today is much more favorable than yesterday. Mass communication and high technology are creating similar patterns of consumption in diverse cultures worldwide. This means that many companies may find it difficult to survive by relying solely on domestic markets.

It is no exaggeration that in an industry that is, or is rapidly becoming, global, the riskiest possible posture is to remain a domestic competitor. The domestic competitor will watch as more aggressive companies use this growth to capture economies of scale and learning. The domestic competitor will then be faced with an attack on domestic markets using different (and possibly superior) technology, product design, manufacturing, marketing approaches, and economies of scale. A few examples suggest how extensive the phenomenon of world markets has already become. Hewlett-Packard's manufacturing chain reaches halfway around the globe, from well-paid, skilled engineers in California to low-wage assembly workers in Malaysia. General Electric has survived as a manufacturer of inexpensive audio products by centralizing its world production in Singapore.[7]

Local, state, and federal laws, regulatory agencies, and special interest groups can have a major impact on the strategies of small, large, for-profit, and nonprofit organizations. Many companies have altered or abandoned strategies in the past because

of political or governmental actions. A summary of political, governmental, and legal variables that can represent key opportunities or threats to organizations is provided in Table 3-3.

TABLE 3-3 Some Political, Governmental, and Leaal Variables

Government regulations or deregulations	Sino-American relationships
Changes in tax laws	Russian-American relationships
Special tariffs	European-American relationships
Political action committees	African-American relationships
Voter participation rates	Import-export regulations
Number, severity, and location of government protests	Government fiscal and monetary policy changes
Number of patents	Political conditions in foreign countries
Changes in patent laws	Special local, state, and federal laws
Environmental protection laws	Lobbying activities
Level of defense expenditures	Size of government budgets
Legislation on equal employment	World oil, currency, and labor markets
Level of government subsidies	Location and severity of terrorist activities
Antitrust legislation	Local, state, and national elections

1.3.5. Technological forces

Revolutionary technological changes and discoveries are having a dramatic impact on organizations. Superconductivity advancements alone, which increase the power of electrical products by lowering resistance to current, are revolutionizing business operations, especially in the transportation, utility, healthcare, electrical, and computer industries.

The *Internet* is acting as a national and even global economic engine that is spurring productivity, a critical factor in a country's ability to improve living standards; and it is saving companies billions of dollars in distribution and transaction costs from direct sales to self-service systems.

The Internet is changing the very nature of opportunities and threats by altering the life cycles of products, increasing the speed of distribution, creating new products and services, erasing limitations of traditional geographic markets, and changing the historical trade-off between production standardization and flexibility. The Internet is altering economies of scale, changing entry barriers, and redefining the relationship between industries and various suppliers, creditors, customers, and competitors.

To effectively capitalize on e-commerce, a number of organizations are estab-

lishing two new positions in their firms: *chief information officer (CIO)* and *chief technology officer (CTO).* This trend reflects the growing importance of *information technology (IT)* in strategic management. A CIO and CTO work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed. These individuals are responsible for developing, maintaining, and updating a company's information database. The CIO is more a manager, managing the overall external-audit process; the CTO is more a technician, focusing on technical issues such as data acquisition, data processing, decision-support systems, and software and hardware acquisition.

Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements can dramatically affect organizations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position. Technological advancements can create new markets, result in a proliferation of new and improved products, change the relative competitive cost positions in an industry, and render existing products and services obsolete. Technological changes can reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills, and result in changing values and expectations of employees, managers, and customers. Technological advancements can create new competitive advantages that are more powerful than existing advantages. No company or industry today is insulated against emerging technological developments. In high-tech industries, identification and evaluation of key technological opportunities and threats can be the most important part of the external strategic-management audit.

Organizations that traditionally have limited technology expenditures to what they can fund after meeting marketing and financial requirements urgently need a reversal in thinking. The pace of technological change is increasing and literally wiping out businesses every day. An emerging consensus holds that technology management is one of the key responsibilities of strategists. Firms should pursue strategies that take advantage of technological opportunities to achieve sustainable, competitive advantages in the marketplace.

Technology-based issues will underlie nearly every important decision that strategists make. Crucial to those decisions will be the ability to approach technology planning analytically and strategically... technology can be planned and managed using formal techniques similar to those used in business and capital investment planning. An effective technology strategy is built on a penetrating analysis of technology opportunities and threats, and an assessment of the relative importance of these factors to overall corporate strategy.[8]

In practice, critical decisions about technology too often are delegated to lower organizational levels or are made without an understanding of their strategic implications. Many strategists spend countless hours determining market share, positioning products in terms of features and price, forecasting sales and market size, and monitoring distributors; yet too often, technology does not receive the same respect.

Not all sectors of the economy are affected equally by technological developments. The communications, electronics, aeronautics, and pharmaceutical industries are much more volatile than the textile, forestry, and metals industries. For strategists in industries affected by rapid technological change, identifying and evaluating technological opportunities and threats can represent the most important part of an external audit.

For example, in the office supply industry, business customers find that purchasing supplies over the Internet is more convenient than shopping in a store. Office Depot was the first office supply company to establish a Web site for this purpose and remains the largest Internet office supply retailer, with close to $1 billion in sales. Staples, Inc., has recently also entered the Internet office supply business with its staples.com Web site, but it has yet to make a profit on these operations, although revenue from the site is growing dramatically.

1.3.6. Competitive Forces

The top five U.S. competitors in four different industries are identified in Table 3-4. An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies.

Collecting and evaluating information on competitors is essential for successful

strategy formulation. Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Most multidivisional firms generally do not provide sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information.

TABLE 3-4 The Top Five U.S. Competitors in Four Different Industries in 2003

	2003 SALES (IN MILLIONS)	% CHANGE FROM 2002	2003 PROFITS (IN MILLIONS)	% CHANGE FROM 2002
BEVERAGES				
PepsiCo	26,971	+ 7	3,568	+ 19
Coca-Cola Enterprises	17,330	+ 8	676	+ 37
Anheuser-Busch	14,146	+ 4	2,075	+ 7
Pepsi Bottling Group	10,265	+ 11	422	- 1
Coors (Adolph)	4,000	+ 6	174	+ 8
PHARMACEUTICALS				
Pfizer	45,188	+40	1,639	- 82
Johnson & Johnson	41,862	+ 15	7,197	+ 9
Merck	22,485	+ 5	6,589	- 3
Bristol-Myers Squibb	20,671	+ 14	2,952	+ 45
Abbott Laboratories	19,680	+ 11	2,753	- 1
MACHINERY				
Caterpillar	22,763	+ 13	1,099	+ 38
Deere	15,534	+ 11	643	+101
Illinois Tool Works	10,035	+ 6	1,040	+ 12
Ingersoll-Rand	9,876	+ 11	593	+ 62
Paccar	8,194	+ 14	526	+ 42
COMPUTERS				
IBM	89,131	+ 10	7,613	+ 43
Hewlett-Packard	73,061	+ 29	2,539	None
Dell	39,667	+ 18	2,499	+ 27
Sun Microsystems	11,196	- 8	-1,446	None
Apple Computer	6,741	+ 15	137	+552

However, many businesses use the Internet to obtain most of their information on competitors. The Internet is fast, thorough, accurate, and increasingly indispensable in this regard. Addressing questions about competitors such as those presented in Table 3-5 is important in performing an external audit.

Competition in virtually all industries can be described as intense – and sometimes as cutthroat. For example, when Italian car maker Fiat Auto had financial troubles in 2003, Ford Motor boosted advertising and marketing spending 10 to 20 percent in Italy, even though Ford was slashing expenses elsewhere. Renault SA and Peugeot SA, other rivals to Fiat, also boosted consumer incentives in the Italian market.

Fiat's market share in Italy has recently dropped from 40 percent to 27 percent. If a firm detects weakness in a competitor, no mercy at all is shown in capitalizing on its problems.

Seven characteristics describe the most competitive companies in America: (1) Market share matters; the 90th share point isn't as important as the 91st, and nothing is more dangerous than falling to 89; (2) Understand and remember precisely what business you are in; (3) Whether it's broke or not, fix it—make it better; not just products, but the whole company, if necessary; (4) Innovate or evaporate; particularly in technology-driven businesses, nothing quite recedes like success; (5) Acquisition is essential to growth; the most successful purchases are in niches that add a technology or a related market; (6) People make a difference; tired of hearing it? Too bad; (7) There is no substitute for quality and no greater threat than failing to be cost-competitive on a global basis; these are complementary concepts, not mutually exclusive ones.[9]

TABLE 3-5 Key Questions About Competitors

1. What are the major competitors' strengths?
2. What are the major competitors' weaknesses?
3. What are the major competitors' objectives and strategies?
4. How will the major competitors most likely respond to current economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful counterattack by our major competitors?
7. How are our products or services positioned relative to major competitors?
8. To what extent are new firms entering and old firms leaving this industry?
9. What key factors have resulted in our present competitive position in this industry?
10. How have the sales and profit rankings of major competitors in the industry changed over recent years? Why have these rankings changed that way?
11. What is the nature of supplier and distributor relationships in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

1.4. Competitive intelligence programs

What is competitive intelligence? *Competitive intelligence (CI),* as formally defined by the Society of Competitive Intelligence Professionals (SCIP), is a systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business's own goals (SCIP Web site).

Good competitive intelligence in business, as in the military, is one of the keys to success. The more information and knowledge a firm can obtain about its competitors, the more likely it is that it can formulate and implement effective strategies. Major competitors' weaknesses can represent external opportunities; major competitors' strengths may represent key threats.

According to *BusinessWeek,* there are more than 5,000 corporate spies now actively engaged in intelligence activities, and nine out of ten large companies have employees dedicated solely to gathering competitive intelligence.[10] The article contends that many large U.S. companies spend more than $1 million annually tracking their competitors. Evidence suggests that the benefits of corporate spying include increased revenues, lower costs, and better decision making.

Unfortunately, the majority of U.S. executives grew up in times when American firms dominated foreign competitors so much that gathering competitive intelligence seemed not worth the effort. Too many of these executives still cling to these attitudes to the detriment of their organizations today. Even most MBA programs do not offer a course in competitive and business intelligence, thus reinforcing this attitude. As a consequence, three strong misperceptions about business intelligence prevail among American executives today:

1. Running an intelligence program requires lots of people, computers, and other resources.

2. Collecting intelligence about competitors violates antitrust laws; business intelligence equals espionage.

3. Intelligence gathering is an unethical business practice.

All three of these perceptions are totally misguided. Any discussions with a competitor about price, market, or geography intentions could violate antitrust statutes,

but this fact must not lure a firm into underestimating the need for and benefits of systematically collecting information about competitors for the purpose of enhancing a firm's effectiveness. The Internet has become an excellent medium for gathering competitive intelligence. Information gathering from employees, managers, suppliers, distributors, customers, creditors, and consultants also can make the difference between having superior or just average intelligence and overall competitiveness.

Firms need an effective competitive intelligence (CI) program. The three basic missions of a CI program are (1) to provide a general understanding of an industry and its competitors, (2) to identify areas in which competitors are vulnerable and to assess the impact strategic actions would have on competitors, and (3) to identify potential moves that a competitor might make that would endanger a firm's position in the market.[12] Competitive information is equally applicable for strategy formulation, implementation, and evaluation decisions. An effective CI program allows all areas of a firm to access consistent and verifiable information in making decisions. All members of an organization—from the chief executive officer to custodians—are valuable intelligence agents and should feel themselves to be a part of the CI process. Special characteristics of a successful CI program include flexibility, usefulness, timeliness, and cross-functional cooperation.

The increasing emphasis on *competitive analysis* in the United States is evidenced by corporations putting this function on their organizational charts under job titles such as Director of Competitive Analysis, Competitive Strategy Manager, Director of Information Services, or Associate Director of Competitive Assessment. The responsibilities of a *director of competitive analysis* include planning, collecting data, analyzing data, facilitating the process of gathering and analyzing data, disseminating intelligence on a timely basis, researching special issues, and recognizing what information is important and who needs to know. Competitive intelligence is not corporate espionage because 95 percent of the information a company needs in order to make strategic decisions is available and accessible to the public. Sources of competitive information include trade journals, want ads, newspaper articles, and government filings, as well as customers, suppliers, distributors, competitors themselves, and the

Internet.

Unethical tactics such as bribery, wiretapping, and computer break-ins should never be used to obtain information. Marriott and Motorola—two American companies that do a particularly good job of gathering competitive intelligence—agree that all the information you could wish for can be collected without resorting to unethical tactics. They keep their intelligence staffs small, usually under five people, and spend less than $200,000 per year on gathering competitive intelligence.

Unilever recently sued Procter & Gamble (P&G) over that company's corporate-espionage activities to obtain the secrets of its Unilever hair-care business.

After spending $3 million to establish a team to find out about competitors in the domestic hair-care industry, P&G allegedly took roughly eighty documents from garbage bins outside Unilever's Chicago offices. P&G produces Pantene and Head & Shoulders shampoos, while Unilver has hair-care brands such as ThermaSilk, Suave, Salon Selective, and Finesse. Similarly, Oracle Corp. recently admitted that detectives it hired paid janitors to go through Microsoft Corp.'s garbage, looking for evidence to use in court.

An interesting aspect of any competitive analysis discussion is whether strategies themselves should be secret or open within firms. The Chinese warrior Sun Tzu and military leaders today strive to keep strategies secret, as war is based on deception. However, for a business organization, secrecy may not be best. Keeping strategies secret from employees and stakeholders at large could severely inhibit employee and stakeholder communication, understanding, and commitment and also forgo valuable input that these persons could have regarding formulation and/or implementation of that strategy. Thus strategists in a particular firm must decide for themselves whether the risk of rival firms easily knowing and exploiting a firm's strategies is worth the benefit of improved employee and stakeholder motivation and input. Most executives agree that some strategic information should remain confidential to top managers, and that steps should be taken to ensure that such information is not disseminated beyond the inner circle. For a firm that you may own or manage, would you advocate openness or secrecy in regard to strategies being formulated and implemented?

1.4.1. Cooperation among competitors

Strategies that stress cooperation among competitors are being used more. For example, Lockheed teamed up with British Aerospace PLC to compete against Boeing Company to develop the next-generation U.S. fighter jet. Lockheed's cooperative strategy with a profitable partner in the Airbus Industry consortium encourages broader Lockheed-European collaboration as Europe's defense industry consolidates. The British firm offers Lockheed special expertise in the areas of short takeoff and vertical landing technologies, systems integration, and low-cost design and manufacturing.

Cooperative agreements between competitors are even becoming popular. For example, Boeing and Lockheed are working together to modernize the United States' overburdened air-traffic-control system. Northrop Grumman, also a competitor in the defense industry, may join the cooperative agreement too. For collaboration between competitors to succeed, both firms must contribute something distinctive, such as technology, distribution, basic research, or manufacturing capacity. But a major risk is that unintended transfers of important skills or technology may occur at organizational levels below where the deal was signed.[13] Information not covered in the formal agreement often gets traded in the day-to-day interactions and dealings of engineers, marketers, and product developers. Firms often give away too much information to rival firms when operating under cooperative agreements! Tighter formal agreements are needed.

Fierce competitors America Online, Microsoft, and Yahoo! for the first time joined forces in 2003 to form a united front against spam. Spam costs U.S. companies nearly $10 billion annually and now accounts for one-half of all e-mail sent. "The Internet quality of life has deteriorated due to out-of-control spammers," says Nicholas Graham at AOL. Spammers like hackers, change tactics frequently and are growing in numbers because it is a cheap way to reach millions of consumers. Worldwide spam messages sent daily grew from 4.0 to 8.8 billion from 2001 to 2004.[14] The three large competing ISP firms are jointly developing software and guidelines to combat spam, which bogs down Internet traffic worldwide and steals time from almost all Internet

users.

Perhaps the best example of rival firms in an industry forming alliances to compete against each other is the airline industry. There were three major alliances that encompassed 40 airlines in late 2003. The Star Alliance has 16 airlines such as Air Canada, Mixicana, Spanair, United, and Varig, while the One World Alliance has 8 airlines such as American, British Air, and Lan Chile, and finally, Sky Team Alliance has 6 airlines such as Air France, Delta, and Korean Air. KLM is set to join Sky Team soon, Swiss International is scheduled to join One World, and US Airways is scheduled to join Star Alliance. Firms are moving to compete as groups within alliances more and more as it becomes increasingly difficult to survive alone in some industries.

The idea of joining forces with a competitor is not easily accepted by Americans, who often view cooperation and partnerships with skepticism and suspicion. Indeed, joint ventures and cooperative arrangements among competitors demand a certain amount of trust if companies are to combat paranoia about whether one firm will injure the other. However, multinational firms are becoming more globally cooperative, and increasing numbers of domestic firms are joining forces with competitive foreign firms to reap mutual benefits. Kathryn Harrigan at Columbia University says, "Within a decade, most companies will be members of teams that compete against each other."

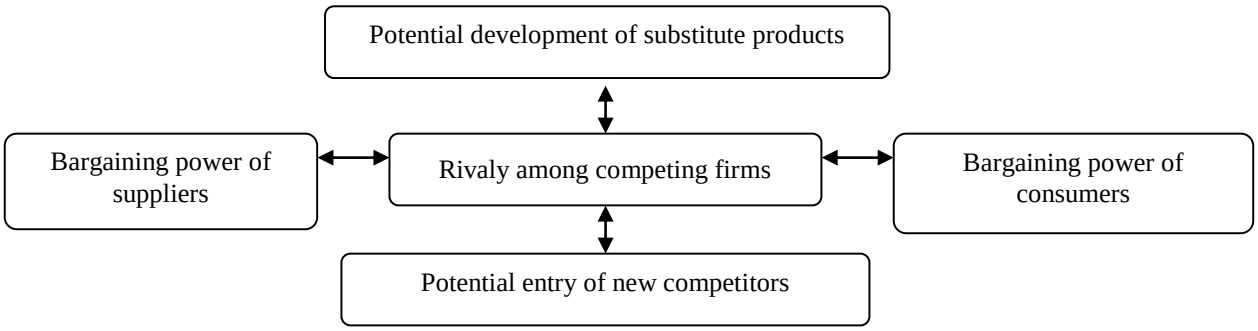
American companies often enter alliances primarily to avoid investments, being more interested in reducing the costs and risks of entering new businesses or markets than in acquiring new skills. In contrast, *learning from the partner* is a major reason why Asian and European firms enter into cooperative agreements. American firms, too, should place learning high on the list of reasons to be cooperative with competitors. American companies often form alliances with Asian firms to gain an understanding of their manufacturing excellence, but Asian competence in this area is not easily transferable. Manufacturing excellence is a complex system that includes employee training and involvement, integration with suppliers, statistical process controls, value engineering, and design. In contrast, American know-how in technology and related areas more easily can be imitated. American firms thus need to be careful not to give away more intelligence than they receive in cooperative agreements with rival Asian

firms.

1.4.2. Competitive Analysis: Porter's Five-Forces Model

As illustrated in Figure 3-3, *Porter's Five-Forces Model* of competitive analysis is a widely used approach for developing strategies in many industries. The intensity of competition among firms varies widely across industries. Table 3-6 reveals the average return on equity for firms in twenty-four different industries in 2003. Intensity of competition is highest in lower-return industries. For example, in the electrical and electronics industry, collective impact of competitive forces is so brutal that the industry is clearly "unattractive" from a profit-making standpoint. Rivalry among existing firms is severe, new rivals can enter the industry with relative ease, and both suppliers and customers can exercise considerable bargaining leverage. Note in Table 3-6 that the average 2003 return on equity among firms in this industry was negative 44.6 percent.

FIGURE 3-3 The Five-Forces Model of Competition



Intensity of Competition Among Firms in Different Industries—2003 Results Provided

RANK	INDUSTRY	2003 AVERAGE RETURN ON EQUITY
1.	Materials	5.1
2.	Semiconductors and Equipment	5.3
3.	Real Estate	6.8
4.	Technology Hardware	7.6
5.	Transportation	8.8
6.	Automobiles and Components	9.0
7.	Media	9.0
8.	Utilities	9.1
9.	Telecommunication Services	10.0
10.	Hotels/Restaurants/Leisure	10.5
11.	Insurance	11.5
12.	Software and Services	12.6
13.	Capital Goods	14.5
14.	Retailing	14.6
15.	Pharmaceuticals and Biotechnology	15.4
16.	Diversified Financials	16.6
17.	Commercial Services and Supplies	16.7
18.	Food and Staples Retailing	17.9
19.	Energy	18.3
20.	Banks	18.3
21.	Consumer Durables and Apparel	18.3
22.	Health Care Equipment/Services	19.0
23.	Food/Beverage/Tobacco	20.3
24.	Household and Personal Products	36.6

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According to Porter, the nature of competitiveness in a given barter, the nature of competitiveness in a given industry can be viewed as a composite of five forces:

1. Rivalry among competing firms

2. Potential entry of new competitors

3. Potential development of substitute products

4. Bargaining power of suppliers

5. Bargaining power of consumers

1.4.3. Rivalry among competing firms

Rivalry among competing firms is usually the most powerful of the five competitive forces. The strategies pursued by one firm can be successful only to the extent that they provide competitive advantage over the strategies pursued by rival firms. Changes in strategy by one firm may be met with retaliatory countermoves, such as lowering prices, enhancing quality, adding features, providing services, extending warranties, and increasing advertising.

