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Odisha State Open University, Sambalpur, Odisha
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MANAGEMENT PROGRAMME

MP-10
Strategic Management

Block

2

STRATEGIC MANAGEMENT MODELS

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Unit – I
Environmental Analysis and Scanning

Learning Objectives

After completion of the unit, you should be able to know :

- Explain the concept and definition of environmental analysis and scanning.
- Know the importance of environmental analysis and scanning.
- Understand the various types of environmental scanning.
- Explain the different approaches to environmental scanning.
- Describe the techniques / methods of environmental scanning.

Structure

1.1 Introduction

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. **Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment**. It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.

Internal analysis of the environment is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc. Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an organization.

As business becomes more competitive, and there are rapid changes in the external environment, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors' moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. Environmental factors are infinite, hence, organization should be agile and vigil to accept and adjust to the environmental changes. For instance - Monitoring might indicate that an original forecast of the prices of the raw materials that are involved in the product are no more credible, which could imply the requirement for more focused scanning, forecasting and analysis to create a more trustworthy prediction about the input costs. In a similar manner, there can be changes in factors such as competitor's activities, technology, market tastes and preferences.

While in **external analysis**, three correlated environment should be studied and analyzed —

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the **industry environment** needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and it's main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry. Analyzing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization's external environment reveals opportunities and threats for an organization. Strategic managers must not only recognize the present state of the environment and their industry but also be able to predict its future positions.

1.2 Definition

Environmental analysis is a process for identifying all external and internal elements that can affect the performance of the organization and evaluating the level of threat or opportunity they present. Opportunity and threat assessments are then incorporated into decision making process in order to better align strategies with the organization's environment.

It refers to the assessment of organization's survival and growth strategies following potential occurrence of external forces, factoring in the likelihood of occurrence, and conditional impacts.

"Environmental analysis is the process by which strategists monitor the economic, legal, competitive, geographic, technical and social settings to determine opportunities and threats to their firms".

-William F. Glueck

"Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. It is a tool that a corporation uses to avoid strategic surprise and to ensure long – term health".

- J.David Hunger
(Essential of Strategic Management)

"The process by which organizations monitor their relevant environment to identify opportunities and threats defecting their business is known as environmental scanning".

- Azhar Kazmi
(Business Policy and strategic management)

Environmental scanning is the process of gathering information about events and their relationships within an organization's internal and external environments. The basic purpose of environmental scanning is to help management determine the future direction of the organization.

Environmental scanning is a process that systematically surveys and interprets relevant data to identify external opportunities and threats. An organization gathers information about the external world, its competitors and itself.

It refers to thorough, consistent and often daily processing of an organisation's internal and external environments in order to identify risks, trends and opportunities that could influence the organisation's future, or the future of the industry or market.

1.3 What is Environmental Analysis?

Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment. Businesses are greatly influenced by their environment. All the situational factors which determine day to day circumstances impact firms. So, businesses must constantly analyze the trade environment and the market.

There are many strategic analysis tools that a firm can use, but some are more common. The most used detailed analysis of the environment is the PESTLE analysis. This is a bird's eye view of the business conduct. Managers and strategy builders use this analysis to find where their market currently. It also helps foresee where the organization will be in the future.

1.4 Importance of Environmental Analysis

Environmental Analysis

A business environmental analysis is a process in which you look at the outside factors that can have an impact on your business. Some of the items that could have an impact on your business are political, economic, social and technical. You examine each one of these components individually, and then see how it could affect the success of your business. For example, if the government has many restrictions in place, it could negatively impact your ability to do business.

Strategic Plan Impact

Creating a strategic plan helps guide your actions as a new business. When you create a strategic plan, you have a specific set of steps that you plan on taking in order to make your business successful. When developing a strategic plan, you have to look at the outside environmental factors that can have an impact on your business. For instance, if the economy is weak when you launch your business, you may need to spend more on advertising or offer more sales to get people in the door.

Focusing on Growth

When doing an environmental analysis as part of a strategic plan, you have to keep an eye out for growth opportunities. Even if the environmental factors look discouraging, you may be able to find opportunities to grow the business. For example, if technology outside your business is improving, you may be able to use these technological advances to improve your own business operations. Lowering your energy costs with improvements in these areas could allow you to focus more resources on the important areas of your business.

Considerations

After doing an environmental analysis for your business, you may have to make some tough decisions. If the environmental analysis is overwhelmingly negative, it may force you to scrap the idea of starting the business. If the environmental analysis has some positive factors, it could encourage you to pursue your business. In other situations, it may simply alter your original plan because of the factors that were discovered. Use this as one of several tools to evaluate your business concept overall.

Importance of Environmental Scanning:

Signals threats: It provides an early sign of threats or imminent danger, which can be defused or minimized if recognized well in advance at the initial phase.

Customer needs: It signals an organization to the changing needs, preferences, tastes and requirements of the customers.

Capitalize opportunities: It helps an organization capitalize opportunities earlier than the competitors.

Qualitative information: It provides a base of objective and qualitative information about the environment that can be utilized for strategic management.

Intellectual stimulation: It provides cognitive stimulation to managers in their decision making.

It improves the image and reputation of the organization as being sensitive and responsive to its environment.

1.5 Types of Environmental Scanning

Environmental scanning is a process of obtaining information from the environment. It helps prepare an organization to exploit the business opportunity by developing a sound resource base. Further, it also assists in preparing scenarios and to adjust with changes. Environmental scanning may be done in two ways as mentioned below:

- ***Centralized scanning:***
  If some specific environmental components are only analyzed, it is called centralized scanning. Under this, the important components which are likely to exert considerable impact to the business are only analyzed. For example, if economic conditions are only studies, it is termed as centralized scanning. Since specific components are only scanned, this is economical. Likewise, it helps to save time as well. However, it is not a comprehensive method due to the study of specific components only.

- ***Comprehensive scanning:***
  "If all the components of environment are analyzed in a detailed and structured micro way, it is called comprehensive environmental scanning."

1.6 Approaches to Environmental Scanning

PESTLE is a mnemonic which in its expanded form denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental. It gives a bird’s eye view of the whole environment from many different angles that one wants to check and keep a track of while contemplating on a certain idea/plan.
The framework has undergone certain alterations, as gurus of Marketing have added certain things like an E for Ethics to instil the element of demographics while utilizing the framework while researching the market.

There are certain questions that one needs to ask while conducting this **analysis**, which give them an idea of what things to keep in mind. They are:

- What is the political situation of the country and how can it affect the industry?
- What are the prevalent economic factors?
- How much importance does culture has in the market and what are its determinants?
- What technological innovations are likely to pop up and affect the market structure?
- Are there any current legislations that regulate the industry or can there be any change in the legislations for the industry?
- What are the environmental concerns for the industry?

All the aspects of this technique are crucial for any industry a business might be in. More than just understanding the market, this framework represents one of the vertebras of the backbone of strategic management that not only defines what a company should do, but also accounts for an organization's goals and the strategies stringed to them.

It may be so, that the importance of each of the factors may be different to different kinds of industries, but it is imperative to any strategy a company wants to develop that they conduct the **PESTLE analysis** as it forms a much more comprehensive version of the **SWOT analysis**.
It is very critical for one to understand the complete depth of each of the letters of the **PESTLE**. It is as below:

1. **Political:** These factors determine the extent to which a government may influence the economy or a certain industry. [For example] a government may impose a new tax or duty due to which entire revenue generating structures of organizations might change. Political factors include tax policies, Fiscal policy, trade tariffs etc. that a government may levy around the fiscal year and it may affect the business environment (economic environment) to a great extent.

2. **Economic:** These factors are determinants of an economy's performance that directly impacts a company and have resonating long term effects. [For example] a rise in the inflation rate of any economy would affect the way companies' price their products and services. Adding to that, it would affect the purchasing power of a consumer and change demand/supply models for that economy. Economic factors include inflation rate, interest rates, foreign exchange rates, economic growth patterns etc. It also accounts for the FDI (foreign direct investment) depending on certain specific industries who're undergoing this analysis.

3. **Social:** These factors scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics, population analytics etc. An

example for this can be buying trends for Western countries like the US where there is high demand during the Holiday season.

4. **Technological:** These factors pertain to innovations in technology that may affect the operations of the industry and the market favourably or unfavourably. This refers to automation, research and development and the amount of technological awareness that a market possesses.

5. **Legal:** These factors have both external and internal sides. There are certain laws that affect the business environment in a certain country while there are certain policies that companies maintain for themselves. Legal analysis takes into account both of these angles and then charts out the strategies in light of these legislations. For example, consumer laws, safety standards, labour laws etc.

6. **Environmental:** These factors include all those that influence or are determined by the surrounding environment. This aspect of the PESTLE is crucial for certain industries particularly for example tourism, farming, agriculture etc. Factors of a business environmental analysis include but are not limited to climate, weather, geographical location, global changes in climate, environmental offsets etc.

1.7 Techniques / Methods of Environmental Scanning

Environmental scanning is a technique of study of the general environment done to identify the trend of the environment and organize the organization accordingly. There are different techniques or methods of environmental scanning. It normally reveals equivocal, ambiguous, incomplete, unfinished data and information. The scanning system should be aligned with the context of an organization. Hence, a scanning system plotted for a volatile environment may be inappropriate for a stable and fixed environment. Many organizations even use other methods i.e. special software and internet for environmental scanning. They are mentioned below:

- **Executive opinion method:**

  It is also known as executive judgment method. In these environmental scanning, it is forecasted on the basis of opinion, conceitedness and views of top executives. A panel is formed consisting of these executives.

