

**A STUDY OF THE EXTENT OF ENVIRONMENTAL SCANNING
UNDERTAKEN BY MANUFACTURING INDUSTRIES IN
PIETERMARITZBURG PRIOR TO THE ADOPTION OF SIGNIFICANT
CORPORATE STRATEGIES TO GAIN A COMPETITIVE ADVANTAGE**

By

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Submitted as requirement for the degree of

MASTERS IN BUSINESS ADMINISTRATION

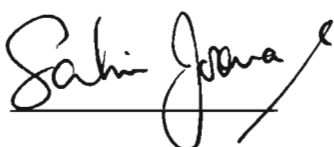
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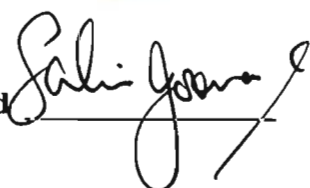
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I hereby wish to express my gratitude to the following individuals who enabled this thesis to be completed.

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Sara; Muhammad - without you in my life - this would not be worth it.

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- ❖ All the members of my staff for assisting with the typing and ensuring that I complete this task on time.

ABSTRACT

In this rapidly growing and competitive business environment, each firm attempts to gain and retain competitive advantage. The marketplace is a dynamic and changing environment. Globalisation has had a profound influence on the business environment.

Strategy formulation involves matching a company's internal strengths and weaknesses against the opportunities and threats offered by the industry and external macro environment. Strategy formulation involves more than the environmental scan of local markets. This scan has to be broadened to include the broader global arena.

Companies do not work in isolation. Hence it is essential for companies to examine the role that competition plays, and how such companies position themselves relative to the competition.

This study investigates the extent to which manufacturing industries in Pietermaritzburg undertake environmental scanning before adopting a strategy, or making strategic changes. It further attempts to determine the extent and ratio that business strategists seek competitive advantage from environmental scanning of their particular industry, and from the broader macro environment, and evaluate whether increased or superior use of external macro environmental scanning is perceived to lead to increased competitive advantage, due to the rapid and extensive impact of global events.

The findings suggest that many companies focus their attention purely on industry-based factors as a source of strategic competitive advantage. Further, most firms do not make use of services of essential consulting firms in the strategy formulation process. This study found that many companies undertook strategy formulation once a year, and no external environmental scanning was undertaken by their strategists. Firms appear to prefer internal analysis.

For companies wanting to maximize their competitive strategy, it is essential for strategists to explore both the industry and macro environment for any advantages that can be identified. Globalisation is enforcing the expansion of the scope of macro environmental factors. Larger firms may have the resources to cope, but smaller firms would need to look at alternative ways of acquiring the proposed information, e.g. using the database of external consulting firms.

Companies have to move away from the old mindset, and embrace the changes in the dynamic business environment, if they wish to remain competitive.

CONTENTS

DECLARATION	i
ACKNOWLEDGEMENTS	ii
ABSTRACT	iii
List of Figures	x
List of Tables	xi

Chapter 1 Introduction and Overview of the Study

1	Introduction	1
1.1	The Problem Statement	2
1.2	Objective of the Study	3
1.3	Benefits of the Study	4
1.4	Limitations of the Study	5
1.5	Assumptions	6

1.6	Definition of Terms	6
1.7	The Sample	7
1.7.1.	Profile of the Sample	8
1.8.	Research Procedure	9
1.8.1.	Data Collection	9
1.8.2.	Research Designs	11
1.8.3.	Analysis of Data	13
1.8.4.	Ethical Considerations	14
1.9.	Summary Outline of Chapter	14
1.10.	Conclusion	15
Chapter 2	Corporate Strategy: Strategy Formulation Process	
2.1.	Introduction	17
2.2.	Essence of Corporate Strategy	18
2.3.	Strategy Formulation	20
2.3.1.	Developing a Strategic Vision and Business Mission	21
2.3.2.	Setting Objectives	22
2.3.3.	Crafting a Strategy	22
2.3.4.	Strategy Implementation and Execution	24
2.3.5.	Strategy Evaluation and Correction	25

2.4.	Strategic Management Process	26
2.4.1.	External Factors	26
2.5.	Environmental Scanning: Macro Factors	27
2.5.1.	Nature of Environment	30
2.5.2.	Political Environment	31
2.5.3.	Economic Environment	32
2.5.4.	Socio – Cultural Environment	33
2.5.5.	Technological Environment	34
2.6.	Industry/External Factors	34
2.6.1.	Industries Dominant Economic Features	35
2.6.2.	Industry Life Cycle	37
2.6.3.	Key Driving Forces	38
2.7.	Industry Competition: Porter’s 5 Forces Model	39
2.7.1.	Threat of New Entrants to the Industry	41
2.7.2.	The Threat of Substitutes	45
2.7.3.	The Bargaining Power of Suppliers	46
2.7.4.	The Bargaining Power of Buyers	47
2.7.5.	The Competitive Rivalry	48
2.8.	Which Companies are in the Strongest/Weakest Position	50
2.9.	Competition Profiling	52
2.10.	Key Factors for Success	55

2.11.	Profitability Prospect for the Industry	56
2.12.	Company Situation Analysis	58
2.12.1.	Evaluation of Current Strategy	59
2.12.2.	Strengths and Weaknesses – Opportunities and Threats	59
2.12.3.	Strengths and Weaknesses	60
2.12.4.	Opportunities and Threats	62
2.13	Cost Competitiveness	63
2.14.	Competitive Strength Assessments	64
2.15.	Strategic Issues Faced by the Company	66
2.16.	Organisational Structure and Strategy	68
2.17.	Conclusion	70
Chapter 3	The Pietermaritzburg Economy	
3.1.	Introduction	72
3.2.	The City of Pietermaritzburg	72
3.3.	The Pietermaritzburg Economy	73
3.4.	Structure and Growth of the Economy	74
3.5.	Conclusion	76

Chapter 4 Research Results

4.1.	Introduction	78
4.2.	Data Analysis – Section A	78
4.3.	Data Analysis – Section B	84
4.4.	Data Analysis – Section C	93
4.5.	Impact of Globalisation	101
4.6.	Conclusion	102

Chapter 5 Recommendations and Conclusion

5.1.	Introduction	103
5.2.	Recommendations	103
5.3.	Conclusion	107

LIST OF FIGURES

Figure 2.1	Nine – Step Strategic Management Process	17
Figure 2.2	Link of Resources with Environment Strategy	19
Figure 2.3	Strategy Managerial Tasks	21
Figure 2.4	Eight Stages in Environmental Analysis	29
Figure 2.5	Porter’s Five Forces Model	40
Figure 2.6	Characteristics Which Distinguish Between Organisations	51
Figure 2.7	Possible Moves for levels of Rivalry	54
Figure 2.8	Types of Key Factors for Success	55/56
Figure 2.9	Market and Competitors Analysis	65
Figure 4.1	Strategy Making Approaches	82
Figure 4.2	Diagrammatic Presentation of the Pressure Exerted by each Competitive Force	90
Figure 5.1	Strategy Planning Process	106

LIST OF TABLES

Table 1.1	Breakdown of Respondents	8
Table 3.1	Contributions of Sectors in Pietermaritzburg	75
Table 4.1	Demographic Data of Research Sample	79

CHAPTER 1

INTRODUCTION AND OVERVIEW OF THE STUDY

1. INTRODUCTION

The objective of this chapter is to offer an overview to the theoretical background to the dissertation, motivation for the research, formulation of the objectives and limitations of the study, and finally, a brief synopsis of each of the following chapters.

This chapter further outlines the research methodology used in this research exercise. It describes the procedures adopted for the selection of the sample, the questionnaire design, and statistical methods adopted. Finally it outlines a critique of shortfalls and limitations recognized in the research methodology that limit the resultant outcome.

In this rapidly growing and competitive business environment each firm attempts to gain and retain competitive advantage. The marketplace is a dynamic and changing environment. With global markets being explored, each company needs to keep track of its competitors and adopt a competitive strategy, which will give it a competitive advantage.

In an attempt to gain sustainable competitive advantage it is essential to study the environment of the organization and assess the environmental influences on the organization and relate the degree of change to strategic approaches-both prescriptive and emergent. The environment would refer to everything and everyone outside the organization. This would include customers, competitors, suppliers, distributors, government and social institutions (Lynch: 2000: 101). Many of these factors may be beyond the influence of a company but management needs to be aware of these factors and adjust strategy as these factors dictate.

Strategy Formulation involves more than the environmental scan of local markets, as the scan has to be broadened to include the broader global arena and across industries and continents.

The Asian and Russian crisis of late 1998 and early 1999 is an example of how events and circumstances in remote regions of the world can now have an adverse effect on a firm's competitive advantage and the bottom line – profits.

No company can operate in isolation. Even monopolies face competition from allied industries. Hence, it becomes essential for companies to examine the role competition plays and how such companies position themselves relative to the competition.

1.1. THE PROBLEM STATEMENT

This research proposes to identify the extent to which manufacturing industries in Pietermaritzburg undertake environmental scanning before adopting a strategy or making strategic changes?

To what extent are Local organizational strategists aware of political, economic and industry influences impacting on their firms from the local and the extended global economy?

Are strategists fully aware of the impact of global events and the impact such events will have on their firms in the short and long term?

1.2. OBJECTIVE OF THE STUDY

The Objective of the study is to:

- Identify the extent to which manufacturing industries in Pietermaritzburg undertake environmental scanning before adopting a strategy or making strategic changes.
- Help show the approach taken by large organizations in crafting strategy.
- Show companies the need and value of undertaking environmental scanning.
- Determine the extent and ratio that business strategists seek competitive advantage from environmental scanning of their particular industry and from the broader macro environment.
- Determine whether the globalization of business has resulted in the expansion of the external environmental scanning process of South African firms beyond the local, national and international environment, towards a global perspective.
- Determine whether increased or superior use of external macro environmental scanning is perceived to lead to increased competitive advantage due to the rapid and extensive impact of global events.
- To determine whether consulting firms (with global presence) have or can create a global database of environmental information, which could be used by clients to extend their environmental scanning towards global horizons.

1.3. BENEFITS OF THE STUDY

The increasing speed of the social, economic and political changes brought by the globalisation process, reinforce the need of studying and applying the concept of strategy.

A study of the environment is essential as it will provide the organization with an understanding of its competitors and provide a groundwork for developing sustainable competitive advantage.

An environmental analysis will provide the organization with insight into the opportunities and threats it may face.

Environmental scanning would help an organization to re-evaluate its value chain and develop linkages with allied and even competing firms, which could further add to its competitive advantage.

Environmental analysis will help a company to either adopt a proactive strategic move or a reactive strategic approach.

This study will attempt to identify those companies that undertake adequate environmental analysis and examine the extent to which such companies benefit from such environmental scanning.

1.4. LIMITATIONS OF THE STUDY

This study has the following limitations:

- The sampling frame is restricted to manufacturing companies operating in Pietermaritzburg only.
- The sampling frame comprises of manufacturing companies producing a variety of products and not a single product type.
- Companies were reluctant to divulge their financial records, hence conclusions relating to the success of their chosen strategies in regard to profits are restrictive.
- In section C of the questionnaire, respondents were requested to confirm whether or not they had changed the scope of their environmental scanning process since the relaxation of trade barriers after the 1994 elections and since the global economic turmoil of 1998/1999. They were further requested to explain the changes they had implemented if their answer was in the affirmative.

With hindsight, I believe that those who answered in the negative should have been asked to explain 'why' they had chosen not to change the scope of their environmental scanning.

This form of survey avoids interview bias but also prevents one from probing the respondent further and also confirming that all questions were answered. Some questions were left unanswered.

The above change is suggested if this instrument is used for any future survey or study.

Further research will need to be conducted into these limitation areas to gain a deeper insight into the advantages of environmental scanning in specific industries and its effect on the bottom line- -profits.

1.5. ASSUMPTIONS

At the outset of this study, certain assumptions were made, viz;
Global events, whether they be economic, political, or other, do and will have an impact on businesses locally.

There is a difference between an international and a global organisation. The difference being the extent to which and in the number of different geographical locations the firm is located. A further difference is the degree to which the various facets of the supply chain are split up geographically.

It is the intention of this study to further determine whether or not these assumptions are true.

1.6. DEFINITION OF TERMS

During this study, certain terms are used that have dual meaning. Without prejudice to anyone, and for added clarity of thought, the more important terms are described as follows;

“Organisation”, and “firm” and “company” are used interchangeably to mean any organisation that operates to provide products or services.

Whenever a mention is made of strategy, it implies strategic business strategy and relates to only the broader environmental scanning sub component of that process.

1.7. THE SAMPLE

“The basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusions about the entire population” (Cooper and Schindler: 2001: 163).

The compelling reasons for sampling include inter alia: lower costs, greater accuracy of results, greater speed of data collection and availability of population elements. Probability sampling allows researchers to use a random selection of elements to reduce or eliminate sampling bias.

The scope of this study did not require the results to be generalized to a population parameter. The objective of this study did not warrant ensuring that the sample fully reflected the population. To this effect non-probability sampling was utilized.

Hence, due to the nature of this study, a convenient non-probability sampling method was used.

The convenient sampling method has two major disadvantages:

- Observations are not selected randomly but a sample is drawn to suit the convenience of the researcher.
- The convenience sample has no controls to ensure precision. The sampling error cannot be quantified and this prevents the results from being inferred to the entire population.

The objective of this study is of an exploratory research to obtain impressions of the characteristics of the random variable under study and not inferential in nature. The most appropriate and useful sampling type in this case would be convenient non-probability sampling.

1.7.1. Profile of the Sample

The aim of the study is to determine the extent to which manufacturing industries in Pietermaritzburg undertake environmental scanning before adopting a strategy or making strategic changes. The sample is drawn from a wide range of manufacturing concerns based in Pietermaritzburg. The sample is not restricted to any specific sector. All sectors are considered for selection.

The samples were purely limited to those companies who were involved in any form of manufacturing activity and their businesses were based in Pietermaritzburg.

Table 1.1. highlights the sample sectors.

Table 1.1.
Breakdown Of Respondents Into Sectors

MANUFACTURING SECTOR	FREQUENCY
1. Footwear	3
2. Wood	2
3. Food /Soft Drinks	3
4. Automotive/ Electrical Components	3
5. Skincare / Toiletries	3
6. Animal feed	1
7. Fabric	1
TOTAL	16

The secondary aim of this study is to determine the extent to which globalization of businesses has impacted on external environmental scanning and the extent to which consulting companies could play a vital role in assisting companies with the task of environmental scanning.

The consulting companies did not form part of the sample. The extent to which consulting firms could be useful in the task of environmental scanning to manufacturing concerns was a secondary aim of this study.

Relevant questions regarding consulting firms were included as part of the questionnaire submitted to the manufacturing companies for completion.

1.8. RESEARCH PROCEDURE

This section outlines the steps and procedures adopted in the collection of the raw data through the application of the survey data collection method.

1.8.1. Data Collection

Data was collected through the use of self-administered questionnaires. This method facilitated the collection of primary data directly from the source, which allowed for increased data accuracy and the elimination of any interview bias. Since the target respondents are mainly corporate executives who are involved in the strategy formulation process and they are extremely busy executives constantly in meetings and traveling, this method offered the promise of increased results. The use of telephonic or personal interviews was not practical.

The disadvantage of this self-administered questionnaire process included:

- Respondents could not be probed nor investigated further for in-depth responses.
- There was no possibility of checking that all questions were answered, and that the questions were completed correctly.