In the Internet world, competitiveness is fierce. Amazon.com watches in dismay as customers use its site's easy-to-use format, in-depth reviews, expert recommendations—and then bypass the cash register as they click their way over to deep-discounted sites such as Buy.com to make their purchases. Buy.com's CEO says, "The Internet is going to shrink retailers' margins to the point where they will not survive." Price-comparison Web sites allow consumers to efficiently find the lowest-priced: seller on the Internet. Kate Delhagen of Forrester Research says, "If you're a consumer and you're thinking about any kind of researched purchase, you're leaving thousands of dollars on the table if you don't at least look online."[15] The costs of setting up a great e-commerce site are nothing compared to the cost of acquiring real estate for building retail stores—or even printing and mailing catalogs.

Free-flowing information on the Internet is driving down prices and inflation worldwide. The Internet, coupled with the common currency in Europe, enables consumers to easily make price comparisons across countries. Just for a moment, consider the implications for car dealers who used to know everything about a new car's pricing, while you, the consumer, knew very little. You could bargain, but being in the dark, you rarely could win. Now you can go to Web sites such as CarPoint or Edmunds.com and know more about new car prices than the car salesperson, and you can even shop online in a few hours at every dealership within five hundred miles to find the best price and

terms. So you, the consumer, can win. This is true in many, if not most, business-to-consumer and business-to-business sales transactions today.

The intensity of rivalry among competing firms tends to increase as the number of competitors increases, as competitors become more equal in size and capability, as demand for the industry's products declines, and as price cutting becomes common, Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when rival firms are diverse in strategies, origins, and culture; and when mergers and acquisitions are common in the industry. As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive.

1.4.4. Potential entry of new competitors

Whenever new firms can easily enter a particular industry, the intensity of competitiveness among firms increases. Barriers to entry, however, can include the need to gain economies of scale quickly, the need to gain technology and specialized know-how, the lack of experience, strong customer loyalty, strong brand preferences, large capital requirements, lack of adequate distribution channels, government regulatory policies, tariffs, lack of access to raw materials, possession of patents, undesirable locations, counterattack by entrenched firms, and potential saturation of the market.

Despite numerous barriers to entry, new firms sometimes enter industries with higher-quality products, lower prices, and substantial marketing resources. The strategist's job, therefore, is to identify potential new firms entering the market, to monitor the new rival firms' strategies, to counterattack as needed, and to capitalize on existing strengths and opportunities.

1.4.5. Potential Development of Substitute Products

In many industries, firms are in close competition with producers of substitute products in other industries. Examples are plastic container producers competing with glass, paperboard, and aluminum can producers, and acetaminophen manufacturers competing with other manufacturers of pain and headache remedies. The presence of

substitute products puts a ceiling on the price that can be charged before consumers will switch to the substitute product.

Competitive pressures arising from substitute products increase as the relative price of substitute products declines and as consumers' switching costs decrease. The competitive strength of substitute products is best measured by the inroads into the market share those products obtain, as well as those firms' plans for increased capacity and market penetration.

1.4.6. Bargaining power of suppliers

The bargaining power of suppliers affects the intensity of competition in an industry, especially when there is a large number of suppliers, when there are only a few good substitute raw materials, or when the cost of switching raw materials is especially costly. It is often in the best interest of both suppliers and producers to assist each other with reasonable prices, improved quality, development of new services, just-in-time deliveries, and reduced inventory costs, thus enhancing long-term profitability for all concerned.

Firms may pursue a backward integration strategy to gain control or ownership of suppliers. This strategy is especially effective when suppliers are unreliable, too costly, or not capable of meeting a firm's needs on a consistent basis. Firms generally can negotiate more favorable terms with suppliers when backward integration is a commonly used strategy among rival firms in an industry.

1.4.7. Bargaining power of consumers

When customers are concentrated or large, or buy in volume, their bargaining power represents a major force affecting the intensity of competition in an industry. Rival firms may offer extended warranties or special services to gain customer loyalty whenever the bargaining power of consumers is substantial. Bargaining power of consumers also is higher when the products being purchased are standard or undifferentiated. When this is the case, consumers often can negotiate selling price, warranty coverage, and accessory packages to a greater extent. Even for a huge com-

pany such as Wal-Mart, the drastic increase in bargaining power of consumers caused by Internet usage is a major external threat.

1.5. Sources of external information

A wealth of strategic information is available to organizations from both published and unpublished sources. Unpublished sources include customer surveys, market research, speeches at professional and shareholders' meetings, television programs, interviews, and conversations with stakeholders. Published sources of strategic information include periodicals, journals, reports, government documents, abstracts, books, directories, newspapers, and manuals. The Internet has made it easier for firms to gather, assimilate, and evaluate information.

The Internet offers consumers and businesses a widening range of services and information resources from all over the world. Interactive services offer users not only access to information worldwide but also the ability to communicate with the person or company that created the information. Historical barriers to personal and business success – time zones and diverse cultures – are being eliminated. The Internet has become as important to our society as television and newspapers.

1.5.1. Forecasting Tools and Techniques

Forecasts are educated assumptions about future trends and events. Forecasting is a complex activity because of factors such as technological innovation, cultural changes, new products, improved services, stronger competitors, and shifts in government priorities, changing social values, unstable economic conditions, and unforeseen events. Managers often must rely upon published forecasts to identify key external opportunities and threats effectively.

A sense of the future permeates all action and underlies every decision a person makes. People eat expecting to be satisfied and nourished – in the future. People sleep assuming that in the future they will feel rested. They invest energy, money, and time because they believe their efforts will be rewarded in the future. They build highways assuming that automobiles and trucks will need them in the future. Parents educate children on the basis of forecasts that they will need certain skills, attitudes, and

knowledge when they grow up. The truth is we all make implicit forecasts throughout] our daily lives. The question, therefore, is not whether we should forecast but rather how we can best forecast to enable us to move beyond our ordinarily unarticulated assumptions about the future. Can we obtain information and then make educated assumptions (forecasts) to better guide our current decisions to achieve a more desirable future state of affairs. We should go into the future with our eyes and our minds open, rather than stumble into the future with our eyes closed.[16]

Many publications and sources on the Internet forecast external variables. Several published examples include *Industry Week's* "Trends and Forecasts," *BusinessWeek's* "Investment Outlook," and Standard & Poor's *Industry Survey*. The reputation and continued success of these publications depend partly on accurate forecasts, so published sources of information can offer excellent projections.

Sometimes organizations must develop their own projections. Most organizations forecast (project) their own revenues and profits annually. Organizations sometimes forecast market share or customer loyalty in local areas. Because forecasting is so important in strategic management and because the ability to forecast (in contrast to the ability to use a forecast) is essential, selected forecasting tools are examined fur-ther here.

Forecasting tools can be broadly categorized into two groups: quantitative techniques and qualitative techniques. Quantitative forecasts are most appropriate when historical data are available and when the relationships among key variables are expected to remain the same in the future. *Linear regression,* for example, is based on the assumption that the future will be just like the past which, of course, it never is. As historical relationships become less stable, quantitative forecasts become less accurate.

No forecast is perfect, and some forecasts are even wildly inaccurate. This fact accents the need for strategists to devote sufficient time and effort to study the under-lying bases for published forecasts and to develop internal forecasts of their own. Key external opportunities and threats can be effectively identified only through good forecasts. Accurate forecasts can provide major competitive advantages for organiza-tions. Forecasts are vital to the strategic-management process and to the success of

organizations.

1.5.2. Making Assumptions

Planning would be impossible without assumptions. Mc.Conkey defines assumptions as the "best present estimates of the impact of major external factors, over which the manager has little if any control, but which may exert a significant impact on performance or the ability to achieve desired results."[17] Strategists are faced with countless variables and imponderables that can be neither controlled nor predicted with 100 percent accuracy.

By identifying future occurrences that could have a major effect on the firm and by making reasonable assumptions about those factors, strategists can carry the strategic-management process forward. Assumptions are needed only for future trends and events that are most likely to have a significant effect on the company's business. Based on the best information at the time, assumptions serve as checkpoints on the validity of strategies. If future occurrences deviate significantly from assumptions, strategists know that corrective actions may be needed. Without reasonable assumptions, the strategy-formulation process could not proceed effectively. Firms that have the best information generally make the most accurate assumptions, which can lead to major competitive advantages.

1.6. The Global Challenge

Foreign competitors are battering U.S. firms in many industries. In its simplest sense, the international challenge faced by U.S. business is twofold: (1) how to gain and maintain exports to other nations and (2) how to defend domestic markets against imported goods. Few companies can afford to ignore the presence of international competition. Firms that seem insulated and comfortable today may be vulnerable tomorrow; for example, foreign banks do not yet compete or operate in most of the United States.

America's economy is becoming much less American. A world economy and monetary system is emerging. Corporations in every corner of the globe are taking

advantage of the opportunity to share in the benefits of worldwide economic development. Markets are shifting rapidly and in many cases converging in tastes, trends, and prices. Innovative transport systems are accelerating the transfer of technology, and shifts in the nature and location of production systems are reducing the response time to changing market conditions.

More and more countries around the world are welcoming foreign investment and capital. As a result, labor markets have steadily become more international. East Asian countries have become market leaders in labor-intensive industries, Brazil offers abundant natural resources and rapidly developing markets, and Germany offers skilled labor and technology. The drive to improve the efficiency of global business operations is leading to greater functional specialization. This is not limited to a search for the familiar low-cost labor in Latin America or Asia. Other considerations include the cost of energy, availability of resources, inflation rates, existing tax rates, and the nature of trade regulations.

1.6.1. Multinational Corporations

Multinational corporations (MNCs) face unique and diverse risks, such as expropriation of assets, currency losses through exchange rate fluctuations, unfavorable foreign court interpretations of contracts and agreements, social/political disturbances, import/export restrictions, tariffs, and trade barriers. Strategists in MNCs are often confronted with the need to be globally competitive and nationally responsive at the same time. With the rise in world commerce, government and regulatory bodies are more closely monitoring foreign business practices. The United States Foreign Corrupt Practices Act, for example, defines corrupt practices in many areas of business. A sensitive issue is that some MNCs sometimes violate legal and ethical standards of the home country, but not of the host country.

Before entering international markets, firms should scan relevant journals and patent reports, seek the advice of academic and research organizations, participate in international trade fairs, form partnerships, and conduct extensive research to broaden their contacts and diminish the risk of doing business in new markets. Firms can also

reduce the risks of doing business internationally by obtaining insurance from the U.S. government's Overseas Private Investment Corporation (OPIC). Note in the "Global Perspective" that U.S. firms are doing more extensive research today before entering particular global markets.

1.6.2. Globalization

Globalization is a process of worldwide integration of strategy formulation, implementation, and evaluation activities. Strategic decisions are made based on their impact upon global profitability of the firm, rather than on just domestic or other individual country considerations. A global strategy seeks to meet the needs of customers worldwide, with the highest value at the lowest cost. This may mean locating production in countries with the lowest labor costs or abundant natural resources, locating research and complex engineering centers where skilled scientists and engineers can be found, and locating marketing activities close to the markets to be served. A global strategy includes designing, producing, and marketing products with global needs in mind, instead of considering individual countries alone. A global strategy integrates actions against competitors into a worldwide plan.

Globalization of industries is occurring for many reasons, including a worldwide trend toward similar consumption patterns, the emergence of global buyers and sellers, and e-commerce and the instant transmission of money and information across continents. The European Economic Community (EEC), religions, the Olympics, the World Bank, world trade centers, the Red Cross, the Internet, environmental conferences, telecommunications, and economic summits all contribute to global interdependencies and the emerging global marketplace.

It is clear that different industries become global for different reasons. The need to amortize massive R&D investments over many markets is a major reason why the aircraft manufacturing industry became global. Monitoring globalization in one's industry is an important strategic-management activity. Knowing how to use that information for one's competitive advantage is even more important.

For example, firms may look around the world for the best technology and select

one that has the most promise for the largest number of markets. When firms design a product, they design it to be marketable in as many countries as possible. When firms manufacture a product, they select the lowest-cost source, which may be Japan for semiconductors, Sri Lanka for textiles, Malaysia for simple electronics, and Europe for precision machinery. MNCs design manufacturing systems to accommodate world markets. One of the riskiest strategies for a domestic firm is to remain solely a domestic firm in an industry that is rapidly becoming global.

1.6.3. China: Opportunities and Threats

U.S. firms increasingly are doing business in China as market reforms create a more businesslike arena daily. Foreign direct investment in China is about $50 billion annually.

Risks that still deter firms from initiating business with China include the following:

• Poor infrastructure

• Disregard for the natural environment

• Absence of a legal system

• Rampant corruption

• Lack of freedom of press, speech, and religion

• Severe human rights violations

•Little respect for patents, copyrights, brands, and logos

•Counterfeiting, fraud, and pirating of products

•Little respect for legal contracts

• No generally accepted accounting principles

The minimum wage in China is twelve cents per hour, but many firms pay even less. Chinese workers usually have no healthcare and no compensation for injury. Few factories have fire extinguishers. Bribes are often paid to officials to avoid fines and shutdowns. Labor unions are illegal and nonexistent in China. Child labor is commonplace. Political and religious oppression and imprisonment occur. Levi Strauss has pulled all its business operations out of China to protest its human rights violations.

China's leaders are determined these days to minimize foreign policy problems so they can focus on domestic economic development, which is booming. China's new President Hu Jintao, who replaced Jiang Zemin, has put China's economic goals at the forefront of policy and practice. China is expected to surpass India by 2006 as the country of choice for information technology (IT) outsourcing. China's economy is booming and thousands of foreign companies have set up manufacturing bases on the Chinese mainland. In Shanghai, an engineer is paid on average $500 a month compared to $700 in India and $4,000 in the U.S. As margins shrink in many industries due to increased competitiveness, more and more firms see China as more attractive even than Mexico or India for conducting business, especially IT operations.

For the first time ever, China attracted more foreign direct investment (FDI) than the U.S. in the year 2002. FDI in the U.S. fell from $144 billion in 2001 to just $30 billion in 2002, while fast-growing China attracted $53 billion FDI in 2002, up 12 percent from 2001 levels.[18] China was one of the only countries worldwide in 2002 with increasing FDI as worldwide FDI fell 21 percent that year due to weak global economies. Less FDI in the U.S. cuts value from the dollar which helps exporters but hurts importers and also can lead to higher interest rates. The U.S. dollar lost 14 percent of its value against major currencies from January 2003 to January 2004. But the low value of the dollar boosts the profits of U.S. based multinational companies and is considered a positive for the U.S. economy.

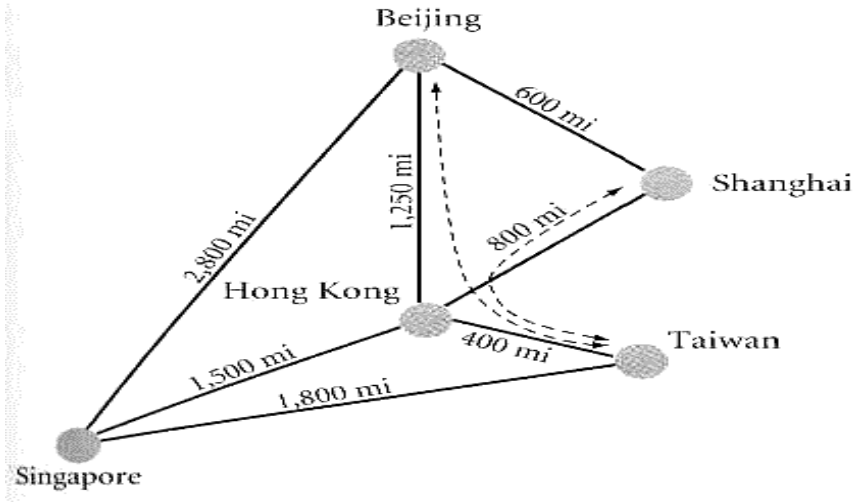
The Dutch company Philips Electronics NV plans to double its revenue from China by 2007 from $6.7 billion in 2002. Philips is transferring much of its manufacturing to take advantage of China's deep pool of low-cost labor and well-trained engineers. Philips currently has $2.5 billion worth of investment in China spread out over 30 wholly owned enterprises and joint ventures that employ 18,000 people and produce everything from semiconductors and lighting to medical diagnostic imaging equipment.

German chipmaker Infineon Technologies AG plans to invest $1.2 billion in China between 2003 and 2006 to gain a share of this market that is expected to reach $80 billion by 2007. The company has a joint venture with China-Singapore Suzhou Industrial Park Venture to produce dynamic random-access memory, or DRAM, chip

assembly-and-test facilities.

Hong Kong is the centerpiece of China's efforts to reform, privatize, and expand imports and exports worldwide. The map in Figure 3-4 illustrates Hong Kong's strategic location for China. With its 6.3 million people, magnificent harbor, financial wealth, 500 banks from 43 countries, the world's eighth-largest stock market, and minimum taxation, Hong Kong serves as the gateway to a fast-growing China. U.S. companies alone have 178 regional headquarters in Hong Kong and $10.5 billion in direct investment.

FIGURE 3-4 Hong Kong's Strategic Location



1.7. Industry Analysis: The External Factor Evaluation (EFE) Matrix

An *External Factor Evaluation (EFE) Matrix* allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Illustrated in Table 3-7, the EFE Matrix can be developed in five steps:

1. List key external factors as identified in the external-audit process. Include a total of from ten to twenty factors, including both opportunities and threats that affect the firm and its industry. List the opportunities first and then the threats. Be as specific as possible, using percentages, ratios, and comparative numbers whenever possible.

2. Assign to each factor a weight that ranges from 0.0 (not important) to 1.0 (very important). The weight indicates the relative importance of that factor to being successful in the firm's industry. Opportunities often receive higher weights than threats, but threats too can receive high weights if they are especially severe or threatening. Appropriate weights can be determined by comparing successful with unsuccessful competitors or by discussing the factor and reaching a group consensus. The sum of all weights assigned to the factors must equal 1.0.

3. Assign a l-to-4 rating to each key external factor to indicate how effectively the firm's current strategies respond to the factor, where 4 = *the response is superior,* 3 = *the response is above average, 2 = the response is average,* and 1 = *the response is poor*. Ratings are based on effectiveness of the firm's strategies.

Ratings are thus company-based, whereas the weights in Step 2 are industry-based. It is important to note that both threats and opportunities can receive a 1, 2, 3, or 4.

4. Multiply each factor's weight by its rating to determine a weighted score.

5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

TABLE 3-7 An Example External Factor Evaluation Matrix for UST, Inc.

KEY EXTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE

Opportunities			
1. Global markets are practically untapped by smokeless tobacco market	.15	1	.15
2. Increased demand caused by public banning of smoking	.05	3	.15
3. Astronomical Internet advertising growth	.05	1	.05
4. Pinkerton is leader in discount tobacco market	.15	4	.60
5. More social pressure to quit smoking, thus leading users to switch to alternatives	.10	3	.30
Threats			
1. Legislation against the tobacco industry	.10	2	.20
2. Production limits on tobacco increases competition for production	.05	3	.15
3. Smokeless tobacco market is concentrated in southeast region of United States	.05	2	.10
4. Bad media exposure from the FDA	.10	2	.20
5. Clinton administration	.20	1	.20
TOTAL	1.00		2.10

Regardless of the number of key opportunities and threats included in an EFE Matrix, the highest possible total weighted score for an organization is 4.0 and the lowest possible total weighted score is 1.0. The average total weighted score is 2.5. A total weighted score of 4.0 indicates that an organization is responding in an outstanding way to existing opportunities and threats in its industry. In other words, the firm's strategies effectively take advantage of existing opportunities and minimize the potential adverse effects of external threats. A total score of 1.0 indicates that the firm's strategies are not capitalizing on opportunities or avoiding external threats.

An example of an EFE Matrix is provided in Table 3-7 for UST, Inc., the manufacturer of Skoal and Copenhagen smokeless tobacco. Note that the Clinton administration was considered to be the most important factor affecting this industry, as indicated by the weight of 0.20. UST was not pursuing strategies that effectively capitalized on this opportunity, as indicated by the rating of 1.0. The total weighted score of 2.10 indicates that UST is below average in its effort to pursue strategies that capitalize on external opportunities and avoid threats. It is important to note here that a thorough understanding of the factors being used in the EFE Matrix is more important than the actual weights and ratings assigned.

Another example EFE Matrix is provided in Table 3-8, for Gateway Computer

Company in late 2003. Note that Gateway China is viewed as an outstanding opportunity yet Gateway is not capitalizing on this factor as indicated by the low (1) rating.

TABLE 3-8 EFE Matrix for Gateway Computer (2003)

KEY EXTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
Opportunities			
1. Global PC market expected to grow 20% in 2004, compared to 12% in 2003	0.10	3	0.30
2. Cost of PC component parts expected to decrease 10% in 2004	0.10	3	0.30
3. Internet use growing rapidly	0.05	2	0.10
4. China entered WTO which lowered taxes for importing PCs	0.10	1	0.10
5. The average income for PC worker has declined from $40,000/year to $30,000/year	0.05	3	0.15
6. Modernization of business firms and government agencies	0.05	2	0.10
7. U.S. (and world) economies recovering	0.05	3	0.15
8. 30% of Chinese population can afford a PC; only 10% of Chinese homes have a PC	0.05	1	0.05
Threats			
1. Intense rivalry in industry	0.10	2	0.20
2. Severe price cutting in PC industry	0.05	3	0.15
3. Different countries have different regulations and infrastructure for PCs	0.05	1	0.05
4. Palm and PDA becoming substitute for PC	0.05	3	0.15
5. Demand exceeds supply of experienced PC workers			
6. Birth rate in U.S. is declining annually	0.05	4	0.20
7. U.S. consumers and businesses delaying purchase of PCs	0.05	3	0.15
8. PC firms diversifying into consumer electronics	0.05	2	0.10
	0.05	3	0.15
TOTAL	1.00		2.40

1.8. The Competitive Profile Matrix (CPM)

The *Competitive Profile Matrix (CPM)* identifies a firm's major competitors and its particular strengths and weaknesses in relation to a sample firm's strategic position. The weights and total weighted scores in both a CPM and EFE have the same meaning. However, *critical success* factors in a CPM include both internal and external issues; therefore, the ratings refer to strengths and weaknesses, where 4 = major strength, 3 = minor strength, 2 = minor weakness, and 1 = major weakness. There are some important differences between the EFE and CPM. First of all, the critical success factors in a CPM are broader; they do not include specific or factual data and even may focus on internal issues. The critical success factors in a CPM also are not grouped into opportunities and threats as they are in an EFE. In a CPM, the ratings and total weighted scores for rival firms can be compared to the sample firm. This comparative analysis provides important internal strategic information.