- **Expert opinion method:**

  In this environment, forecasting is based on an opinion of outside experts, enthusiast or specialist. The experts have much more well knowledge about market conditions and customer taste and preferences. Although this method is similar to executive judgment method. However, it requires external exper

- **Delphi method:**

  This method is the systemic extension of expert opinion method varying a stage, develop a new forecasting method based on the results of questionnaires and feedback sent to a panel of experts. It involves forming a panel of experts and questioning each member of the panel where each of the members is independently questioned about the future environmental trend. After that, the responses and summarized are returned to the members for assessment. This process continues till the acceptable consensus is obtained. Several rounds of questionnaires are sent out, and the anonymous responses are clustered and shared with the group after each round. The specialists are allowed to modify and improve their answers in subsequent rounds. Since multiple rounds of questions are asked and the panel is told what the group thinks as a whole, the Delphi method seeks to reach the appropriate and correct response through consensus.

The **Delphi Survey** technique is a popular method used in prediction. It involves a panel of experts that judge the timing, probability, importance and implications of factors, trends, and events regarding the problem in question. The basic idea of the **Delphi method** is as follows:

- Create a list of statements/questions
- Have the experts give their ratings/answers/etc.
- Make a report - send it out to everyone
- Have the experts revise their answers
- Make the second report

The **Delphi Method** has the following steps:

1. STEP 1 – Various Experts are asked to answer, independently and in writing, a series of questions about the future of sales or whatever other area is being forecasted.
2. STEP 2 – A summary of all the answers is then prepared. No expert knows, how any other expert answered the questions.
3. STEP 3 – Copies of summary are given to the individual experts with the request that they modify their original answers if they think it necessary.
4. STEP 4 – Another summary is made of these modifications, and copies again are distributed to the experts. This time, however, expert opinions that deviate significantly from the norm must be justified in writing.
5. STEP 5 – A third summary is made of the opinions and justifications, and copies are once again distributed to the experts. Justification in writing for all answers is now required.
6. STEP 6 – The forecast is generated from all of the opinions and justifications that arise from step 5.

Extrapolating method:

Under this technique, the past information is used to assume, predict and explore the future as well as to function from the past. There are different methods used to extrapolate the future, they are: time series, trend analysis, and regression analysis.

Trend analysis (trend extrapolation) is a forecasting method based on identifying, based on historical data and observations, an ongoing change. The point of trend analysis is to identify the trend early, while it is still likely to continue in the future.

Quantitative trend analysis deals mostly with data as opposed to information. Statistics pertaining to the subject are gathered and plotted along a time axis to produce a curve, which can be extrapolated into the future. An example of a quantitative trend is Moore's law, improved fuel efficiency of cars, the annual number of transplants and the number of cybernetically enhanced humans.

Of course, the further in time the extrapolation, the greater the uncertainty of the event happening and there is no guarantee that the variable will continue to change the way it did in the past. This kind of trend analysis is normally used to draw attention to the forces that could change the extrapolated pattern. More sophisticated analysis (e.g. time series analysis) can be used to try to reveal different patterns.

Trend analysis can also be used to identify qualitative trends, where the quantitative data cannot be obtained (example: globalisation). Characterising such trends requires creative and systemic thinking and is one of the most challenging aspects of futures patterns and research.

Historical analogy:

In this method, the environmental trends are analyzed with the help of other trends which are parallel to historical trend when the past data cannot be used effectively. This qualitative tool is a method for collecting sufficient information and evaluating the effectiveness of potential adaptation strategies from the other trend by comparing observed. These compared situations and conditions that can be generally shared for more important characteristics such as time scale, severity, reversibility, significant influence sector, or exaggerating factors and find out how well accurate and actual adaptation response worked out .

This method has not seen extensive use recently in these days but also it is extremely useful during the initial survey stages of evaluating adaptation strategies to avoid duplicating research or to narrow the list of feasible, workable, possible and practicable options, and is generally used in union with a quantitative evaluation of adaptation options. This approach does not provide a method to weigh the trade-offs among different adaptation and adjustment choices but instead provides insight into how the adaptation process may work. Also, an example of adaptation in one place at a specific time is not always suitable for a future adaptation at a different place.

Intuitive reasoning:

Under this method, rational, logically sound, absurd and unbiased intuition is used for environmental scanning by the scanner. Environmental dynamics are guessed by the individual judgment that requires free thinking not constrained by past experience or personal biases. Reliability of this method is questionable. However, the validity and trustworthy of such judgments cannot be evaluated. Intuitive decision making is far more than using common sense because it involves additional sensors as a gut feeling, sixth sense, inherent impulse, inner sense, instinct, inner voice, spiritual guide, etc. Many pages on the site are vowed to encourage and to make the process of receiving information instinctively a more aware one to perceive and get alerted of the information from outside. People who can't accept the existence of such sensors may instead call it tapping into "collective intelligence" or "collective unconscious".

Scenario building:

Scenario building is a method that aids decision-makers by providing a context for assessing, planning and programming, lowering the level of uncertainty and raising the level of knowledge in relation to the consequences of actions which have been taken or are going to be taken, in the present. Scenarios are the composite pictures of possible future. They are built on the basis of time ordered sequence of events that have logical and reasonable cause and effect interpersonal relationship with each other resulting forecast based on good interrelationships among the events. Scenarios are built to address future contingencies. The prime aim of scenarios and scenario building is to enable decision-makers to detect and explore all, or as many as possible, alternative futures so as to clarify present actions and subsequent consequences. They should, thus, be prevented from making strategic decisions before they have done some strategic thinking!

Cross-impact matrix:

Under this method, environmental forecasts through various methods combined composed and coordinated and consistent description of further future. Cross-impact matrix is used to search necessary interactions among them, to determine the internal consistency of the forecasts and to find out potentialities impact in each of them. More recently, the cross-impact analysis was used on a stand-alone basis or in combination with other techniques to answer a number of research question on different subjects such as the future of a specific industrial sector, world geopolitical evolution, the future of collective activities and jobs.

Network method

In this networking method, contingency trees and relevance trees are most popular. A contingency tree is a pictorial display of logical relationships at which several alternatives outcomes are possible among environmental trends. A relevance tree is a logical network assigning a degree of significance importance to various environmental trends with reference to an outcome similar to a contingency tree. The network analysis methods are used in project management where the elements are key activities of the project in the mutual time relation focus on calculating critical path optimizing between the elements.

1.8 Let's Sum-up

Environmental analysis is a process for identifying all external and internal elements that can affect the performance of the organization and evaluating the level of threat or opportunity they present. Opportunity and threat assessments are then incorporated into decision making process in order to better align strategies with the organization's environment. Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment.

PESTLE analysis gives a bird's eye view of the whole environment from many different angles that one wants to check and keep a track of while contemplating on a certain idea/plan. The framework has undergone certain alterations, as gurus of Marketing have added certain things like an E for Ethics to instil the element of demographics while utilizing the framework while researching the market.

Environmental scanning is a technique of study of the general environment done to identify the trend of the environment and organize the organization accordingly. There are different techniques or methods of environmental scanning. It normally reveals equivocal, ambiguous, incomplete, unfinished data and information. The scanning system should be aligned with the context of an organization. Hence, a scanning system plotted for a volatile environment may be inappropriate for a stable and fixed environment. Many organizations even use other methods i.e. special software and internet for environmental scanning.

1.9 Key Terms

Environmental Analysis: Refers to the process of identifying all external and internal elements that can affect the performance of the organization and evaluating the level of threat or opportunity they present.

Environmental Scanning: Refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment.

PESTLE Analysis: A strategic tool for environmental analysis. It denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental.

SWOT analysis: A study undertaken by an organization to identify its internal strengths and weaknesses, as well as its external opportunities and threats.

1.10 Self-Assessment Questions

1. What do you mean by environmental analysis? Explain its relative importance with suitable example.

Ans. ____

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2. Explain the methods / techniques of environmental analysis

Ans. ____

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1.11 Further Readings

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1.12 Model Questions

1. Why environmental scanning is considered important? Discuss the various types of environmental scanning.
2. Explain PESTLE analysis as an approach to environmental scanning.

Answers to Self-Assessment Questions

1. What do you mean by environmental analysis? Explain its relative importance with suitable example.

Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment.

Business leaders can control aspects of the internal environment that can positively or negatively affect a company's operating and financial results. For example, leaders shape their company's culture, establish the company's organizational structure and create policies that guide employee behaviour. However, the greatest challenges to business success may be a consequence of the external environment over which a company has little, if any, control. To address these challenges, business leaders conduct an environmental analysis and develop policies and processes that adapt company operations and products to this environment.

The external environment consists of a general environment and an operating environment. The general environment consists of the economic, political, cultural, technological, natural, demographic and international environments in which a company operates. The operating environment consists of a company's suppliers, customers, market intermediaries who link the company to its customers, competitors and the public. Both the general and operating environments provide business opportunities, harbour uncertainties and generate risks to which a business must adapt.

2. Explain the methods / techniques of environmental analysis.

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Unit-II
SWOT Analysis

Learning Objectives

After completion of the unit, you should be able to know :

- Explain the concept and objectives of conducting SWOT analysis
- Know the importance of SWOT analysis.
- Understand the benefits and limitations of SWOT analysis.
- Know the various aspects and dimensions of SWOT analysis.
- Explain the benefits and applications of SWOT analysis.
- Describe the essentiality for successful implementation of SWO

Structure

2.1 Introduction

A significant part of environment scanning is analyzing the internal as well as external environment of the organization. Internal analysis accounts for the analysis of the strengths and weaknesses of the organization. On the other hand, external analysis demands the screening of the threats and opportunities available in the relevant business environment. This sometimes is referred as SWOT analysis. The origin of this concept and the constituents are explained in the coming paragraphs.