To overcome the last issue, the questionnaire's covering letter offered the possibility of telephoning the researcher, should the respondent have any doubt or queries as to the completion of the questionnaire.

Initially a list of all manufacturing companies operating in Pietermaritzburg was obtained from the Pietermaritzburg Chamber of Business.

Each company was telephoned and enquiries made as to who the most appropriate respondent in the organization would be who might agree to complete the questionnaire. Once the correct person was ascertained, where possible, contact was made with the prospective respondent personally or his/her secretary. The purpose of the questionnaire and objectives of the study were explained. Most respondents adopted a positive response and agreed to complete the questionnaire. There were only two negative responses of a total of 32 calls. However, some respondents were unavailable. Despite messages being left and further calls made, some respondents could not be reached.

A hardcopy of the questionnaire was personally delivered with a letter of introduction and explanation of the research objectives. The questionnaire should take 10 minutes to complete, and due to the general/theoretical nature of the study, names of respondents were requested. The objective not being to identify the respondents, but rather to ensure that the respondent was in fact someone who would actually be

involved in the strategy formulation process and not delegated to a subordinate who may not be qualified to answer the questionnaire with insufficient knowledge of the organisation's strategic planning processes.

No time period was specified for the completion of the questionnaire, as due to the time constraints on these high level executives, it was expected that they would respond when time permitted. After two days of having delivered the questionnaires some respondents called back to confirm that the questionnaires were completed and ready to be completed.

A total of 22 manufacturing companies operating in Pietermaritzburg were issued the questionnaires. After a period of 5 weeks 16 companies had returned the completed questionnaires. This represented a 72% response rate.

1.8.2. Research Designs

“The research design constitutes the blueprint for the collection, measurement and analysis of data” (Cooper and Schindler: 2001: 134).

The goal of the research was to undertake a theoretical study. The most appropriate and useful sampling type was the non-probability sampling and data collected with the use of self-administered questionnaires.

In order to encourage the respondents to be committed to the completion of the questionnaire, each questionnaire was personally delivered to the respondent's place of business. This was an efficient method and flexible since the study was restricted to manufacturing businesses operating in Pietermaritzburg only.

The self-administered questionnaire was used to establish the views of respondents in regard to the extent of environmental analysis done by various manufacturing

companies in Pietermaritzburg prior to them adopting new strategies or making strategic changes. In addition views were sought in regard to whether companies would make use of the services of strategy consulting firms if such firms had compiled a global database of external environmental scanning information.

The questionnaire comprised of three sections

Section A Contained Demographic Data Providing Details Of:

- The Name of the organization, the respondent and the principal product manufactured by the company.
- Who the strategists were for the companies, how long the time horizons were for planning and if they made use of external consulting firms in the strategy formulation process.
- How often the company undertook the strategic planning exercise.

Section B Was Designed To Determine:

- The extent of the environmental scanning function and the external factors that were considered to be the source of competitive strategic advantage.
- The extent to which each of the five competitive forces placed a competitive pressure on the firms.
- The firm's view on the expansion of environmental scanning to a global basis.

Section C Was Designed To Determine:

- If companies had changed the scope and nature of their environmental scanning process due to the influences of current global economic upheaval and the re-entry of South Africa into global markets after the removal of sanctions.
- The firm's view on extending the environmental scanning process beyond the industry and also globally.
- The extent to which companies would use the services of strategy consulting firms who have a global database of external environmental scanning information, if such information was available.

1.8.3. Analysis Of Data

“In exploratory data analysis, the data guides the choice of analysis – or revision of the planned analysis – rather than the analysis presuming to overlay its structure on the data without the benefit of the analyst's security (Cooper and Schindler: 2001: 452).

This study involved a very small sample of only 16 companies. The size of sample and scope of study warranted the use of explanatory data analysis.

No rigid structure has been followed in the analysis of the data. The aim was to present the findings as clearly as possible.

On receipt of the completed questionnaires, each one was assigned a number in order to correlate the responses to the questions asked. The responses to the various questions were analysed and these findings presented in tabular and graphic form.

1.8.4. Ethical Considerations

At each stage of this study ethical considerations were given their due weight. Every effort was made to ensure that no one was harmed or suffered any consequences from the research activity.

In the covering letter the respondents were informed that any information offered by them would be held in the strictest confidence. Further, the nature of the questions confirmed to the respondents that the answers offered would not compromise their company or themselves. Hence, there is no reason to believe that the information offered could create any negative consequences to the respondent.

The theme of the questions and the data collected is of a general nature and based on opinions and observations of respondents. The analysis and discussion of the results do not specify any particular company or individual. The results are discussed in broad terms and anonymity is maintained.

1.9. SUMMARY OUTLINE PER CHAPTER

The dissertation is structured as follows:

Chapter One: An outline of the research methodology used in the study. This includes the nature of the sample used, the different measures utilized and the motivation for their use, research design, the procedure followed and the analysis of the data. A critique of the methodology and comment on possible ethical considerations.

- Chapter two:** A broad review of the main aspects of the strategy formulation process is outlined with an overview of the factors influencing strategy formulation. The broader external macro-environmental factors are discussed. The industry and organisational specific factors are discussed. Here the concept and impact of globalization are introduced and compared to the industry of focus of strategic analysis.
- Chapter three:** An analysis of businesses and especially manufacturing industries in Pietermaritzburg
- Chapter four:** A report on, and interpretation of the results of the statistical analysis applied to the data collected from the research. A discussion of the results obtained from the research in relation to the objectives and motivation of the study.
- Chapter five:** A presentation of recommendations and conclusion.

1.10. CONCLUSION

This study involved a very small sample of only 16 manufacturing companies in Pietermaritzburg. The small size made exploratory data analysis essential.

The sample is very small and for this reason no attempt is made to infer the results to the broader population. The sample does not fully reflect the population and for this reason non-probability sampling was used.

The scope of this study did not require the results to be generalised to a population parameter and no such effort is made.

The results of the data analyses are presented in chapter four.

This study focuses predominantly on the value and extent of the environmental scanning process in regard to strategy formulation. However, it is important to also examine the main aspects of the strategy formulation process.

In chapter two, a thorough examination of the strategy formulation process is undertaken.

CHAPTER 2

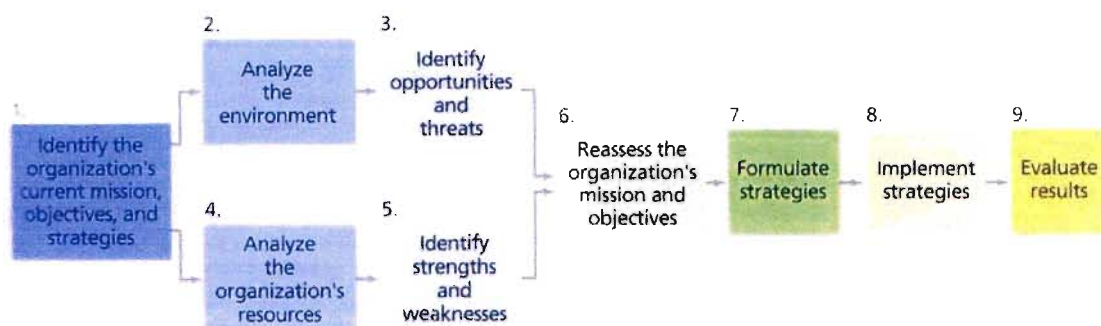
CORPORATE STRATEGY: STRATEGY FORMULATION PROCESS

2.1. INTRODUCTION

This chapter aims to provide an overview of the main aspects of the strategy formulation process. The overall focus of this study is to ascertain the extent to which manufacturing industries in Pietermaritzburg undertake environmental analysis prior to implementing strategy. However, the overall strategy formulation process is described and an assessment made of the importance of corporate strategy. This description and assessment of the strategy formulation process will help place in context the overall environmental scanning process.

This chapter explores the factors influencing the actual process of strategy formulation. This strategic management process has been described by Robbins and Decenzo as a nine-step process involving strategic planning, implementation and evaluation.

Figure 2.1



Source: Robbins S.P. and Decenzo D.A. Fundamentals of Management (Prentice Hall: 2001)

Before developing a strategy the company has to identify its current objectives and strategies. Once the internal inspection is done a company can look outside at the broader external macro environmental factors. This will then allow the company to align its strategies with the environment.

2.2. ESSENCE OF CORPORATE STRATEGY

Competition is at the core of the success or failure of firms. Competitive strategy is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs (Porter: 1985: 1).

Hannagan (2002) states that strategy is involved with matching the activities of an organization to the environment so that there is a strategic fit. This can be viewed as an attempt to identify the opportunities in the environment in which the organization works and then tailoring the strategy of the company to capitalize on these.

Strategy can be encapsulated to include the identification of an organisation's internal strengths and weaknesses; together with its external threats and opportunities and the linking of this to the economic and social environment within which it exists.

Figure 2.2. highlights examples of how corporate strategy links the organisation's resources with its environment. Strategy formulation is in essence the relating of an organisation to its environment

Figure 2.2.



Source: Lynch R. Corporate Strategy (Pearson Education Ltd: 2000)

The accelerated speed of change in the social, economic and political environment justifies the need for applying the concept of strategy.

A strategist would be required to have, both at the macro level and the industry level, an extensive knowledge of the external environment, in order to fully understand the relationship between his company and the environment and the influence each has on the other. As elements in the environment change, the company needs to adjust its corporate strategy.

It is contended that a study of the environment will enable the company to gather information about the industry that will give it a sustainable competitive advantage. It will further allow a company to identify the opportunities that it can explore while also identifying the threats it faces. This will help determine the company's future course of action.

It stands to reason that corporate strategy is important. A company that has a well-developed strategy will reap its benefits while the organization that makes major errors in corporate strategy will suffer the consequences both in terms of loss of profit and loss of competitive advantage.

Strategy envelops every aspect of the firm and is the foundation on which each aspect of the organization is built (Francis: 1994: 24).

It can be further argued that the company with the first and greater understanding of the environment will be in position to carve a strategy that accompanies a broader spectrum of the external factors. Hence, environmental scanning is valuable.

Globalisation has accelerated the speed of social, economic and political change. Hence, a more detailed analysis of the broader global external environment is equally valuable.

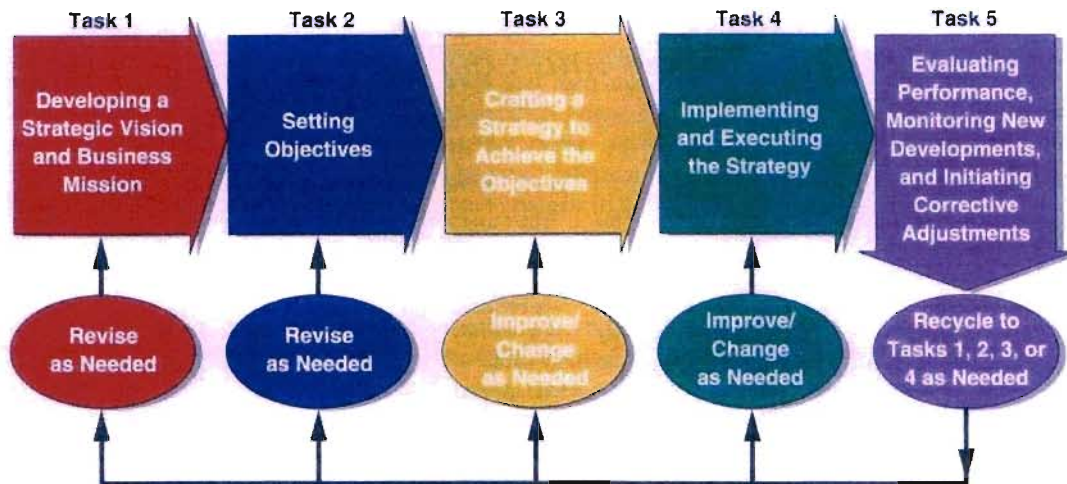
An understanding of the steps in the strategy formulation process is essential prior to exploring the ways of analysing the environment.

2.3. STRATEGY FORMULATION

The strategic management process consists of five interrelated managerial tasks (Thomson And Strickland: 2001: 6).

Figure 2.3 helps to conceptualise this process

Figure 2.3



Source: Thompson A.A. and Strickland A.J. Crafting and Executing Strategy (Mcgraw Hill: 2001)

2.3.1. Developing A Strategic Vision And Business Mission

Thomson and Strickland (2001: 6) define strategic vision as “ a roadmap of a company’s future”. The strategic vision is the long-term goal set by the company. It states where the company is going and highlights its business plans. A well-conceived clear strategic vision gives clear direction for management to follow. This then allows management to craft a strategy to get the company to go where it plans to go. A company’s strategic vision allows a company to utilize its resources meaningfully towards achieving its goals and ultimately gaining a competitive advantage.

The strategic vision has to be communicated throughout the organization and must lead to action which then leads to quantifiable results. Each result can be a step towards achieving the organisation’s overall vision.

2.3.2. Setting Objectives

Strategic vision helps an organisation to look beyond the short-term profit and concentrate on sustained growth and profitability. Hence, long-term objectives are essential to achieve long-term prosperity.

Objectives are the tools used to attain the final corporate strategic vision. However, these goals must be quantifiable in order to evaluate the success of the chosen strategy.

Every company needs to achieve both good financial and good strategic performance. Hence, financial and strategic objectives need to be set (Thomson and Strickland: 2001: 9). Coupled with good profits, a company has to show that its chosen strategy has yielded increased competitiveness and that the company will be in a position to achieve its long-term business prospects.

2.3.3. Crafting A Strategy

The development of any strategy would have to be done with an understanding of the environment within which the organization operates. A clear understanding of its strengths and weaknesses will help guide the choice of strategy and the way it is implemented.

Strategists are convinced that an understanding of the environment is essential in the development of strategy. At the same time such an analysis usually yields two types of results:

- **Proactive Outcomes** – An identification of positive opportunities or negative threats and the company will adopt proactive strategies accordingly.

- **Reactive Outcomes** – An identification of changes over which the company has no control but will need to react to such changes.

Although the strategy adopted in each case will differ, an in-depth environmental analysis is essential to help choose the correct strategy. The goal of environmental analysis is to allow a company to be able to best defend itself against competitors and/or influence the circumstances in its own favour.

A company cannot plan every strategic action in advance simply because of unpredictable changes in the future. Market conditions change, competitors may make drastic moves, customer needs change and even the chosen strategy may prove to be ineffective. Hence, strategies have to be crafted with a blend of the purposeful actions together with as needed reactions and the collective learning of the organization over time (Thomson and Strickland: 2001).

Hence it stands to reason that the strategy formulation cannot be a once off annual event but rather an ongoing process. Strategies have to be modified as circumstances dictate yet, with the core strategic vision in mind.

Strategies provide an underlying logic to drive the business forward. However, firms do not have total strategic freedom.

Francis (1994) has identified five primary categories of constraints, which limit a company.

- Constrained by a lack of understanding (specific know-how is lacking).
- Constrained by lack of imagination (creativity is lacking).
- Constrained by lack of permission (a higher authority says 'no').

- Constrained by lack of resources (insufficient funds or other essential resources).
- Constrained by lack of willpower (the top team are not willing to drive through changes).

It is essential for the strategist to assess if each perceived constraint presents a real barrier to implementation and execution of the chosen strategy.

2.3.4. Strategy Implementation And Execution

In most instances determining objectives and crafting the strategy are reasonably clear. However, it is the implementation process that poses the problem.