A sample Competitive Profile Matrix is provided in Table 3-9. In this example, advertising and global expansion are the most important critical success factors, as indicated by a weight of 0.20. Avon's and L'Oreal's product quality is superior, as evidenced by a rating of 4; L'Oreal's "financial position" is good, as indicated by a rating of 3; Procter & Gamble is the weakest firm overall, as indicated by a total weighted score of 2.80.

Other than the critical success factors listed in the example CPM, factors often included in this analysis include breadth of product line, effectiveness of sales distribution, proprietary or patent advantages, location of facilities, production capacity and efficiency, experience, union relations, technological advantages, and e-commerce expertise.

A word on interpretation: Just because one firm receives a 3.2 rating and another receives a 2.8 rating in a Competitive Profile Matrix, it does not follow that the first firm is 20 percent better than the second. Numbers reveal the relative strengths of firms, but their implied precision is an illusion. Numbers are not magic. The aim is not to arrive at a single number, but rather to assimilate and evaluate information in a meaningful way that aids in decision making.

Another Competitive Profile Matrix is provided in Table 3-10 for Gateway Computer Company. Note that Apple has the best product quality and management experience; Dell has the best market share and inventory system; and Gateway has the best price as indicated by the four ratings.

TABLE 3-9 An Example Competitive Profile Matrix

Critical Success Factors		AVON		L'OREAL		PROCTER & GAMBLE	
	Weight	*Rating*	*Score*	*Rating*	*Score*	*Rating*	*Score*
Advertising	0.20	1	0.20	4	0.80	3	0.60
Product Quality	0.10	4	0.40	4	0.40	3	0.30
Price Competitiveness	0.10	3	0.30	3	0.30	4	0.40
Management	0.10	4	0.40	3	0.30	3	0.30
Financial Position	0.15	4	0.60	3	0.45	3	0.45
Customer Loyalty	0.10	4	0.40	4	0.40	2	0.20
Global Expansion	0.20	4	0.80	2	0.40	2	0.40
Market Share	0.05	1	0.05	4	0.20	3	0.15
TOTAL	1.00		3.15		3.25		2.80

Note: (1) The ratings values are as follows: 1 = major weakness, 2 = minor weakness, 3 = minor strength, 4 = major strength. (2) As indicated by the total weighted score of 2.8, Competitor 3 is weakest. (3) Only eight critical success factors are included for simplicity; this is too few in actuality.

TABLE 3-10 Competitive Profile Matrix for Gateway Computer (2003)

Critical Success Factors	*Weight*	GATEWAY		APPLE		DELL	
		Rating	*Weighted Score*	*Rating*	*Weighted Score*	*Rating*	*Weighted Score*
Market share	0.15	3	0.45	*2*	0.30	4	0.60
Inventory system	0.08	2	0.16	*2*	0.16	4	0.32
Financial position	0.10	2	0.20	3	0.30	3	0.30
Product quality	0.08	3	0.24	4	0.32	3	0.24
Consumer loyalty	0.02	3	0.06	3	0.06	4	0.08
Sales distribution	0.10	3	0.30	2	0.20	3	0.30
Global expansion	0.15	3	0.45	2	0.30	4	0.60
Organization structure	0.05	3	0.15	3	0.15	3	0.15
Production capacity	0.04	3	0.12	3	0.12	3	0.12
E-commerce	0.10	3	0.30	3	0.30	3	0.30
Customer service	0.10	3	0.30	2	0.20	4	0.40
Price competitive	0.02	4	0.08	1	0.02	3	0.06
Management	0.01	2	0.02	4	0.04	2	0.02
TOTAL	1.00		2.83		2.47		3.49

CONCLUSION

Increasing turbulence in markets and industries around the world means the external audit has become an explicit and vital part of the strategic-management process. This chapter provides a framework for collecting and evaluating economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Firms that do not mobilize and empower their managers and employees to identify, monitor, forecast, and evaluate key external forces may fail to anticipate emerging opportunities and threats and, consequently, may pursue ineffective strategies, miss opportunities, and invite organizational demise. Firms not taking advantage of the Internet are falling behind technologically.

A major responsibility of strategists is to ensure development of an effective external-audit system. This includes using information technology to devise a competitive intelligence system that works. The external-audit approach described in this chapter can be used effectively by any size or type of organization. Typically, the external-audit process is more informal in small firms, but the need to understand key trends and events is no less important for these firms. The EFE Matrix and Porter's Five-Forces Model can help strategists evaluate the market and industry, but these tools must be accompanied by good intuitive judgment. Multinational firms especially need a systematic and effective external-audit system because external forces among foreign countries vary so greatly.

We invite you to visit the David page on the Prentice Hall Companion Web site at ***www.prenhall.com/david*** for this chapter's World Wide Web exercises.

TASKS FOR SELF-TRAINING:

1.1. Issues for review and discussion:

1. Explain how to conduct an external strategic-management audit.

2. Identify a recent economic, social, political, or technological trend that significantly affects financial institutions.

3. Discuss the following statement: Major opportunities and threats usually result from an interaction among key environmental trends rather than from a single external event or factor.

4. Identify two industries experiencing rapid technological changes and three industries that are experiencing little technological change. How does the need for technological forecasting differ in these industries? Why?

5. Use Porter's Five-Forces Model to evaluate competitiveness within the U.S. banking industry.

6. What major forecasting techniques would you use to identify (1) economic opportunities and threats and (2) demographic opportunities and threats? Why are these techniques most appropriate?

7. How does the external audit affect other components of the strategic-management process?

8. As the owner of a small business, explain how you would organize a strategic-information scanning system. How would you organize such a system in a large organization?

9. Construct an EFE Matrix for an organization of your choice.

10. Make an appointment with a librarian at your university to learn how to use online databases. Report your findings in class.

11.Give some advantages and disadvantages of cooperative versus competitive strategies.

12. A strategist for a local bank, explain when you would use qualitative versus quantitative forecasts.

13. What is your forecast for interest rates and the stock market in the next

several months? As the stock market moves up, do interest rates always move down? Why? What are the strategic implications of these trends?

14. Explain how information technology affects strategies of the organization where you worked most recently.

15. Let's say your boss develops an EFE Matrix that includes sixty-two factors. How would you suggest reducing the number of factors to twenty?

16. Discuss the ethics of gathering competitive intelligence.

17. Discuss the ethics of cooperating with rival firms.

18. Visit the SEC Web site at *www.sec.gov*, and discuss the benefits of using information provided there.

19. What are the major differences between U.S. and multinational operations that affect strategic management?

20. Why is globalization of industries a common factor today?

21. Discuss the opportunities and threats a firm faces in doing business in China.

22. Do you agree with I/O theorists that external factors are more important than internal factors to a firm's achieving competitive advantage? Explain both your and their position.

23. Define, compare, and contrast the Weights versus Ratings in an EFEM versus IFEM.

24. Develop a Competitive Profile Matrix for your university. Include six factors.

25. List the ten external areas that give rise to opportunities and threats.

26. Discuss recent trends in Russia's economic condition.

27. True or False: China replaced Mexico in 2003 as the largest exporter to the United States. Discuss this statement.

28. Define and discuss implications of "tax harmonization" in Europe.

29. Do you believe strategies themselves should be secret or open within firms? Explain.

30. True or False: For the first time in 100 years, China attracted more foreign direct investment (FDI) than the United States in the year 2002.

1.2 Experimental exercises

Experiential Exercise 3A *Developing an EFE Matrix for Krispy Kreme Doughnuts (KKD)*	**PURPOSE** This exercise will give you practice developing an EFE Matrix. An EFE Matrix summarizes the results of an external audit. This is an important tool widely used by strategists. **INSTRUCTIONS** **Step 1** Join with two other students in class, and jointly prepare an EFE Matrix for KKD. Refer back to the Cohesion Case and to Experiential Exercise 1A, if necessary, to identify external opportunities and threats. **Step 2** All three-person teams participating in this exercise should record their EFE total weighted scores on the board. Put your initials after your score to identify it as your team's. **Step 3** Compare the total weighted scores. Which team's score came closest to the instructor's answer? Discuss reasons for variation in the scores reported on the board.
Experiential Exercise 3B *The External Assessment*	**PURPOSE** This exercise will help you become familiar with important sources of external information available in your college library. A key part of preparing an external audit is searching the Internet and examining published sources of information for relevant economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends and events. External opportunities and threats must be identified and evaluated before strategies can be formulated effectively **INSTRUCTIONS** **Step 1** Select a company or business where you currently or previously have worked. Conduct an external audit for this company. Find opportunities and threats in recent issues of newspapers and magazines. Search for information using the Internet. **Step 2** On a separate sheet of paper, list ten opportunities and ten threats that face this company. Be specific in stating each factor. **Step 3** Include a bibliography to reveal where you found the information. **Step 4** Write a three-page summary of your findings, and submit it to your instructor.

Experiential Exercise 3C *Developing an EFE Matrix for My University*	**PURPOSE** More colleges and universities are embarking upon the strategic-management process. Institutions are consciously and systematically identifying and evaluating external opportunities and threats higher education in your state, the nation, and the world. **INSTRUCTIONS** **Step 1** Join with two other individuals in class, and jointly prepare an EFE Matrix for your institution. **Step 2** Go to the board and record your total weighted score in a column that includes the scores of all three-person teams participating. Put your initials after your score to identify it as your team's. **Step 3** Which team viewed your college's strategies most positively? Which team viewed your college's strategies most negatively? Discuss the nature of the differences.
Experiential Exercise 3D *Developing a Competitive Profile Matrix for Krispy Kreme Doughnuts (KKD)*	**PURPOSE** Monitoring competitors' performance and strategies is a key aspect of an external audit. This exercise is designed to give you practice evaluating the competitive position of organizations in a given industry and assimilating that information in the form of a Competitive Profile Matrix. **INSTRUCTIONS** **Step 1** Turn back to the Cohesion Case and review the section on competitors. **Step 2** On a separate sheet of paper, prepare a Competitive Profile Matrix that includes Krispy Kreme Doughnuts (KKD) and Dunkin' Donuts. **Step 3** Turn in your Competitive Profile Matrix for a classwork grade.
Experiential Exercise 3E *Developing a Competitive Profile Matrix for My University*	**PURPOSE** Your college or university competes with all other educational institutions in the world, especially those in your own state. State funds, students, faculty, staff, endowments, gifts, and federal funds are areas of competitiveness. The purpose of this exercise is to give you practice thinking competitively about the business of education in your state. **INSTRUCTIONS** **Step 1** Identify two colleges or universities in your state that compete directly with your institution for students. Interview several persons who are aware of particular

	strengths and weaknesses of those universities. Record information about the two competing universities. **Step 2** Prepare a Competitive Profile Matrix that includes your institution and the two competing institutions. Include the following factors in your analysis: 1. Tuition costs 2. Quality of faculty 3. Academic reputation 4. Average class size 5. Campus landscaping 6. Athletic programs 7. Quality of students 8. Graduate programs 9. Location of campus 10. Campus culture **Step 3** Submit your Competitive Profile Matrix to your instructor for evaluation.

ГЛАВА 2. ВНУТРЕННЯЯ ОЦЕНКА

Аннотация.

Основной задачей отдела внутреннего анализа стратегического управления является развитие стратегического мышления учащихся, глубокое понимание и систематическое знание стратегический процесс в современной организации, необходимый для эффективной работы в качестве стратегического менеджера в сфере бизнес-информатики, способных самостоятельно осуществлять анализ, выбор и реализация стратегических решений. Любого уровня, самостоятельно (в интересах обоснования адекватной информационной стратегии), так и в команде менеджеров - стратегов, которые формируют и реализуют стратегии в организации.

CHAPTER 2 THE INTERNAL ASSESSMENT

Annotation.

The main objective of the section of the internal assessment of strategic management is to develop the strategic thinking of the students, a deep understanding and systematic knowledge of the strategic process in a modern organization necessary for effective work as a strategic manager in the field of business informatics capable of independently carrying out the analysis, selection and implementation of strategic decisions. Of any level, independently (in the interests of justifying an adequate information strategy), and in the team of managers - strategists that shape and implement a strategy in the organization.

THE MAIN CONTENT OF THE CHAPTER 2:

After studying this chapter, you should be able to do the following:

1. Describe how to perform an internal strategic-management audit.
2. Discuss the Resource-Based View (RBV) in strategic management.
3. Discuss key interrelationships among the functional areas of business.
4. Compare and contrast culture in America with other countries.

5. Identify the basic functions or activities that make up management, marketing, finance/accounting, production/operations, research and development, and management information systems.

6. Explain how to determine and prioritize a firm's internal strengths and weaknesses.

7. Explain the importance of financial ratio analysis.

8. Discuss the nature and role of management information systems in strategic management.

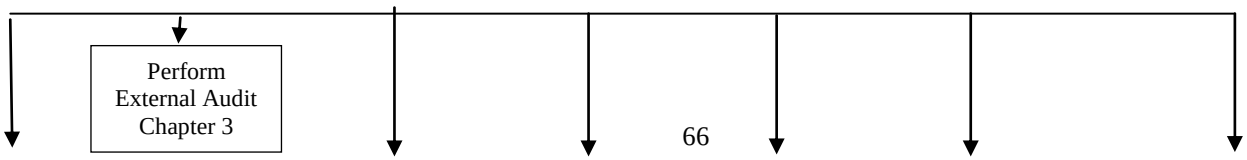
9. Develop an Internal Factor Evaluation (IFE) Matrix

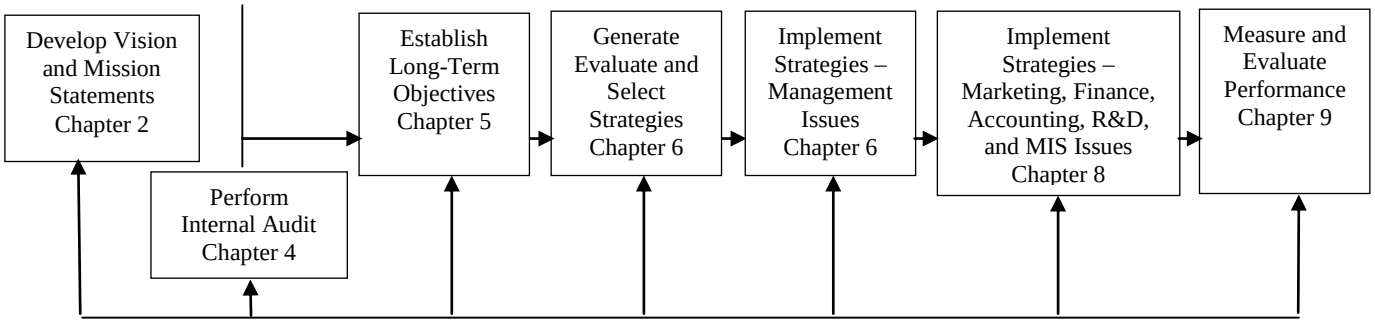
This chapter focuses on identifying and evaluating a firm's strengths and weaknesses in the functional areas of business, including management, marketing, finance/accounting, production/operations, research and development, and management information systems. Relationships among these areas of business are examined. Strategic implications of important functional area concepts are examined. The process of performing an internal audit is described. The Resource-Based View (RBV) of strategic management is introduced as well as the Value Chain Analysis (VCA) concept.

2.1. The nature of an internal audit

All organizations have strengths and weaknesses in the functional areas of business. No enterprise is equally strong or weak in all areas. Maytag, for example, is known for excellent production and product design, whereas Procter & Gamble is known for superb marketing. Internal strengths/weaknesses, coupled with external opportunities/threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalizing upon internal strengths and overcoming weaknesses. The internal-audit part of the strategic-management process is illustrated in Figure 4-1.

FIGURE 4-1 A Comprehensive Strategic-Management Model





2.1.1. Key internal forces

It is not possible in a business policy text to review in depth all the material presented in courses such as marketing, finance, accounting, management, management information systems, and production/operations; there are many subareas within these functions, such as customer service, warranties, advertising, packaging, and pricing under marketing.

For different types of organizations, such as hospitals, universities, and government agencies, the functional business areas, of course, differ. In a hospital, for example, functional areas may include cardiology, hematology, nursing, maintenance, physician support, and receivables. Functional areas of a university can include athletic programs, placement services, housing, fundraising, academic research, counseling, and intramural programs. Within large organizations, each division has certain strengths and weaknesses.

A firm's strengths that cannot be easily matched or imitated by competitors are called *distinctive competencies.* Building competitive advantages involves taking advantage of distinctive competencies. For example, 3M exploits its distinctive competence in research and development by producing a wide range of innovative products. Strategies are designed in part to improve on a firm's weaknesses, turning them into strengths-and maybe even into distinctive competencies. Some researchers emphasize the importance of the internal audit part of the strategic-management process by comparing it to the external audit. Robert Grant concluded that the internal audit is more important, saying:

In a world where customer preferences are volatile, the identity of customers is

changing, and the technologies for serving customer requirements are continually evolving; an externally focused orientation does not provide a secure foundation for formulating long-term strategy. When the external environment is in a state of flux, the firm's own resources and capabilities may be a much more stable basis on which to define its identity. Hence, a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy than a definition based upon the needs which the business seeks to satisfy.'

2.1.2. The process of performing an internal audit

The process of performing an *internal audit* closely parallels the process of performing an external audit. Representative Managers and employees from throughout the firm need to be involved in determining a firm's strengths and weaknesses. The internal audit requires gathering and assimilating information about the firm's management, marketing, finance/accounting, production/operations, research and development (R&D), and management information systems operations. Key factors should be prioritized as described in Chapter 3 so that the firm's most important strengths and weaknesses can be determined collectively.

Compared to the external audit, the process of performing an internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization. This is a great benefit because managers and employees perform better when they understand how their work affects other areas and activities of the firm. For example, when marketing and manufacturing managers jointly discuss issues related to internal strengths and weaknesses, they gain a better appreciation of the issues, problems, concerns, and needs of all the functional areas. In organizations that do not use strategic management, marketing, finance, and manufacturing managers often do not interact with each other in significant ways. Performing an internal audit thus is an excellent vehicle or forum for improving the process of communication in the organization. Communication may be the most important word in management.

Performing an internal audit requires gathering, assimilating, and evaluating

information about the firm's operations. Critical success factors, consisting of 1 strengths and weaknesses, can be identified and prioritized in the manner discussed in Chapter 3. According to William King, a task force of managers from different units of the organization, supported by staff, should be charged with determining ten to twenty most important strengths and weaknesses that should influence future of the organization. He says:

The development of conclusions on the 10 to 20 most important organizational strengths and weaknesses can be, as any experienced manager knows, a difficult task, when it involves managers representing various organizational interests and points of view. Developing a 20-page list of strengths and weaknesses could be accomplished relatively easily, but a list of the 10 to 15 most important ones involves significant analysis and negotiation. This is true because of the judgments that are required and the impact which such a list will inevitably have as it is used in the formulation, implementation, and evaluation of strategies.

Strategic management is a highly interactive process that requires effective coordination among management, marketing, finance/accounting, production/ operations, R&D, and management information systems managers. Although the strategic-management process is overseen by strategists, success requires that managers and employees from all functional areas work together to provide ideas and information. Financial managers, for example, may need to restrict the number of feasible options available to operations managers, or R&D managers may develop products that marketing managers need to set higher objectives. A key to organizational success is effective coordination and understanding among managers from all functional business areas. Through involvement in performing an internal strategic-management audit, managers from different departments and divisions of the firm come to understand the nature and effect of decisions in other functional business areas in their firm. Knowledge of these relationships is critical for effectively establishing objectives and strategies.

A failure to recognize and understand relationships among the functional areas of business can be detrimental to strategic management, and the number of those rela-

tionships that must be managed increases dramatically with a firm's size, diversity, geographic dispersion, and the number of products or services offered. Governmental and nonprofit enterprises traditionally have not placed sufficient emphasis on relationships among the business functions. Some firms place too great an emphasis on one function at the expense of others. Ansoff explained:

During the first fifty years, successful firms focused their energies on optimizing the performance of one of the principal functions: production/operations, R&D, or marketing. Today, due to the growing complexity and dynamism of the environment, success increasingly depends on a judicious combination of several functional influences. This transition from a single function focus to a multifunction focus is essential for successful strategic management.[3]

Financial ratio analysis exemplifies the complexity of relationships among the functional areas of business. A declining return on investment or profit margin ratio could be the result of ineffective marketing, poor management policies, research and development errors, or a weak management information system. The effectiveness of strategy formulation, implementation, and evaluation activities hinges upon a clear understanding of how major business functions affect one another. For strategies to succeed, a coordinated effort among all the functional areas of business is needed. In the case of planning, George wrote:

We may conceptually separate planning for the purpose of theoretical discussion and analysis, but in practice, neither is it a distinct entity nor is it capable of being separated. The planning function is mixed with all other business functions and, like ink once mixed with water, it cannot be set apart. It is spread throughout and is a part of the whole of managing an organization.[4]

2.2. The Resource-based view (RBV)

Gaining in popularity in the 1990s and continuing today, the RBV approach to competitive advantage contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage. In contrast to the I/O theory presented in the previous chapter, proponents of the RBV view, led by

Jay Barney, contend that organizational performance will primarily be determined by internal resources which can be grouped into three all encompassing categories: physical resources, human resources, and organizational resources[5] Physical resources include all plant and equipment, location, technology, raw materials, machines; human resources include all employees, training, experience, intelligence, knowledge, skills, abilities; and organizational resources include firm structure, planning processes, information systems, patents, trademarks, copyrights, databases, and so on. RBV theory asserts that resources are actually what help a firm exploit opportunities and neutralize threats.