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. It is a way of summarizing the current state of a company and helping to devise a plan for the future, one that employs the existing strengths, redresses existing weaknesses, exploits opportunities and defends against threats.

Strengths :

• Identify skills and capabilities that you have.

• What can you do particularly well, relative to rivals?

• What do analysts consider to be your strengths?

• What resources do you have?

• Is your brand or reputation strong?

Weaknesses :

• What do rivals do better than you?

• What do you do poorly?

• What generates the most customer dissatisfaction and complaints?

• What generates the most employee dissatisfaction and complaints?

• What processes and activities can you improve?

Opportunities:

• Where can you apply your strengths?

• How are your customers and their needs changing?

• How is technology changing your business?

• Are there new markets for your strengths? (e.g. foreign)

• Are there new ways of producing your products?

• Are your rivals' customers dissatisfied?

Threats:

• Are customers able to meet their needs with alternative products?

• Are customers need changing away from your product?

• What are your competitors developing?

• Are your rivals improving their product offerings or prices?

• Is new technology making your product obsolete?

• Is your cash-flow and debt position healthy?

• Are your employees satisfied? Is turnover high?

• Is new competition coming?

• Are sales growing slower than the industry average?

2.2 History of SWOT Analysis

The SWOT **a**nalysis technique was developed by Albert Hum**p**hrey, who led a research project at Stanford Un**i**versity in the 1960s and 1970s using data from many top companies. The goal was to identify why corporate planning failed. The resulting research identified a number of key areas and the tool used to explore each of the critical areas was called SWOT analysis. Humphrey and the original research team used the categories "What is good in the present is Satisfactory, good in the future is an Opportunity; bad in the present is a Fault and bad in the future is a Threat." Thus, this was later refined and restated as SWOT analysis.

2.3 Meaning & Objectives of SWOT Analysis

SWOT analysis refers to the identification of the strengths and weaknesses of a company, the opportunities available to it, and the threats facing it at any given situation so as to facilitate the enterprise to develop a suitable strategy. While strengths and weaknesses relate to the enterprise internally, opportunities and threats are often products of the external environment. The important methodologies to be applied using SWOT analysis are as mentioned below:

- Convert weaknesses into strengths
- Eliminate or minimize weaknesses
- Analyze strengths to take advantage of the opportunities
- Convert threats into opportunities

The following figure depicts SWOT analysis:

The objectives of SWOT analysis are enlisted below:

- SWOT analysis can be used effectively to build organizational or personal strategy.
- It is used to find competitive advantage by matching the strengths to opportunities.
- It is useful in converting weaknesses or threats of a business into strengths or opportunities.
- It is used as a tool for environmental scanning.
- Gap analysis may be done with the help of SWOT analysis and then the strategies may be devised to reduce this gap.
- It is helpful in identifying the critical success factors of the business.
- It is used as a basis for developing new strategies and preparing project plans for strategy implementation.
- To explore new solutions to problems.
- To identify barriers that will limit goals or objectives.
- To reveal possibilities and limitations for change.

2.3.1 Strength

Strengths are internal competency of a firm, particularly in comparison with that of its competitors. Strengths may incorporate the following aspects:

- Company image
- brand image
- business synergies
- Functional areas such as marketing, finance, personnel, production and R&D.
- human competencies
- process capabilities
- financial resources
- products and services
- customer goodwill
- brand loyalty
- huge financial resources
- broad product line
- no debt
- committed employees

Strengths are the positive tangible and intangible attributes, which are internal to an organization. They are within the organization’s control.

✓ **Check your progress**

Exercise 1

Making necessary assumptions, prepare a list of probable strengths of a company dealing in industrial machinery parts.

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2.3.2 Weakness

Weaknesses are those factors, which tend to decrease the competencies of the firm, particularly in comparison with its competitors. Weaknesses are controllable. They must be minimized and eliminated. Such weaknesses may include the following:

- poor product quality
- obsolete technology
- high production costs
- lack of R&D back up
- poor distribution infrastructure
- poor financial position
- weak management
- depreciating machinery
- narrow product range
- poor decision-making
- huge debts
- high employee turnover
- complex decision making process
- large wastage of raw materials

They indicate the factors that are within an organization's control that detract from its ability to attain the desired goal. It suggests as to which areas the organization might improve.

The following figure-1 provides a brief illustrative list of strengths and weaknesses.

STRENGTHS AND WEAKNESS

STRENGTHS	WEAKNESSES
Marketing	
Strong brand image Strong distribution network Deep product mix	Poor brand image Weak distribution Narrow product mix

Efficient and motivated sales force High quality product	Poor sales force Poor product quality
Production	
Economics of scale State of the art technology Efficient input sourcing Efficient inventory management Strong R&D support	High cost due to small size Obsolete technology Inefficient input sourcing Poor inventory management No R&D support
Finance	
Comfortable debt-equity ratio Large internal accruals High dividends and market Capitalization High credit rating	Lop-sided capital structure Very high interests payments Poor reserves Low credit rating Poor receivable management
Human Resource	
Qualified and experienced Human resource Motivated human resource Good industrial relations Good human resource management	Redundant human resource Excess manpower Poor morale Poor industrial relations Poor human resource management
Management	
Efficient board of directors Efficient and motivated managers	Inefficient board of directors Unhealthy conflict between members of Board Conflict between members of Board and top managers Inefficient managers

2.3.3 Opportunity

Opportunities refer to those favourable external factors that an organization can use to give it a competitive advantage. They are basically the external attractive factors that represent the reason for an organization to exist and develop. It focuses on the identification of what opportunities exist in the environment, which will propel the organization. Also they must be identified in association with specified time frames.

Opportunities arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

Opportunities may arise from market, competition, industry/government and technology. For example - increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

✓ **Check your progress**

Exercise 2

Differentiate between strengths and opportunities.

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2.3.4 Threat

Threats refer to factors that have the potential to harm an organization. They are basically those external factors, beyond an organization's control, which could place the organization mission or operation at risk. The organization may benefit by having contingency plans to address them if they should occur. The business should classify the threats by their "seriousness" and "probability of occurrence".

Threats arise when conditions in external environment put at risk the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

The figure-2 provides an illustrative list of threats and opportunities.

OPPORTUNITIES AND THREATS

OPPORTUNITIES	THREATS
Regulatory / Political	
Delicensing MRTPA relaxations Import liberalization Price decontrol Liberalization of foreign investment and technology policy Capital market reforms	Delicensing MRTPA relaxations Import liberalization Liberalization of foreign investment and technology policy Political instability
Economic	
Boom Steady and fast increase in income	Recession Economic instability
Social / Demographic	
Favourable change in consumer attitude Increase population Change in age composition of population Growth of consumerism	Favourable change in consumer attitude Stagnating / declining population Change in age composition of population Growth of consumerism Growth of environmentalism

In the above figure, several factors figure under opportunities as well as threats. This is because what is an opportunity for some firms is a threat for some others. For example, declining is an opportunity for many firms to enter new business or to expand existing business but it poses a threat to existing firms who were enjoying the benefits of a protected market. Similarly, while import liberalization is a threat to import competing industries, it is an opportunity for some other firms to obtain materials / technology at lower prices.

2.4 Benefits and Limitations of SWOT Analysis

Benefits of SWOT Analysis

A SWOT analysis is a great way to guide business-strategy discussions. Often the SWOT analysis reflects those factors of which we are unaware and would never be able to capture them without conducting such an analysis. SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

- It filters down to the specific segments like marketing, production, or sales and then it may be decided whether particular strategy may be adopted or not.
- Segment specific SWOT analysis can be done and then focused functional strategy may be developed.
- It is a source of information for strategic planning.
- It helps in building organization's strengths.
- It helps in reversing its weaknesses.
- It helps in maximizing its response to opportunities.
- It focuses on overcoming the organization's threats.
- It helps in identifying core competencies of the firm.
- It helps in setting of objectives for strategic planning.
- It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm's resources and capabilities with the competitive environment in which the firm operates.

✓ **Check your progress**

Exercise 3

Conduct a SWOT analysis for a company running airlines in India.

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Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include –

a. Price increase;
b. Inputs/raw materials;
c. Government legislation;
d. Economic environment;
e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

a. Insufficient research and development facilities;
b. Faulty products due to poor quality control;
c. Poor industrial relations;

Lack of skilled and efficient labour; etc

2.5 Essentials for a Successful SWOT Analysis

Before conducting the SWOT analysis, there are certain pre considerations which must be kept in mind. Following points illustrate the essentials for conducting SWOT analysis and will lead to successful outcomes:

- Be realistic about the strengths and weaknesses of your organization.
- The analysis should distinguish between where your organization is today, and where it could be in the future.
- Be specific and avoid grey areas.
- Always analyse in relation to your competition i.e. better than or worse than your competitors.
- Keep your SWOT analysis short and simple – but only as short and simple as the situation demands.
- Avoid unnecessary complexity and over analysis.
- There is no point listing an opportunity if the same opportunity is available to the competitors also.
- It is pointless to say you have strengths if your competitors also have the same.

2.6 Applications of SWOT Analysis

SWOT analysis is an influential tool of analysis which may be used for multifaceted purposes. Thus, SWOT analysis may have the following applications:

- Brainstorm meetings

- Problem solving
- Planning
- Product evaluation
- Competitor evaluation
- Personal Development Planning
- Decision Making
- Used to address individual issues like staffing issues, organizational structure, operational efficiency etc.
- Can be used in identifying and prioritizing the information to guide choices.
- Can be used to take advantage of a new business opportunity
- Can be used to respond to new trends
- Can be used to implement new technology

Application of SWOT analysis improves the performance of the company and reduce the business risks.