These three areas of formulation, crafting and implementation are usually greatly overlapping. Objectives may prove unrealistic and need to be modified at point of implementation. Hence, these three areas are anything, but sequential.

Managers entrusted with the task of implementing the chosen strategy need to identify and use those resources within the firm, which will help work towards achieving the common vision of the organisation. Both human resources and machinery need to work in unison in regard to implementation.

Management has to put support structures in place to assist in successful implementation. The company culture must be conducive to successful strategy implementation. The entire organization needs to unite and work towards implementation.

2.3.5. Strategy Evaluation And Correction

Any Strategy implemented must be relevant and effective in achieving a company's strategic vision. Regular feedback and evaluation of the strategy in relation to its environment helps to assess success and keep the strategy process on track.

Strategy evaluation allows for company wide reaction to changing circumstances. Each company's strategy is unique. Often strategy implementation is a top-down process. The upper management dictates what it perceives to be the correct strategy for growth. However, the people who are required to implement the strategy may not have been instrumental in its selection.

Strategy evaluation will allow management to motivate staff to work towards achieving the set objectives. The evaluation process would also enable management to implement the required operating systems that will help in achieving the objectives set. Successful down-up communication channels, identifying managers to take leadership roles in implementation and constant improvement are essential. Problems in these areas can be identified with evaluation and corrective measures can be implemented.

Management has to stay on top of the situation by assessing the internal and external environment. The company has to learn on an ongoing basis.

Strategy evaluation is a crucial step in guiding the organisation towards its objectives. Strategy evaluation helps management to look beyond the short-term results and implement steps to ensure long-term success and growth.

Obviously, it would be difficult to prove that a chosen strategy is correct or guarantee its success. However, evaluation would allow management to test the strategy against its consistency, consonance, advantage and flexibility (Zagotta and Robinson: 2002). A combined view of strategy and strategy evaluation is essential if a company aims to gain and retain competitive advantage.

2.4. STRATEGIC MANAGEMENT PROCESS

Good strategies don't arise spontaneously. They come from an in-depth analysis of a company's internal strengths and weaknesses in relation to the broader external environment. Hence, a knowledge of the industry and broader external environment is essential.

Environmental analysis or environmental scanning allows a company to gather data from the environment in which it operates. Environmental scanning enables companies to screen large amounts of information to detect emerging trends and create a set of scenarios (Robbins and Decenzo: 2001: 92). This in turn provides companies with the ammunition to make selected strategic choices and map out a plan to gain competitive advantage and increased profits.

We now expand on various external factors or environment which needs to be analysed in order to formulate corporate strategy. This is followed by an exploration of the internal factors, which are closely tied to the external environment.

2.4.1. External Factors

Environmental scanning both of the wider macro environment and within the industry allows the company to detect emerging trends and also identify key opportunities and threats.

Strategists who can successfully analyse the environment and go on to successfully align their competitive strategies with the requirement of their environment can succeed in outperforming the competition.

Companies have to be flexible to respond rapidly to competitive and market changes. Strategists need to go beyond the traditional SWOT analysis, which is extremely subjective. An in-depth environmental scan will help reveal changing trends which will allow companies to make strategic moves to ensure superior performance. Companies cannot afford to be caught napping. In today's rapidly changing environment competitive advantage is temporary.

The gathering of competitive intelligence is essential to outsmart the competition. This competition has now been extended to the global arena. Companies are continuously adapting to the changes in the global market place. With e-commerce being an integral part of business many companies have taken the lead while others have failed to recognize the changes due to a lack of competitor knowledge.

Hence, environmental scanning has to be extended from a micro and industry level to the broader macro and global level to help companies achieve and maintain competitive advantage.

2.5. ENVIRONMENTAL SCANNING: MACRO FACTORS

According to Lynch (2000) there are eight basic stages in environmental analysis.

Lynch draws a distinction between two types of results from environmental analysis i.e. pro- active outcomes and reactive outcomes.

The environmental analysis highlights either positive opportunities or negative threats and the company develops proactive strategies to deal with the situation.

The environmental appraisal establishes what external events really affect the company's operations and it is designed to provide the company with assessments of future trends (Hussey: 1979: 13).

A company may be expected to react to certain changes in the environment over which it has no control. Lynch concludes that there are three difficulties in studying the environment. He views these as being, the use to which the analysis will be put, uncertainty in the topic and coping with the wide range of environmental influences.

Figure 2.4 Eight Basic Stages In Environmental Analysis

STAGE	TECHNIQUES	OUTCOME OF STAGE
1. Consideration of the nature of the environment, both for many organizations, and for the specific sector associated with the organisation	General Consideration: <ul style="list-style-type: none"> ▪ Change: fast or slow? ▪ Repetitive or surprising future? ▪ Forecastable or unpredictable? ▪ Complex or simplex influences on the organization? 	<ul style="list-style-type: none"> ▪ General Strategic Conclusions: ▪ Is the environment too turbulent to undertake useful predictions? ▪ What are the opportunities and threats for the organisation?
2. Factor affecting many organizations	PEST analysis and scenarios	<ul style="list-style-type: none"> ▪ Identify key influences ▪ Predict, if possible ▪ Understand interconnections between events
3. Analysis of growth	Industry Life Cycle	<ul style="list-style-type: none"> ▪ Identify growth stage ▪ Consider implications for strategy ▪ Identify maturity, overproduction and cyclicity issues
4. Factors specific to the industry	Key factors for success analysis	<ul style="list-style-type: none"> ▪ Identify factors relevant to strategy ▪ Focus Strategic analysis and development
5. Factors specific to the competitive balance of power in the industry	Five Forces Analysis	Static and descriptive analysis of competitive forces
6. Factors specific to co-operation in the industry	Four Links Analysis	<ul style="list-style-type: none"> ▪ Analysis of current and future organizations with whom co-operation is possible ▪ Network analysis
7. Factors specific to immediate competitors	Competitor analysis and product portfolio analysis	<ul style="list-style-type: none"> ▪ Competitor profile ▪ Analysis of relative market strengths
8. Customer analysis	Market and segmentation studies	<ul style="list-style-type: none"> ▪ Strategy targeted at existing and potential customers

2.5.1. Nature Of Environment

Before the environmental analysis is undertaken one needs to assess the dynamics of the environment. The nature of the environment will determine whether the analysis can be utilized and influence the way the company is structured to cope with such changes (Lynch: 2000: 107).

The turbulence level will determine the extent to which predictions can be made. Low turbulence is crucial for predicting the future with confidence. A good example is e-commerce where turbulent change and novel approaches make predictions difficult.

Organisations would need to structure themselves around the level of turbulence. In a highly turbulent environment companies will need to be able to respond rapidly to changing events. Francis (1994) believes that most managers know the reasons for studying competitors but very rarely practice competitor analysis.

He has identified four key benefits of competitor analysis, viz:

- Industry benchmarking (comparing yourself, in detail, with similar firms so that you can identify your strengths and weaknesses).
- Learning (competitors are excellent teachers: they are performing experiments for you in similar market segments).
- Positioning (knowing competitors' strategies helps you to choose how to compete).
- Identifying opportunities and threats (competitors' actions threaten you and create opportunities: being forewarned enables you to be forearmed.)

There is no prescribed way of undertaking competitor analysis. The company has to be guided by its own needs. Most organizations begin with an analysis of the political, economic and socio-cultural and technological aspects of the environment.

2.5.2. Political Environment

With the growth of the global market place, most companies have become players in the global arena. Similar to a sports event or even to war, one needs to have a knowledge of one's opponents but also an understanding of the rules of governance.

With trade across borders there is a need for accurate political and governmental forecasts. Governments make laws that either encourage or hinder growth. Organisations and their final profits are influenced or hindered by government policies on a local, national and international level.

Various political and governmental factors influence an organization's business and strategy formulation.

Political Factors would include:

- Tax Law
- Environmental Protection Laws
- Government Subsidies
- Anti trust or Anti Monopoly laws
- Import and Export regulations
- Tariffs and Duties
- Corporation with international patent & Trademark Laws
- Internal Strife & instability in government
- Level of Democratic principles
- Level of adherence to free trade policies
- Employment Laws (Including Affirmative Action Policies)

Political influence can either make a company more productive and thus more profitable or less productive. Entrepreneurs need to be aware of the political environment and the possibilities the various environments have to offer. Companies that are able to identify and study the varying political landscape and its influence on strategy formulation are better equipped to make sound business decisions and enjoy a competitive advantage over rivals.

2.5.3. Economic Environment

Various economic factors influence how a business is conducted and strategies formulated. Strategists use economic historical data to forecast the future. Although the future, especially in fast moving markets is unpredictable, a study of the economic environment is useful for corporate strategy.

With many companies in the global arena and many companies choosing to be listed on a number of stock exchanges it stands to reason that strategists need an in-depth analysis of the economic environment they operate in. Companies need to give serious attention to various economic factors in their study of the environment.

Economic Factors would include:

- Rates of inflation in the host country
- Interest Rate in the host country
- Monetary Policy
- Total GDP and GDP per head
- Consumer expenditure and disposable income
- Levels of unemployment
- Costs of energy, transport, labour, communications and raw materials.
- Exchange rates
- Minimum wage levels
- Fiscal and Tax policies
- Extent of monopolies
- Extent of Free Trade Agreements

2.5.4. Socio-Cultural Environment

Sudden and broad changes in the social environment have an important bearing on the strategy of all organizations.

Each country has its own levels of cultural, demographic and geographic diversities. This directly impacts on the marketing and structure of a company hoping to make a profit.

In order to identify niche markets and identify target markets, strategists need a broad understanding of the socio-cultural and demographic factors that would directly impact on an organization's competitive advantage and profits.

A thorough knowledge of this socio-cultural environment and the shifts within it can assist strategists to change strategies as social changes occur and also to make calculated predictions. Hence, companies can, with this knowledge, take pro-active steps or capitalize on opportunities.

Socio-Cultural Factors would include:

- The birth and mortality rate.
- Rate of marriage
- Rate of divorce
- Distribution of income
- Shifts in value and culture
- Level of Education
- Buying Habits
- Life Expectancy Rates
- Attitudes towards Environmental protection
- Rate of changes to Lifestyle
- Level of control by Religious Organisations

2.5.5. Technological Environment

The influence and impact on technology cannot be under-estimated. Technology directly impacts on the way a company does business, engages with all stakeholders and its level of competitive advantage.

Technology has consistently evolved to become an integral part of even the smallest company and it has grown to be a major determining factor of a company's profits.

Technology that is well designed and which gives a company the competitive advantage can enhance a company's value. This is especially so in the global market place.

The ideal example is the internet which has not only revolutionized the way companies do business but has also introduced products of its own. Brick and mortar stores which have failed to realize the advantages of e-commerce have paid for it by losing their competitive advantage and with it their profits.

It has become imperative that any strategic management environmental scan should include an appraisal of both the threats and opportunities offered by the technological environment. Such a scan should include inter-alia a study of new patents, adoption of new technology especially by competitors and the levels of spending on research and development by competitors and others within the industry.

2.6. INDUSTRY/EXTERNAL FACTORS

Strategists realize that their chosen strategy has to be tailored to fit in with factors within the industry. Various factors in the company's immediate industry and competitive environment influence strategy.

An analysis of the industry is vital to determine the nature and strength of the competitive forces as well as to assess whether the industry is attractive for investment and earning a profit.

Thompson and Strickland (2001: 76) highlight seven questions to undertake the industry analysis.

- What are the industry's dominant economic features?
- What is causing the industry's competitive structure and business environment to change?
- What is competition like and how strong are each of the competitive forces?
- Which companies are in the strongest/weakest positions?
- What strategic moves are rivals likely to make next?
- What are the key factors for competitive success?
- Is the industry attractive and what are the prospects for above-average profitability?

2.6.1. Industries Dominant Economic Features

An overview of the industry's dominant economic features is crucial at the outset in any industry and competitor analysis, as industries differ significantly in their character and structure.

An industry's economic features have vital influence on the industry's strategy and profitability. A good example is the airline industry, which needs to utilize its planes to its maximum in order to earn adequate revenue. Strategies adopted would include cutting time or multi-tiered pricing to fill seats. Taking advantage of the experience curve effect can yield a huge cost advantage to the company.

Thompson and Strickland (2001) emphasize a large number of factors that one can consider when profiling an industry's economic features.

- Market size
- Scope of competitive rivalry (local, regional, national, international, or global).
- Market growth rate and position in the business life (early development, rapid growth and takeoff, early maturity, maturity, saturation and stagnation, decline)
- Number of rivals and their relative sizes – is the industry fragmented into many small companies or concentrated and dominated by a few large companies?
- The number of buyers and their relative sizes.
- Whether and to what extent industry rivals have integrated backward and/or forward.
- The types of distribution channels used to access consumers.

- The pace of technological change in both production process innovation and new product introductions.
- Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical.
- Whether companies can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising.
- Whether key industry participants are clustered in a particular location.

2.6.2. Industry Life Cycle

It has been argued by various writers that each industry goes through various phases of development viz. Infancy stage, Growth stage and Stage of decline. As the industry moves along this life cycle the strategy adopted will change at each stage.

Strategists need to identify the stage an industry is in, prior to adopting a strategy. Market cyclicality is critical to strategy development. Lynch states that “ predicting such cycles and estimating their impact on the industry becomes a very important part of corporate strategy” (2000: 118).

A thorough understanding of the industry life cycle forms part and parcel of the environmental analysis. It helps select those strategies that are appropriate for each stage of the cycle.

All industries experience growth and change which in turn forces a strategic response. However, there are many other factors that affect an industry.

2.6.3. Key Driving Forces

Identifying the driving forces within the industry are essential as it is these key driving forces that lead to changes within the industry and the competitive conditions.

Prior to adopting a strategy, organizations need to identify the pre-dominant driving forces and assess the impact they will have on the industry (Thompson and Strickland: 2001: 94).

Many companies fall prey to too simplistic a view of what causes a change in any given industry. Companies fail to assess the vital driving forces and hence fail to craft a strategy to suit the changing conditions.

Analysis of the key driving forces and the understanding of the potential changes in the environment brought on by these driving forces will help strategists to identify future opportunities and threats. This can then lead to a pro-active or re-active response.

To succeed strategists have to identify what the driving forces are and assess the impact they will have on the industry. Thompson and Strickland (2001) have identified a vast category of driving forces. However, some forces are unique to individual industry situations.

Thompson and Strickland (2001) have identified the following categories of Driving Forces:

- The internet and the new e-commerce opportunities and threats, it breeds in the industry
- Increasing Globalisation of the industry

- Changes in the long-term industry growth rate
- Changes in who buys the product and how they use it
- Product innovation
- Technological change

2.7. INDUSTRY COMPETITION: PORTER'S 5 FORCES MEDAL

Many companies are unaware what the competition is doing. Often companies view their competitors as an anaemic threat. Competitors take advantage of this, grow market share and leap frog the industry leaders.

Organisations need to understand the industry and the competitive relationships in order to effectively manage their own business.