The basic premise of the RBV is that the mix, type, amount, and nature of a firm's internal resources should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage. Managing strategically according to the RBV involves developing and exploiting a firm's unique resources and capabilities, and continually maintaining and strengthening those resources. The theory asserts that it is advantageous for a firm to pursue a strategy that is not currently being implemented by any competing firm. When other firms are unable to duplicate a particular strategy, then the focal firm has a sustainable competitive advantage, according to RBV theorists. In order for a resource to be valuable, however, it must be either (1) rare, (2) hard to imitate, or (3) not easily substitutable. Often called "empirical indicators," these three characteristics of resources enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage. The more a resource(s) is rare, nonindictable, and no substitutable, the stronger a firm's competitive advantage will be and the longer it will last.

Rare resources are resources that other competing firms do not possess. If many firms have the same resource, then those firms will likely implement similar strategies, thus giving no one firm a sustainable competitive advantage. This is not to say that resources that are common are not valuable; they do indeed aid the firm in its chance for economic prosperity. However, to sustain a competitive advantage, it is more advantageous if the resource(s) is also rare.

It is also important that these same resources be difficult to imitate. If firms

cannot easily gain the resources, say RBV theorists, then those resources will lead to a competitive advantage more so than resources easily imitable. Even if a firm employs resources that are rare, a sustainable competitive advantage may be achieved only if other firms cannot easily obtain these resources.

The third empirical indicator that can make resources a source of competitive advantage is substitutability. Borrowing from Porter's Five-Forces Model, to the degree that there are no viable substitutes, a firm will be able to sustain its competitive advantage. However, even if a competing firm cannot imitate a firm's resource perfectly, it can still obtain a sustainable competitive advantage of its own by obtaining resource substitutes.

The RBV has continued to grow in popularity and continues to seek a better understanding of the relationship between resources and sustained competitive advantage in strategic management. However, as alluded to in Chapter 3, one cannot say with any degree of certainty that either external or internal factors will always or even consistently be more important in seeking competitive advantage. Understanding both external and internal factors, and more importantly, understanding the relationships among them, will be the key to effective strategy formulation (discussed in Chapter 6). Since both external and internal factors continually change, strategists seek to identify and take advantage of positive changes and buffer against negative changes in a continuing effort to gain and sustain a firm's competitive advantage. This is the essence and challenge of strategic management and oftentimes survival of the firm hinges on this work.

2.3. Integrating strategy and culture

Relationships among a firm's functional business activities perhaps can be exemplified best by focusing on organizational culture, an internal phenomenon that permeates all departments and divisions of an organization. *Organizational culture* can be defined as "a pattern of behavior [that has been] developed by an organization as it learns to cope with its problem of external adaptation and internal integration, [and] that has worked well enough to be considered valid and to be taught to new members as the

correct way to perceive, think, and feel."[6] This definition emphasizes the importance of matching external with internal factors in making strategic decisions.

Organizational culture captures the subtle, elusive, and largely unconscious forces that shape a workplace. Remarkably resistant to change, culture can represent a major strength or weakness for the firm. It can be an underlying reason for strengths or weaknesses in any of the major business functions.

Defined in Table 4-1, *cultural products* include values, beliefs, rites, rituals, ceremonies, myths, stories, legends, sagas, language, metaphors, symbols, heroes, and heroines. These products or dimensions are levers that strategists can use to influence and direct strategy formulation, implementation, and evaluation activities. An organization's culture compares to an individual's personality in the sense that no two organizations have the same culture and no two individuals have the same personality. Both culture and personality are fairly enduring and can be warm, aggressive, friendly, open, innovative, conservative, liberal, harsh, or likable.

Dimensions of organizational culture permeate all the functional areas of business. It is something of an art to uncover the basic values and beliefs that are deeply buried in an organization's rich collection of stories, language, heroes, and rituals, but cultural products can represent both important strengths and weaknesses. Culture is an aspect of an organization that can no longer be taken for granted in performing an internal strategic-management audit because culture and strategy must work together.

TABLE 4-1 Cultural Products and Associated Definitions

Rites	Relatively elaborate, dramatic, planned sets of activities that consolidate various forms of cultural expressions into one event, carried out through social interactions, usually for the benefit of an audience
Ceremonial	A system of several rites connected with a single occasion or event
Ritual	A standardized, detailed set of techniques and behaviors that manage anxieties, but seldom produce intended, technical consequences of practical importance
Myth	A dramatic narrative of imagined events, usually used to explain origins or transformations of something. Also, an unquestioned belief about the practical benefits of certain techniques and behaviors that is not supported by facts
Saga	A historical narrative describing the unique accomplishments of a group and its leaders, usually in heroic terms
Legend	A handed-down narrative of some wonderful event that is based on history but has been embellished with fictional details
Story	A narrative based on true events, sometimes a combination of truth and fiction
Folktale	A completely fictional narrative
Symbol	Any object, act, event, quality, or relation that serves as a vehicle for conveying meaning, usually by representing another thing
Language	A particular form or manner in which members of a group use sounds and written signs to convey meanings to each other
Metaphors	Shorthand words used to capture a vision or to reinforce old or new values
Values	Life-directing attitudes that serve as behavioral guidelines
Belief	An understanding of a particular phenomenon
Heroes/Heroines	Individuals whom the organization has legitimized to model behavior for others

The strategic-management process takes place largely within a particular organization's culture. Lorsch found that executives in successful companies are emotionally committed to the firm's culture, but he concluded that culture can inhibit strategic management in two basic ways. First, managers frequently miss the significance of changing external conditions because they are blinded by strongly held beliefs. Second, when a particular culture has been effective in the past, the natural response is to stick with it in the future, even during times of major strategic change.[7] An organization's culture must support the collective commitment of its people to a common purpose. It must foster competence and enthusiasm among managers and employees.

Organizational culture significantly affects business decisions and thus must be evaluated during an internal strategic-management audit. If strategies can capitalize on cultural strengths, such as a strong work ethic or highly ethical beliefs, then management often can implement changes swiftly and easily. However, if the firm's culture is not supportive, strategic changes may be ineffective or even counterproductive. A firm's culture can become antagonistic to new strategies, with the result being confusion and disorientation. An organization's culture should infuse individuals with enthusiasm for implementing strategies. Allarie and Firsirotu emphasized the need to understand culture:

Culture provides an explanation for the insuperable difficulties a firm encounters

when it attempts to shift its strategic direction. Not only has the "right" culture become the essence and foundation of corporate excellence, it is also claimed that success or failure of reforms hinges on management's sagacity and ability to change the firm's driving culture in time and in time with required changes in strategies.

The potential value of organizational culture has not been realized fully in the study of strategic management. Ignoring the effect that culture can have on relationships among the functional areas of business can result in barriers to communication, lack of coordination, and an inability to adapt to changing conditions. Some tension between culture and a firm's strategy is inevitable, but the tension should be monitored so that it does not reach a point at which relationships are severed and the culture becomes antagonistic. The resulting disarray among members of the organization would disrupt strategy formulation, implementation, and evaluation. On the other hand, a supportive organizational culture can make managing much easier. Internal strengths and weaknesses associated with a firm's culture sometimes are overlooked because of the interfunctional nature of this phenomenon. It is important, therefore, for strategists to understand their firm as a sociocultural system. Success is often determined by linkages between a firm's culture and strategies. The challenge of strategic management today is to bring about the changes in organizational culture and individual mind-sets that are needed to support the formulation, implementation, and evaluation of strategies.

2.3.1. American and foreign cultures

To successfully compete in world markets, U.S. managers must obtain a better knowledge of historical, cultural, and religious forces that motivate and drive people in other countries. In Japan, for example, business relations operate within the context of *Wa,* which stresses group harmony and social cohesion. In China, business behavior revolves around *guanxi,* or personal relations. In Korea, activities involve concern for *inhwa,* or harmony based on respect of hierarchical relationships, including obedience to authority.[9] Note in the Global Perspective box that it is important to be sensitive to foreign business cultures.

In Europe, it is generally true that the farther north on the continent, the more

participatory the management style. Most European workers are unionized and enjoy more frequent vacations and holidays than U.S. workers. A ninety-minute lunch break plus twenty-minute morning and afternoon breaks are common in European firms. Guaranteed permanent employment is commonly a part of employment contracts in Europe. In socialist countries such as France, Belgium, and the United Kingdom, the only ground for immediate dismissal from work is a criminal offense. A six-month trial period at the beginning of employment is usually part of the contract with a European firm. Many Europeans resent pay-for-performance, commission salaries, and objective measurement and reward systems. This is true especially of workers in southern Europe. Many Europeans also find the notion of team spirit difficult to grasp because the unionized environment has dichotomized worker-management relations throughout Europe.

A weakness that U.S. firms have in competing with Pacific Rim firms is a lack of understanding of Far Eastern cultures, including how Asians think and behave. Spoken Chinese, for example, has more in common with spoken English than with spoken Japanese or Korean. Managers around the world face the responsibility of having to exert authority while at the same time trying to be liked by subordinates. U.S. managers consistently put more weight on being friendly and liked, whereas Asian and European managers exercise authority often without this concern. Americans tend to use first names instantly in business dealings with foreigners, but foreigners find this presumptuous. In Japan, for example, first names are used only among family members and intimate friends; even longtime business associates and co-workers shy away from the use of first names. Other cultural differences or pitfalls that U.S. managers need to know about are given in Table 4-2.

TABLE 4-2 Cultural Pitfalls That You Need to Know

• Waving is a serious insult in Greece and Nigeria, particularly if the hand is near someone's face.
• Making a "good-bye" wave in Europe can mean "no," but it means "come here" in Peru.
• In China, last names are written first.
• A man named Carlos Lopez-Garcia should be addressed as Mr. Lopez in Latin America, but as Mr. Garcia in Brazil.
• Breakfast meetings are considered uncivilized in most foreign countries.
• Latin Americans are on average twenty minutes late to business appointments.
• Direct eye contact is impolite in Japan.

• Don't cross your legs in Arab or many Asian countries—it's rude to show the sole of your shoe.
• In Brazil, touching your thumb and first finger—an American "OK" sign—is the equivalent of raising your middle finger.
• Nodding or tossing your head back in southern Italy, Malta, Greece, and Tunisia means "no." In India, this body motion means "yes."
• Snapping your fingers is vulgar in France and Belgium.
• Folding your arms across your chest is a sign of annoyance in Finland.
• In China, leave some food on your plate to show that your host was so generous that you couldn't finish.
• Do not eat with your left hand when dining with clients from Malaysia or India.
• One form of communication works the same worldwide. It's the smile—so take that along wherever you go.

U.S. managers have a low tolerance for silence, whereas Asian managers view extended periods of silence as important for organizing and evaluating one's thoughts. U.S. managers are much more action-oriented than their counterparts around the world; they rush to appointments, conferences, and meetings—and then feel the day has been productive. But for foreign managers, resting, listening, meditating, and thinking is considered productive. Sitting through a conference without talking is unproductive in the United States, but it is viewed as positive in Japan if one's silence helps preserve unity.

U.S. managers also put greater emphasis on short-term results than foreign managers do. In marketing, for example, Japanese managers strive to achieve "ever-lasting customers," whereas many Americans strive to make a one-time sale. Marketing managers in Japan see making a sale as the beginning, not the end, of the selling process. This is an important distinction. Japanese managers often criticize U.S. managers for worrying more about shareholders, whom they do not know, than employees, whom they do know. Americans refer to "hourly employees," whereas many Japanese companies still refer to "lifetime employees."

Rose Knotts recently summarized some important cultural differences between U.S. and foreign managers:

1. Americans place an exceptionally high priority on time, viewing time as an asset. Many foreigners place more worth on relationships. This difference results in foreign managers often viewing U.S. managers as "more interested in business than people."

2. Personal touching and distance norms differ around the world. Americans generally stand about three feet from each other when carrying on business conversations, but Arabs and Africans stand about one foot apart. Touching another person with the left hand in business dealings is taboo in some countries. American managers need to learn the personal space rules of foreign managers with whom they interact in business.

3. People in some cultures do not place the same significance on material wealth as American managers often do. Lists of the "largest corporations" and "highest-paid" executives abound in the United States. "More is better" and "bigger is better" in the United States, but not everywhere. This can be a consideration in trying to motivate individuals in other countries.

4. Family roles and relationships vary in different countries. For example, males are valued more than females in some cultures, and peer pressure, work situations, and business interactions reinforce this phenomenon.

5. Language differs dramatically across countries, even in countries where people speak the same language. Words and expressions commonly used in one country may be disrespectful in another.

6. Business and daily life in some societies is governed by religious factors. Prayer times, holidays, daily events, and dietary restrictions, for example, need to be respected by American managers not familiar with these practices in some countries.

7. Time spent with the family and the quality of relationships are more important in some cultures than the personal achievement and accomplishments espoused by the traditional American manager. For example, where a person stands in the hierarchy of a firm's organizational structure, how large the firm is, and where the firm is located are much more important factors to American managers than to many foreign managers.

8. Many cultures around the world value modesty, team spirit, collectivity, and patience much more than the competitiveness and individualism that are so important in America.

9. Punctuality is a valued personal trait when conducting business in America, but it is not revered in many of the world's societies. Eating habits also differ dramatically across cultures. For example, belching is acceptable in many countries as evidence of

satisfaction with the food that has been prepared. Chinese culture considers it good manners to sample a portion of each food served.

10. To prevent social blunders when meeting with managers from other lands, one must learn and respect the rules of etiquette of others. Sitting on a toilet seat is viewed as unsanitary in most countries, but not in the United States. Leaving food or drink after dining is considered impolite in some countries, but not in China. Bowing instead of shaking hands is customary in many countries. Many cultures view Americans as unsanitary for locating toilet and bathing facilities in the same area, whereas Americans view people of some cultures as unsanitary for not taking a bath or shower every day.

11. Americans often do business with individuals they do not know, but this practice is not accepted in many other cultures. In Mexico and Japan, for example, an amicable relationship is often mandatory before conducting business.

In many countries, effective managers are those who are best at negotiating with government bureaucrats rather than those who inspire workers. Many U.S. managers are uncomfortable with nepotism and bribery, which are common in many countries. In almost every country except the United States, bribery is tax deductible.

The United States has gained a reputation for defending women from sexual harassment and minorities from discrimination, but not all countries embrace the same values. For example, in the Czech Republic, it is considered a compliment when the boss openly flirts with his female secretary and invites her to dinner. U.S. managers in the Czech Republic who do not flirt seem cold and uncaring to some employees.

American managers in China have to be careful about how they arrange office furniture because Chinese workers believe in *feng shui*, the practice of harnessing natural forces. American managers in Japan have to be careful about *nemaswashio*, whereby Japanese workers expect supervisors to alert them privately of changes rather than informing them in a meeting. Japanese managers have little appreciation for versatility, expecting all managers to be the same. In Japan, "If a nail sticks out, you hit it into the wall," says Brad Lashbrook, an international consultant for Wilson Learning.

Probably the biggest obstacle to the effectiveness of U.S. managers—or managers

from any country working in another—is the fact that it is almost impossible to change the attitude of a foreign workforce. "The system drives you; you cannot fight the system or culture," says Bill Parker, president of Phillips Petroleum in Norway.

2.4. Management

The functions of management consist of five basic activities: planning, organizing, motivating, staffing, and controlling. An overview of these activities is provided in Table 4-3.

2.4.1. Planning

The only thing certain about the future of any organization is change, and planning is the essential bridge between the present and the future that increases the likelihood of achieving desired results. Planning is the process by which one determines whether to attempt a task, works out the most effective way of reaching desired objectives, and prepares to overcome unexpected difficulties with adequate resources. Planning is the start of the process by which an individual or business may turn empty dreams into achievements. Planning enables one to avoid the trap of working extremely hard but achieving little.

Planning is an up-front investment in success. Planning helps a firm achieve maximum effect from a given effort. Planning enables a firm to take into account relevant factors and focus on the critical ones. Planning helps ensure that the firm can be prepared for all reasonable eventualities and for all changes that will be needed.

TABLE 4-3 The Basic Functions of Management

FUNCTION	DESCRIPTION	STAGE OF STRATEGIC-MANAGEMENT PROCESS WHEN MOST IMPORTANT
Planning	Planning consists of all those managerial activities related to preparing for the future. Specific tasks include forecasting, establishing objectives, devising strategies, developing policies, and setting goals.	Strategy Formulation

FUNCTION	DESCRIPTION	STAGE OF STRATEGIC-MANAGEMENT PROCESS WHEN MOST IMPORTANT
Organizing	Organizing includes all those managerial activities that result in a structure of task and authority relationships. Specific areas include organizational design, job specialization, job descriptions, job specifications, span of the control, unity of command, coordination, job design, and job analysis.	Strategy Implementation
Motivating	Motivating involves efforts directed toward shaping human behavior. Specific topics include leadership, communication, work groups, behavior modification, delegation of authority, job enrichment, job satisfaction, needs fulfillment, organizational change, employee morale, and managerial morale.	Strategy Implementation
Staffing	Staffing activities are centered on personnel or human resource management. Included are wage and salary administration, employee benefits, interviewing, hiring, firing, training, management development, employee safety, affirmative action, equal employment opportunity, union relations, career development, personnel research, discipline policies, grievance procedures, and public relations.	Strategy Implementation
Controlling	Controlling refers to all those managerial activities directed toward ensuring that actual results are consistent with planned results. Key areas of concern include quality control, financial control, sales control, inventory control, expense control, analysis of variances, rewards, and sanctions.	Strategy Evaluation

Planning enables a firm to gather the resources needed and carry out tasks in the most efficient way possible. Planning enables a firm to conserve its own resources, avoid wasting ecological resources, make a fair profit, and be seen as an effective, useful firm. Planning enables a firm to identify precisely what is to be achieved and to detail precisely who, what, when, where, why, and how needed to achieve desired objectives. Planning enables a firm to assess whether the effort, costs, and implications associated with achieving desired objectives are warranted. Planning is the cornerstone of effective strategy formulation. But even though it is considered the foundation of management, it is commonly the task that managers neglect most. Planning is essential for successful strategy implementation and strategy evaluation, largely because organizing, motivating, staffing, and controlling activities depend upon good planning.

The process of planning must involve managers and employees throughout an

organization. The time horizon for planning decreases from two to five years for top-level to less than six months for lower-level managers. The important point is that all managers do planning and should involve subordinates in the process to facilitate employee understanding and commitment.

Planning can have a positive impact on organizational and individual performance. Planning allows an organization to identify and take advantage of external opportunities as well as minimize the impact of external threats. Planning is more than extrapolating from the past and present into the future. It also includes developing a mission, forecasting future events and trends, establishing objectives, and choosing strategies to pursue.

An organization can develop synergy through planning. *Synergy* exists when everyone pulls together as a team that knows what it wants to achieve; synergy is the 2 + 2 = 5 effect. By establishing and communicating clear objectives, employees and managers can work together toward desired results. Synergy can result in powerful competitive advantages. The strategic-management process itself is aimed at creating synergy in an organization.

Planning allows a firm to adapt to changing markets and thus to shape its own destiny. Strategic management can be viewed as a formal planning process that allows an organization to pursue proactive rather than reactive strategies. Successful organizations strive to control their own futures rather than merely react to external forces and events as they occur. Historically, organisms and organizations that have not adapted to changing conditions have become extinct. Swift adaptation is needed today more than ever before because changes in markets, economies, and competitors worldwide are accelerating.

2.4.2. Organizing

The purpose of *organizing* is to achieve coordinated effort by defining task and authority relationships. Organizing means determining who does what and who reports to whom. There are countless examples in history of well-organized enterprises successfully competing against—and in some cases defeating—much stronger but less-

organized firms. A well-organized firm generally has motivated managers and employees who are committed to seeing the organization succeed. Resources are allocated more effectively and used more efficiently in a well-organized firm than in a disorganized firm.

The organizing function of management can be viewed as consisting of three sequential activities: breaking tasks down into jobs (work specialization), combining jobs to form departments (departmentalization), and delegating authority. Breaking tasks down into jobs requires the development of job descriptions and job specifications. These tools clarify for both managers and employees what particular jobs entail. In *Wealth of Nations,* published in 1776, Adam Smith cited the advantages of work specialization in the manufacture of pins:

One man draws the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head. Ten men working in this manner can produce 48,000 pins in a single day, but if they had all wrought separately and independently, each might at best produce twenty pins in a day.

Combining jobs to form departments results in an organizational structure, span of control, and a chain of command. Changes in strategy often require changes in structure because positions may be created, deleted, or merged. Organizational structure dictates how resources are allocated and how objectives are established in a firm. Allocating resources and establishing objectives geographically, for example, is much different from doing so by product or customer.