2.7 Let's Sum-up

SWOT Analysis, also known as TOWS Analysis, can be regarded as an outside-in and inside-out analysis of an organization's position. SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats.

For an organization seeking to improve its performance, SWOT Analysis is often used as an evaluation framework for analysing its position in order to define a strategy for moving forward.

SWOT Analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective. The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies.

A SWOT Analysis must first start with defining a desired end state or objective. A SWOT analysis may be incorporated into the strategic planning model. The components of SWOT analysis are as follows:

1. **Strengths:** characteristics of the business or team that give it an advantage over others in the industry.
2. **Weaknesses:** are characteristics that place the firm at a disadvantage relative to others.
3. **Opportunities:** external chances to make greater sales or profits in the environment.
4. **Threats:** external elements in the environment that could cause trouble for the business.

After completing the SWOT analysis, the firm should try to configure its overall position in the marketplace by seeking the best combination of strengths and opportunities that can optimize returns. Not every opportunity can be pursued and every strength is not necessarily an exploitable advantage to the firm. Choices need to be made by the firm to take complete advantage of its position; likewise, the firm should seek to improve its weaknesses and minimize its threats.

2.8 Key Terms

SWOT analysis: SWOT analysis enables organizations to identify both internal and external influences. SWOT's primary objective is to help organizations develop a full awareness of all the factors involved in a decision.

Strength: It refers to the characteristics of the business or project that give it an advantage over others.

Weakness: It refers to the characteristics of the business that place the business or project at a disadvantage relative to others.

Opportunity: It refers to the elements in the environment that the business or project could exploit to its advantage.

Threat: It refers to the elements in the environment that could cause trouble for the business or project.

2.9 Self-Assessment Questions

1. Conduct a SWOT analysis for a company in web business that sells toys online.

Ans. ____

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2. Explain the components of SWOT analysis.

Ans. ____

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2.10 Further Readings

- J.D. Hunger and T. L. Wheelen, *Strategic Management and Business Policy*, Pearson Education.
- V.P. Michael, *Business Policy and Environment*, S. Chand & Co.
- Ramaswamy and Namakumari, *Strategic Planning -Formulation of Corporate Strategy*, MacMillan.
- P.K. Ghosh, *Strategic Planning and Management*, Sultan Chand & Sons.

2.11 Model Questions

1. How and when did the concept of SWOT analysis originated?
2. Discuss the objectives of conducting SWOT analysis.
3. Differentiate between opportunities and threats.
4. 'Managing with the weaknesses is more important than maximizing the strengths'. Comment.
5. Explain the benefits of SWOT analysis.

Answer to Self-Assessment Questions

1. The following table represents the SWOT analysis for a web business selling toys online (necessary assumptions are made):

Internal	
Strengths	**Weaknesses**
1. Global reach of business 2. Low cost to maintain and enhance the site, not restricted by foot print 3. Stock is recognized brands 4. Purchase price can be less than off line shops 5. Strong competition for warehousing and distribution keeps costs down 6. Easy to remain in touch and build relationships with customers (Email, SMS) 7. Use existing distribution networks (Postage)	1. No shop front to accept returns 2. People need to find our site, there is no other marketing 3. Lack of shop brand recognition 4. Hard to scale up to respond to peaks and troughs in demand 5. Limited financial capital to fund web site optimization 6. Larger or heavy toys have high delivery cost diminishing the online price advantage. 7. Low web development skills in house we are reliant on outsourcing.

External	
Opportunities	**Threats**
1. Established traffic and high number of repeat customers may enable increased sales through the addition of complimentary product lines 2. Increased use of the internet for shopping with the 18 to 35 age group suggests that additional sales may come from stocking toys for this age group 3. Improve organic search ranking to reduce advertising costs.	1. The internet has no barriers to entry which means a better financed business or an established retail business may seek to compete in this niche. 2. e'Bay and other online auction sites have traders selling similar products 3. Buyer reluctance to shop over the net 4. Quality issues from overseas suppliers damaging the reputation of brands we sell 5. Lager business with greater buying power may undercut our prices to gain online market share.

2. SWOT analysis is a business analysis process that ensures that objectives for a project are clearly defined and that all factors related to the project are properly identified. The SWOT analysis process involves four areas: Strengths, Weaknesses, Opportunities and Threats. Both internal and external components are considered when doing SWOT Analysis, as they both have the potential to impact the success of a project or venture. The following is a brief summary of SWOT Analysis components:

1. **Strengths**
   Strengths in SWOT analysis are the attributes within an organization that are considered to be necessary for the ultimate success of a project. Strengths are resources and capabilities that can be used for competitive advantage. Examples of strengths that are often cited include:
   - Strong brand names
   - Good reputation
   - Cost advantages of proprietary know-how
2. **Weaknesses**
   The factors within the SWOT analysis formula that could prevent successful results within a project are Weaknesses. Weaknesses include factors such as an abundance of rivalry between departments, a weak internal communication

system, lack of funding and an inadequate amount of materials. Weaknesses can derail a project before it even begins. Other Weaknesses include:

- Weak brand name
- Poor reputation
- Ineffective and high cost structure

3. **Opportunities**

Opportunities are classified as external elements that might be helpful in achieving the goals set for the project. These factors could involve vendors who wish to work with the company to help achieve success, the positive perception of the company by the general public, and market conditions that could make the project desirable to the a segment of the market. Additional Opportunities include:

- Arrival of new technology
- Unfulfilled customer needs
- Taking business courses (training)

4. **Threats**

These external factors could gravely affect the success of the project or business venture. The possible threats that are critical to any SWOT analysis include a negative public image, no ready-made market for the final product and the lack of vendors who are able to supply raw materials for the project. Some other threats include:

- Trend changes
- New regulations
- New substitute products

Unit – III
Porter's 5-Forces Model

Learning Objectives

After completion of the unit, you should be able to know :

- Explain the Porter's 5-Forces Model.
- Describe the basic components of Porter's 5-Forces Model.
- Understand the process of conducting industry analysis through Porter's 5-Forces Model.
- Know the benefits of Porter's 5-Forces Analysis.

Structure

3.1 Introduction

Strategy formulation is an important part of every business organization. Before framing the strategy, environment scanning needs to be done. Business has two types of environment which need to be assessed – Internal and External. To carry out this environment analysis in a systematic manner, Michael Porter has suggested a model which is popularly known as Porter's 5-Forces Model. This model is also used for industry analysis. It is explained in the coming paragraphs.

3.2 Porter's 5-Forces Model

Porter's Five Forces of Competitive Position Analysis were developed in 1979 by Michael E Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organisation.

This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. Porter's five forces help to identify where power lies in a business situation. This is useful in understanding the strength of an organisation's current competitive position.

Strategic analysts often use Porter's five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to overcome weaknesses and to avoid mistakes.

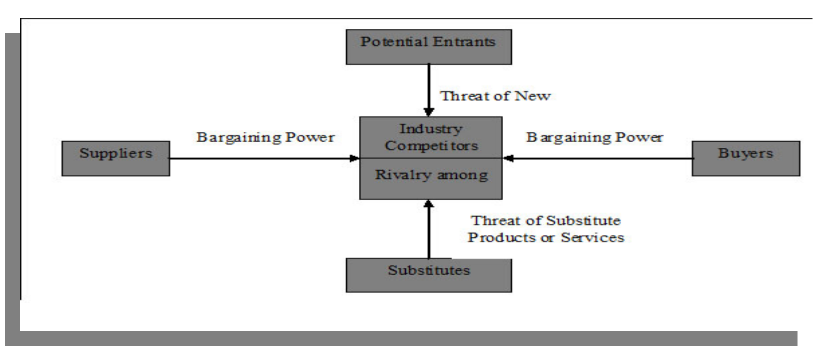
The five competitive forces plays an important role in determining the profitability in any industry. These five competitive forces are:

- The threat of new entrants
- The threat of substitute products or services
- The bargaining power of customers
- The bargaining power of suppliers
- The rivalry amongst current competitors in the industry.

Whatever the industry, these five competitive forces are central to formulating and implementing business strategy. The relative strength of each competitive force tends to be a function of industry structure i.e. its underlying economic and technological characteristics. This can change overtime, with the result that the relative strength of competitive forces will also change, hence the industry's profitability. The porter's five competitive forces model is powerful and widely used tool for systematic diagnosis of principal competitive pressures prevailing in the industry and assessing the strength and importance of each such force on the particular firm in the industry.

<u>Porter's Five Forces Model</u>

The above mentioned five forces are explained below.



3.3 Threat of New Entrants

The new entrants represent the firms that are outside the particular firm's industry and contemplating entry into the industry. A new entrant will bring extra capacity into an industry. This poses a threat to established firms because they may lose market share with a consequent potential loss of economies of scale. The threat of entry will place a limit on prices and shapes the investment requirement to discourage entrants.

Porter list main barriers to entry as:

a. Economies of scale
b. Product differentiation
c. Capital requirements
d. Switching costs
e. Access to distribution channels
f. Government policy

The new entrant firm may bring with it new technology, innovative ideas, substantial resources, new and quality products. The greater the power and resources the new entrant has, the greater will be the probability that it will eat away the market share of existing firms. The strength of the threat from new entrant depends on the strength of the barriers to entry and the likely response of existing competitors to the new entrants. The entry barriers are not static. They can be raised by a number of measures and also might be lowered by changes in the environment.