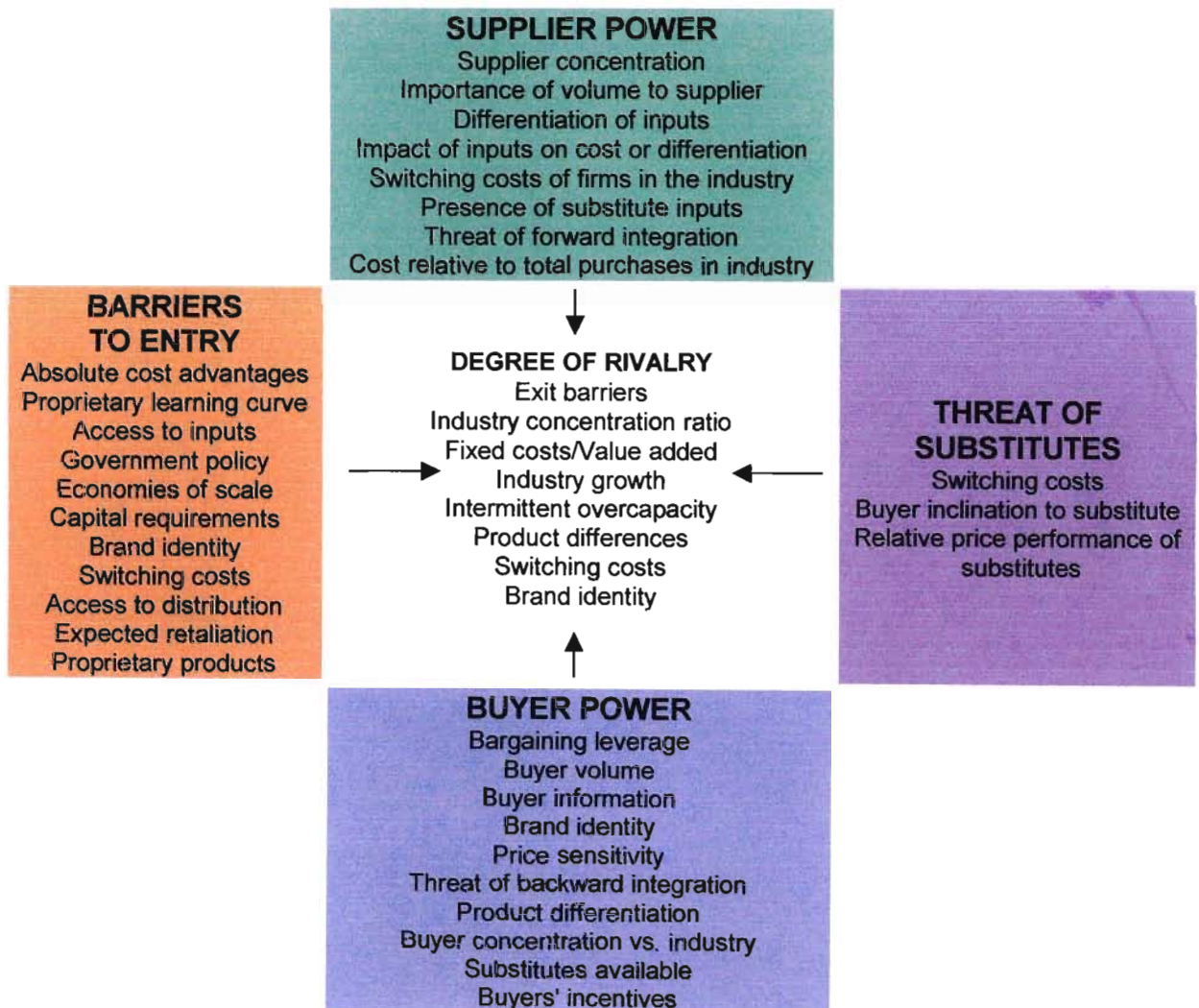
Understanding the state of competition in an industry is vital. Michael Porter believes that this state of competition depends on what he terms the 5 forces. The 5 forces model attempts to identify what the main sources of competitive pressure are and how strong each competitive force is (Thompson and Strickland: 2001: 79). Hence, the state of competition in an industry is a composite of five competitive forces viz.

- The threat of new entrants to the industry,
- The threat of substitute products or services,
- The bargaining powers of suppliers in the industry,
- The bargaining power of buyers in the industry,
- The degree of rivalry amongst existing firms in the industry.

Porter identifies the five forces as 'threats'. However, each force can be viewed as a 'threat' and an 'opportunity'. The objective is to study ways in which a company could formulate strategy to develop opportunities while protecting itself against other threats and its competitors.

Figure 2.5

The Following Is A Graphic Presentation Of The Five Forces:



Source: Porter M. E. Competitive Advantage – Creating and Sustaining Superior Performance: (The Free Press: 1985)

2.7.1. Threat Of New Entrants To The Industry.

New entrants are attracted to an industry when the profit margins are high and the barriers to entry are low. Their success or failure depends on the level of reaction/retaliation they face from existing firms. Their presence ultimately affects the profitability of existing firms.

It stands to reason that existing firms would wish to increase the barriers to entry in order to protect their current market share.

Companies resort to the use of many major sources of barriers to entry in order to protect their current market share.

The major sources of barriers to entry are:

- **Economies of scale:** Existing firms produce products or services at a lower cost due to an increase in the absolute volume. This reduction in costs presents a barrier to new entrants because they have to enter at a large scale to achieve such low costs.

Accumulated learning can also help achieve low unit costs. Established firms would find more efficient ways of production and by so doing create barriers to entry. Inexperienced new entrants can be placed at a unit cost disadvantage (Faulkner and Bowman: 1995: 43).

Patents and access to knowledge can also hinder entrance into the marketplace. Technological know how can prevent new firms from competing on an equal footing. So too can the expected retaliation from existing firms. The threat off retaliation could create a barrier to entry

- **Product Differentiation:** Branding, special levels of service or loyalty of customers may present barriers. New entrants are forced to spend large sums to create brand awareness or wait a long time to become established.

The establishment of a brand name is a long term process. New entrants need to examine both the brand strength and financial strength of existing companies. New entrants often underestimate how much an established company is willing to pay to defend its position.

Brand loyalty and financial muscle can form a barrier to entry for new companies. New entrants would need large capital investments to overcome entry barriers. Capital is expensive. Hence, this limits the number of potential entrants.

Switching costs to customers are often high. In order to encourage switching, newcomers are forced to offer large discounts and/or advertise extensively. This impacts negatively on the profit margin. Existing companies may react by lowering their prices and even competing via advertising.

More established companies may be in a better position to bear losses in the profit margin from such competition. A perfect example is the competition between Microsoft and Apple Computers (Lynch: 2000: 127).

- **Access to distribution channels is vital.** Key industry players tend to close or monopolise distribution outlets. New entrants are usually faced with the added expenditure of setting up their own direct distribution network. (Faulkner and Bowman: 1995: 43).

Retailers and distributors may need to be incentivised to carry the new entrant's products. This would further squeeze the profit margin and be a hindrance to acquiring adequate market share.

Manufacturers tend to create their own distribution channels. A perfect example is petrol companies which also own or lease the actual filling stations. Breweries tend to finance bars and clubs in order to ensure their products gain prominence. There may be forward integration by manufacturers and in this way distribution channels are closed.

- **Capital requirements poses a severe threat to new entrants.** Often the total investment needed to enter a market successfully is extremely high and limits the number of new entrants.

The level of competition and number of new entrants will depend on the cost of capital needed to acquire market share. Coupled with the cost of capital, is labour costs. Low labour costs would give one company a competitive advantage over another especially if they are global competitors. An ideal example is the low cost of labour in countries like China and India compared to South Africa. Hence, companies in China and India are able to capture greater market share in items such as textiles and prevent South African companies from gaining entry into those markets.

- **Cost disadvantages to new entrants, independent of the size of the firm can be a major factor.** Existing firms often enjoy cost and resource advantages not available to potential entrants (Thompson and Strickland: 2001: 85). Such advantages would include the cost of raw materials, patents, propriety technology, plant and machinery purchased at a lower cost and in favorable or ideal locations.

Many firms enjoy the benefit of the learning curve. In the learning curve model, the inverse relationship between average cost and accumulative production causes the average cost per unit to fall as a firm's cumulative output increases. Once a firm achieves the minimum efficient scale / point at which unit costs for production are at a minimum, it is able to create a barrier to entry. Industries with a high minimum efficient scale would deter the entry of small start up businesses.

- **Government policy may also provide a barrier to entry.** Legal restraints on competition vary from patent protection, to regulation and to granting of monopolies. Such restraints tend to raise the cost of competing.

Entry costs are further raised by the government demanding adherence to stringent environmental laws, labour laws, minimum wage restrictions, and protection of industries. Governments tend to use tariff and trade restrictions to raise entry barriers to foreign competition.

Companies in all countries aim to make a profit. Established companies will be reluctant to surrender market share as would new entrants not be prepared to work at break-even point or at a loss.

Established companies use barriers to entry to restrict the competition and resort to retaliatory strategies to prevent loss of market share. Entry barriers can be high and prevent entry of new companies into the market. However, new entrants would obviously establish how attractive the profit margins are, how large the market is to accommodate new entrants and how resourceful they themselves are to start a war for market share with the more established firms. If an industry can grow substantially without depressing sales and financial performance, then new entrants would find such a market very attractive. Ultimately competition would increase if the prospect of profit increases.

2.7.2. The Threat Of Substitutes

Industries are generally defined in terms of the products and services they provide. From the buyers perspective we find that firms may not provide similar products but may meet the same type of need.

“Substitute products are alternative ways of meeting buyer needs” (Faulkner and Bowman: 1995: 45). Hence, firms in one industry may easily be in close competition with firms in another industry because their respective products are good substitutes.

According to Porter, all firms in an industry compete with any other industry, which produces a product offering that can be substituted by a buyer for another product. Such as an artificial sweetener for sugar, contact lenses for glasses and E-mail or Fax for overnight document delivery.

Substitutes may at times replace existing products but overall they reduce profits by keeping prices down. The availability of substitutes increases the supply of goods and hence limits the price to be charged. This in turn can reduce the attractiveness of the market. In a global environment an in-depth scan of the environment becomes essential as the mere import of substitutes could reduce profits and may even make long-standing products obsolete.

Strategists have to avoid adopting too narrow a product definition as they could miss critical aspects of the competitive environment (Faulkner and Bowman: 1995: 46). Strategists need to identify the industry boundary. The five forces analysis boundaries adopted must consider that the market is a strategic one and must consider all factors if the analysis is going to be useful in formulating competitive strategies (Faulkner and Bowman: 1995: 46). If there are cheaper ways to meet the customers' needs, switching costs are low and customers are price sensitive; then the threat of substitutes increases.

2.7.3. The Bargaining Power Of Suppliers

Suppliers have the ability to increase prices and retain sales. This illustrates the power suppliers have. In an industry where suppliers are able to exert their power and increase prices and as a result their profits, one would find that the buyers' power and profits diminish. This may make the industry unattractive to new entrants.

Suppliers can exert power if one or more of the following conditions exist:

- The suppliers are dominated by few firms being more concentrated than the buyer industry.
- The suppliers have no limited threats of substitution for their supplies
- The industry is not an important customer of the supplier
- The supplier's product is an important input into the buyer's business. (particularly if the product or service cannot be stored).
- The suppliers have differentiated their products from one another and or raised high switching costs amongst themselves.
- The suppliers can or do pose a threat of forward integration.
- The suppliers (including labour) are organized to improve their collective power.

The conditions determining supplier power are not constant. Occasionally suppliers are not organized enough to exert power. However, if suppliers are organized, such as trade unions, then supplier power is strengthened and the influence exerted is greater.

Johnson and Scholes (1997: 112) believe that a significant problem in constructing strategies is the extent to which power can be enhanced or mutual interest accommodated in the supplier-buyer channel.

Porter offers various strategies to mitigate supplier power. One such suggestion is the spread of purchasers over a large number of suppliers. (Porter: 1998: 122). However, in the global marketplace suppliers can be sourced from a greater geographic environment. Hence, the greater the number of suppliers the less the power they have. Global markets offer organizations the opportunity to establish strategic global-partnerships-with suppliers to cut costs and gain a competitive advantage.

Supplier power remains strong as long as a firm's production levels do not justify backward integration. Supplier power can be reduced with backward integration. Sometimes the mere threat of backward integration can produce the leverage needed to negotiate favorable terms with suppliers (Thompson and Strickland: 2001: 89). If suppliers are powerful and can demand higher prices, it will lead to reduced profits. Such a situation can make the industry unattractive.

2.7.4. The Bargaining Power Of Buyers

By demanding lower prices and a higher quality of products and services buyers negatively influence the profitability of a company.

Buyers have a large degree of leverage in the following circumstances.

- If buyers' costs of switching to competing brands or substitutes are relatively low.
- If the number of buyers is small or if a customer is particularly important to a seller.

- If buyers are well-informed about seller's products, prices, and costs.
- If buyers pose a credible threat of integrating backward into the business of sellers.
- If buyers have discretion in whether and when they purchase the product.

Buyers have weak bargaining power if they buy infrequently or in small quantities. High switching costs also reduce the bargaining power of buyers. Further, it is obvious that not all buyers in any particular industry have the same level of bargaining power.

Global Marketing increases the number of buyers and this in turn would reduce the power of buyers. However, in business-to-business relationships collaborative – partnerships between sellers and buyers can create competitive pressures. Hence, the relationships of buyers and sellers can restrict the strategic freedom of a company and impact on its profits.

2.7.5. The Competitive Rivalry

The intensity of direct rivalry between competitors in any industry is a matter of concern.

The intensity of rivalry among competing sellers is dependent upon how vigorously they adopt the tactics of lower prices, better features, improved service levels, longer warranties, special promotions and new product introduction (Thompson and Strickland: 2001: 82). In any industry the strategic move by a company is matched with an offensive or defensive counter move.

The level of rivalry is influenced in various ways:

- Rivalry intensifies as the number of competitors increases and as competitors become more equal in size and capability.
- Rivalry is usually stronger when demand for the product is growing slowly.
- Rivalry is more intense when industry conditions tempt competitors to use price cuts or other competitive weapons to boost unit volume.
- Rivalry is stronger when customers' cost to switch brands is low.
- Rivalry is stronger when one or more competitors are dissatisfied with their market position and launch moves to bolster their standing at the expense of rivals.
- Rivalry increases in proportion to the size of the payoff from a successful strategic move.
- Rivalry tends to be more vigorous when it costs more to get out of a business than to stay in and compete.
- Rivalry becomes more volatile and unpredictable; the more diverse competitors are in terms of their visions, strategic intents, objectives, strategies, resources, and countries of origin.

Competitive strategy by any one firm increases the competitive pressure on other competitors. Very rarely are companies satisfied with their sales-growth and market share. Hence, rivalry never diminishes as most companies make a concerted effort to steal customers from their competitors and increase earnings. The vigor with which competitors use the competitive weapons determines the level of the competitive pressure.

Fully established competitors from global markets are now entering local markets because of the reduced barriers to entry and the prospect of high profits.

Globalisation offers companies the opportunity to improve their competitive position by offering them benefits such as reduced costs of production and labour. Hence, these companies become competitive both locally and globally.

Large companies are able to take advantage of price competition, product introduction and advertising through cross subsidization of profits from their global operations and sales.

Size and economies of scale allow such larger companies to rise like a colossal above purely local or domestic firms.

2.8. WHICH COMPANIES ARE IN THE STRONGEST/WEAKEST POSITION

A study of the industry's competitive structure will reveal that all companies are in a competitive position in relation to each other. Hence, it is vital that each company identify its relative positioning and its implications in strategic terms (Johnson and Scholes: 1997: 120). Strategic group maps serve as a useful tool to identify the market position of each firm in an industry.