The most common forms of departmentalization are functional, divisional, strategic business unit, and matrix. These types of structure are discussed further in Chapter 7.

Delegating authority is an important organizing activity, as evidenced in the old saying "You can tell how good a manager is by observing how his or her department functions when he or she isn't there." Employees today are more educated and more capable of participating in organizational decision making than ever before. In most cases, they expect to be delegated authority and responsibility, and to be held accountable for results. Delegation of authority is embedded in the strategic-

management process.

2.4.3. Motivating

Motivating can be defined as the process of influencing people to accomplish specific objectives.[13] Motivation explains why some people work hard and others do not. Objectives, strategies, and policies have little chance of succeeding if employees and managers are not motivated to implement strategies once they are formulated. The motivating function of management includes at least four major components: leadership, group dynamics, communication, and organizational change.

When managers and employees of a firm strive to achieve high levels of productivity, this indicates that the firm's strategists are good leaders. Good leaders establish rapport with subordinates, empathize with their needs and concerns, set a good example, and are trustworthy and fair. Leadership includes developing a vision of the firm's future and inspiring people to work hard to achieve that vision. Kirkpatrick and Locke reported that certain traits also characterize effective leaders: knowledge of the business, cognitive ability, self-confidence, honesty, integrity, and drive.

Research suggests that democratic behavior on the part of leader’s results in more positive attitudes toward change and higher productivity than does autocratic behavior. Drucker said:

Leadership is not a magnetic personality. That can just as well be demagoguery. It is not "making friends and influencing people." That is flattery. Leadership is the lifting of a person's vision to higher sights, the raising of a person's performance to a higher standard, the building of a person's personality beyond its normal limitations.

Group dynamics play a major role in employee morale and satisfaction. Informal groups or coalitions form in every organization. The norms of coalitions can range from being very positive to very negative toward management. It is important, therefore, that strategists identify the composition and nature of informal groups in an organization to facilitate strategy formulation, implementation, and evaluation. Leaders of informal groups are especially important in formulating and implementing strategy changes.

Communication, perhaps the most important word in management, is a major

component in motivation. An organization's system of communication determines whether strategies can be implemented successfully. Good two-way communication is vital for gaining support for departmental and divisional objectives and policies. Top-down communication can encourage bottom-up communication. The strategic-management process becomes a lot easier when subordinates are encouraged to discuss their concerns, reveal their problems, provide recommendations, and give suggestions. A primary reason for instituting strategic management is to build and support effective communication networks throughout the firm.

The manager of tomorrow must be able to get his people to commit themselves to the business, whether they are machine operators or junior vice-presidents. Ah, you say, participative management. Have a cigar. But just because most managers tug a forelock at the P word doesn't mean they know how to make it work. Today, throwing together a few quality circles won't suffice. The key issue will be empowerment, a term whose strength suggests the need to get beyond merely sharing a little information and a bit of decision making.

2.4.4. Staffing

The management function of *staffing,* also called *personnel management* or *human resource management,* includes activities such as recruiting, interviewing, testing, selecting, orienting, training, developing, caring for, evaluating, rewarding, disciplining, promoting, transferring, demoting, and dismissing employees, as well as managing union relations.

Staffing activities play a major role in strategy-implementation efforts, and for this reason, human resource managers are becoming more actively involved in the strategic-management process. It is important to identify strengths and weaknesses in the staffing area. The complexity and importance of human resource activities have increased to such a degree that all but the smallest organizations now need a full-time human resource manager. Numerous court cases that directly affect staffing activities are decided each day. Organizations and individuals can be penalized severely for not following federal, state, and local laws and guidelines related to staffing. Line managers simply cannot stay abreast of all the legal developments and requirements regarding

staffing. The human resources department coordinates staffing decisions in the firm so that an organization as a whole meets legal requirements. This department also provides needed consistency in administering company rules, wages, and policies.

Human resource management is particularly challenging for international companies. For example, the inability of spouses and children to adapt to new surroundings has become a major staffing problem in overseas transfers. The problems include premature returns, job performance slumps, resignations, discharges, low morale, marital discord, and general discontent. Firms such as Ford Motor and ExxonMobil have begun screening and interviewing spouses and children before assigning persons to overseas positions. 3M Corporation introduces children to peers in the target country and offers spouses educational benefits.

Strategists are becoming increasingly aware of how important human resources are to effective strategic management. Human resource managers are becoming more involved and more proactive in formulating and implementing strategies. They provide leadership for organizations that are restructuring, or they allow employees to work at home.

2.4.5. Controlling

The *controlling* function of management includes all of those activities undertaken to ensure that actual operations conform to planned operations. All managers in an organization have controlling responsibilities, such as conducting performance evaluations and taking necessary action to minimize inefficiencies. The controlling function of management is particularly important for effective strategy evaluation. Controlling consists of four basic steps:

1. Establishing performance standards
2. Measuring individual and organizational performance
3. Comparing actual performance to planned performance standards
4. Taking corrective actions

Measuring individual performance is often conducted ineffectively or not at all in organizations. Some reasons for this shortcoming are that evaluations can create

confrontations that most managers prefer to avoid, can take more time than most managers are willing to give, and can require skills that many managers lack. No single approach to measuring individual performance is without limitations. For this reason, an organization should examine various methods, such as the graphic rating scale, the behaviorally anchored rating scale, and the critical incident method, and then develop or select a performance appraisal approach that best suits the firm's needs. Increasingly, firms are striving to link organizational performance with managers' and employees' pay. This topic is discussed further in Chapter 7.

2.4.6. Management Audit. Checklist of Questions

The checklist of questions provided below can help determine specific strengths and weaknesses in the functional area of business. An answer of *no* to any question could indicate a potential weakness, although the strategic significance and implications of negative answers, of course, will vary by organization, industry, and severity of the weakness. Positive or *yes* answers to the checklist questions suggest potential areas of strength.

1. Does the firm use strategic-management concepts?
2. Are company objectives and goals measurable and well communicated?
3. Do managers at all hierarchical levels plan effectively?
4. Do managers delegate authority well?
5. Is the organization's structure appropriate?
6. Are job descriptions and job specifications clear?
7. Is employee morale high?
8. Are employee turnover and absenteeism low?
9. Are organizational reward and control mechanisms effective?

2.5. Marketing

Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services. There are seven basic *functions of marketing:* (1) customer analysis, (2) selling products/services, (3) product and service planning, (4) pricing, (5) distribution, (6) marketing research, and (7)

opportunity analysis. Understanding these functions helps strategists identify and evaluate marketing strengths and weaknesses.

2.5.1 Customer Analysis

Customer analysis- the examination and evaluation of consumer needs, desires, and wants-involves administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies. The information generated by customer analysis can be essential in developing an effective mission statement. Customer profiles can reveal the demographic characteristics of an organization's customers. Buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors can all participate in gathering information to identify customers' needs and wants successfully. Successful organizations continually monitor present and potential customers' buying patterns.

2.5.2 Selling Products/Services

Successful strategy implementation generally rests upon the ability of an organization to sell some product or service. *Selling* includes many marketing activities, such as advertising, sales promotion, publicity, personal selling, sales force management, customer relations, and dealer relations. These activities are especially critical when a firm pursues a market penetration strategy. The effectiveness of various selling tools for consumer and industrial products varies. Personal selling is most important for industrial goods companies, and advertising is most important for consumer goods companies. During the CBS telecast of Super Bowl XXXVIII on February 1, 2004, a 30-second advertisement cost $2.3 million, up 9 percent from 2003. There were 62 ad slots sold by CBS for this Super Bowl. Determining organizational strengths and weaknesses in the selling function of marketing is an important part of performing an internal strategic-management audit.

With regard to advertising products and services on the Internet, a new trend is to base advertising rates exclusively on sales rates. This new accountability contrasts

sharply with traditional broadcast and print advertising, which bases rates on the number of persons expected to see a given advertisement. The new cost-per-sale online advertising rates are possible because any Web site can monitor which user clicks on which advertisement and then can record whether that consumer actually buys the product. If there are no sales, then the advertisement is free.

2.5.3 Product and Service planning

Product and service planning includes activities such as test marketing; product and brand positioning; devising warranties; packaging; determining product options, product features, product style, and product quality; deleting old products; and providing for customer service. Product and service planning is particularly important when a company is pursuing product development or diversification.

One of the most effective product and service planning techniques is *test marketing*. Test markets allow an organization to test alternative marketing plans and to forecast future sales of new products. In conducting a test market project, an organization must decide how many cities to include, which cities to include, how long to run the test, what information to collect during the test, and what action to take after the test has been completed. Test marketing is used more frequently by consumer goods companies than by industrial goods companies. Test marketing can allow an organization to avoid substantial losses by revealing weak products and ineffective marketing approaches before large-scale production begins.

2.5.4 Pricing

Five major stakeholders affect *pricing* decisions: consumers, governments, suppliers, distributors, and competitors. Sometimes an organization will pursue a forward integration strategy primarily to gain better control over prices charged to consumers. Governments can impose constraints on price fixing, price discrimination, minimum prices, unit pricing, price advertising, and price controls. For example, the Robinson-Patman Act prohibits manufacturers and wholesalers from discriminating in price among channel member purchasers (suppliers and distributors) if competition is

injured.

Competing organizations must be careful not to coordinate discounts, credit terms, or condition of sale; not to discuss prices, markups, and costs at trade association meetings; and not to arrange to issue new price lists on the same date, to rotate low bids on contracts, or to uniformly restrict production to maintain high prices. Strategists should view price from both a short-run and a long-run perspective, because competitors can copy price changes with relative ease. Often a dominant firm will aggressively match all price cuts by competitors.

With regard to pricing, as the value of the dollar increases, U.S. multinational companies have a choice. They can raise prices in the local currency of a foreign country or risk losing sales and market share. Alternatively, multinational firms can keep prices steady and face reduced profit when their export revenue is reported in the United States in dollars.

In late 2003, Wrigley's raised the price of its chewing gum by five cents, to thirty cents, the first such price hike in sixteen years. The price of plasma televisions has dropped to below $2,000 in 2004 from above $8,000 several years ago. Intense price competition coupled with Internet price-comparative shopping in most industries has reduced profit margins to bare minimum levels for most companies. For example, airline tickets, rental car prices, and even computer prices are lower today than they have been in many years.

Prices on handheld computers are falling dramatically because distributors have excess inventory due to slowing consumer demand. Analysts contend that handheld computers will soon become as inexpensive as cellphones-and eventually may be given away when a consumer purchases the company's wireless Internet service. Palm is the largest handheld-computer maker, but other competitors include Casio, Handspring, and Hewlett-Packard. While the current economic downturn has wreaked havoc for companies on Wall Street, it has benefited consumers on Main Street, who have seen lower prices almost everywhere they shop.

2.5.5. Distribution

Distribution includes warehousing, distribution channels, distribution coverage, retail site locations, sales territories, inventory levels and location, transportation carriers, wholesaling, and retailing. Most producers today do not sell their goods directly to consumers. Various marketing entities act as intermediaries; they bear a variety of names such as wholesalers, retailers, brokers, facilitators, agents, vendors-or simply distributors.

Distribution becomes especially important when a firm is striving to implement a market development or forward integration strategy. Some of the most complex and challenging decisions facing a firm concern product distribution. Intermediaries flourish in our economy because many producers lack the financial resources and expertise to carry out direct marketing. Manufacturers who could afford to sell directly to the public often can gain greater returns by expanding and improving their manufacturing operations. Even General Motors would find it very difficult to buy out its more than eighteen thousand independent dealers.

Successful organizations identify and evaluate alternative ways to reach their ultimate market. Possible approaches vary from direct selling to using just one or many wholesalers and retailers. Strengths and weaknesses of each channel alternative should be determined according to economic, control, and adaptive criteria. Organizations should consider the costs and benefits of various wholesaling and retailing options. They must consider the need to motivate and control channel members and the need to adapt to changes in the future. Once a marketing channel is chosen, an organization usually must adhere to it for an extended period of time.

2.5.6. Marketing research

Marketing research is the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services. Marketing research can uncover critical strengths and weaknesses, and marketing researchers employ numerous scales, instruments, procedures, concepts, and techniques to gather information. Marketing research activities support all of the major business functions of an

organization. Organizations that possess excellent marketing research skills have a definite strength in pursuing generic strategies.

The President of PepsiCo [said], "Looking at the competition is the company's best form of market research. The majority of our strategic successes are ideas that we borrow from the marketplace, usually from a small regional or local competitor. In each case, we spot a promising new idea, improve on it, and then out-execute our competitor."[18]

As indicated in the "E-Commerce Perspective," market researchers should be careful not to use spam as a marketing tool because consumers intensely reject this method of gathering information. Spam slows down business for millions of firms.

2.5.7. Opportunity Analysis

The seventh function of marketing is *opportunity analysis,* which involves assessing the costs, benefits, and risks associated with marketing decisions. Three steps are required to perform a *cost/benefit analysis:* (1) compute the total costs associated with a decision, (2) estimate the total benefits from the decision, and (3) compare the total costs with the total benefits. When expected benefits exceed total costs, an opportunity becomes more attractive. Sometimes the variables included in a cost/benefit analysis cannot be quantified or even measured, but usually reasonable estimates can be made to allow the analysis to be performed. One key factor to be considered is risk. Cost/benefit analyses should also be performed when a company is evaluating alternative ways to be socially responsible.

2.5.8. Marketing Audit. Checklist of Questions

The following questions about marketing, much like the earlier questions for management, are pertinent:

1. Are markets segmented effectively?
2. Is the organization positioned well among competitors?
3. Has the firm's market share been increasing?
4. Are present channels of distribution reliable and cost-effective?

5. Does the firm have an effective sales organization?

6. Does the firm conduct market research?

7. Are product quality and customer service good?

8. Are the firm's products and services priced appropriately?

9. Does the firm have an effective promotion, advertising, and publicity strategy?

10. Are marketing, planning, and budgeting effective?

11. Do the firm's marketing managers have adequate experience and training?

2.6. Finance/Accounting

Financial condition is often considered the single best measure of a firm's competitive position and overall attractiveness to investors. Determining an organization's financial strengths and weaknesses is essential to formulating strategies effectively. A firm's liquidity, leverage, working capital, profitability, asset utilization, cash flow, and equity can eliminate some strategies as being feasible alternatives. Financial factors often alter existing strategies and change implementation plans.

An especially good Web site to obtain financial information about a company is **finance.yahoo.com or www.quicken.com,** which provide excellent financial ratio, stock, and valuation information on all publicly-held companies. Simply insert the company's stock symbol when the screen first loads and a wealth of information follows. Another nice site for obtaining financial information is **www.forbes.com.** Be sure to access the Manufacturing and Service section **ofwww.strategyclub.com** for excellent financial-related Web sites.

2.6.1. Finance/Accounting Functions

According to James Van Home, the *functions of finance/accounting* comprise three decisions: the investment decision, the financing decision, and the dividend decision.[19] Financial ratio analysis is the most widely used method for determining an organization's strengths and weaknesses in the investment, financing, and dividend areas. Because the functional areas of business are so closely related, financial ratios can signal strengths or weaknesses in management, marketing, production, research and

development, and management information systems activities. It is important to note here that financial ratios are equally applicable in for-profit and nonprofit organizations. Even though nonprofit organizations obviously would not have return-on-investment or earnings-per-share type ratios, they would routinely monitor many other special ratios. For example, a church would monitor the ratio of dollar contributions to number of members, while a zoo would monitor dollar food sales to number of visitors. A university would monitor number of students divided by number of professors. Therefore, be creative when performing ratio analysis for nonprofit organizations because they strive to be financially sound just as for-profit firms do.

The *investment decision*, also called *capital budgeting*, is the allocation and real-location of capital and resources to projects, products, assets, and divisions of an organization. Once strategies are formulated, capital budgeting decisions are required to implement strategies successfully. The *financing decision* determines the best capital structure for the firm and includes examining various methods by which the firm can raise capital (for example, by issuing stock, increasing debt, selling assets, or using a combination of these approaches). The financing decision must consider both short-term and long-term needs for working capital. Two key financial ratios that indicate whether a firm's financing decisions have been effective are the debt-to-equity ratio and the debt-to-total-assets ratio.

Dividend decisions concern issues such as the percentage of earnings paid to stockholders, the stability of dividends paid over time, and the repurchase or issuance of stock. Dividend decisions determine the amount of funds that are retained in a firm compared to the amount paid out to stockholders. Three financial ratios that are helpful in evaluating a firm's dividend decisions are the earnings-per-share ratio, the dividends-per-share ratio, and the price-earnings ratio. The benefits of paying dividends to investors must be balanced against the benefits of retaining funds internally, and there is no set formula on how to balance this trade-off. For the reasons listed here, dividends are sometimes paid out even when funds could be better reinvested in the business or when the firm has to obtain outside sources of capital:

1. Paying cash dividends is customary. Failure to do so could be thought of as a

stigma. A dividend change is considered a signal about the future.

2. Dividends represent a sales point for investment bankers. Some institutional investors can buy only dividend-paying stocks.

3. Shareholders often demand dividends, even in companies with great opportunities for reinvesting all available funds.

4. A myth exists that paying dividends will result in a higher stock price.

Many companies, such as Goodyear Tire & Rubber, have recently suspended paying dividends due to consistently falling revenues and earnings. Goodyear's stock price fell 17 percent to $4.22 on news of the board's decision to eliminate the firm's 12-cents-a-share quarterly dividend in early 2003. In contrast, Microsoft in 2003 began paying dividends for the first time in seventeen years, spurred by both its huge cash reserves and President Bush's plan to eliminate federal taxes on dividends. Citigroup and Wells Fargo raised their dividend payouts by 75 percent and 50 percent, respectively, in mid-2003. In the bear stock market of 2002, dividend-paying stocks held their value much better than non-dividend-paying stocks, losing only 13 percent of their value compared to 30 percent. Only 365 companies in the S&P 500 stock index pay dividends today, up from 351 at year-end 2002, but still fewer than the 438 companies in 1990. However, nearly 250 of the S&P 500 companies increased their dividend payout in 2003, up from 113 firms in 2002. McDonald's raised its dividend payout by 70 percent in 2003, the largest increase for the firm in 25 years. In contrast, Kodak cut its dividend by 70 percent in late 2003, the first such cut by the company in 101 years. Instead of paying out $3 billion in dividends, Kodak is investing that money in digital photography, away from camera film. From January through October of 2003, 194 S&P 500 companies introduced or raised dividends while only 16 lowered or suspended them.[20]

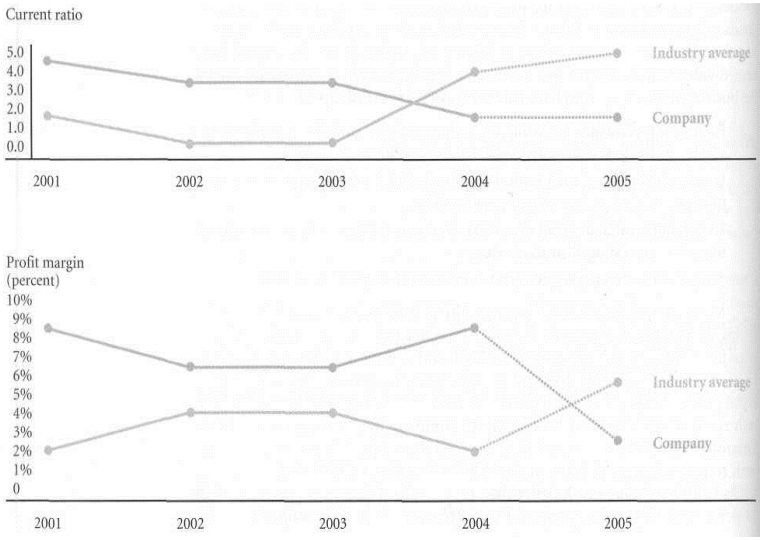
2.6.2. Basic Types of Financial Ratios

Financial ratios are computed from an organization's income statement and balance sheet. Computing financial ratios is like taking a picture because the results reflect a situation at just one point in time. Comparing ratios over time and to industry

averages is more likely to result in meaningful statistics that can be used to identify and evaluate strengths and weaknesses. Trend analysis, illustrated in Figure 4-2, is a useful technique that incorporates both the time and industry average dimensions of financial ratios. Note that the dotted lines reveal projected ratios. Some Web sites, such as **finance.yahoo.com,** calculate financial ratios and provide data with charts. Four major sources of industry-average financial ratios follow:

1. Dun & Bradstreet's *Industry Norms and Key Business Ratios*-Fourteen different ratios are calculated in an industry-average format for eight hundred different types of businesses. The ratios are presented by Standard Industrial Classification (SIC) number and are grouped by annual sales into three size categories.

FIGURE 4-2 A Financial Ratio Trend Analysis



2. Robert Morris Associates' *Annual Statement Studies*-Sixteen different ratios are calculated in an industry-average format. Industries are referenced by SIC numbers published by the Bureau of the Census. The ratios are presented in four size categories by annual sales for all firms in the industry.

3.*Almanac of Business & Industrial Financial Ratios*-Twenty-two financial ratios and percentages are provided in an industry-average format for all major industries. The ratios and percentages are given for twelve different company-size categories for all firms in a given industry.

4. *Federal Trade Commission Reports*-The FTC publishes quarterly financial data, including ratios on manufacturing companies. FTC reports include analyses by industry group and asset size.

Table 4-4 provides a summary of key financial ratios showing how each ratio is calculated and what each ratio measures.