✓ **Check your progress**

Exercise 1

Suppose you are amongst the strategic planning team in a leading hospital. Prepare a list of competitors and potential entrants in the business.

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3.4 Threat of Substitutes

The products or services that are produced in one industry are likely to have substitutes that are produced in another industry which satisfy the same customer need. Substitute products or services are those that apparently are different, but satisfy the same set of customer needs. The availability of close substitute constitutes are more attractive than those that have one or more such substitutes. When firms in an industry are faced with threats from substitute products they are likely to find that demand for their products is relatively sensitive to price. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably change. The substitute products offering a price advantage or performance improvement to the consumer can significantly affect the competitive character of an industry.

Porter suggests that those substitutes which should be monitored most closely are:

- Those products which are providing a better performance / price standard than the industry standard.
- Products produced by industries earning high profits.

3.5 Bargaining Power of Customers

Customers require better quality products and services at a lower price. If they have the power to get what they want, they will force down the profitability of an industry and it is, therefore, dependent very much on the consumer's bargaining power. The strength of the threat from the bargaining power of customers will depend on a number of factors including the level of differentiation amongst products in the industry, the cost to the customer of switching from one supplier to another and whether a customer's purchases from an industry represent a large or small proportion of the customer's total purchases.

Porter identified that power of customers seems to be strongest when the following conditions apply:

- The concentrated purchases of large volumes relative to seller sales.
- The products it purchases represent a significant fraction of the buyer's cost of purchases.
- The products it purchases from the industry are standard or undifferentiated.
- Less switching costs.
- It earns low profits.
- The buyers will pose a credible threat of backward integration.
- The industry's product is unimportant to the quality of the buyer's product.
- The buyer has full information.

Buyers must be willing to pay a price for a product that exceeds the sellers' cost of production; otherwise the industry cannot survive in the long-run. On account of competition, users of industrial products may come together formally or informally and exert pressure on producer in matters such as price, quality, and delivery. A high buyer bargaining power constitutes a negative feature for existing firms or new entrants of an industry. The more powerful buyers from an industry are, the greater will be their influence on the industry in general and its profits in particular.

3.6 Bargaining Power of Suppliers

The bargaining power of suppliers determines the cost of raw material and other inputs. The business of a firm is to a great extent dependent upon its suppliers who supply it with resources like raw materials, spare-parts, equipment, machineries, labour and other supplies. The ability of suppliers to get higher prices depends on a number of factors including the number of suppliers in the industry, the importance of the supplier's product to the firm, the cost to the firm of switching from one suppliers to another and the case with which the supplier could integrate forward.

According to *Porter,* the main determinants of suppliers having power over an industry occur when:

- It is dominated by a few companies and is more concentrated than the industry to which it sells.
- It is not obliged to contend with other substitute products for sale to the industry.
- The industry is not an important customer of the supplier group.
- The supplier's products are differentiated or it has built-up stitching costs.
- The supplier poses a credible threat of forward integration.

✓ **Check your progress**

Exercise 2

State the situations in which the buyer's will have a weak bargaining power.

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3.7 Rivalry among Existing Firms

The intensity of rivalry among existing competitors will influence prices as well as certain other areas like advertising, sales, promotion, product development etc. The intensity of competitive rivalry within an industry will affect the profitability of industry as a whole.

According to *Porter,* rivalry is intensified by the following factors:

- Numerous or equally balanced competitors
- Slow industry growth
- High fixed or storage costs
- Lack of differentiation or switching costs
- Capacity augmented in large increments
- Diverse competitors

- High strategic stakes
- High exit barriers

The intensity of rivalry plays a major role in determining whether existing firms will expand capacity aggressively or choose to maintain profitability. Although rivalry can be beneficial in helping the industry to expand, it might leave demand unchanged. The intensity of competition will depend on a number of factors including the rate of growth in the industry and whether there are a large number of equally balanced competitors.

The intensity of competition depends on several factors as mentioned below:

- Where large numbers of equally balanced competitors exist, in situation of intense competition, firms may try to avoid competing on price.
- Where the growth rate of the industry is slow or stagnant, rivalry may intensify and the firms may indulge in competing with each other for a greater market share.
- Ease of switching will encourage suppliers to compete.
- Competitors may guess each other intentions and this may lead to uncertainty because of competitive strategy.
- Industries, characterized by economies of scale from substantial capacity increase, may face recurring periods of over-capacity and price-cutting.
- High fixed costs and relatively low variable costs tempt the firms to compete on price and sell at prices above marginal costs. As a result, there may be a failure to recover fixed costs.
- A firm putting in high capital funds and extensive efforts to achieve targets and making success (a strategic action), is likely to be more proactive and competitive to attain further high targets.

Forces	Problem	Way out
1. New entrants	They will play all sorts of tricks to capture market share	- They have to incur huge initial outlay - They have lack of experience and concentrate to capitalize on these loose grounds.
2. Buyers	Buyers will create problems when they come to know that they are the major customers or there are many sellers for the product / service under reference	In this case offer the best quality product / service at the most competitive price.
3. Suppliers	Suppliers will create problems when they come to know that there are only a few suppliers for the product or service or where the sellers' are not their	Go for alternative sources of supply or develop own sources to manufacture the same.

4. Competitors **5.** Substitutes	predominant customer or where their product is a vital component of sellers' product. The competitors will always try to pull down its rivals. Substitutes always try to eat away market share of sellers' product.	Depending on the dominance of the competitor, adopt an appropriate strategy. Try to convince the customers that the best product is being sold.

The collective strength of the above mentioned five forces determines the ultimate profit potential of an industry. A company's competitive strategy in increasingly effective to the degree it provides good defences against the five competitive forces, influences the industry's competitive rules in the company's favour and helps create a sustainable competitive advantage. The straight's goal should be to find a position in the industry where his company can best defend itself against these five forces or can influence them in his company's favour. Such a strategic fit obviously require a proper understanding of the objectives, the ever changing environment and the organization. These five competitive forces will influence price, cost, investment, return on investment etc. Firms through their strategies can influence these five forces.

The basic assumptions of the model are:

- Constant return to sale, rationality of each operator in the business.
- The stronger each of these forces, the more limited is the ability of any operator to raise prices and earn greater profitability.

But, these assumptions do not hold well in all industry situations. The relative strength of each competitive force tends to be a function of industry structure i.e. its underlying economic and technological characteristics. This can change overtime, with the result that the relative strength of competitive forces will also change, hence the industry's profitability. The basic way an enterprise might seek to achieve above average returns in the long-term is through sustainable competitive advantage.

3.8 Process of Conducting Industry Analysis Through Porter's 5-Forces Model

Porter's five forces framework is used to analyse industry's competitive forces and to shape organization's strategy according to the results of the analysis. The process of conducting industry analysis through Porter's 5-Forces Model includes the following steps:

Step 1. Gather the information on each of the five forces

Step 2. Analyse the results and display them on a diagram

Step 3. Formulate strategies based on the conclusions

Step 1. Gather the information on each of the five forces. The managers should gather information about their industry and check it against each of the factors influencing the force. Some of the most important factors are enlisted below:

Porter's Five Forces Factors
Threat of new entry
• **Amount of capital required** • **Retaliation by existing companies** • **Legal barriers (patents, copyrights, etc.)** • **Brand reputation** • **Product differentiation** • **Access to suppliers and distributors** • **Economies of scale** • **Sunk costs** • **Government regulation**
Supplier power
• **Number of suppliers** • **Suppliers' size** • **Ability to find substitute materials** • **Materials scarcity** • **Cost of switching to alternative materials** • **Threat of integrating forward**
Buyer power
• **Number of buyers** • **Size of buyers** • **Size of each order** • **Buyers' cost of switching suppliers** • **There are many substitutes** • **Price sensitivity** • **Threat of integrating backward**
Threat of substitutes
• **Number of substitutes** • **Performance of substitutes** • **Cost of changing**
Rivalry among existing competitors
• **Number of competitors** • **Cost of leaving an industry** • **Industry growth rate and size** • **Product differentiation** • **Competitors' size** • **Customer loyalty** • **Threat of horizontal integration** • **Level of advertising expense**

Step 2. Analyse the results and display them on a diagram. After gathering all the information display it on the Porter's 5-Forces model, then analyse it and determine how each force is affecting an industry. For example, if there are many companies of equal size operating in the slow growth industry, it means that rivalry between existing companies is strong. The five forces affect different industries differently so same results of analysis should not be used even for similar industries.

Step 3. Formulate strategies based on the conclusions. At this stage, managers should formulate firm's strategies using the results of the analysis For example, if it is hard to achieve economies of scale in the market, the company should pursue cost leadership strategy. Product development strategy should be used if the current market growth is slow and the market is saturated.

Porter's 5-Forces Model is an important tool for industry analysis but it should be supplemented by SWOT analysis and Value Chain Analysis.

✓ **Check your progress**

Exercise 3

Conduct the industry analysis for a sport shoes manufacturing company.

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3.9 Benefits of Porter's 5-Forces Analysis

Porter's 5-Forces Model is very significant in market analysis and strategy formulation. The benefits of Porter's 5-Forces Model are enlisted below:

- It helps organisations to understand the factors affecting profitability in a specific industry.
- It can help in taking decisions relating to whether to enter a specific industry or whether to increase capacity in a specific industry.
- It helps in developing competitive strategies.
- It helps to analyse the strategic position of a business.
- It helps to analyse the current position before entering any merger.
- The extent of benefits which can be derived from a forward or backward integration can be known by conducting Porter's 5-Forces analysis.

3.10 Let's Sum-up

Porter's Five Forces Analysis is an important tool for assessing the potential for profitability in an industry. With a little adaptation, it is also useful as a way of assessing the balance of power in more general situations.