Strategic group analysis helps to identify groupings of organizations with similar strategic characteristics and following similar strategies. Using a few key characteristics will help identify such groups.

Adapted from M. E. Porters Competitive Strategy (1980) Johnson and Scholes have identified the following characteristics, summarized in figure 2.8, which distinguish between organizations and help identify strategic groupings.

Figure 2.6

It is useful to consider the extent to which organizations differ in terms of characteristics such as:

- Extent of product (or service diversity)
- Extent of geographic coverage
- Number of market segments served
- Distribution channels used
- Extent of branding
- Marketing effort (e.g. advertising spread, size of sales force)
- Extent of vertical integration
- Product or service quality
- Technological leadership (a leader or follower)
- R & D capability (extent of innovation in product or process)
- Cost position (e.g. extent of investment in cost reduction)
- Utilisation of capacity
- Pricing policy
- Level of gearing
- Ownership structure (separate company or relationship with parent)
- Relationship to influence groups (e.g. government, the city)
- Size of organisation

Source: Johnson G and Scholes K. Exploring Corporate Strategy (Prentice Hall: London: 1997)

2.9. COMPETITOR PROFILING

Analyzing competitors is essential to allow a company to develop sustainable competitive advantage. It is vital that competitors should not be able to copy the company's strategy and leap frog it.

Any company wanting to outmaneuver its rivals has to study the rival's actions, its strategies and anticipate the rival's moves. A study of the rival's strengths and weaknesses is referred to as competitive intelligence or competitor profiling.

Thompson and Strickland (2001: 103) states that "competitive intelligence can help a company determine whether it needs to defend itself against specific moves taken by rivals or whether those moves provide an opening for a new offensive thrust".

It is useful to begin an industry analysis with competitor profiling. This would involve an analysis of the leading competitor and assessing his objectives, resources, strengths and current strategies. A broad survey of competitive forces is useful but the survey has to be more focused and involve a detailed examination of a few selected companies.

One has to be able to identify the strongest and weakest companies in order to identify those companies that pose a threat to one's competitive advantage. Certain companies may possess strategic resources that give them a competitive advantage and who can be formidable opponents. Hence, any competitor analysis exercise has to focus on those few companies that pose an immediate and direct threat.

A competitor-profiling task will include a study of the following aspects:

- **Objectives** – Knowing what the competitor wants to do is essential in order to implement an appropriate strategy. The competitor's objectives will determine his stance in the market – whether it is aggressive or moderate.
- **Resources** – if a competitor is improving the quality of his resources or has formidable resources, it may wrest the competitive advantage away from others in the market.
- **Past Record Performance** – This may not be entirely useful to determine future success but is useful in identifying prospective competitors.
- **Current products and Services** – It is useful to gain first hand knowledge of a competitor's products and services. Buying competitor's products and tearing it apart to analyse it can be useful.
- **Present Strategies** – Assessing the competitor's outlook towards change, technology, customer care and finance is useful. This would allow one to speculate on possible steps the competitor may take.

Although competitor profiling is an arduous task, it needs to be done on an ongoing basis to be effective. Companies can use tools such as strategic group maps to compare the market position of each firm. This can also help to identify what possible strategic moves rivals are likely to make.

Predicting the competitor's next moves is a difficult yet useful part of competitor analysis. A thorough study of a competitor's strategic intent, its market share and its financial position could contribute towards predicting its next move.

The current position of the rivals will determine the future moves. Figure 2.9 shows possible moves for the various levels of rivalry.

Figure 2.7
Predicting The Competitor's Next Move

LEVEL OF RIVALRY	POSSIBLE MOVES
1. Content rivals	Pursue existing strategy
2. Ailing Rivals	Adopt fresh offensive or defensive strategic moves
3. Aggressive Rivals	Adopt aggressive strategic – intent – exploit vulnerabilities of weaker rivals

Source: Kotler P. Marketing Management – The Millennium Edition: (Prentice Hall: 2000)

This form of research can be tedious but is vital. Being able to anticipate the rival's next moves will allow the company to prepare effective countermoves. There is always an advantage to be first. A company that can predict its rival's next move and beat it to be the first mover could gain considerable competitive advantage.

2.10. KEY FACTORS FOR SUCCESS

An analysis of the environment is open-ended. Strategists can study such a vast range of issues that no real decisions can be made. Hence, any analysis has to be narrowed down to identify the key factors for success in the industry. Such key factors for success (KFS) would entail those resources, skills and attributes of a company that are essential to achieve success in the market place.

While KFS will vary from one industry to another, they are generally common to all organizations in a particular industry. For example, low labour costs will be a factor for success to all companies in a highly labour intensive industry.

KFS are a priority in any industry as they ensure failure or success in the marketplace. Any company that can stand out on any KFS compared to its rivals has the ideal opportunity for gaining a competitive advantage.

Figure 2.8

Common Types Of Key Factors For Success

- Technology – related key factors for success
- Manufacturing – related key factors for success
- Distribution related key factors for success
- Marketing-related key factors for success
- Skills – related key factors for success
- Organizational capability – related key factors for success

Other Types Of Key Factors For Success

- Favorable image or reputation with buyers
- Overall low cost (not just in manufacturing)
- Convenient locations (important in many retailing businesses)
- Pleasant, courteous employees in all customer contact positions
- Access to financial capital (important in newly emerging industries with high degrees of business risk and in capital-intensive industries)
- Patent protection

**Source: Thompson A. A. and Strickland A.J. Crafting and Executing Strategy:
12th Edition: (McGraw Hill: 2001)**

2.11. PROFITABILITY PROSPECT FOR THE INDUSTRY

A thorough analysis of the environment would lead to a decision about how attractive an industry is and whether one should invest in the industry, remain in the industry or adopt a growth strategy.

Judging whether an industry is attractive or not is very subjective. However, it stands to reason that if an industry is attractive, current companies would look to strengthen their position, expand market share and even increase investment.

Unattractive industry prospects may prevent new investments but current companies may choose to solidify their position. Mergers and acquisitions might increase. Companies may choose to remain because exit barriers are too strong. Some companies may look at diversification.

Judging an Industry's attractiveness would entail a study of the following factors:

- The industry's growth potential.
- Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker.
- Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces.
- The company's competitive position in the industry and whether its position is likely to grow stronger or weaker. (Being a well entrenched leader or strongly positioned contender in an otherwise lackluster industry can still produce good profitability, however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry, unattractive.)
- The company's potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make the industry unattractive.
- The degree of risk and uncertainty in the industry's future.
- The severity of problems confronting the industry as a whole.
- Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests.

2.12. COMPANY SITUATION ANALYSIS

A company situation analysis helps to match the company's strategy to the external market circumstances and its internal resources and competitive capabilities

The spotlight of company situation analysis is trained on five questions (Thompson and Strickland 2001: 115).

- ❑ How well is the company's present strategy working?
- ❑ What are the company's resource strengths and weaknesses and its external opportunities and threats?
- ❑ Are the company's prices and costs competitive?
- ❑ How strong is the company's competitive position relative to its rivals?
- ❑ What strategic issues does the company face?

Such an analysis would expose the strengths and weaknesses in the current strategy. In the global market a firm would adopt a global strategy. Each firm has to determine a strategy that best suits its needs.

Each firm's position is unique and would require a situational analysis to find direction toward formulation and selection of the most appropriate strategy for the external environment within which it operates.

In the global environment the task of strategy formulation is broadened and made more difficult because of size and cultural differences.

From the perspective of this study, an analysis of the extent of environmental scanning undertaken by global companies is not pursued in-depth, as most of the respondents are not serious players in the global arena.

Suffice it to say that all firms, whether they trade directly in the global market or not, need to have a knowledge of global events and how these events impact on their businesses.

A global environmental scanning function can become complex and expensive. However, the use of consulting firms can be useful in such times. Many firms have become increasingly global in nature and have found that their competitive advantage grows out of its entire worldwide operations.

2.12.1. Evaluation of Current Strategy

An evaluation of a firm's current strategy would involve both an analysis of the qualitative and quantitative evidence.

The strategy being pursued needs to be assessed in terms of its completeness, consistency, rationale and suitability to the situation. The best form of quantitative evidence is to judge the profit margin. Is the current strategy yielding the desired profits?

If a company strategy yields strong financial performance and the current overall performance is good, then the current strategy appears to be working.

2.12.2. Strengths and Weaknesses – Opportunities and Threats

An analysis of a company's strengths and weaknesses and its threats and opportunities (Referred to as SWOT analysis) will help determine if the company is in a healthy position or not.

The SWOT analysis aims to match the external environmental changes with internal capabilities and also judge how a company can capitalize on new opportunities and defend itself against future threats (Ambrosini: 2001: 122). The company's current strategy is in effect put on trial to ascertain what changes are needed to ensure sustainable competitive advantage.

2.12.3. Strengths and Weaknesses

The SWOT analysis allows for the firm's external Opportunities and Threats to be matched against the firm's internal Strength and Weaknesses. The external factors within the industry and beyond form the basis for external opportunities and threats. Examples would include competitor moves, government legislation, technological advances and changing customer needs. The opportunities and threats are the same for all firms. How each firm capitalizes on it, will give it the competitive advantage. The internal factors, which are unique to each firm, contribute to the internal strengths and weaknesses. Strengths help the company to cope effectively while weaknesses could lead to missed opportunities.

A strength can be a skill, important expertise and valuable resources or capabilities that put the company in a stronger position compared to its competitors. A strength can take any form and has to be identified.

Often strengths are overlooked because they are not glaring and their value is underestimated. The value of intangible assets such as brand recognition, reputation, customer loyalty and especially motivated and excellent workers can be underestimated and ignored as a strength.

Strengths may at times refer to specific skills but often a company's strengths lie in a combination of the various resources, which individually may not be as valuable as the whole. Hence, continuous value chain analysis is also essential.

Each firm needs to identify its weaknesses, which place a company at a disadvantage compared to its competitors. Companies need to reduce its weaknesses. This can be achieved by a thorough review of its resource base. The company needs to identify its resource gaps and take steps to improve its resource base. This will help the company take advantage of opportunities and utilize its resources to gain a competitive advantage.

A resource audit would help understand the strategic capability of the firm. However, it stands to reason that not all companies in any one industry would perform equally well. The differences in performance can only be explained by the manner in which the resources are deployed to create competencies (Johnson & Scholes: 1997: 144).

An organization does not need to possess all the competencies to have competitive advantage. Successful strategies will entail a few competencies. The ideal combination to achieve competitive advantage will depend on the core competencies. However, each firm has to develop a threshold level of competence and only some are core competencies.

Core competencies need to be difficult to imitate in order to provide long term sustainable competitive advantage. Strategists realise that core competencies are central to a company's competitiveness and profitability. Thompson and Strickland believe that "most often, a company's core competence resides in its people and its intellectual capital, not in its assets on the balance sheet" (2001: 122).

Core competencies can be a basis on which the organization can stretch into new opportunities. In deciding on a core competence, one can judge if the competence can be exploited in more than one market (Johnson and Scholes: 1997: 151). Global markets can be exploited by exploiting the core competencies in the global arena.

Value chain analysis is ideal to determine which activities underpin the competitive advantage enjoyed by the company. Value chain analysis helps distinguish between core competencies and those activities which need to be undertaken at the threshold level of competence. Such an analysis would reveal how an organization has gained competitive advantage, and which are the core competencies needed to retain the said advantage.

2.12.4. Opportunities And Threats

Market opportunity is an essential element in shaping a company's strategy. Prior to formulating strategy, strategists need to identify company opportunities and the profit potential of each opportunity (Thompson and Strickland: 2001: 125).

Management has to be cautious and selective in their choice of opportunities. Companies within the industry may lack the resources to pursue every single opportunity in the industry.

A company needs to select those opportunities which offer the best potential for profit, the highest potential to gain competitive advantage and those that fit well with the company's financial and organizational resources.

The same external environment that presents opportunities for growth can also pose threats to the firm's profitability and competitive status. Such threats can stem from a variety of areas. Such areas could include the emergence of new competitors, loss of sales to substitute products, increased intensity of competition among rivals, slowdown in market growth, imposing government regulation, a shift in buyer needs and tastes and any changes that threaten to decrease demand for the firm's goods.

Not every threat has to be “Life Threatening”. Management has to be able to distinguish between moderate threats and those that could severely impact on a company’s performance. Often action needs to be taken to lessen the impact of the threat rather than avoid it completely.

Opportunities and threats affect the attractiveness of the company and demand strategic action. Management has to successfully pursue opportunities suited to the company’s resource capabilities and take action to defend the company against external threats.

Hence, it stands to reason that a SWOT analysis forms a basis for all future action.

2.13. COST COMPETITIVENESS

Part of the company situation analysis, is the exercise to determine the company’s costs are competitive with the costs of its close rivals. The strength of a company’s position can be determined by judging the competitiveness of its prices and costs as compared to its rivals. Rival companies have to keep costs in line to achieve any measure of competitive advantage. Higher than average costs as compared to industry rivals can make a company vulnerable.

Strategic cost analysis allows a firm to assess its cost position relative to its rivals (Thompson and Strickland: 2001: 129). The value chain analysis is a valuable tool in comparing a firm’s cost position in relation to its rivals. Once the comparison is made, benchmarking can be used effectively to identify the best practices in an industry and find ways of improving a company’s competitiveness.

Through value chain analysis and benchmarking one can glean a great deal about a company's competitiveness. Strategic cost analysis helps managers compare how well they are managing their value chain compared to their rivals. "Such information is vital in crafting strategies to eliminate a cost disadvantage or create a cost advantage" (Thompson and Strickland: 2001: 137).

Overall, if a firm manages its value chain activities better than its rivals, it can build valuable competencies and use these to gain sustainable competitive advantage.