Financial ratio analysis is not without some limitations. First of all, financial ratios are based on accounting data, and firms differ in their treatment of such items as depreciation, inventory valuation, research and development expenditures, pension plan costs, mergers, and taxes. Also, seasonal factors can influence comparative ratios. Therefore, conformity to industry composite ratios does not establish with certainty that a firm is performing normally or that it is well managed. Likewise, departures from industry averages do not always indicate that a firm is doing especially well or badly.

For example, a high inventory turnover ratio could indicate efficient inventory management and a strong working capital position, but it also could indicate a serious inventory shortage and a weak working capital position.

It is important to recognize that a firm's financial condition depends not only on the functions of finance, but also on many other factors that include (1) management, marketing, management production/operations, research and development, and management information systems decisions; (2) actions by competitors, suppliers, distributors, creditors, customers, and shareholders; and (3) economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Even natural environment liabilities can affect financial ratios, as indicated in the "Natural Environment Perspective." So financial ratio analysis, like all other analytical tools, should be used wisely.

TABLE 4-4 A Summary of Key Financial Ratios

RATIO	HOW CALCULATED	WHAT IT MEASURES
Liquidity Ratios		
Current Ratio	Current assets Current liabilities	The extent to which a firm can meet its short-term obligations
Quick Ratio	Current assets minus inventory Current liabilities	The extent to which a firm can meet its short-term obligations without relying upon the sale of its inventories
Leverage Ratios		
Debt-to-Total-Assets Ratio	Total debt Total assets	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	Total debt Total stockholders' equity	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	Long-term debt Total stockholders' equity	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	Profits before interest and taxes Total interest charges	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs
Activity Ratios		
Inventory Turnover	Sales Inventory of finished goods	Whether a firm holds excessive stocks of inventories and whether a firm is selling its inventories slowly compared to the industry average
Fixed Assets Turnover	Sales Fixed assets	Sales productivity and plant and equipment utilization
Total Assets Turnover	Sales Total assets	Whether a firm is generating a sufficient volume of business for the size of its asset investment
Accounts Receivable Turnover	Annual credit sales Accounts receivable	The average length of time it takes a firm to collect credit sales (in percentage terms)
Average Collection Period	Accounts receivable Total credit sales/365 days	The average length of time it takes a firm to collect on credit sales (in days)
Profitability Ratios		

RATIO	HOW CALCULATED	WHAT IT MEASURES
Gross Profit Margin	Sales minus cost of goods sold Sales	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	Earnings before interest and taxes (EBIT) Sales	Profitability without concern for taxes and interest
Net Profit Margin	Net income Sales	After-tax profits per dollar of sales
Return on Total Assets (ROA)	Net income Total assets	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)
Return on Stockholders' Equity (ROE)	Net income Total stockholders' equity	After-tax profits per dollar of stockholders' investment in the firm
Earnings Per Share (EPS)	Net income Number of shares of common stock outstanding	Earnings available to the owners of common stock
Price-earnings Ratio	Market price per share Earnings per share	Attractiveness of firm on equity markets
Growth Ratios		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales
Net Income	Annual percentage growth in profits	Firm's growth rate in profits
Earnings Per Share	Annual percentage growth in EPS	Firm's growth rate in EPS
Dividends Per Share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share

2.6.3. Finance/Accounting Audit. Checklist of questions

The following finance/accounting questions, like the similar questions about marketing and management earlier, should be examined:

1. Where is the firm financially strong and weak as indicated by financial ratio analyses?
2. Can the firm raise needed short-term capital?
3. Can the firm raise needed long-term capital through debt and/or equity?
4. Does the firm have sufficient working capital?
5. Are capital budgeting procedures effective?
6. Are dividend payout policies reasonable?
7. Does the firm have good relations with its investors and stockholders?
8. Are the firm's financial managers experienced and well trained?

2.7. Production/Operations

The *production/operations function* of a business consists of all those activities that transform inputs into goods and services. Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets. A manufacturing operation transforms or converts inputs such as raw materials, labor, capital, machines, and facilities into finished goods and services. As indicated in Table 4-5, Roger Schroeder suggested that production/operations management comprises five functions or decision areas: process, capacity, inventory, workforce, and quality.

Most automakers require a thirty-day notice to build vehicles, but Toyota Motor fills a buyer's new car order in just five days. Honda Motor was considered the industry's fastest producer, filling orders in fifteen days. Automakers have for years operated under just-in-time inventory systems, but Toyota's 360 suppliers are linked to the company via computers on a virtual assembly line. The new Toyota production system was developed in the company's Cambridge, Ontario, plant and now applies to its Solara, Camry, Corolla, and Tacoma vehicles.

Capacity utilization for light trucks in the automobile industry has dropped from 107 percent in 2000 to an expected 75 percent in 2005, due to oversupply and falling demand. Light trucks, which include SUVs, minivans, and pickups, account for much of the profits for Ford, DaimlerChrysler, and General Motors. American automobile producers have been slow to upgrade their car models, and consequently, foreign makes of cars now comprise more than half of the market share for all cars sold in the United States.

TABLE 4-5 The Basic Functions of Production Management

FUNCTION	DESCRIPTION
1. Process	Process decisions concern the design of the physical production system. Specific decisions include choice of technology, facility layout, process flow analysis, facility location, line balancing, process control, and transportation analysis.
2. Capacity	Capacity decisions concern determination of optimal output levels for the organization—not too much and not too little. Specific decisions include forecasting, facilities planning, aggregate planning, scheduling, capacity planning, and queuing analysis.

3. Inventory	Inventory decisions involve managing the level of raw materials, work-in-process, and finished goods. Specific decisions include what to order, when to order, how much to order, and materials handling.
4. Workforce	Workforce decisions are concerned with managing the skilled, unskilled, clerical, and managerial employees. Specific decisions include job design, work measurement, job enrichment, work standards, and motivation techniques.
5. Quality	Quality decisions are aimed at ensuring that high-quality goods and services are produced. Specific decisions include quality control, sampling, testing, quality assurance, and cost control.

Production/operations activities often represent the largest part of an organization's human and capital assets. In most industries, the major costs of producing a product or service are incurred within operations, so production/ operations can have great value as a competitive weapon in a company's overall strategy. Strengths and weaknesses in the five functions of production can mean the success or failure of an enterprise. For example, a major production strength for the JC Penney company is its inventory control system, as explained in the "Global Perspective."

2.8. GLOBAL PERSPECTIVE

Many production/operations managers are finding that cross-training of employees can help their firms respond to changing markets faster. Cross-training of workers can increase efficiency, quality, productivity, and job satisfaction. For example, at General Motors' Detroit gear and axle plant, costs related to product defects were reduced 400 percent in two years as a result of cross-training workers. A shortage of qualified labor in America is another reason cross-training is becoming a common management practice.

Singapore rivals Hong Kong as an attractive site for locating production facilities in Southeast Asia. Singapore is a city-state near Malaysia. An island nation of about 4 million, Singapore is changing from an economy built on trade and services to one built on information technology. A large-scale program in computer education for older (over age 26) residents is very popular. Singapore children receive outstanding computer training in schools. All government services are computerized nicely. Singapore lures multinational businesses with great tax breaks, world-class infrastructure, excellent courts that handle business disputes efficiently, exceptionally low tariffs, large land

giveaways, impressive industrial parks, excellent port facilities, and a government very receptive to and cooperative with foreign businesses. Foreign firms now account for 70 percent of manufacturing output in Singapore.

There is much reason for concern that many organizations have not taken sufficient account of the capabilities and limitations of the production/operations function in formulating strategies. Scholars contend that this neglect has had unfavorable consequences on corporate performance in America. As shown in Table 4-6, James Dilworth outlined several types of strategic decisions that a company might make with production/operations implications of those decisions. Production capabilities and policies can also greatly affect strategies.

2.8.1. Production/Operations Audit. Checklist of Questions

Questions such as the following should be examined:

1. Are supplies of raw materials, parts, and subassemblies reliable and reasonable?
2. Are facilities, equipment, machinery, and offices in good condition?
3. Are inventory-control policies and procedures effective?
4. Are quality-control policies and procedures effective?
5. Are facilities, resources, and markets strategically located?
6. Does the firm have technological competencies?

2.9. Research and Development

The fifth major area of internal operations that should be examined for specific strengths and weaknesses is *research and development* (R&D). Many firms today conduct no R&D, and yet many other companies depend on successful R&D activities for survival. Firms pursuing a product development strategy especially need to have a strong R&D orientation.

Organizations invest in R&D because they believe that such an investment will lead to a superior product or service and will give them competitive advantages. Research and development expenditures are directed at developing new products before competitors do at improving product quality, or at improving manufacturing processes to reduce costs.

Effective management of the R&D function requires a strategic and operational partnership between R&D and the other vital business functions. A spirit of partnership and mutual trust between general and R&D managers is evident in the best-managed firms today. Managers in these firms jointly explore; assess; and decide the what, when, where, why, and how much of R&D. Priorities, costs, benefits, risks, and rewards associated with R&D activities are discussed openly and shared. The overall mission of R&D thus has become broad-based, including supporting existing businesses, helping launch new businesses, developing new products, improving product quality, improving manufacturing efficiency, and deepening or broadening the company's technological capabilities.

The best-managed firms today seek to organize R&D activities in a way that breaks the isolation of R&D from the rest of the company and promotes a spirit of partnership between R&D managers and other managers in the firm. R&D decisions and plans must be integrated and coordinated across departments and divisions by having the departments share experiences and information. The strategic-management process facilitates this cross-functional approach to managing the R&D function.

2.9.1. Internal and External R&D

Cost distributions among R&D activities vary by company and industry, but total R&D costs generally do not exceed manufacturing and marketing startup costs. Four approaches to determining R&D budget allocations commonly are used: (1) financing as many project proposals as possible, (2) using a percentage-of-sales method, (3) budgeting about the same amount that competitors spend for R&D, or (4) deciding how many successful new products are needed and working backward to estimate the required R&D investment.

R&D in organizations can take two basic forms: (1) internal R&D, in which an organization operates its own R&D department, and/or (2) contract R&D, in which a

TABLE 4-6 Impact of Strategy Elements on Production Management

POSSIBLE ELEMENTS OF STRATEGY	CONCOMITANT CONDITIONS THAT MAY AFFECT THE OPERATIONS FUNCTION AND ADVANTAGES AND DISADVANTAGES
1. Compete as low-cost provider of goods or services	Discourages competition Broadens market Requires longer production runs and fewer product changes Requires special-purpose equipment and facilities
2. Compete as high-quality provider	Often possible to obtain more total profit from a smaller volume of sales Requires more quality-assurance effort and higher operating cost Requires more precise equipment, which is more expensive Requires highly skilled workers, necessitating higher wages and greater training efforts
3. Stress customer service	Requires broader development of servicepeople and service parts and equipment Requires rapid response to customer needs or changes in customer tastes, rapid and accurate information system, careful coordination Requires a higher inventory investment
4. Provide rapid and frequent introduction of new products	Requires versatile equipment and people Has higher research and development costs Has high retraining costs and high tooling and changeover in manufacturing Provides lower volumes for each product and fewer opportunities for improvements due to the learning curve
5. Strive for absolute growth	Requires accepting some projects or products with lower marginal value, which reduces ROI Diverts talents to areas of weakness instead of concentrating on strengths
6. Seek vertical integration	Enables company to control more of the process May not have economies of scale at some stages of process May require high capital investment as well as technology and skills beyond those currently available within the organization
7. Maintain reserve capacity for flexibility	Provides ability to meet peak demands and quickly implement some contingency plans if forecasts are too low Requires capital investment in idle capacity Provides capability to grow during the lead time normally required for expansion

8. Consolidate processing (Centralize)	Can result in economies of scale Can locate near one major customer or supplier Vulnerability: one strike, fire, or flood can halt the entire operation
9. Disperse processing of service (Decentralize)	Can be near several market territories Requires more complex coordination network: perhaps expensive data transmission and duplication of some personnel and equipment at each location If each location produces one product in the line, then other products still must be transported to be available at all locations If each location specializes in a type of component for all products, the company is vulnerable to strike, fire, flood, etc. If each location provides total product line, then economies of scale may not be realized
10. Stress the use of mechanization, automation, robots	Requires high capital investment Reduces flexibility May affect labor relations Makes maintenance more crucial
11. Stress stability of employment	Serves the security needs of employees and may develop employee loyalty Helps to attract and retain highly skilled employees May require revisions of make-or-buy decisions, use of idle time, inventory, and subcontractors as demand fluctuates

firm hires independent researchers or independent agencies to develop specific products. Many companies use both approaches to develop new products. A widely used approach for obtaining outside R&D assistance is to pursue a joint venture with another firm. R&D strengths (capabilities) and weaknesses (limitations) play a major role in strategy formulation and strategy implementation.

Most firms have no choice but to continually develop new and improved products because of changing consumer needs and tastes, new technologies, shortened product life cycles, and increased domestic and foreign competition. A shortage of ideas for new products, increased global competition, increased market segmentation, strong special-interest groups, and increased government regulations are several factors making the successful development of new products more and more difficult, costly, and risky. In the pharmaceutical industry, for example, only one out of every few thousand drugs created in the laboratory ends up on pharmacists' shelves. Scarpello, Boulton, and Hofer emphasized that different strategies require different R&D capabilities:

The focus of R&D efforts can vary greatly depending on a firm's competitive strategy. Some corporations attempt to be market leaders and innovators of new products, while others are satisfied to be market followers and developers of currently available products. The basic skills required to support these strategies will vary,

depending on whether R&D becomes the driving force behind competitive strategy. In cases where new product introduction is the driving force for strategy, R&D activities must be extensive. The R&D unit must then be able to advance scientific and technological knowledge, exploit that knowledge, and manage the risks associated with ideas, products, services, and production requirements.[22]

U.S. companies increased R&D spending 0.1 percent in 2003, following a 0.3 percent rise in 2002 and a 5.0 percent rise back in 2001.[23] In other words, R&D expenditures are flat. Some companies spend a large percentage of their revenues on R&D; for example, Microsoft spends about 16 percent ($4.3 billion) of its annual revenues on R&D and Medtronic spends about 10 percent ($650 million). In contrast to flat corporate increases in R&D spending, U.S. government R&D expenditures increased 11 percent in 2002 and were expected to increase another 10.5 percent in 2003 to about $90 billion. Technology companies cut their R&D expenses by an average of 9.0 percent in 2002 although a few tech companies such as Intel increased the R&D expenditures.[24] Analysts expect the cuts to slow innovation and new-product development.

2.9.2. Research and Development Audit Checklist of Questions

Questions such as the following should be asked in performing an R&D audit:

1. Does the firm have R&D facilities? Are they adequate?
2. If outside R&D firms are used, are they cost-effective?
3. Are the organization's R&D personnel well qualified?
4. Are R&D resources allocated effectively?
5. Are management information and computer systems adequate?
6. Is communication between R&D and other organizational units effective?
7. Are present products technologically competitive?

2.10. Management information systems

Information ties all business functions together and provides the basis for all managerial decisions. It is the cornerstone of all organizations. Information represents a major source of competitive management advantage or disadvantage. Assessing a firm's internal strengths and weaknesses in information systems is a critical dimension of performing an internal audit. The company motto of Mitsui, a large Japanese trading company, is "Information is the lifeblood of the company." A satellite network connects Mitsui's two-hundred worldwide offices.

A management information system's purpose is to improve the performance of an enterprise by improving the quality of managerial decisions. An effective information system thus collects, codes, stores, synthesizes, and presents information in such a manner that it answers important operating and strategic questions. The heart of an information system is a database containing the kinds of records and data important to managers.

A *management information system* receives raw material from both the external and internal evaluation of an organization. It gathers data about marketing, finance, production, and personnel matters internally, and social, cultural, demographic, environmental, economic, political, governmental legal, technological, and competitive factors externally. Data are integrated in ways needed to support managerial decision making.

There is a logical flow of material in a computer information system, whereby data are input to the system and transformed into output. Outputs include computer printouts, written reports, tables, charts, graphs, checks, purchase orders, invoices, inventory records, payroll accounts, and a variety of other documents. Payoffs from alternative strategies can be calculated and estimated. *Data* become *information* only when they are evaluated, filtered, condensed, analyzed, and organized for a specific purpose, problem, individual, or time.

An effective management information system utilizes computer hardware, software, models for analysis, and a database. Some people equate information systems with the advent of the computer, but historians have traced recordkeeping and non-

computer data processing to Babylonian merchants living in 3500 B.C. Benefits of an effective information system include an improved understanding of business functions, improved communications, more informed decision making, a better analysis of problems, and improved control.

Because organizations are becoming more complex, decentralized, and globally dispersed, the function of information systems is growing in importance. Spurring this advance is the falling cost and increasing power of computers. There are costs and benefits associated with obtaining and evaluating information, just as with equipment and land. Like equipment, information can become obsolete and may need to be purged from the system. An effective information system is like a library, collecting, categorizing, and filing data for use by managers throughout the organization. Information systems are a major strategic resource, monitoring internal and external issues and trends, identifying competitive threats, and assisting in the implementation, evaluation, and control of strategy.

We are truly in an information age. Firms whose information-system skills are weak are at a competitive disadvantage. On the other hand, strengths in information systems allow firms to establish distinctive competencies in other areas. Low-cost manufacturing and good customer service, for example, can depend on a good information system.

2.10.1 Strategic-planning software

Some strategic decision support systems, however, are too sophisticated, expensive, or restrictive to be used easily by managers in a firm. This is unfortunate because the strategic-management process must be a people process to be successful. People make the difference! Strategic-planning software should thus be simple and unsophisticated. Simplicity allows wide participation among managers in a firm and participation is essential for effective strategy implementation.

One strategic-planning software product that parallels this text and offers managers and executives a simple yet effective approach for developing organizational strategies is *CheckMATE*. This personal computer software performs planning analyses

and generates strategies a firm could pursue. *CheckMATE* incorporates the most modern strategic-planning techniques. No previous experience with computers or knowledge of strategic planning is required of the user. *CheckMATE* thus promotes communication, understanding, creativity, and forward thinking among users.

CheckMATE is not a spreadsheet program or database; it is an expert system that carries a firm through strategy formulation and implementation. A major strength of the new 2002 version of *CheckMATE* strategic-planning software is its simplicity and participative approach. The user is asked appropriate questions, responses are recorded, information is assimilated, and results are printed. Individuals can work through the software independently and then the program will develop joint recommendations for the firm.

Specific analytical procedures included in the *CheckMATE* program are Strategic Position and Action Evaluation (SPACE) analysis, Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis, Internal-External (IE) analysis, and Grand Strategy Matrix analysis. These widely used strategic-planning analyses are described in Chapter 6.

An individual license for *CheckMATE* costs $495. More information about *CheckMATE* can be obtained at **www.checkmateplan.com** or 910-579-5744 (phone).

2.10.2 Management information system of Audit. Checklist of Questions

Questions such as the following should be asked when conducting this audit:

1. Do all managers in the firm use the information system to make decisions?

2. Is there a chief information officer or director of information systems position in the firm?

3. Are data in the information system updated regularly?

4. Do managers from all functional areas of the firm contribute input to the information system?

5. Are there effective passwords for entry into the firm's information system?

6. Are strategists of the firm familiar with the information systems of rival firms?

7. Is the information system user-friendly?

8. Do all users of the information system understand the competitive advantages that information can provide firms?

9. Are computer training workshops provided for users of the information system?

10. Is the firm's information system continually being improved in content and user-friendliness?

2.11. The Value chain

According to Porter, the business of a firm can best be described as a *value chain*, in which total revenues minus total costs of all activities undertaken to develop and market a product or service yields value. All firms in a given industry have a similar value chain, which includes activities such as obtaining raw materials, designing products, building manufacturing facilities, developing cooperative agreements, and providing customer service. A firm will be profitable as long as total revenues exceed the total costs incurred in creating and delivering the product or service. Firms should strive to understand not only their own value chain operations, but also their competitors', suppliers', and distributors' value chains.

Value Chain Analysis (VCA) refers to the process whereby a firm determines the costs associated with organizational activities from purchasing raw materials to manufacturing product(s) to marketing those products. VCA aims to identify where low-cost advantages or disadvantages exist anywhere along the value chain from raw material to customer service activities. VCA can enable a firm to better identify its own strengths and weaknesses, especially as compared to competitors' value chain analyses and their own data examined over time.

Substantial judgment may be required in performing a VCA because different items along the value chain may impact other items positively or negatively, so there exist complex interrelationships. For example, exceptional customer service may be especially expensive yet may reduce the costs of returns and increase revenues. Despite the complexity of VCA, the initial step in implementing this procedure is to divide a firm's operations into specific activities or business processes. Then the analyst attempts

to attach a cost to each discrete activity and the costs could be in terms of both time and money. Finally, the analyst converts the cost data into information by looking for competitive cost strengths and weaknesses that may yield competitive advantage or disadvantage. Conducting a VCA is supportive of the RBV's examination of a firm's assets and capabilities as sources of distinctive competence.

More and more companies are using VCA to gain and sustain competitive advantage by being especially efficient and effective along various parts of the value chain. For example, Wal-Mart has built powerful value advantages by focusing on exceptionally tight inventory control, volume purchasing of products, and offering exemplary customer service. Computer companies in contrast compete aggressively along the distribution end of the value chain. Of course, price competitiveness is a key component of effectiveness among both mass retailers and computer firms.