It works by looking at the strength of five important forces that affect competition:

- **Supplier Power:** The power of suppliers to dictate the terms of supply.
- **Buyer Power:** The power of your customers to dictate the terms of purchase.
- **Competitive Rivalry:** The degree of available competition in the relevant industry.
- **The Threat of Substitution:** The degree to which different products and services can act as substitutes for the products offered by the business.
- **The Threat of New Entry:** It refers to the entry barriers available for the potential competitors who aspire to enter in the industry.

By thinking about how each force affects a business and by identifying the strength and direction of each force, one can quickly assess the strength of the position of its business and its ability to make a sustained profit in the industry.

3.11 Key Terms

Supplier Power: The power of suppliers to drive up the prices of your inputs.

Buyer Power: The power of your customers to drive down your prices.

Competitive Rivalry: The strength of competition in the industry.

Threat of Substitution: The extent to which different products and services can be used in place of your own.

Threat of New Entry: The ease with which new competitors can enter the market if they see that you are making good profits.

3.12 Self-Assessment Questions

1. Suggest the ways in which a business can gain advantage over its rivals.

Ans. ____

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2. Under what situations the suppliers have a strong bargaining power.

Ans.

3.13 Further Readings

- Philip Kotler, Kevin Keller, Abraham Koshy, Mithileshwar Jha, *Marketing Management, A South Asian Perspective*; Pearson Education.
- Rajan Saxena, *Marketing Management*, Tata McGraw Hill.
- Michael J Evyl, Bruce J. Walker, William J. Stanton, Ajay Pandit, *MarketingManagement*, Tata Mc Graw Hill Education.
- Bose B.S., *Marketing Management*, Himalaya Publishing House.

3.14 Model Questions

1. What do you understand by Porter's 5-Forces Model?
2. Explain the conditions in which suppliers has a strong bargaining power.
3. Discuss the process of industry analysis using Porter's 5-Forces Model.
4. Enumerate the benefits from Porter's 5-Forces Model.
5. Differentiate between bargaining power of suppliers and buyers.

Answer to Self-Assessment Questions

1. In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

- Changing prices - raising or lowering prices to gain a temporary advantage.

- Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself.
- Creatively using channels of distribution - using vertical integration or using a distribution channel that is new to the industry.
- Exploiting relationships with suppliers by setting high quality standards and inviting suppliers to meet its demands for product specifications and price.

2. The suppliers have a strong bargaining power under the following situations:

- There are few suppliers but many buyers
- Suppliers are large and threaten to forward integrate
- Few substitute raw materials exist
- Suppliers hold scarce resources
- Cost of switching raw materials is especially high

UNIT-IV
Value Chain Analysis

Learning Objectives

After completion of the unit, you should be able to know :

- Explain the concept and definition of value chain analysis.
- Know the meaning and objectives of value chain analysis.
- Understand Poter's value chain framework.
- Know value chain model.
- Explain the benefits and applications of value chain analysis.

Structure

4.1 Introduction

Value Chain Analysis is the framework most commonly used to guide analysis of any firm's strengths and weaknesses. In this framework, any business is seen as a number of linked activities, each producing value for the customer. By creating additional value, the firm may charge more or is able to deliver same value at a lower cost, either of this leading to a higher profit margin. This ultimately adds to the organization's financial performance. This concept is useful for getting competitive advantage also.

Value chain analysis relies on the basic economic principle of advantage — companies are best served by operating in sectors where they have a relative productive advantage compared to their competitors. Simultaneously, companies should ask themselves where they can deliver the best value to their customers.

To conduct a value chain analysis, the company begins by identifying each part of its production process and identifying where steps can be eliminated or improvements can be made. These improvements can result in either cost savings or improved productive capacity. The end result is that customers derive the most benefit from the product for the cheapest cost, which improves the company's bottom line in the long run.

To understand how to conduct a value chain analysis, a business must first know what its value chain is. A value chain is the full range of activities — including design, production, marketing and distribution — businesses go through to bring a product or service from conception to delivery. For companies that produce goods, the value chain starts with the raw materials used to make their products, and consists of everything that is added to it before it is sold to consumers.

The process of actually organizing all of these activities so they can be properly analyzed is called value chain management. The goal of value chain management is to ensure that those in charge of each stage of the value chain are communicating with one another, to help make sure the product is getting in the hands of customers as seamlessly and as quickly as possible.

4.2 Meaning & Objectives of Value Chain Analysis

Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable to the firm and which ones could be improved to provide competitive advantage. The idea of the value chain is based on the process view of organizations, the idea of seeing a manufacturing (or service) organization as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources – money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits.

The objectives of value chain analysis are as follows:

- To create the greatest possible value for the customers.
- It helps in thinking as to how we can maximize this value - whether through superb products or great services.
- To improve the processes used in the organization.
- It helps in identifying those key areas which might be worked upon and converted into company's strength.
- It helps in understanding the nature of relationship existing between the various processes.
- On the basis of value chain analysis, strategies may be formulated which can further lead to the development of the value chain.

- To understand the reasons and constraints prevailing in the current value chain which are restricting it to achieve the desired outcomes.

4.3 Porter's Value Chain Framework

The value chain framework is a typical value chain within an organization. Using this framework, it is possible to analyze the organization's contributions of individual activities in a business and how they add up to the overall level of customer value, the firm produces. The value chain framework provides the inter-weaving of the primary and support operating activities in the organization. This framework proves to be very beneficial in the supply chain management study. It helps in understanding the minute details of the operating activities which further can be used to reduce the cost or formulate strategies to gain competitive advantage. Porter's value chain framework encompasses a value chain model which establishes a relationship flow among the value adding activities of the organization.

✓ **Check your progress**

Exercise 1

Analyze the value chain of Mc Donalds. List out the pros and cons in their value chain model.

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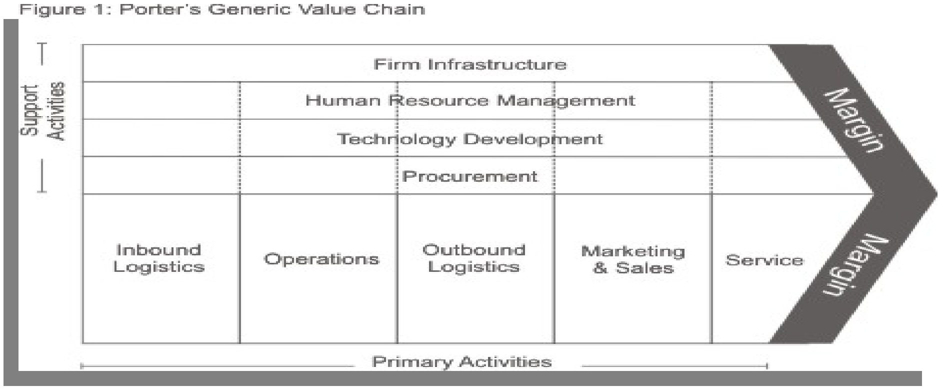
4.4 Value Chain Model

Instead of emphasizing on the departments or cost centres, Porter's Value Chain focuses on systems, and how inputs are changed into the outputs purchased by consumers. Using this viewpoint, Porter described a chain of activities common to all businesses, and he divided them into primary and support activities, as shown below.

Figure 1: Porter's Generic Value Chain



4.4.1 Primary Activities

Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. They consist of the following:

- **Inbound logistics** – It refers to all the processes related to receiving, storing, and distributing inputs internally. Your supplier relationships are a key factor in creating value here.
- **Operations** – These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.
- **Outbound logistics** – These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.
- **Marketing and sales** – These are the processes you use to persuade clients to purchase from you instead of your competitors. The benefits you offer, and how well you communicate them, are sources of value here.
- **Service** – These are the activities related to maintaining the value of your product or service to your customers, once it's been purchased.

4.4.2 Support Activities

These activities support the primary activities. Support activities are also called secondary activities. In the value chain model, the dotted lines show that each support activity supports in the role of each primary activity. For example, procurement supports operations with certain activities, but it also supports marketing and sales with other activities.

- **Procurement (purchasing)** – It is an activity which an organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.
- **Human resource management** – This is related to the recruitment policy of the company. It also relates to how a company hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices.
- **Technological development** – These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.
- **Infrastructure** – This forms a part of company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage.

Companies use these primary and support activities as "building blocks" to create a valuable product or service.

✓ **Check your progress**

Exercise 2

Differentiate between primary and support activities. Also explain the concept of inbound and outbound logistics.

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4.5 Procedure to Understand Company's Value Chain Using Porter's Model

To identify and understand the company's value chain, Porter's model may be adopted. The procedure includes the following steps:

Step 1 – Identify sub-activities for each primary activity

For each primary activity, determine which specific sub-activities create value. There are three different types of sub-activities:

- **Direct activities** create value by themselves. For example, in a book publisher's marketing and sales activity, direct sub-activities include making sales calls to bookstores, advertising, and selling online.
- **Indirect activities** allow direct activities to run smoothly. For the book publisher's sales and marketing activity, indirect sub-activities include managing the sales force and keeping customer records.
- **Quality assurance** activities ensure that direct and indirect activities meet the necessary standards. For the book publisher's sales and marketing activity, this might include proofreading and editing advertisements.

Step 2 – Identify sub-activities for each support activity.

For each of the Human Resource Management, Technology Development and Procurement support activities, determine the sub-activities that create value within each primary activity. For example, consider how human resource management adds value to inbound logistics, operations, outbound logistics, and so on. As in Step 1, look for direct, indirect, and quality assurance sub-activities.