2.14. COMPETITIVE STRENGTH ASSESSMENTS

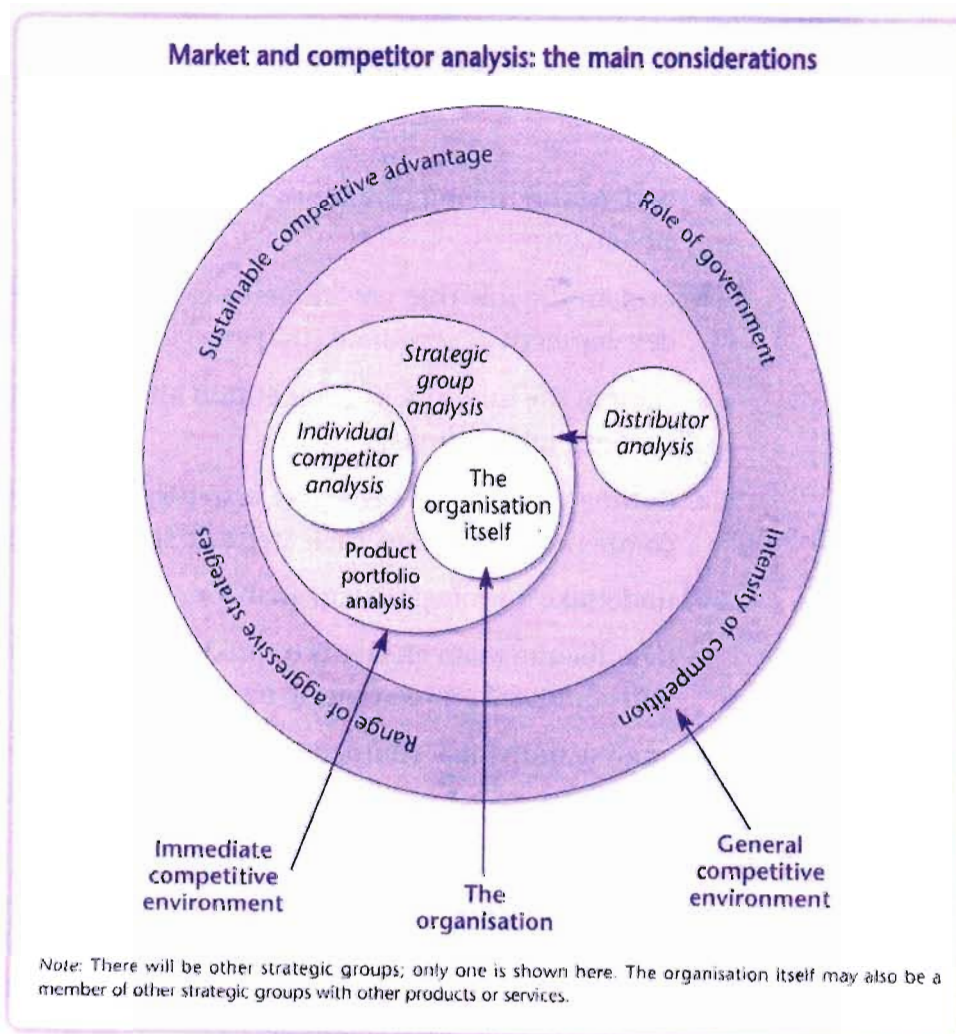
Thompson and Strickland (2001) advocate that the determination of a company's cost competitiveness is insufficient. They believe that a more broad assessment of the company's competitive position and competitive strength needs to be made. The four broad issues that warrant study as highlighted by Thompson and Strickland are:

- ❑ Whether the firm's market position can be expected to improve or deteriorate if the present strategy is continued (allowing for fine tuning).
- ❑ How the firm ranks relative to rivals on each key success factor and each relevant measure of competitive strength and resource capability.
- ❑ Whether the firm enjoys a competitive advantage over rivals or is currently at a disadvantage.
- ❑ The firm's ability to protect and improve its market position in light of industry driving forces, competitive pressures, and the anticipated moves of rivals.

The overall scores achieved in any competitive strength assessment helps to reveal the company's true competitive situation. The competitive strength scores reveal how strong the company's competitive position is. Knowing its strengths and weaknesses in relation to its rivals, will allow a company to embark on specific actions to strengthen its long-term competitive position.

Knowing the vulnerability of its rivals can give a firm the advantage to assume a more vigorous stance and attack its rival's market share. The competitive weaknesses of rivals can be exploited and more offensive moves undertaken. Hence, competitive strength assessments will allow a company to leverage its strengths into competitive advantage.

Figure 2.9



2.15. STRATEGIC ISSUES FACED BY THE COMPANY

Upon completion of both the company situation analysis and the industry and competitive analysis the strategist has to clearly define the strategic issues and problems faced by the company. These would really be the challenges faced by the company.

The effective strategy plan ultimately formulated would stem from the challenges faced by the company. Thompson and Strickland (2001) have highlighted a range of issues, which could form part of such challenges. These include interalia

- Challenges posed by global competition
- Product innovations of rivals
- Ways to reduce high operating and manufacturing costs
- Means of sustaining growth or growing the business at a faster rate
- Ways to gain greater market visibility
- Means of capturing e-commerce opportunities
- If and ways of expanding product offerings
- Levels of spending on research and development
- Entering new and even foreign markets

Management would need to draw on all the analysis done to be able to make the correct decisions to enable the company to become financially and competitively successful.

The honest answer to the questions raised by Thompson and Strickland (2001: 144) will help management determine whether to continue with its current strategy or overhaul the existing strategy and embark on clear new strategies which will be better matched to the company's external environment and its resource strengths and capabilities.

The Questions Raised are:

- Is the present strategy adequate for protecting and improving the company's market position in light of the five competitive forces – particularly those that are expected to intensify in strength?
- Is the company vulnerable to the competitive efforts of one or more rivals?
- Should the present strategy be adjusted to better respond to the driving forces at work in the industry?
- Is the present strategy closely matched to the industry's future key success factors?
- Does the present strategy adequately capitalize on the company's resource strengths and capabilities?
- Which of the company's opportunities merit top priority? Which should be given low priority? Which are best suited to the company's resource strengths and capabilities?

- How important is it for the company to correct its resource weaknesses? Are there things the company can do to lessen the impact of external threats?
- Does the company have competitive advantage, or must it work to offset competitive disadvantage?
- Where are the strong spots and weak spots in the present strategy?

2.16. ORGANISATIONAL STRUCTURE AND STRATEGY

Environmental scanning is a powerful tool in the strategy formulation process. As with most organizations, decisions are generally made by upper management. It stands to reason that management would undertake the environmental analysis according to its own approach. Hence, the implementation of the adopted strategy would be influenced by the personality and approach of upper management of the company.

It is imperative that management be aware that the environment is forever changing and that they need to be aware of these changes at all times.

Globalisation has had a marked influence on the way companies do business and organize their operations. The modern manager is forced to manage in a global environment, which is both dynamic and diverse. This brings to the fore issues of management, culture, management style, and the role of consulting firms choosing appropriate strategy.

In the local and global arena the organization size and form will influence how the firm undertakes its strategy formulation.

Business size is in the most part a good indicator of the relative availability of resources available to undertake the task of business strategy formulation and the research required. Smaller local or regional firms would definitely have less use for global environmental information than larger global firms.

Larger companies need to perform more complicated and extensive environmental scanning. They have access to greater resources to undertake this function. Smaller firms, operating mainly in local or regional markets, do not have access to similar resources to undertake the global environmental scanning process. However, companies cannot rely on merely scanning the local environment. The scanning process has to encompass the global environment. The environment has become both global and by extension more competitive. Hence, current information is invaluable for making the correct decisions.

It is not within the scope of this study, but the role played by consulting firms in the decision making process will be examined succinctly. It stands to reason that consulting firms have vast volumes of global environmental data, which can be accessible to smaller firms in a cost effective manner. This would prevent smaller firms from neglecting the exercise of environmental scanning completely.

The world is viewed as a global village. Events even in remote parts of the world have an effect on industries, businesses and economies around the world. The 1999 Asian crisis is an ideal example. The South African economy suffered largely due to events outside its control.

The easy access and movement of information, capital, labour and technology makes it imperative for companies to fully understand and appreciate world events and the impact of such events on the individual firms. This information will allow a proactive strategist to use such information to take advantage of opportunities presented, protect the company's market share and extend its competitive advantage.

2.17. CONCLUSION

Strategy formulation is ultimately the outcome of the environment within which the company operates. There are many factors in the environment that effect corporate strategy. An analysis of internal and external factors helps dictate the choice of strategy.

As strategy formulation has a long term focus, the larger the scope of the environmental scanning process, the better equipped the strategist will be in identifying the possible short, medium and long term trends and will be able to formulate a more appropriate fit of the organizational resources to the present and future external environment.

The environmental scanning process is essential. Hence, we need to explore the various ways a competitor and market analysis can be done. There is no prescribed way that environmental scanning can be undertaken but there are various factors that can be considered when an analysis is undertaken.

An organization does not exist in a vacuum. It interacts with its environment. This environment is constantly changing. Hence, company strategy has to be altered or adjusted in response to environmental changes. A company alters its strategy by reacting to a threat or taking advantage of an opportunity. Adapting the company to its environment is an essential part of strategic management.

In turbulent economic environments the process of strategic management is more complex and demanding (Lynch: 2001: 143). A thorough analysis of the external and internal environment will help the company to detect changes and identify opportunities and threats. As a result it can take appropriate action. However, it is not possible to always predict the competitor's initiatives.

Lynch (2000) warns against limiting the environmental analysis to examining past events and way of thinking. Management has to break out of the mould and examine alternative routes and ideas.

Sometimes it is not easy for a company to identify its competitors. A company can be hurt by emerging competitors or substitute products equally as it can be from current competitors.

A focus on current competitors can create – competitor myopia – which can be detrimental to a business. A good example is the failure of brick and mortar stores to appreciate the value of internet marketing (Kotler: 2000).

This study aims to explore whether companies do sufficient environmental analysis prior to strategy implementation.

In the next chapter the research methodology is explained. This is the basis of the research instruments and techniques used to investigate the extent of environmental scanning undertaken by manufacturing firms in Pietermaritzburg.

CHAPTER 3

THE PIETERMARITZBURG ECONOMY

3.1. INTRODUCTION

This chapter provides an overview of the structure and growth of the Pietermaritzburg economy.

3.2. THE CITY OF PIETERMARITZBURG

Pietermaritzburg is well known for its Comrades Marathon and Duzi Canoe Marathon. This beautiful city which lies in the Midlands of KwaZulu Natal is not only blessed with an equitable climate and enviable environment, but is a city which is well laid out, solvent, and with every modern industrial, commercial, financial, educational, and social convenience.

Pietermaritzburg was recently declared the Capital City, after it had been forced to share this status with Ulundi. After the 1994 and 1999 elections, a working arrangement between the African National Congress and the Inkatha Freedom Party resulted in Pietermaritzburg and Ulundi sharing the status of Capital. This had led to an economic slump as major industries and enterprises in both the public and private sector are relocating away from Pietermaritzburg. This tide has been stemmed by the City Council's innovative ideas of encouraging growth and investment and with Pietermaritzburg being once again declared the Capital City.

Pietermaritzburg is easily accessible from the N3 highway, and offers ample scope for new investment in sectors as diverse as aluminium, timber, furniture, leather and footwear production, and tourism. Its position and previous Capital Status gave Pietermaritzburg and its economy a large public service component. This component has made a significant contribution to the economy in Pietermaritzburg.

3.3. THE PIETERMARITZBURG ECONOMY

Pietermaritzburg has strongly developed commercial and manufacturing sectors. The agricultural is concentrated in timber, beef, dairy, sugar cane, citrus, and mixed farming. Pietermaritzburg boasts the continent's largest aluminium extrusion and rolling plant. Pietermaritzburg is a leading manufacturer of footwear, supporting three tanneries, and has become a significant exporter of furniture and wood products.

An abundance of timber and of relatively skilled labour makes Pietermaritzburg an attractive location for investors. Pietermaritzburg is the epicentre of vast timber-growing operations in the surrounding Midlands, which has made possible a thriving furniture and wood products manufacturing industry in and around the city. About 65 formal and informal sawmills operate in the Pietermaritzburg timber catchment, producing about 367 000 cubic metres a year. (The Pietermaritzburg Msunduzi Investor's Guide)

Footwear manufacturing is the traditional anchor of Pietermaritzburg's industry, employing more people than any other sector. However, the South African shoe industry, like the textile industry, has undergone radical changes and has witnessed the closure of a number of large footwear producers. A great many skilled workers were forced to start their own small manufacturing operations. This has opened up new markets. The Msunduzi Municipality, through Project Shongololo, aims to bring together, in a manufacturing park, many shoemakers who are currently operating

successfully from small individual premises. The small shoemakers are considered an important complement to the large manufacturers, who face an uphill task in coming years of finding alternative niches as cheap Chinese imports capture much of the middle-of-the-road internal market.

Industry in Pietermaritzburg is focused in many areas. Pietermaritzburg has a thriving commercial sector underpinned by progressive developments and the retail sector. There are a number of shopping centres; many undergoing further developments. The new Liberty Midlands Mall is already at completion stage with over 55 000m² of covered shopping space. The Bird Sanctuary Development, which includes the motor showroom, is expected to be extended to include an hotel, office accommodation and upmarket outdoor/leisure retail. The City Council is offering incentives to all enterprises that create jobs.

3.4. STRUCTURE AND GROWTH OF THE PIETERMARITZBURG ECONOMY

George Oldham and Mike Hickson of the School of Business, University of Natal, Pietermaritzburg wrote a report on an overview of the structure and growth of the Pietermaritzburg economy.

This report was based on the monthly returns submitted to the Mgungundlovu Municipality by enterprises and employers required to register and pay monthly levies on Turnover and Wages. The report aims to establish a regional socio-economic database from the returns of the Municipality's roughly 12 000 levy payers.

Table 3.1**Contributions Of Sectors In Pietermaritzburg In 2000 (Percent)**

	TURN- OVER	WAGES & SALARIES	NO. OF FIRMS
AGRICULTURE	5	3	3
MANUFACTURING	35	13	6
WHOLESALE/RETAIL	23	7	20
BUSINESS & REAL ESTATE	19	19	41
FINANCE	4	2	1
GOVERNMENT	2	45	2
OTHER	12	11	27
TOTAL	100	100	100

Source: The Pietermaritzburg Economy Interventions Made and Still Needed; Pietermaritzburg/Msunduzi Municipality Report: 2002.

The three indices constructed to measure economic activity are number of firms, sectoral turnover and remuneration. Oldham and Hickson quoted that the average total monthly turnover for Pietermaritzburg in 2000 was just over R2 billion per month. In terms of this measure, manufacturing was the most important sector, accounting for 35% of turnover.

Despite a widely held perception that manufacturing has declined in recent years, this does not appear to be the case. The footwear industry has indeed declined, but other industries have expanded.

The Wholesale and Retail Trade Sector (23%) has declined. Retail trade is a good indicator of local economic well being. The decline in the retail sector is witnessed by the large number of vacant retail premises in and around the Central Business District.

The alternative indicator, Total Salaries and Wages, shows interesting trends. The government sector accounts for 45% of the total. The declining formal sector employment in manufacturing is witnessed by the low share of 13%. Although industries have expanded, they have not been able to replace the employment lost in the labour intensive industry like shoes. New and expanding industries are labour intensive and encourage jobless growth.

The economy appears to be largely dependent on employment in the public sector. Recent moves by the government to move away from Pietermaritzburg are posing a threat to the local economy. The recent relocation of the South African Revenue Services, and the uncertainty of the Capital Status has had a negative effect on the local economy.

Pietermaritzburg remains an important regional centre with a fairly well diversified economy, containing an important manufacturing sector.

3.5. CONCLUSION

Pietermaritzburg's potential to attract investment has been fully recognized by the South African government. The national Department of Trade and Industry has demarcated the area as the Pietermaritzburg/Msunduzi Spatial Development Initiative (SDI). This is one of the several development corridors in which central government is supporting provincial and local governments to facilitate private sector investment.

The SDI focuses presently on four economic sectors:

- Tourism
- Timber, wood and furniture
- Footwear and leather
- Aluminium

Efforts are being made to identify investment opportunities in these sectors, and in other projects, designed to revitalise Pietermaritzburg's Central Business District. The aim is to attract investment, which will lead to increasingly more profitable and productive use of the city's assets.

The manufacturing sector plays a crucial role in the city of Pietermaritzburg, and it was this factor that prompted this study. In the next chapter, a thorough analysis of the self-administered questionnaires is done, together with a critical commentary on various aspects.

CHAPTER 4

RESEARCH RESULTS

4.1. INTRODUCTION

The aims of this chapter are both to present the various results obtained from the data analyses and to discuss the results obtained in this research. These results are presented in a descriptive format. The small sample size did not allow for any factors to be identified by the SYSTAT system.

4.2. DATA ANALYSIS: SECTION A

Section A of the questionnaire contained demographic data. This data provided details of the following main aspects:

- Who the strategists were for each company.
- Were these strategists assisted by external consulting firms in the strategy formulation process
- Over what time horizon was strategic planning undertaken.
- How often the strategic planning exercises were undertaken.