2.12. The Internal Factor Evaluation (IFE) Matrix

A summary step in conducting an internal strategic-management audit is to construct an *Internal Factor Evaluation (IFE) Matrix.* This strategy-formulation tool summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas. Intuitive judgments are required in developing an IFE Matrix, so the appearance of a scientific approach should not be interpreted to mean this is an all-powerful technique. A thorough understanding of the factors included is more important than the actual numbers. Similar to the EFE Matrix and Competitive Profile Matrix described in Chapter 3, an IFE Matrix can be developed in five steps:

1. List key internal factors as identified in the internal-audit process. Use a total of from ten to twenty internal factors, including both strengths and weaknesses. List strengths first and then weaknesses. Be as specific as possible, using percentages, ratios, and comparative numbers.

2. Assign a weight that ranges from 0.0 (not important) to 1.0 (all-important) to each factor. The weight assigned to a given factor indicates the relative importance of the factor to being successful in the firm's industry. Regardless of whether a key factor

is an internal strength or weakness, factors considered to have the greatest effect on organizational performance should be assigned the highest weights. The sum of all weights must equal 1.0.

3. Assign a l-to-4 rating to each factor to indicate whether that factor represents a major weakness (rating — 1), a minor weakness (rating = 2), a minor strength (rating = 3), or a major strength (rating = 4). Note that strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating. Ratings are thus company-based, whereas the weights in Step 2 are industry-based.

4. Multiply each factor's weight by its rating to determine a weighted score for each variable.

5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

Regardless of how many factors are included in an IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0, with the average score being 2.5. Total weighted scores well below 2.5 characterize organizations that are weak internally, whereas scores significantly above 2.5 indicate a strong internal position. Like the EFE Matrix, an IFE Matrix should include from 10 to 20 key factors. The number of factors has no effect upon the range of total weighted scores because the weights always sum to 1.0.

When a key internal factor is both a strength and a weakness, the factor should be included twice in the IFE Matrix, and a weight and rating should be assigned to each statement. For example, the Playboy logo both helps and hurts Playboy Enterprises; the logo attracts customers to *Playboy* magazine, but it keeps the Playboy cable channel out of many markets.

An example of an IFE Matrix for Mandalay Bay is provided in Table 4-7. Note that the firm's major strengths are its size, occupancy rates, property, and long-range planning as indicated by the rating of 4.

TABLE 4-7 A Sample Internal Factor Evaluation Matrix for Mandalay Bay

KEY INTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
Internal Strengths			
1. Largest casino company in the United States	.05	4	.20
2. Room occupancy rates over 95% in Las Vegas	.10	4	.40
3. Increasing free cash flows	.05	3	.15
4. Owns one mile on Las Vegas Strip	.15	4	.60
5. Strong management team	.05	3	.15
6. Buffets at most facilities	.05	3	.15
7. Minimal comps provided	.05	3	.15
8. Long-range planning	.05	4	.20
9. Reputation as family-friendly	.05	3	.15
10. Financial ratios	.05	3	.15
Internal Weaknesses			
1. Most properties are located in Las Vegas	.05	1	.05
2. Little diversification	.05	2	.10
3. Family reputation, not high rollers	.05	2	.10
4. Laughlin properties	.10	1	.10
5. Recent loss of joint ventures	.10	1	.10
TOTAL	1.00		2.75

The major weaknesses are locations and recent joint ventures. The total weighted score of 2.75 indicates that this large gaming corporation is above average in its overall internal strength. In multidivisional firms, each autonomous division or strategic business unit should construct an IFE Matrix. Divisional matrices then can be integrated to develop an overall corporate IFE Matrix.

An example IFE Matrix for Gateway Computer in late 2003 is provided in Table 4-8. Note that Gateway was recently *Consumer Reports'* number-one rated computer. Gateway's total weighted score of 2.65 is above the average value of 2,50.

TABLE 4-8 IFE Matrix for Gateway Computer

KEY INTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
Strengths			
1. Several new senior executives with world-class skills and leadership experience	0.05	4	(.20)
2. Continuous decline in operating costs and cost of goods sold	0.05	3	0.15
3. Well-known brand name	0.05	3	0.15
4. *Consumer Reports* (September 2002) recommended Gateway 500X as #1	0.10	4	0.40
5. As a direct seller, Gateway holds high brand recognition	0.05	3	0.15
6. Gateway is diversifying into non-PC products	0.10	3	0.30
7. Good relationship with its suppliers	0.05	4	0.20
8. Economies of scale, the 6th largest PC maker in the world	0.05	4	0.20
9. Gateway retail stores excellent	0.05	3	0.15
Weaknesses			
1. High operating expense (22% of revenue vs. 10% for Dell)	0.05	1	0.05
2. Almost no budget for R&D vs. Dell's 18% of revenue	0.10	1	0.10
3. Low return-on-assets ratio	0.025	2	0.05
4. No niche market	0.025	2	0.05
5. Shortage of cash due to successive losses	0.10	2	0.20
6. Limited number Gateway stores	0.05	2	0.10
7. Weak performance in overseas market	0.10	2	0.20
TOTAL	1.00		2.65

CONCLUSION

Management, marketing, finance/accounting, production/operations, research and development, and management information systems represent the core operations of most businesses. A strategic-management audit of a firm's internal operations is vital to organizational health. Many companies still prefer to be judged solely on their bottom-line performance. However, an increasing number of successful organizations are using the internal audit to gain competitive advantages over rival firms.

Systematic methodologies for performing strength-weakness assessments are not well developed in the strategic-management literature, but it is clear that strategists must identify and evaluate internal strengths and weaknesses in order to formulate and choose among alternative strategies effectively. The EFE Matrix, Competitive Profile Matrix, IFE Matrix, and clear statements of vision and mission provide the basic information needed to formulate competitive strategies successfully. The process of performing an internal audit represents an opportunity for managers and employees throughout the organization to participate in determining the future of the firm. Involvement in the process can energize and mobilize managers and employees.

We invite you to visit the David page on the Prentice Hall Companion Web site at ***www.prenhall.com/david*** for this chapter's World Wide Web exercises.

TASKS FOR SELF-TRAINING

1.1. Issues for review and discussion:

1. Explain why prioritizing the relative importance of strengths and weaknesses in an IFE Matrix is an important strategic-managements activity.
2. How can delegation of authority contribute to effective strategic management?
3. Diagram a formal organizational chart that reflects the following positions: a president, two executive officers, four middle managers, and eighteen lower-lever managers. Now, diagram three overlapping and hypothetical informal group structures. How can this information be helpful to a strategist in formulating and implementing strategy?
4. Which of the three basic functions of finance/accounting do you feel is most important in a small electronic manufacturing firm? Justify your positions.
5. Do you think aggregate R&D expenditures for American firms will increase or decrease next year? Why?
6. Explain how you would motivate managers and employees to implement a major new strategy.
7. Why do you thinks production/operations managers often are not directive involved in strategy-formulations activities? Why can this be a major organizational weakness?
8. Give two examples of staffing and two examples of staffing weaknesses of an organization with which you are familiar.
9. Would you ever pay out dividends when your firm's annual net profit in negative? Why? What effect could this have on a firm's strategies?
10. If a firms has zero debt in its capital structure, is that always an organizational strength? Why or why not?
11. Describe the production/operation system in a police department.
12. After conducting an internal audit, a firms discovers a total of 100 strengths and 100 weaknesses. What procedures then could be used to determine the most important of total number of key factors?
13. Why do you believe cultural products affect all the functions of business?

14. Do you think cultural products affect strategy formulation, implementation, or evaluation the most? Why?
15. Identify cultural products at your college or university. Do these products. Viewed collectively or separately, represent a strength or weaknesses for the organization?
16. Describe the management information system at your college or university.
17. Explain the difference between data and information in terms of each being to strategists.
18. What are the most important characteristics of an effective management information system?
19. Compare and contrast American versus foreign cultures in terms of doing business.
20. Do you agree or disagree with the RBV theorists that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage? Explain your and their positions.
21. Define and discuss “empirical indicators”.
22. Define and discuss “spam” problem in the U.S.
23. Discuss JC Penney's inventory control system. Why is that a competitive advantage for the firms?
24. Define and explain value chain analysis (VCA).
25. List five financial ratios that may be used by your university to monitor operations.

1.2. Experimental exercises

Experiential Exercise 4A *Performing a Financial Ratio Analysis for Krispy Kreme Doughnuts (KKD)*	**PURPOSE** Financial ratio analysis is one of the best techniques for indentifying and evaluating internal strengths and weaknesses. Potential investors and current shareholders look closely at firm's financial ratios, making detailed comparisons to industry averages and to previous of time. Financial ratio analyses provide vital input information for developing an IFE Matrix. **INSTRUCTIONS** **Step 1** On a separate sheet of paper, number from 1 to 20. Referring to KKD's income statement and balance sheet (pp.37-38), calculate twenty financial ratios for 2003 for the company. Use Table 4-4 as a reference. **Step 2** Go to *finance.yahoo.com* and find financial ratio information for Starbucks (stock symbol = SBUX). Starbucks is a KKD competitor. Record the SBUX values in the second column on your paper. Calculate by hand any SBUX ratios that you cannot find on the Internet **Step 3** In a third column, indicate whether you consider each ratio to be a strength, a weakness, or a neutral factor for KKD.
Experiential Exercise 4B *Constructing an IFE Matrix for Krispy Kreme Doughnuts (KKD)*	**PURPOSE** This exercise will give experience in developing an IFE Matrix. Identifying and prioritizing factor to include in an IFE Matrix fosters communication among functional and divisional managers. Preparing an IFE Matrix allows human resource, marketing. production/operation, finance/accounting, R&D, and management information system managers to articulate their concern and thought regarding the business condition of the firms. This result in an improved collective understanding of the business. **INSTRUCTIONS**

	Step 1 Join with two other individuals to form a tree-person team. Develop a team IFE Matrix for KKD. **Step 2** Compare your teams' IFE Matrices. Discuss any major differences. **Step 3** What strategies do you think would allow KKD to capitalize on its major strengths? What strategies would allow KKD to improve upon its major weaknesses?
Experiential Exercise 4C *Constructing an IFE Matrix My University*	**PURPOSE** This exercise give you the opportunity to evaluate your university's major strengths and weaknesses. As will become clearer in the next chapter, an organization's strategies are largely based upon striving to take advantage of strengths and improving upon weaknesses **INSTRUCTIONS** **Step 1** Join with two other individuals to form a three-person team. Develop a team IFE Matrix for your university. You may use the strengths/weaknesses determined in Experimental Exercise 1D. **Step 2** Go to the board and diagram your team's IFE Matrix. **Step 3** Compare your team's IFE Matrix to other team's IFE Matrices. Discus any major differences. **Step 4** What strategies do you think would allow your university to capitalize on its major strengths? What strategies would allow your university to improve upon its major weaknesses?

ГЛОССАРИЙ.

Адаптация-это процесс приспособления человека или организации к существующим или изменяющимся условиям.

Адаптивные изменения являются спонтанные стратегические изменения в силу ряда последовательных мер, принятых в течение длительного периода, которые влияют на традиционные критерии, структуру власти и компетентность менеджеров, которые возникают как реакция на постоянные внешние воздействия или неудовлетворительной деловой и производственной деятельности организации.

Активы-это любая собственность компании: машины и оборудование, здания, запасы, банковские вклады и инвестиции в ценные бумаги, патенты (в Западной практике также деловая репутация).

Акции - ценные бумаги, которые свидетельствуют о размещении долей ее владельцем в капитал акционерного общества и дающая право на долю прибыли в форме дивиденда.

Анализ SWOT, или SAS анализ (сила, слабость, возможности, угрозы) - анализ сильных и слабых сторон фирмы, оценка ее возможностей и потенциальных угроз. Возможности определяются как нечто, дающее фирме шанс сделать что-то новое: чтобы выпустить новый продукт, завоевать новых клиентов, внедрить новую технологию, перестроить и улучшить цепочки и т. д. Угроза-это то, что может нанести ущерб фирме, лишить ее существующих преимуществ: несанкционированное копирование уникальных разработок фирмы, появление новых конкурентов или заменителей, и т. д.

Арбитражный управляющий (временный, внешний, конкурсный) - лицо, назначаемое арбитражным судом для проведения процедур банкротства или осуществления иных полномочий, установленных законом.

Аттестация - Комплексная оценка деятельности организации на предмет его соответствия установленным нормам и требованиям.

Базовые параметры - система критериев, которые могут адекватно отразить специфику конкретного объекта с учетом факторов, влияющих на него в

тот или иной период времени (система показателей, качественных характеристик, шкал и т. д.).

Банкротство (несостоятельность) - признанный арбитражным судом или объявленный должником факт неспособности последнего удовлетворить требования кредиторов в полном объеме или исполнить обязанность по уплате обязательных платежей. Состояние неплатежеспособности должника трансформируется в несостоятельность (банкротство) только после утверждения арбитражным судом признаков неплатежеспособности должника.

Бизнес-инкубатор - малое предприятие, создаваемых местными органами власти или крупными компаниями для "выращивания" новых предприятий для реализации инновационных проектов.

Бюджет - это расчетный объем доходов и расходов организации или государства на определенный срок; распределение и структурирование доходов и расходов; распределение затрат, имеющихся ресурсов (бюджет времени).

Венчурные Компании Фирмы, риска, которые обычно создаются в областях предпринимательской деятельности, связанных с повышенным риском потери. За последние 20 лет наибольшее число венчурных фирм было создано в развитых странах для реализации идей, содержащихся в изобретениях и открытиях. Часто, крупные специализированные компании заинтересованы в привлечении новых разработок выходит за рамки основного производства, которые могут не соответствовать его профилю, нарушая ритм и эффективность производственного процесса. Венчурные компании, как правило, мелких фирм, созданных в форме акционерных обществ или обществ с ограниченной ответственностью.

Вертикальная интеграция представляет собой комплексную стратегию роста, когда положение фирмы внутри отрасли изменяется за счет расширения путем добавления новых структур. Стратегия обратной вертикальной интеграции (интеграция "назад") направлена на рост фирмы за счет приобретения фирм-поставщиков или усиления контроля над поставщиками. Стратегия прямой вертикальной интеграции (прямая интеграция) выражается в росте фирмы за счет

приобретения фирм-поставщиков или усиления контроля над структурами, которые находятся между фирмой и конечным потребителем (над системой распределения и продажи).

Внесудебные процедуры-возможность без обращения в арбитражный суд решать путем переговоров должника с кредиторами вопросы либо продолжения деятельности предприятия-должника либо его добровольной ликвидации.

Внешнее управление (судебная санкция) - процедура банкротства, применяемая к должнику в целях восстановления его платежеспособности, передача полномочий по управлению должником внешнему управляющему.

Внешний управляющий назначается арбитражным судом для осуществления внешнего управления и осуществления иных полномочий, предусмотренных законом.

Внешняя среда отрасли-факторы, условия, силы и субъекты, влияющие на ситуацию в отрасли извне.

Внутренняя гибкость-обеспечение такой внутрифирменной координации, при которой мощности, материальные, профессиональные и управленческие ресурсы организации могут быть быстро и легко переведены из одной бизнес-единицы к другой.

Входные барьеры - факторы, препятствующие вхождению новых конкурентов в отрасль (на рынок). Возведение барьеров является одной из форм борьбы за обретение и сохранение конкурентных преимуществ. Как правило, возможность создания входных барьеров обусловлена высокими уровнями капиталоемкости. Входные барьеры удерживать новых конкурентов от попыток утвердиться в отрасли (на рынке). Их назначение в том, чтобы сделать затраты, связанные с проникновением в отрасль (на рынок), настолько высокими, что возвращение на сам инвестиционный капитал будет на кону. Входные барьеры фактически существуют для того, чтобы или повысить вступительный взнос, или увеличить риск для новичков. В большинстве стратегических ситуаций крайне важно суметь идентифицировать соответствующие входные барьеры.

Исходящие барьеры-факторы, препятствующие уходу фирм из отрасли (с

рынка). Исходящие барьеры во многих отраслях стали серьезной помехой долгосрочной прибыльности. Они заставляют бизнес-единицы продолжать функционировать в отраслях, где рентабельность низкая или отсутствует доходность капитала. Исходящие барьеры могут иметь социально-политический, экономический и эмоциональный характер. Последнее касается ситуаций, когда компания, которая преуспевает в новых областях, проводит на своей предыдущей бизнеса, несмотря на значительные потери. Однако, такие случаи редки. В большинстве стратегических ситуаций крайне важно суметь идентифицировать соответствующие выходные барьеры.

Глобальная конкуренция-форма международной конкуренции, когда конкурентная позиция фирмы в одной стране существенно влияет на ее позиции в других странах. Вот, конкуренция на глобальной основе, и соперничающие фирмы ориентируются на преимущества, проистекающие из их деятельности по всему миру, интегрируя, таким образом, экономической деятельности, осуществляемой в разных странах.

Глобальная отрасль промышленности, которая оказывает сильное влияние на стратегические позиции фирм-конкурентов на определенных географических или национальных рынках с их глобальной позиции на мировом рынке.

Глобальной стратегии является одинаковым для всех стран, хотя и существуют небольшие отличия в стратегиях на каждом рынке в связи с необходимостью адаптироваться к его специфическим условиям, но основной конкурентный подход (например, низкие затраты, дифференциация или фокусировка) остается неизменным для всех стран, где действует фирма.

Диагностика-деятельность по оценке состояния организации с целью определения проблем ее развития и вероятности наступления кризиса.

Диверсификация-процесс проникновения фирмы в другие отрасли. Стратегия диверсификации используется для того, чтобы организация не стала чересчур зависимой от одного стратегического бизнес-подразделения. Идея диверсификации имеет многолетнюю историю. В настоящее время многие

компании, имея большой прирост капитала в ключевых областях бизнеса, вижу диверсификацию как наиболее подходящий путь для инвестирования капитала и уменьшения степени риска, особенно если дальнейшая экспансия в основных сферах бизнеса ограничена. При осуществлении стратегии диверсификации фирма: 1) либо выходит за рамки промышленной цепочки, внутри которой она действовала, и ищет новые виды деятельности, дополняющие существующие в плане технологическом или коммерческом с целью добиться синергетического эффекта (концентрическая диверсификация); 2) либо приобретает деятельности, не связанные с ее традиционным профилем с целью обновления своего портфеля (чистая диверсификация).

Спорный структура - одна из пяти разновидностей структур организации, описанных американским исследователем Дж. Minzberg; характеризуется не столько интегрированной организации, как объединение квази-автономных блоков под власть центральной администрации. Его подразделения обычно называются подразделений и центрального аппарата штаб-квартиры. Разделение оперативных функций делает дивизий независимые друг от друга; каждый из них может действовать автономно. Децентрализация дивизиональная структура не является; однако, в дальнейшем на назначение исполнителя на начальника отдела, то есть, это довольно ограниченный.

Жизненный цикл продукции (технологии) - это определенный период времени, в течение которого продукт (технология) обладает жизнеспособностью на рынке и обеспечивает достижение инновационных целей предприятия.

Имидж - образ, Репутация, мнение широкой публики, потребителей и клиентов о престиже предприятия, его товарах и услугах. Создание благоприятного имиджа-одно из ключевых элементов деятельности компании по продвижению своей продукции на рынок, достижению преимуществ в конкурентной борьбе.

Инвестиции - долгосрочные вложения частного или государственного капитала в различные отрасли национальной или зарубежной экономики с целью получения прибыли.

Индекс - цифровой статистический показатель, выражающий состояние и тенденции изменений того или иного явления.

GLOSSARY.

Adaptation is the process of adapting a person or organization to existing or changing conditions.

Adaptive changes are spontaneous strategic changes due to a number of consistent measures taken over a long period that affect traditional criteria, the power structure and competence of managers that arise as a response to permanent external influences or to unsatisfactory business and industrial performance of the organization.

Assets are any property of the company: machinery and equipment, buildings, stocks, bank deposits and investments in securities, patents (in western practice, also business reputation).

Shares - securities, which testify to the placement of a share by its owner in the capital of the joint-stock company and gives the right to share the profit in the form of a dividend.

SWOT analysis, or SAS analysis (strength, weakness, opportunities, threats) - analysis of strengths and weaknesses of the firm, assessment of its capabilities and potential threats. Opportunities are defined as something that gives the firm a chance to do something new: to launch a new product, to win new customers, to introduce new technology, to rebuild and improve value chains, etc. The threat is something that can damage the firm, deprive its existing advantages: unauthorized copying of unique developments of the company, the emergence of new competitors or substitutes, etc.

Arbitration Manager (temporary, external, competitive) - a person appointed by the arbitral tribunal to conduct bankruptcy proceedings or exercise other powers established by law.

Certification - a comprehensive assessment of the organization's activities for its compliance with established norms and requirements.

Basic parameters - a system of criteria that can adequately reflect the specifics of a particular object, taking into account the factors influencing it at that or another period of time (system of indicators, qualitative characteristics, scales, etc.).

Bankruptcy (insolvency) - recognized by the arbitral tribunal or declared by the debtor of the fact of the latter's inability to satisfy the claims of creditors in full or to

fulfill the obligation to pay mandatory payments. The state of insolvency of the debtor is transformed into insolvency (bankruptcy) only after the statement by the arbitral tribunal of signs of insolvency of the debtor.

Business incubator is a small enterprise created by local authorities or large companies to "grow" new enterprises for the implementation of innovative projects.

Budget is an estimated amount of income and expenses of an organization or state for a certain period of time; Distribution and structuring of incomes and expenses; Cost allocation, available resources (time budget).