Then identify the various value-creating sub-activities in your company's infrastructure. These will generally be cross-functional in nature, rather than specific to each primary activity. Again, look for direct, indirect, and quality assurance activities.

Step 3 – Identify links

Find the connections between all of the value activities you've identified. This will take time, but the links are key to increasing competitive advantage from the value chain framework. For example, there's a link between developing the sales force (an HR investment) and sales volumes. There's another link between order turnaround times, and service phone calls from frustrated customers waiting for deliveries.

Step 4 – Look for opportunities to increase value

Review each of the sub-activities and links that you've identified, and think about how you can change or enhance it to maximize the value you offer to customers.

✓ **Check your progress**

Exercise 3

Illustrate the benefits of having mergers in the value chain of a company.

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4.6 Applications of Value Chain Analysis

Value chain analysis offers numerous applications and utilities in variety of ways. Some of the significant applications are mentioned below:

- Value Chain Analysis is a tool for determining competitive advantage.
- It is a powerful analysis tool for strategic planning.
- The value-chain concept has been extended beyond individual firms. It can apply to whole supply chains and distribution networks. The delivery of a mix of products and services to the end customer will mobilize different economic factors, each managing its own value chain. The industry wide synchronized interactions of those local value chains create an extended value chain, sometimes global in extent. Porter terms this larger interconnected system of value chains the "value system". A value system includes the value chains of a firm's supplier, the firm itself, the firm distribution channels, and the firm's buyers.
- Capturing the value generated along the chain is the new approach taken by many management strategists. For example, a manufacturer might require its parts suppliers to be located nearby its assembly plant to minimize the cost of transportation. By exploiting the upstream and downstream information flowing along the value chain, the firms may try to bypass the intermediaries creating new business models, or in other ways create improvements in its value system.
- Value chain analysis has also been successfully used in large petrochemical plant maintenance organizations to show how work selection, work planning, work scheduling and finally work execution can help drive lean approaches to maintenance.

- A value chain approach could also offer a meaningful alternative to evaluate private or public companies when there is a lack of publicly known data from direct competition, where the subject company is compared with, for example, a known downstream industry to have a good feel of its value by building useful correlations with its downstream companies.

4.7 Let's Sum-up

Porter's Value Chain is a useful strategic management tool. It works by breaking an organization's activities down into strategically relevant pieces, so that you can see a fuller picture of the cost drivers and sources of differentiation, and then make changes appropriately.

Value Chain Analysis is a useful way of thinking through the ways in which you deliver value to your customers, and reviewing all of the things you can do to maximize that value.

It takes place as a three stage process:

- **Activity Analysis**, where you identify the activities that contribute to the delivery of your product or service.
- **Value Analysis**, where you identify the things that your customers value in the way you conduct each activity, and then work out the changes that are needed.
- **Evaluation and Planning**, where you decide what changes to make and plan how you will make them.

Porter's value chain model divides the firm's activities into two broad categories – primary activities and support activities. It focuses on identifying these activities in every organization and then finds out the extent of relevance and value addition made by these activities.

By using Value Chain Analysis and by following it through to action, a company can achieve excellence in the things that hold relevance for the customers.

4.8 Key Terms

Value Chain: A *value chain* is a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.

Value Chain Analysis: Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable to the firm and which ones could be improved to provide competitive advantage.

Primary Activities: Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service.

Support Activities:These activities support the primary activities. Support activities are also called secondary activities.

4.9 Self-Assessment Questions

1.What do you understand by 'Value System'?

Ans. ____

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2. Illustrate the primary activities and support activities as given by Porter's Value Chain Model.

Ans. ____

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4.10 Further Readings

- Richard R Chase, *Operations Management for Competitive Advantage*, McGraw-Hill.
- John M Nicholas, *Competitive Manufacturing Management*, Tata Mc-Graw Hill Publishing.
- Nigel Slack, *Operations Strategy*, Pearson Education.
- M E Porter, *Competitive Strategy*, Free Press Publisher.

4.11 Model Questions

1. What do you understand by Value Chain Analysis?
2. Explain the objectives of conducting value chain analysis.
3. Differentiate between primary activities and support activities.

4. Discuss briefly the applications of value chain analysis.

5. Explain the procedure of understanding the company value chain using Porter's value chain framework.

Answer to Self-Assessment Questions

1. The firm's value chain links to the value chains of upstream suppliers and downstream buyers. The result is a larger stream of activities known as the *value system*. The development of a competitive advantage depends not only on the firm-specific value chain, but also on the value system of which the firm is a part.

2.

Primary Value Chain Activities

Inbound Logistics	>	Operations	>	Outbound Logistics	>	Marketing & Sales	>	Service

The goal of these activities is to create value that exceeds the cost of providing the product or service, thus generating a profit margin.

- **Inbound logistics** include the receiving, warehousing, and inventory control of input materials.
- **Operations** are the value-creating activities that transform the inputs into the final product.
- **Outbound logistics** are the activities required to get the finished product to the customer, including warehousing, order fulfillment, etc.
- **Marketing & Sales** are those activities associated with getting buyers to purchase the product, including channel selection, advertising, pricing, etc.
- **Service** activities are those that maintain and enhance the product's value including customer support, repair services, etc.

Any or all of these primary activities may be vital in developing a competitive advantage. For example, logistics activities are critical for a provider of distribution services, and service activities may be the key focus for a firm offering on-site maintenance contracts for office equipment.

Support Activities

The primary value chain activities described above are facilitated by support activities. Porter identified four generic categories of support activities, the details of which are industry-specific.

- **Procurement** - the function of purchasing the raw materials and other inputs used in the value-creating activities.

- **Technology Development** - includes research and development, process automation, and other technology development used to support the value-chain activities.
- **Human Resource Management** - the activities associated with recruiting, development, and compensation of employees.
- **Firm Infrastructure** - includes activities such as finance, legal, quality management, etc.

Support activities often are viewed as "overhead", but some firms successfully have used them to develop a competitive advantage, for example, to develop a cost advantage through innovative management of information systems.

Unit-V
McKinsey's 7-S Framework

Learning Objectives

After going through this Unit, you will be able to :

- Know the basic concept of McKinsey's 7-S Framework.
- Understand the need & importance of McKinsey's 7-S Framework.
- Identify the key components of McKinsey's 7-S Framework.
- Comprehend the organisational tool for success.
- Thoroughly understand how to use McKinsey's 7-S Model.

Structure

5.1 Introduction

The **McKinsey 7S Framework** is a management model developed by well-known business consultants Robert H. Waterman, Jr. and Tom Peters (who also developed the MBWA-- "Management By Walking Around" motif, and authored *In Search of Excellence*) in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7 Ss are structure, strategy, systems, skills, style, staff and shared values.

The model is most often used as an organizational analysis tool to assess and monitor changes in the internal situation of an organization.

The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change.

Whatever the type of change – restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

The 7-S model can be used in a wide variety of situations where an alignment perspective is useful, for example, to help you:

- Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.

The McKinsey 7-S model can be applied to elements of a team or a project as well. The alignment issues apply, regardless of how you decide to define the scope of the areas you study.

5.2 Definition

The McKinsey 7- S framework is a popular model used in organizations to analyse the environment to investigate if the company is achieving its intended objectives.

McKinsey 7s Model is a tool designed for the purpose of examining the structural layout of a particular company or business through considering 7 important internal components, namely strategy, structure, systems, shared values, style, staff and finally skills.

The reason behind carrying out such process is to make sure that these components are efficiently aligned together, therefore making possible for organization to fulfill its stated objectives/ goals.

5.3 Need & Importance of McKinsey's 7-S Framework

McKinsey's framework is essentially a multivariate model of organizational change. It is recognized as a powerful expository tool as it highlights several organizational interconnections like those between staff and skills, strategy and systems which have critical significance for affecting organizational change. It underlines the criticality of action plans in the seven areas (S,) reflecting and organizational capacity of bringing about shifts in the strategy.

An effective implementation of strategy is thus shown to be conditioned by the ability of management to bring all 7-S into harmony.

The McKinsey also provides a convenient method of checking whether an organization has the necessary conditions for implementing strategy. This model also provides the basis on which the causes of shortfall may be diagnosed and remedial measures can be adopted. Furthermore, organizational capabilities may be evaluated along each of the seven dimensions.

The McKinsey 7-S Model can a help an organization to:

- Determine how it is going to achieve its target goals
- Identify as to how it is going to align departments and processed during merger or acquisition
- Improve the style of the organization
- Examine the effects organizational changes within the company
- Implement policies to improve the skills and competencies of the employees

The framework upholds the viewpoint that there are multiple factors which influence on organization's ability to change. Since the variables are interconnected, significant progress cannot be mode in other areas as well. The relevance of the model to strategic management is based on the 7-S which stand for policy areas vital to long-term organizational success.

5.4 Comprehending the Organisational Tool

The McKinsey 7s Framework was developed in 1980s by two famous business consultants namely Tom Peter and Robert H. Waterman with assistance from Richard Pascal and Anthony G. Athos. The tool has extensively been employed by academics and partitions since its beginning. However, it has been deemed to be one of the most well-known tools used for strategic planning. It attempts to place too much attention on human resources as an essential aspect to boost the organizational performance of firms. The ultimate objective of this tool is demonstrating how the 7 internal elements, which have been mentioned earlier, can be aligned together to reach efficiency in an organization. Moreover, the model is based on the premise that all these are interwoven. Thus, any alteration to one factors needs alteration to the rest of an organization so as to operate successfully and perform well.

The visual representation of the McKinsey Model is shown below in which the clear interconnection between these seven elements is demonstrated along with a categorization of being either 'Soft Ss' or 'Hard Ss'. The model's structure stresses the interdependence of the elements.