The demographic characteristics of the samples are presented in Table 4.1. The demographic data of the research is not compared to the demographic information of the normative population, as this information is not available, nor relative due to the non-inferential nature of the study.

Table 4.1
Demographic Data of Research Sample

DEMOGRAPHIC CHARACTERISTICS FIRMS	RESEARCH SAMPLE (%) N = 16	
	FREQUENCY	%
<u>Strategists:</u>		
Chief Executive Officer	6	37.5%
Board of Directors	9	56.25%
Other	1	6.25%
	<hr/> 16	<hr/> 100%
<u>External Consulting Assistance:</u>		
Yes	6	37.5%
No	10	62.5%
	<hr/> 16	<hr/> 100%
<u>Frequency of Strategic Planning:</u>		
Continuously	6	37.50%
Annually	9	56.25%
Other	1	6.25%
	<hr/> 16	<hr/> 100%

DEMOGRAPHIC CHARACTERISTIC FIRMS	RESEARCH SAMPLE (%) N = 16	
	FREQUENCY	%
<u>Strategic Planning Time Horizons:</u>		
Short Term		
Not done	4	25.00%
1 Year	9	56.25%
2 Years	2	12.50%
More than 2 Years	1	6.25%
	<hr/> 16	<hr/> 100%
Medium Term		
Not Done	2	12.50%
2 Years	3	18.75%
3 Years	7	43.75%
4 Years	0	0%
5 Years	4	25.00%
	<hr/> 16	<hr/> 100%
Long Term		
Not done	5	31.25%
2 Years	1	6.25%
3 Years	0	0%
4 Years	0	0%
5 Years	5	31.25%
6 Years	0	0%
7 Years	0	0%
8 Years	2	12.5%
9 Years	0	0%
10 Years	3	18.75%
	<hr/> 16	<hr/> 100%

From the respondents it appears that in most companies strategy formulation is a top-down approach. Most CEOs and the Board of Directors have control over the process of investigating current strategy and/or formulating new strategy.

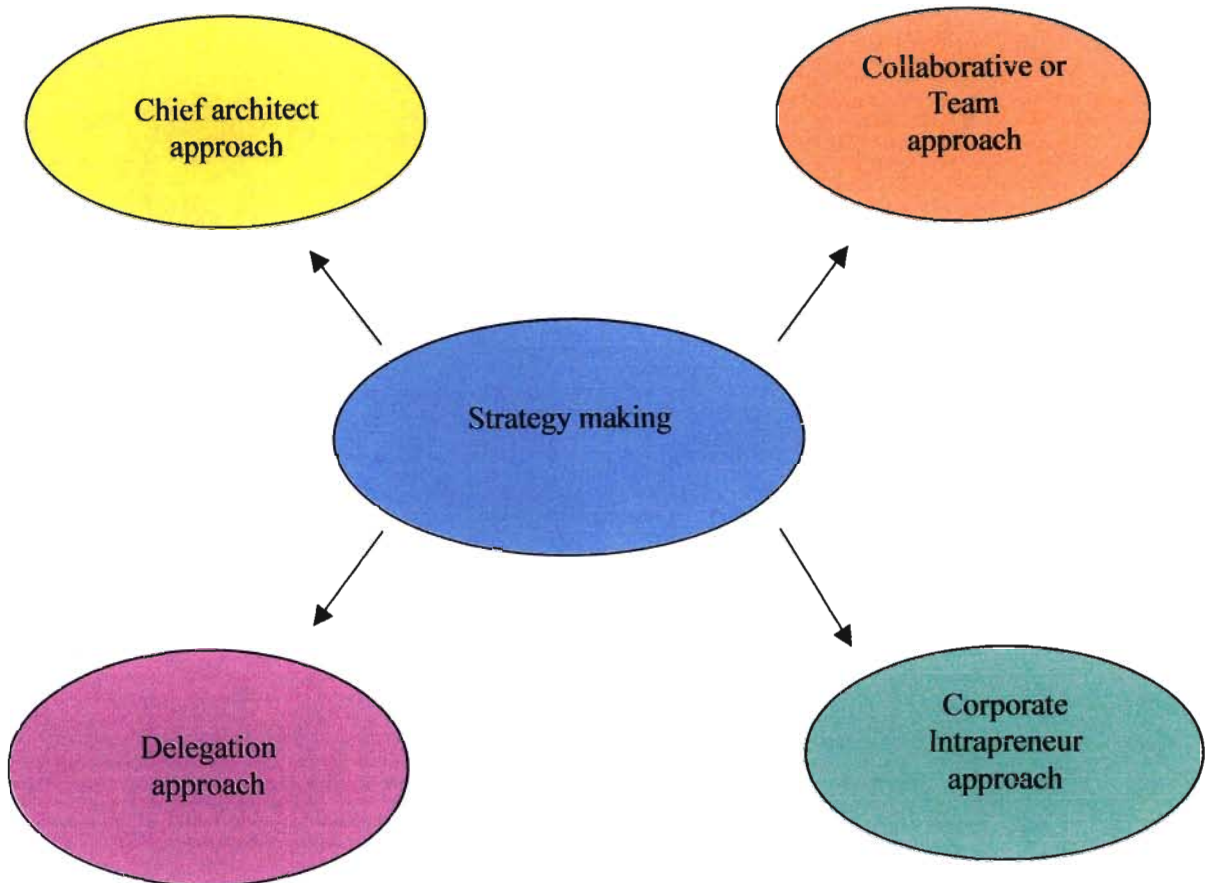
This system is useful but has its limits. In larger companies the Board of Directors are often not fully involved in the day to day operations and are often detached from the market place. In these instances strategy formulation can become more theoretical and less practical and useful.

Francis (1994: 12) states that, "A core team should drive the step-by-step competitive strategy project." He further adds that all members of the team have to realize that the step-by-step competitive strategy advocates a consultative but not a democratic approach to strategy formulation. Since every individual will be expected to give the best strategy-supportive performance, it stands to reason, that individual members be allowed to contribute to strategy formulation. Each division and individual in a company would have a supportive role to play in the company's strategic game plan.

Thompson and Strickland (2001: 23-27) have identified four strategy-making approaches.

These approaches are reflected in Figure 4.1.

Figure 4.1
Strategy Making Approach



Source: Thompson A. A. and Strickland A.J. Crafting and Executing Strategy: 12th Edition: (McGraw Hill: 2001)

Each of the above approaches has advantages and disadvantages but each is workable. The majority of respondents appear to have adopted the Chief Architect approach. However, it is false to believe that strategic management is solely the preserve of senior executives. Broad participation in a company's strategy creating exercises can be an advantage. By encouraging team effort management can win everyone's commitment to strategy implementation.

62.5% of the respondents confirmed that their strategists are not assisted by external consulting firms in the strategy formulation process. The role of external consulting firms in the strategy formulation process is a secondary goal of this study. Nevertheless, it warrants comment.

Most respondents may not have even considered the use of the external consulting firms as they could have fallen prey to the belief that their teams are sufficient in acquiring the information needed from the environmental analysis. Respondents have indicated in subsequent responses, in the questionnaire, that they would use the services of external consulting firms if such information complemented their own environmental scanning process and offered added value.

Most authors on strategy conclude that the rules in the market place are changing and that companies need to be flexible to respond rapidly to competitive and market changes. Competitive advantage is very temporary. It therefore stands to reason that strategic planning needs to be undertaken over the short, medium and long term which would help a company to identify and react to changes.

56.25% of companies surveyed confirm that they undertake strategy at least annually, while one respondent [6.25% of those who responded] confirmed that her company does not undertake strategic planning as a regular exercise.

In the short term 56.25% of the companies had undertaken strategic planning over a 12 month period. This is essential and with the changing competitive environment, strategic planning becomes essential. Of concern are the 25% of respondents who do not do any form of formal strategic planning.

The self-administered questionnaire, as a research design, prevented any further investigation into the reasons why many of these companies do not undertake strategic planning.

31.25% of companies indicated that they do not undertake strategic planning over the long term. In the medium term 43.75% indicated that their strategic planning spans 3 years.

4.3. DATA ANALYSIS: SECTION B

Section B aimed to establish if companies undertake the external environmental scanning function in regard to their strategy planning process and if they did, the extent to which it was undertaken.

B1 Do Your Strategist(s) Undertake The External Environmental Scanning / Audit Function Of The Strategy Planning Process?

RESPONSE	FREQUENCY	PERCENTAGE
YES	11	68.75%
NO	04	25.00%
NO RESPONSE	01	6.25%
	16	100%

The frequency of affirmative responses was 11 and 04 confirmed that no external environmental scanning was undertaken by their strategists. The single respondent who did not answer may have misunderstood the question or could have easily forgotten to answer.

B2 If You Do Undertake The Environmental Scanning / Audit Function, To What Extent Or Scope Is It Regularly Undertaken?

RESPONSE	FREQUENCY
NOT DONE AT ALL	04

RESPONSE	FREQUENCY
<i>INDUSTRY ONLY</i>	06
LOCALLY	01
NATIONALLY	03
INTERNATIONALLY	02
GLOBALLY	00

RESPONSE	FREQUENCY
<i>BEYOND THE INDUSTRY</i>	
LOCALLY	01
NATIONALLY	01
INTERNATIONALLY	02
GLOBALLY	00

RESPONSE	FREQUENCY
<i>BOTH THE INDUSTRY AND BEYOND</i>	
LOCALLY	01
NATIONALLY	00
INTERNATIONALLY	02
GLOBALLY	01

A high percentage (68.75%) of respondents indicated that their strategists do undertake the external environmental scanning function. Of those companies that do undertake the environmental scanning process, 12 or 75% indicated their environmental scanning is restricted to their industry only. Only 4 firms each undertook the environmental scanning process beyond their industry and the equal number did so both within their industry and beyond.

The above findings encompass a major focus of the study's findings viz. that firms prefer internal analysis but external consulting firms can complement this process. Firms are shortening the planning horizons of their strategy process and are predominantly industry focused.

The options offered in question B2 of the questionnaire appear to be confusing as respondents failed to realize that the questionnaire required them to choose the option of whether their environmental scanning was restricted to either their industry only, beyond their industry or both their industry and beyond and thereafter indicate within their chosen area whether this environmental scanning was done locally, nationally, internationally or globally. Many respondents failed to make the second choice.

Section B3 aimed to determine the extent to which each of the five competitive forces, as demonstrated by Professor Michael Porter, affected each firm.

B3 To What Extent Do The Following Forces Place Competitive Pressure On Your Firm?

	TO A LARGE EXTENT	NONE AT ALL	TO A SMALL EXTENT	TOTAL PERCENTAGE
Rivalry among competing sellers in the industry	81.25%	0%	18.75%	100%
The potential entry of new competitors	68.75%	6.25%	25.00%	100%
The market attempts of companies in other industries to win customers over to their own substitute products.	50.00%	25.00%	25.00%	100%
The competitive pressures stemming from supplier/ seller collaboration and bargaining	56.25%	25.00%	18.75%	100%
The competitive pressures stemming from seller/ buyer collaboration and bargaining	50.00%	25.00%	25.00%	100%

The assessment of a firm in relation to Michael Porter's five forces of competition, forces the management team to view the industry within which they operate from a broader perspective (Faulkner and Bowman: 1995: 39).

Rivalry among competing sellers in the industry was highlighted by most respondents as the competitive force exerting the greatest pressure on firms. 81.25% of respondents found this to be the competitive force exerting the greatest pressure. Comparatively the potential of new competitors (68.75%) was viewed as a competitive force also exerting great pressure.

Surprisingly one respondent found the potential entry of competitors as not exerting any pressure at all. This is questionable in view of the highly competitive environment and there are many new companies established in the field operated by the respondent. The respondent appears not to have applied his mind in regard to the potential of new competitors.

The three other competitive forces as highlighted by Porter appear to be viewed as almost equally exerting pressure. Companies in the various sectors found these three competitive forces viz. the threat of substitute products, supplier/seller collaboration and seller/buyer collaboration to be exerting pressure to a small extent or none at all. This varied across the sectors and the extent to which the companies were entrenched in Pietermaritzburg.

Questions B4 and B5 were aimed at determining whether the sources of competitive advantage are only industry based or whether the macro environment offers additional sources of competitive advantage.

B4 As A Source Of Competitive Strategic Advantage, What Does Your Firm Deem To Be The Source?

A The industry(s) in which the firm operates, as described by Professor Michael Porter of the Harvard Business School, with all sources of competitive advantage only attributable through the industry's 5 forces and all influences beyond the industry affecting firms equally and not a source of competitive advantage.

B The external macro environment beyond the industry made up of political, environmental, technological and social forces.

C To a combination of the forces in **A & B**.

D **Other than A or B, specify:**

	FREQUENCY	PERCENTAGE
A	04	25.00%
B	01	6.25%
C	11	68.75%
D	00	0.00%
TOTALS	16	100%

Porter is of the opinion that, the five forces determine industry profitability. (Porter: 1985: 5). The respondents appear to disagree with Porter and place an equal weighting on both a combination of the macro environmental forces and industry forces.

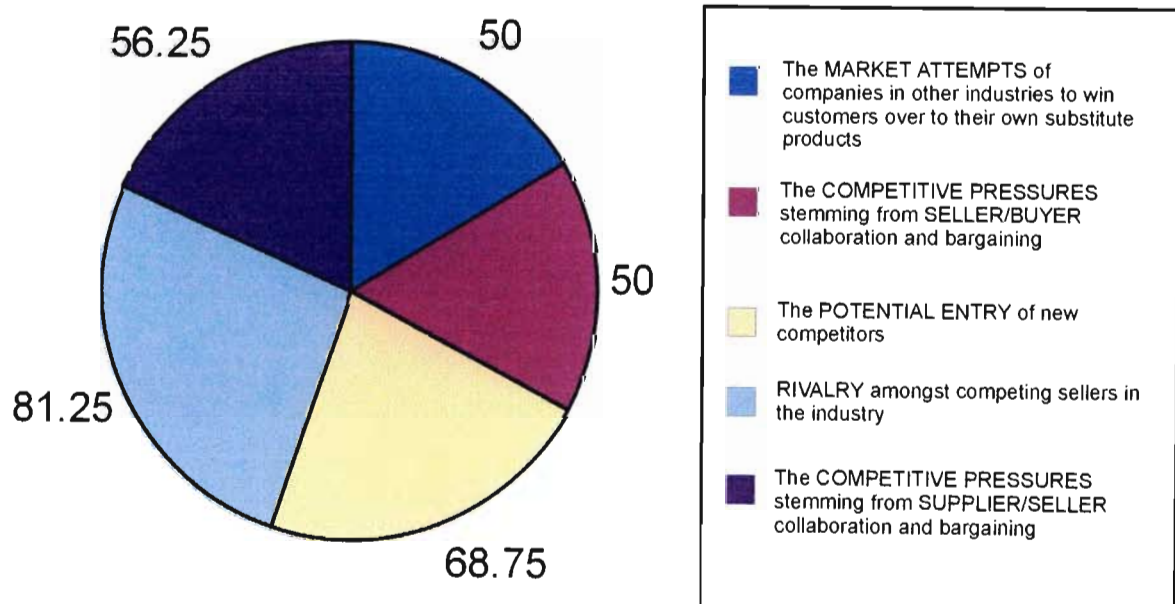
The respondents (68.75%) believe that a combination of the forces outside the industry and industry factors form a basis for competitive advantage. 25% of respondents viewed industry forces as the predominant source of competitive advantage.