Venture companies are risk firms that are usually created in areas of entrepreneurial activity that are associated with increased risk of loss. Over the past 20 years, the largest number of venture firms has been created in developed countries to implement the ideas contained in inventions and discoveries. Often, large specialized companies are interested in bringing new developments beyond the scope of the main production, which may not fit its profile, impairing the rhythm and efficiency of the production process. Venture companies are usually small firms created in the form of joint-stock companies or limited liability companies.

Vertical integration is an integrated growth strategy when the firm's position within an industry varies by expanding it by adding new structures. The strategy of reverse vertical integration (integration "back") is aimed at the growth of the firm through the acquisition of supplier companies or the strengthening of control over suppliers. The strategy of direct vertical integration (forward integration) is expressed in the growth of the firm through the acquisition of supplier companies or the strengthening of control over the structures that are between the firm and the end user (over the distribution and sale systems).

Extrajudicial procedures-an opportunity without recourse to the arbitral tribunal to resolve, by negotiating a debtor with creditors, issues of either continuing the activities of the debtor company or its voluntary liquidation.

External administration (judicial sanction) - a bankruptcy procedure applied to the debtor in order to restore his solvency, transfer of powers to manage the debtor to the external manager.

An external manager appointed by the arbitral tribunal to exercise external management and exercise other powers provided for by law.

The external environment of the industry is factors, conditions, forces and subjects that influence the situation in the industry from the outside.

Internal flexibility is the provision of such intra-corporate coordination, in which the power, material, professional and managerial resources of an organization can be quickly and easily transferred from one business unit to another.

Entrance barriers are factors that impede the entry of new competitors into the industry (to market). The erection of barriers is one form of struggle for gaining and maintaining competitive advantages. As a rule, the possibility of creating entry barriers is due to high levels of capital intensity. Input barriers keep new competitors from trying to establish themselves in the industry (in the market). The purpose of these is to make the costs associated with penetration into the industry (to the market) so high that the return on investment capital itself will be at stake. Input barriers actually exist to either raise an entry fee, or increase the risk for beginners. In most strategic situations, it is crucial to be able to identify the relevant input barriers.

Outbound barriers are factors that hinder the care of firms from the industry (from the market). Outbound barriers in many industries have become a serious obstacle to long-term profitability. They force the business units to continue to operate in industries where the profitability is low or there is no return on capital. Outbound barriers can have a socio-political, economic and emotional character. The latter concerns situations where a company that succeeds in new areas holds on its previous business, despite considerable losses. However, such cases are rare. In most strategic situations, it is extremely important to be able to identify the relevant output barriers.

Global competition is a form of international competition where the competitive position of a firm in one country significantly affects its position in other countries. Here, competition is on a global basis, and rival firms are guided by the benefits stemming from their activities around the world, integrating thus the economic activities carried out in different countries.

The global industry is an industry that has a strong influence on the strategic

position of competing firms in certain geographic or national markets with their global position on the global market.

The global strategy is the same for all countries, although there are small differences in strategies in each market due to the need to adapt to its specific conditions, but the main competitive approach (for example, low cost, differentiation or focusing) remains unchanged for all countries where the firm operates. .

A global strategy is best achieved in sectors with global competition or in industries where the process of globalization begins.

Diagnostics-activities to assess the state of the organization with a view to determining the problems of its development and the probability of a crisis.

Diversification is the process of penetrating the company into other industries. The strategy of diversification is used to ensure that the organization does not become too dependent on one strategic business unit. The idea of diversification has a long history. Currently, many companies, having large capital gains in key business areas, see diversification as the most appropriate way to invest in capital and reduce risk, especially if further expansion in major business areas is limited. When implementing the diversification strategy, the firm: 1) either goes beyond the industrial chain within which it has acted, and is looking for new activities complementing the existing ones in terms of technology or commercial in order to achieve the synergistic effect (concentric diversification); 2) either acquires activities not related to its traditional profile in order to update its portfolio (net diversification).

A divisive structure is one of five varieties of organization structures, described by the American researcher G. Minzberg; is characterized not so much the integrated organization as the unification of quasi-autonomous units under the authority of the central administration. Its units are usually called divisions, and the central administration is headquarters. Separating operational functions makes divisions mutually independent; each of them can act autonomously. Decentralization in the divisional structure is not; however, further on the appointment of the executor at the head of the department, that is, it is rather limited.

The life cycle of products (technologies) is a certain period of time during

which the product (technology) has viability in the market and provides the achievement of innovative goals of the enterprise.

Image - image, reputation, opinion of the general public, consumers and clients about the prestige of the enterprise, its products and services. Creating a favorable image is one of the key elements of the company's activities to promote its products to the market, to achieve the benefits of competitive struggle.

Investments - long-term investments of private or state capital into various branches of the national or foreign economy for the purpose of obtaining profit.

Index - a digital statistical indicator, expressing the state and trends of changes in one or another phenomenon.

Innovative potential - opportunities in achieving the set innovative goals.

Innovation - the creation, dissemination and application of any innovation, leading to improved work, increased efficiency.

Institutionalization of the strategy is the process of legal and institutional consolidation of the system approach, which ensures the balance and the general direction of the organization's growth.

Conglomerate is a group of more or less diverse companies owned by the same owner. Conglomerate is a diversified portfolio - as opposed to a synergistic portfolio (in a synergistic portfolio, a number of business units are strategically linked together).

Competitiveness of the organization is the ability of the organization to lead a successful competitive struggle.

Competition - confrontation in the market of goods and services, attraction of buyers for more profitable sales, the possibility of choosing sellers.

Bid manufacturing is a bankruptcy procedure applied to a debtor recognized as a bankrupt, in order to adequately meet the claims of creditors.

Condemnation is an organized movement of citizens and state (municipal) organizations for expanding the rights of buyers and increasing the possibility of their impact on sellers and producers of goods.

Coordination is the maintenance and maintenance of interaction between different parts of the organization or different organizations for achieving greater

coherence of activities.

Credit - provision of funds under certain conditions (term, interest, use, value, etc.); Obligations, acting in the term established by the agreement (trust credit); the number of points given for the regulation of activity (assessment credit in training).

The curve of experience (learning) is a graphical representation of the law of experience, which reads: "Costs per unit of production at the acquisition of value added in relation to the standard product, measured in constant monetary units, are reduced by a fixed percentage at each doubling of production." The analysis of the experience curve showed that the rate of reduction of costs per unit of goods varies from industry to industry: it is 12% for the automotive industry, 20% for the steel industry and aircraft, 40% for the production of semiconductors. The law of experience was taken out in the late 1960s by the Boston Consulting Group.

Crisis - the extreme exacerbation of the contradictions of development; The growing danger of bankruptcy, liquidation; Mismatch in the activities of economic, financial and other systems; A turning point in the process of change.

Leasing - lease of durable goods: buildings, cars, computers, etc. Implemented by a lease agreement, which specifies the dates and amount of the rent, the obligation to maintain the property in good condition, the procedure for the return and other rights and obligations of the parties.

Liquidation-termination of the firm's or enterprise's activities as a result of a meeting of shareholders, arbitration, bankruptcy, reorganization.

Licensing - in the international business the method of entering the foreign market, in which the company - the owner of the license concludes an agreement with the foreign buyer company license for the right to use the latest production process, trademark, patent, trading secret, or something else representing value for a certain fee. . The risk of entering an overseas market for a licensee in this case is minimal. However, with time, the buyer of a license can turn into a competitor.

Marketing - the formation of a real value of demand, the impact on the consumer to encourage him to acquire goods, the development of real and flexible programs of action of the organization in a specific market.

Marketing anti-crisis program is a complex of measures to be implemented by organizations to stabilize the situation on the market and to exit from the insolvency crisis (uncontrollability, non-competitiveness).

An international company is a company whose field of activity extends to foreign countries. By affiliation and control, most of the companies are national. Distinctive features of the international firm are: presence of a network of controlled production subsidiaries and subsidiaries in other countries; Use of technological co-operation and specialization of controlled enterprises; Control and coordination of activities of branches and subsidiaries - from one center, taking into account the difference in their legal status. To the category of international firms, called transnational corporations (TNC), the UN experts refer to any company with production facilities abroad.

The world agreement is the possibility of settling relations within the federal law.

Mission (strategic setting, purpose) - the main general purpose of the organization, a clear statement of the reason for its existence, its purpose. It is formulated, first of all, in terms of increasing the social role of the organization.

The corporate mission (business mission, business concept) characterizes the ability to engage in business, which the firm focuses on, taking into account market needs, the nature of consumers, product features and the availability of competitive advantages. The concept of a corporate mission is a reliable element of the ideological basis for the organization of the organization.

Multinational competition is one of the forms of international competition, when competition in each country or a small group of countries essentially proceeds independently; the industry in question exists in many countries, but in each of them the competition goes in its own way. International competitors may also be competitors, but the effect of their competitive advantages in most cases is limited to the country in which these companies operate. Thus, the international industry is, as it were, a set of industries (each within a single country).

A multinational strategy is a strategy in which the company adapts its strategic

approach to the specific situation in the market of each country. In this case, the overall international strategy of the company is a set of strategies by country. A multinational strategy is acceptable for industries where multinational competition prevails.

Multinational companies - firms whose capital belongs to entrepreneurs from different countries. Such firms include, for example, the Belgian-Franco-American-Swiss concern Philips, and the Anglo-Dutch food concern Unilever, etc. Multi-national companies are formed by merging the assets of uniting companies from different countries and the issue of shares of the newly created company. In this paper, the term "multinational firm" is used in relation to companies involved in multinational competition, and contrary to the term "global firms". A multinational company can be more independent in carrying out operations in different countries, its orientation becomes polycentric, i.e. proceeding from the fact that each market is unique and a condition for success is the maximum adaptation to national characteristics.

Organizational culture of the enterprise is an aggregate of values, norms, rules, customs, traditions, landmarks, shared by its employees.

Sector in strategic management: the aggregate of all sellers of any product or manufacturers offering any product or group of products that completely replace each other.

Portfolio - The most common meaning of the concept of "portfolio" used in relation to a business is securities held by a person. In extended interpretation, this notion is also used to designate a group of business units. Such an expansive interpretation follows from the concept of stock portfolio, which means investments in securities, including shares of a variety of companies. The concept of "portfolio" by analogy, with its meaning in business, began to be used to identify more or less diverse groups of business units belonging to the same owner.

Portfolio strategy is the strategy of acquiring the most important areas of management, the purpose of which is to effectively balance the direction of the firm's business with the obtaining of arguments, the development and release of new products on the market, the withdrawal from the market "by maintaining the current level of sales.

The prestige of recognition of abilities, the superiority of the winter, the success of the leader and the level of influence of these factors on the performance of subordinates.

Forecasting is the process of scientific foresight, the definition of trends in development and the image of the future.

Anti-crisis program - a system of measures that can take the enterprise out of the crisis (to mitigate, relieve the crisis, to escape from the crisis, to prevent it, to eliminate the consequences of the crisis, etc.); A complex of managerial decisions on the withdrawal of the organization from a crisis state.

Profile diversification - a kind of diversification, in which the company broadens its business activities in the industry, having a "strategic alignment", i.e. Having value-creating chains similar to this company that creates the possibility of combining different production into a single system and maximizing the use of the effect of the curve of experience to reduce production costs. In contrast to profile diversification, there is a non-specific diversification (unbound, diversification into new industries).

The process of strategic management - a set of consecutive actions - to achieve the goals set before the organization in the conditions of the variability and complexity of the organizational environment - which allows the optimal use of cash and flexible response to the requirements of the environment.

Advertising is a form of communication serving the market and stimulating demand and promoting products, services, ideas to the consumer by informing about consumer properties and quality of goods. The main function of advertising as an important element of the marketing management system is to create and provide a flexible and reliable communicative communication between the manufacturer and the consumer.

Return on Investment (ROI) - This indicator of the effectiveness of an investment activity of the company establishes the desirability of investments in terms of return on the initial investment; In other words, this is an inverted payback formula. The indicator is calculated as the ratio of average annual profit after taxes to net investments.

Reorganization - changing the structure and status of an enterprise by merging, allocating, absorbing, and transforming the links of the enterprise.

Restructuring - changing the structure of something according to certain parameters (timing, purpose, size, benefits, payments, etc.) in connection with the changed conditions and in order to positively solve the problem. One of the methods of anti-crisis management (restructuring of debts, enterprises, finance, technology, personnel, etc.).

Resources - the necessary means (tangible and intangible) for performing any work and obtaining its result.

Risk-situational activity, indicating the uncertainty of its outcome, its possible unfavorable consequences, alternative variants of error or success.

Risk of managerial characterization of management activities carried out in a situation of varying degrees of uncertainty, for example due to insufficiency or insecurity of information, in the choice of the manager of an alternative solution, the criterion of effectiveness of which is associated with the likelihood of negative conditions for the implementation of losses, or with the likelihood of neutralization of uncertainty and increase in profits. The risk manifests itself in the process of implementing the products of the production and economic system and acts as one of the final results of management.

Risk of economic loss, damage, the probability of which is associated with the presence of uncertainty (lack of information, unreliability), as well as possible benefits and profits, which can only be obtained by actions encumbered by risk.

Sanation - a reorganization procedure for the transfer of ownership of the debtor company to persons or organizations providing him financial assistance for the purpose of healing.

Binding processes-processes of communication and decision-making.

Synergism (synergy) is the strategic advantage that arises when joining two or more enterprises in one's hands. Their efficiency increases, which is manifested in the growth of productivity and (or) in the reduction of production costs; the effect of joint actions above a simple sum of individual efforts. The term "synergy" comes from the

concept of "synergism", which in biology means cooperation between different organs.

The control system is a set of control elements (goals, structure, tasks, technologies, personnel) that are connected with each other, integrated in a mechanism that enables them to achieve their goals, to make coordinated and effective decisions.

The environment of indirect influence - factors of the environment that do not directly affect the behavior of the organization, but indirectly affect the process of forming a strategy; It includes economic, political, technological and social factors,

Direct impact medium is an aggregate of environmental factors that directly affect the behavior of the organization: suppliers, consumers, competitors, labor resources, and the impact of institutions of state and municipal authorities.

Strategic management (management) - management activity associated with the formulation of long-term goals and objectives of the organization and maintaining a number of relationships between the organization and the environment that allows it to achieve its goals, are consistent with its internal capabilities and allow them to remain receptive to external requirements. As the volatility of business conditions increases, there is a growing need for firms to focus on strategic management. Abilities for strategic management assume the presence of five elements: 1) the ability to simulate the situation; 2) the ability to identify the need for change; 3) the ability to develop a strategy for change; 4) the ability to use reliable methods during the change; 5) the ability to translate the strategy into reality.

Strategy is a generalizing model of actions necessary to achieve the long-term goals set by coordinating and distributing company resources. Essentially, the strategy is a set of rules for making decisions that the organization guides in its activities. The process of developing a strategy includes: 1) the definition of a corporate mission; 2) specifying the vision of the corporation and setting goals; 3) the formulation and implementation of a strategy aimed at achieving goals.

The strategy of differentiation in strategic management is one of the company's general strategies aimed at creating competitive advantages. Differentiation is the company's desire for uniqueness in any aspect that attracts a large number of customers. The firm chooses one or more such clients and carries out its activities in

such a way as to satisfy the needs of the customers. This ultimately leads to an increase in production costs. The strategy of differentiation is not always compatible with the purpose of gaining a large market share, since most buyers may not be inclined to pay an elevated price even for excellent goods. Differentiation can take various forms: brand image, recognized technological perfection, appearance, after-sales service. The differentiation parameters are specific to each industry.

The strategy of internationalization-the development of new, foreign markets, including the expansion of not only export of goods, but also export of capital, when foreign enterprises are set up in the field, in former importing countries, goods, bypassing restrictive entry barriers (see) and using existing ones Advantages (for example, cheap labor, local raw materials, etc.).

Leadership Strategy for Cost-Leadership Strategy at cost efficiency. Strategic management is one of the company's general strategies aimed at creating competitive advantages. Using the cost leadership strategy, the company focuses on the wider market and produces products in large quantities, minimizing costs and offering low prices. This strategy is based on productivity and is usually associated with the existence of the effect of the curve of experience. It implies careful monitoring of constant costs, investment in production, aimed at realizing the effect of the curve of experience, careful elaboration of the designs of new goods, reduced sales and advertising costs. The focus is on low costs compared to competitors. Low-cost production is something more than a simple downward movement in the experience curve. The manufacturer must use any opportunity to obtain cost advantages, while not ignoring the principles of differentiation, since from the point of view of its products; its products should be acceptable or comparable with the products of competitors.

The liquidation strategy is the limiting case of a targeted reduction strategy. In this case, the firm over a short period of time eliminates (closes) separate business units, because it needs to regroup the forces to ensure the growth of the efficiency of its activities, or refuses certain areas of its activities.

The strategy of optimal costs-focuses on a combination of low costs and a wide differentiation of products. This strategy is aimed at satisfying the needs of

consumers by providing them with a large range of products at lower prices than comparable products of competitors.

A retrenchment strategy is usually associated with a reduction in market share as soon as possible in order to increase profits.

A firm may find itself in a situation where it urgently needs cash, and then it is going to "sell" part of its market share to its competitors. This is usually a forced but not selectable strategy. This strategy involves the gradual reduction of operations or the liquidation of business.

The turnaround strategy is characteristic of firms in a difficult situation that is gradually deteriorating. In such a situation, the firm can radically change its strategy in order to restore lost positions and strengthen its position on the market.

The strategy of preventing conflict is the creation of such production conditions and the psychological atmosphere in the team, in which the possibilities of conflicts will be minimized.

The conflict resolution strategy is a system of actions aimed at ending the confrontation of the parties and finding an acceptable solution to the problems. Implementation of the strategy involves action to analyze real conflicts and determine methods for resolving them. There are organizational-structural, administrative and interpersonal methods of conflict management.

The strategy of harvesting is the rejection of a long-term view of business in favor of maximizing income in the short term, is applied to a futuristic business that cannot be sold profitable. This strategy involves obtaining the maximum possible income during the period of reduction of a specific activity to a zero level.

The strategy of reduction - involves the sale of an economic unit or its allocation to an independent structural unit, from which the parent company either refuses at all, or only maintains partial control over it (partly owns this unit).

Pre-emptive strike strategy (initial benefit) - consists of actions to maintain a profitable position in the market, which excludes the ability to copy the company's strategy to competitors. These actions should completely block any attempts by competitors to push the company to a second role.

Focusing strategy-in strategic management - is one of the company's general strategies aimed at creating competitive advantages. Focusing strategy is to concentrate on the needs of a single segment or a competitive buyer group without the desire to cover the entire market. The challenge here is to meet the needs of the selected target segment in a better way than competitors. Such a strategy can be based on differentiation, and on cost leadership, either on one and the other, but only within the framework of the target segment. The strategy allows you to achieve a high market share in the target segment, but always leads to a small share of the market as a whole.

Export strategy-provides for the orientation of production to meet the needs of foreign consumers. This strategy is aimed at expanding export activities and involves the development of such measures that could ensure the expediency of developing this activity and minimize possible risks by increasing the benefits. The export strategy defines the principles for the implementation of export operations, taking into account the legislation in force in the country. When choosing this strategy, the firm takes into account its export potential, selects markets, defines the strategic goals of exports, develops tactics, and distributes resources by forms of export activity. It is used most often by large companies producing complex equipment on the basis of orders, as well as medium and small firms that produce the latest products and sell them in markets where transport costs are small and the risk of foreign investment is high.

Subsidy is an allowance, mainly in monetary form, provided by the state at the expense of the state budget to local authorities, legal entities and individuals, and other states.

A focused low cost strategy (cost leadership) is one type of focusing strategy when a company tries to achieve the benefits of lowering costs within a selected segment in order to ensure its competitive edge. The size of the target group (segment) depends on the degree, not the type of focus.

Technological parks are a form of territorial integration of science, education and production commonly developed in developed countries, which promotes the rapid implementation of scientific and technological developments and new production technologies.

The break-even point is the revenue and the volume of production of the firm, which ensure the coverage of all its costs and zero profit. The revenue corresponding to the break-even point is called the threshold.

Innovation transfer is legally permissible right to transfer innovations to other subjects of innovation activity.

Management potential - the amount of work that can be handled by general management; The combined capabilities of linear and functional managers, expressed in terms of the amount of work that can be performed by general guidance.

Financial regulation - management of the totality of funds held at the disposal of households, enterprises or the state, as well as sources of income, articles of expenditure, the order of their formation and use.

Franchising is a kind of economic relationship between large and small enterprises. The parent company delegates to the small enterprise the right to manufacture and market products under its trade mark. The fee for these rights is not high. But the condition is to ensure the quality of products, preserving the prestige of the brand.

An expert is a specialist with knowledge, experience in a certain field of activity, on the basis of which he gives a motivated conclusion on a particular problem.

Atatism is an active intervention of the state in all spheres of society's life, the concept of state policy in which the state is regarded as the highest result and the goal of social development.

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- http://www.amom.ru (Официальный сайт Совета Муниципальных образований города Москвы)
- www.emsu.ru (Сайт для профессионалов местного самоуправления)
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Под его руководством апробирована и внедрена инновационная программа подготовки будущих менеджеров образования «Образование и карьера», программа «Содействие развитию научно-исследовательской деятельности и научному творчеству студентов», инновационный проект «Учитель-ученик: точки взаимного роста», с 2007 года издается журнал «Экономика. Психология. Сервис: интеграция теории и практики». Автор более 30 публикаций.

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Область научных интересов - системный анализ в менеджменте, стратегический менеджмент, проектное управление в менеджменте. Более 100 научных трудов; 3 работы опубликованы за рубежом (Австрия, США, Республика Корея).