Usage

- To boost the productivity and performance of the company
- To help organizational change within a company
- To help put a proposed strategy into effect
- To assist in the combination of companies

The Seven Interconnected Elements

The McKinsey Model includes seven interconnected elements which fall into two categories, namely ‘hard’ and ‘soft’.

Hard Elements include

1. Strategy
2. Structure
3. Systems

Soft Elements include

1. Shared Values
2. Skills
3. Style
4. Staff

Strategy

Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that is clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it is hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if it’s aligned with other 6 elements, then it may provide strong results.

Structure

Structure represents the way business divisions and units are organized and include the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

Systems

Systems are the processes and procedures of the company, which reveal business’ daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Skills

Skills are the abilities that firm’s employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

Staff

Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.

Style

Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.

Shared Values

Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behaviour and company actions and thus, are the foundation of every organization.

To assess each of these elements, here are some pertinent questions to ask:

Strategy

- What is the organization's strategy seeking to accomplish?
- How does the organization plan to use its resources and capabilities to deliver that?
- What is distinct about this organization?
- How does the organization compete?
- How does the organization adapt to changing market conditions?

Structure

- How is the organization organized?
- What are the reporting and working relationships (hierarchical, flat, silos, etc.)?
- How do the employees align themselves to the strategy?
- How are decisions made? Is it based off of centralization, empowerment, decentralization or other approaches?
- How is information shared (formal and informal channels) across the organization?

Systems

- What are the primary business and technical systems that drive the organization?
- What and where are the system controls?
- How is progress and evolution tracked?
- What internal rules and processes does the team utilize to maintain course?

Style

- What is the management/leadership style like? How do they behave?
- How do employees respond to management/leadership?
- Do employees function competitively, collaboratively, or cooperatively?
- Are there real teams functioning within the organization or are they just nominal groups?
- What behaviours, tasks and deliverables does management/leadership reward?

Staff

- What is the size of the organization?
- What are the staffing needs?
- Are there gaps in required capabilities or resources?
- What is the plan to address those needs?

Skills

- What skills are used to deliver the core products and/or services? Are these skills sufficiently present and available?
- Are there any skill gaps?
- What is the organization known for doing well?
- Do the employees have the right capabilities to do their jobs?
- How are skills monitored, assessed, and improved?

Shared Values

- What is the mission of the organization?
- What is the vision to get there? If so, what is it?
- What are the ideal versus real values?
- How do the values play out in daily life?
- What are the founding values that the organization was built upon?

Once the questions are answered, the data should be examined. The analysis should look for the following aspects:

- Consistency
- Alignment
- Conflicts
- Gaps
- Support
- Strengths
- Weaknesses

The uses of the model can be as a static picture to determine how effectively the organization is implementing its strategy. Also, it can be used two-fold with a current state and an intended future state. By comparing the current and future states, gaps can be assessed, which lead to improvement and action plans. That latter case makes enables the model to be used for large scale change.

5.5 How to use McKinsey's 7-S Model

You should always bear in mind that when it comes to organizational design and effectiveness, the 7s framework comes in handy. As we mentioned earlier, the model is based on the premise that all these seven elements are interwoven and therefore should be aligned together to reach efficiency in an organization. Thus, the model can be employed to assist in the recognition of what requires be rearranging and aligning to boost organizational performance or to keep alignment throughout other kinds of change, including creating new processes and procedures, organizational combination, reorganization, adopting new systems, leadership change among many other things. The model can be used to comprehend the way in which the organizational elements are interconnected, making sure that the extensive influence of changes made in one aspect is taken into account.

Moreover, this tool can also be used to assist in the analysis of present situations (Point A), a suggested upcoming situation (Point B) and to specify the differences and discrepancies between them. Now it is just a matter of adapting and changing the element of the model to make sure that your firm operates well and successfully as soon as you achieve the desirable results. Additionally, the model can be used to decide the most effective organizational design you want to reach. By determining the desirable alignment you establish your objectives and make the plan of your actions much easier. It sounds simple but it not because you need to carry out extensive research to figure out the ways in which other identical companies dealt successfully with organizational change along with finding out the kinds of organizational design they are making use of. In fact, there are plenty of books and methodologies devoted to the analysis of organizational strategy, performance improvement and management change. Last but not least, it goes without saying that the McKinsey 7s Framework is a good strategic tool which will assist you to find answers for your questions. However, it will not prove you with all the answers. For that reason, you are required to bring the appropriate knowledge together with the right skills and experience.

5.6 Steps for Implementation of McKinsey's 7-S Framework

As we pointed out earlier, the McKinsey 7s framework is often used when organizational design and effectiveness are at question. It is easy to understand the model but much harder to apply it for your organization due to a common misunderstanding of what should a well-aligned elements be like.

We provide the following steps that should help you to apply this tool:

Step 1. Identify the areas that are not effectively aligned

During the first step, your aim is to look at the 7S elements and identify if they are effectively aligned with each other. Normally, you should already be aware of how 7 elements are aligned in your company. After you've answered the questions outlined there you should look for the gaps, inconsistencies and weaknesses between the relationships of the elements. For example, you designed the strategy that relies on quick product introduction but the matrix structure with conflicting relationships hinders that so there's a conflict that requires the change in strategy or structure.

Step 2. Determine the optimal organization design

With the help from top management, your second step is to find out what effective organizational design you want to achieve. By knowing the desired alignment you can set your goals and make the action plans much easier. This step is not as straightforward as identifying how seven areas are currently aligned in your organization for a few reasons. First, you need to find the best optimal alignment, which is not known to you at the moment, so it requires more than answering the questions or collecting data. Second, there are no templates or predetermined organizational designs that you could use and you'll have to do a lot of research or benchmarking to find out how other similar organizations coped with organizational change or what organizational designs they are using.

Step 3. Decide where and what changes should be made

This is basically your action plan, which will detail the areas you want to realign and how would you like to do that. If you find that your firm's structure and management style are not aligned with company's values, you should decide how to reorganize the reporting relationships and which top managers should the company let go or how to influence them to change their management style so the company could work more effectively.

Step 4. Make the necessary changes

The implementation is the most important stage in any process, change or analysis and only the well-implemented changes have positive effects. Therefore, you should find the people in your company or hire consultants that are the best suited to implement the changes.

Step 5. Continuously review the 7s

The seven elements: strategy, structure, systems, skills, staff, style and values are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organizational design. Thus, continuous review of each area is very important.

5.7 Let's Sum Up

According to McKinsey, the 7S framework strongly helps in organizational environment scanning; that is organizational strengths and weaknesses to quote McKinsey in retrospect, what our framework has really done is to remind the word of professional managers, that soft is hard. It has enabled us to say in effect, that all the staff you have been dismissing for so long as the intractable irrational intuitive informal organization can be managed.

Clearly it has as much more to do with the way things work or do not around your companies as the formal structures and strategies do; not only you are foolish to ignore it but, here is a way to think about it. Here are some tools for managing it; here really is the way to develop a new skill; that is where this whole 7S framework helps.

It should be remembered that changing organizational culture is not an easy task but, that should not deter a person from striving to bring about change; that is it should not stop him from striving to bring about change. So, this is a very important framework in that sense. So, what I have tried to give you here is the description of all the 7Ss and kindly note that many times in this 7S framework questions are asked, what is the hardware of the 7S framework and what is the software of the 7S framework.

The hardware of the 7S framework is the strategy, the structure and the system; the other 4Ss are referred to as the software of the 7S framework. A very important point was mentioned that is, not give too much importance to software at the expense of hardware. So, do not give too much importance or organizations should not give too much importance to software at the expense of the hardware.

So, in other words what does it mean? You should use the software as a facilitator; you should not really put all your eggs in this basket of software. So, this is what this 7S framework is all about, and this 7S framework is being used by many organizations throughout the world and it is also being used by a number of organizations including public sector organizations in our country also now. So, to that extent we can say yes, we are really going in or keeping in pace with what is happening in management in the world.

5.8 Key Terms

1. **Strategy:** Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market.
2. **Structure:** Structure refers to the way business divisions and units are organized and include the information of who is accountable to whom.
3. **Systems:** Primarily it refers to the business and technical systems that drive the organization.
4. **Skills:** Skills are the abilities that firm's employees perform or accomplish their respective tasks very well.
5. **Staff: Staff** refers to the people or employees with general abilities who work for a particular company.
6. **Style:** Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value.
7. **Shared Values:** Shared values are the norms and standards which direct the staff members' behaviour as well as the firm's actions.

5.9 Self-Assessment Questions

1. What is the significance of McKinsey's 7-S framework? What are its uses and benefits?

Ans. ____

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2. Discuss in brief regarding the developmental history of McKinsey's 7-S framework.

Ans. ____

5.10 Further Readings

1. Michael Hitt, R. Duane Ireland, Robert E. Hoskisson, ―Strategic Management Competitiveness & Globalisation‖, South -Western Thomson Learning.

2. Kazmi, Azhar, ―Business Policy and Strategic management‖, Tata Mcgraw Hill Publishing Co, Ltd., New Delhi.

3. Mamoria, C.B., Mamoria, Satish and Rao, P. Subba,. ―Business Planning and Policy‘, Himalaya Publishing House, Mumbai.

4. Srinivasan R, ―Strategic Management the Indian Context‖ (2014). Fifth edition, PHI Learning Private Limited, New Delhi.

5.11 Model Questions

1. Explain how you can use the McKinsey 7-S framework effectively in an organisation with suitable examples.

2. "Shared values are the norms and standards which direct the staff members' behaviour as well as the firm's actions". Discuss the statement.

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