Respondents placed equal weighting on both the industry forces, and the macro environmental forces.

The extent of pressure exerted by each competitive force is presented graphically in Figure 4.2.

Figure 4.2

Diagrammatic Presentation Of Pressure Exerted By Each Competitive Force



Question B6 aimed to determine whether corporate strategies had sufficient knowledge of factors beyond their industry and/or whether they believed that environmental scanning should be extended to a more global basis.

B6 Globalisation Of Environmental Scanning (ES)

	Strongly Disagree	Disagree Somewhat	Neither Agree nor Disagree	Agree Somewhat	Strongly Agree	Total
Agree ES can be expanded to a global basis.	00	00	01	07	08	16
ES should not be expanded to a global basis.	05	05	02	01	03	16
ES expansion costs will not exceed the benefits derived in the strategic formulation process.	01	01	05	06	03	16
Expanding the ES to a global scale will not result in additional benefits to the strategic planning process.	04	04	03	03	02	16
Our strategic planners have sufficient knowledge and access to sources of information so as to perform a global environmental scan.	01	03	02	08	02	16
We currently make use of the services of an external consulting firm to provide or assist in	05	01	02	05	03	16
We currently do not make use of the services of external consulting firms, but if they could provide global ES we would consider using their services in order to access their global database.	02	02	04	04	04	16

The questionnaire produced a result of 62,5% of confirmation to the question of whether or not the firm felt that its strategic planners had sufficient knowledge to perform their own global environmental scanning. 50% agreed somewhat and 12.5% strongly agreed. Total agreement being 62.5%.

The respondents had placed equal weighting on the external environment and the industry forces. This could imply that the firms did have sufficient knowledge of the broader macro environment. However, one has to be cautious in accepting this response as it is subject to bias. The question of whether the strategists have sufficient knowledge and access to sources of information to perform a global environmental scan is presented to the very person who is responsible for developing strategy. It is unlikely that any respondent would wish to admit that he or she did not have sufficient knowledge.

Nevertheless, the respondents strongly agreed that environmental scanning can and should be expanded to a global basis. They further agreed that they make relative use of external consulting firms but that if such consulting firms could provide global environmental scanning they would consider using their services to access the global database.

From the data provided it can be assumed that the larger the firm, the more the resources which could be made available to undertake the macro environmental scanning internally. By maintaining and creating their own internal strategic planning departments it made the environmental analysis easier. Smaller firms would not enjoy this advantage.

4.4. DATA ANALYSIS: SECTION C

Question C1 and C2 aimed to establish whether companies had changed the scope or nature of their environmental scanning process in response to the relaxation of trade barriers since 1994 and more so since the global economic turmoil of 1998/99.

C1 Since The Relaxation Of Sanctions And Trade Barriers After The 1994 Elections, Has Your Firm Changed The Scope Or Nature Of Your Environmental Scanning Process?

	FREQUENCY	PERCENTAGE
YES	06	37.50%
NO	08	50.00%
NO ANSWER	02	12.50%
TOTAL	16	100.00%

Of the 16 respondents, 8 (50%) indicated that they had not changed the scope or nature of their environmental scanning since the relaxation of trade barriers while 6 (37.5%) had changed the scope or nature of their environmental scanning. Two respondents did not answer this question. One of these was a company started after 1994 and may have failed to compare how the nature of his environmental scanning process would have been different prior to the relaxation of trade barriers. The other is a basic food manufacturer and may have felt unperturbed by the presence of global companies. His company is exposed to local competition more severely than any threat from foreign companies.

The companies which had indicated that they had changed their scope of environmental scanning since the relaxation of trade barriers offered a variety of suggestions as to how they had changed this scope of environmental scanning.

A company dealing in automotive parts indicated that they were now paying greater attention to international data and more visits were being made to their industry exhibitions and they were meeting more regularly with foreign firms in their industry. They had greater collaboration with their customers especially on an international level and more license agreements with foreign licensors. Although not stated, it could be assumed, that with the relaxation of trade barriers, more foreign markets were opened to this company for exporting. Hence, their environmental scanning would have expanded to include a study of these markets and the competitors they faced in these markets. The scope of their environmental analysis would have also increased to incorporate a study of foreign competitors entering the South African market and other local competitors who may also be considering expansion of their markets.

The two shoe manufacturers who had indicated that they had changed the scope of their environmental scanning indicated that: Company A – “we are now very aware of foreign goods entering South Africa. All shoes are monitored for country of origin, price, quality, design, etc. We have now focused on how we can offer something that imports cannot, eg.” Service, quick stock turns etc”.

Company B – “ We are looking for alternative raw materials and entering the export market.”

From the above statements it is clear that both companies are looking at extending their competitive advantage. The manufacturing sector in Pietermaritzburg had for a long been dominated by the leather and shoe industry. The closure of numerous shoe manufacturing firms recently is a clear indication that market forces have had an impact on this sector. The import of cheaper products has led to a huge shrinking of the market share enjoyed by the shoe manufacturers.

It therefore stands to reason that those firms still surviving in this sector would have expanded their environmental scanning to view aspects as cost and service to gain a competitive advantage. With new foreign entrants in the local market, the environmental scanning exercise has to be extended to an international and a global level.

Companies in the other sectors also indicated that they were searching for new markets in other parts of Africa and looking at further developments within the local markets. With the new political dispensation in South Africa, these companies believed that the local markets had now been expanded. They had expanded the scope of their environmental scanning process to incorporate international trends but had focused on local markets and extending their local customer base.

Michael Porter in his article, "How Competitive Forces Shape Strategy" as quoted in (Bourgeois: 1996: 82) has stated clearly, "The essence of strategy formulation is coping with competition. Yet it is easy to view competition too narrowly and too pessimistically."

The relaxation of trade barriers and South Africa's entry into the global arena has definitely forced companies to re-assess their environmental scanning process. Those companies which have not as yet realized the value of expanding the environmental scanning process, run the risk of losing their competitive advantage and even settling for lower profits.

C2 Since The Global Economic Turmoil Of 1998/99 And The Realization Of Just How Seriously SA Can Be Influenced By Events In Other Countries And Industries In The “Global Village”, Have You Changed The Nature And / Or Scope Of Your Environmental Scanning Function Or Strategy Formulation?

	FREQUENCY	PERCENTAGE
YES	06	37.5%
NO	07	43.75%
NO ANSWER	03	18.75%
TOTAL	16	100.00%

South Africa is part of the ‘Global Village’ and economic factors elsewhere in the world can and clearly does affect the South African economy. The 1998/99 global economic turmoil is a clear indication of the extent to which South Africa can be influenced by events in other countries and industries in the ‘global village’.

Question C2 aimed to determine whether companies had changed the nature of their environmental scanning or strategy formulation in view of the 1998/99 global effect on the South African economy.

Surprisingly 10 (62.5%) indicated that they had not changed their environmental scanning processes despite the 1998/99 global economic turmoil or were non-committal on this aspect. Seven companies indicated that they had not changed their environmental scanning processes and 3 were non-committal.

Six companies were confident that the 1998/99 global economic turmoil had had an effect on their environmental scanning process and strategy formulation. These companies highlighted that they had intensified the same process as they had done in regard to the relaxation of trade barriers. More emphasis was placed on the review of international data and greater collaboration with international customers and expansion into export markets.

Most respondents who had indicated a change in their environmental scanning process since the 1998/99 global economic turmoil indicated that these changes included a closer study of the foreign exchange rate, a closer examination of foreign competitors and foreign markets and the cost of importing raw materials.

World economic trends were now vital as they realized that South Africa was part of the 'global village' and susceptible to global economic turmoil and at the same time global economic benefits. Hence, one company indicated that they aimed to offset their losses by acquiring shares in companies with a 'global exposure'.

Question C3 was aimed at gaining insight into the views held by strategists in regard to the time frame that strategic planning and formulation should be extended to, and whether the strategy formulation task could be eased with the use of a database from strategy consulting firms.

C3 Indicate What Your Firm's Views Are On The Following Statements:

	Strongly Disagree	Disagree Somewhat	Neither Agree nor Disagree	Agree Somewhat	Strongly Agree	Percentage
As part of our strategy formulation process we have extended the external environmental scanning horizons beyond our own industry(s)	01	02	02	07	04	16
As part of our strategy formulation process we have not extended the external environmental scanning horizons to a global horizon, in order to preempt or consider the impacts of global events on our organization's strategy formulation.	06	04	02	04	00	16
Traditionally strategic planning and formulation have a long-term objective.	00	02	03	02	09	16
Due to the globalization on business and the subsequent reduction of trade barriers, our strategists have shortened the time horizons and increased the frequency of strategy formulation and environmental scanning exercises.	00	01	03	04	08	16

If Strategy Consulting Firms Were In A Position To Compile A Global Data Base Of External Environmental Scanning Information, Gained Through Their Global Presence And Access To Organizations And Information Across Continents, Countries, Industries And Business;

	Strongly Disagree	Disagree Somewhat	Neither Agree nor Disagree	Agree Somewhat	Strongly Agree	Percentage
We would use this service to gain access to their global database of information.	00	00	04	07	05	100%
The consultant's database would eliminate the need for us to scan the external environment beyond our own industry.	02	03	01	05	05	100%
The consultant's database would be used to complement our own external environmental scanning process to expand its vision.	00	00	03	05	08	100%
We feel that this global database would help identify global trends in the macro environment	00	00	01	06	09	100%
We are of the opinion that such a global database of environmental information would offer added value, and that it would eliminate the need for extensive or excessive resources by our firm to undertake the same function.	00	02	03	03	08	100%
Improved environmental scanning, which is expanded to a global basis, would improve the quality of our strategic planning function and result in an improved fit of our organization's resources to the present and future external environment.	00	00	02	09	05	100%

The results depict a clear acceptance by the respondents that at present the service offered by consulting firms in regard to global external environmental scanning data was not being utilized by the companies. The respondents confirmed that 75% did not use the services of strategy consulting firms at all and 25% of respondents neither agreed nor disagreed that they would use the services of consulting firms.

However, respondents indicated that the database of consulting firms would reduce the need for firms to undertake internal scanning of the external macro environment, while offering insight into global trends and this information could add value to their strategy formulation process. There is a strong indication that firms would use this service to complement the information that is already gathered internally by themselves.

Strategists tend to acquire a knowledge of their industry events and happenings through their interactions with customers, suppliers and industry competitors. At industry level, strategists need to act rapidly to moves by competitors. Hence, it would be prudent for strategists to continue undertaking their own internal scanning of the external macro environment and not view such a data base as replacing their own environmental scanning. Access to a global database will save companies time and resources. This is supported with evidence from respondents where 68.75% confirm the benefits in terms of time and resources. Due to the vastness of the macro environment in which companies find themselves, it stands to reason that 93.75% of respondents believe that the consultants' database would help identify global trends in the macro environment. This does not contradict the earlier findings where respondents confirmed that they do not do extensive scanning of the macro environment and especially on a global scale. This in fact re-affirms that the companies may be failing to scan the macro environment due to a lack of resources and /or a myopic view of the industry factors. The questionnaire might have helped to draw the respondent's attention to the value of extending the environmental scanning to incorporate the macro environment. The responses in question C3 indicate a tendency for firms using narrow scanning horizons to opt more for industry specific information.

According to Thompson and Strickland (2001), managers have to continuously detect when new developments require a strategic response and when they don't. Hence, the task of evaluating performance and initiating corrective adjustments is both the end and beginning of the strategic management cycle. Strategies can rarely be 'iron-clad' and so durable, that they can withstand the test of time. The most well laid strategies would require adaptation to shifting market conditions, emerging opportunities and threats and changes to conceived strategies.

The respondents clearly agree with this scenario and have confirmed that they have shortened their time horizons and increased the frequency of their strategy formulation and environment scanning exercises. The respondents overwhelmingly confirm, that strategic planning and formulation have traditionally had a long-term objective. However, 15 respondents confirmed that due to the effects of globalisation on their business, they have shortened the time horizons and increased the frequency of strategy formulation and environmental scanning exercises.

4.5. IMPACT OF GLOBALISATION

Globalisation has brought with it numerous benefits but also presents numerous challenges to strategists. As the industry size grows and participants are identified, even greater factors can impact on the competitive conditions for firms. Globalisation has expanded the industry boundaries, resulting in more information being available to gather and evaluate. This makes the strategy making process more dynamic and fluid. The strategist is faced with the unenviable task of identifying external factors and re-acting to changes.

As companies enter the global markets and are exposed to global competition they are forced to expand their environmental scanning to incorporate these new geographic locations and attempt to gain a competitive advantage.

4.6. CONCLUSION

The respondents agree that the strategic planning function is a long-term objective but they have shortened the horizons over which they plan and have increased the frequency of their strategic planning function.

The respondents have not extended their external environmental scanning process to a global level. However, they acknowledge that doing so would help them to identify global trends in the macro environment.

Strategists appear to have adjusted their environmental scanning process in view of South Africa's entry into the global arena and more so after the 1998/99 global economic turmoil and witnessing its effects on the South African economy.

Companies need to maximize competitive advantage by taking advantage of all factors that contribute to competitive advantage. Larger companies enjoy the resources, which allow them to gather the necessary information from both the industry and external macro environment. Smaller global firms, who find this beyond their means, could utilize the services of global consulting firms.

Industry factors appear to be very important to strategists, especially in the companies researched. However, it stands to reason, that the extension of environmental scanning beyond the industry could constitute an area of additional potential competitive advantage.

It is this observation that forms the basis for recommendations made in the next chapter.

CHAPTER 5

RECOMMENDATIONS AND CONCLUSION

5.1. INTRODUCTION

This study does not claim to be complete. In fact, being exploratory in nature and with hindsight, certain shortcomings have been identified. These have been highlighted in Chapter 1.

This chapter aims to summarise the findings of this study, and offer recommendations to businesses in the manufacturing sector.

5.2. RECOMMENDATIONS

Michael Porter, in his interview with “C10” Managing Editor, Richard Pastore, states that companies have been preoccupied with operational effectiveness – restructuring, reengineering and improving efficiencies. In order to sustain competitive advantage, companies have to have a distinctive way of competing.

(<http://www.cio.com/CIO/porter-100195.html>)

For companies wanting to maximize their competitive strategy, it is essential for strategists to explore both the industry and macro-environments for any advantages that can be identified. Globalisation is enforcing the expansion of the scope of macro-environmental factors. Larger firms are able to cope sufficiently with the influx and growth of the quantity of information available, due to their vast resources. Smaller firms may not be able to achieve this and would need to look at alternative ways of acquiring the proposed information, e.g.: using the database of consulting firms.

Firms cannot and should not discard the internal function of environmental analysis. This is an essential and vital function of all firms, which use this information in strategy formulation. However, the internal environmental analysis must be a continuous process. Companies need to be flexible to respond rapidly to competitive and market changes. Companies need to benchmark continuously to achieve best practice.

Strategic management is an ongoing process. Through a detailed and accurate analysis of the competitive environment, companies can be in a position to pre-empt market occurrences, and react to it. In today's environment, change is a constant part of the environment, and management skills involve the management of change.

Strategists who are market focused have to beware of not losing sight of the broader global macro-environment. Access to information beyond the industry, and even within the industry can be of potential benefit. Such information would highlight opportunities and threats. Companies fall prey to the belief that it is a simple task to identify its competitors, but fail to analyse how broad its range of actual and potential competitors is. A broader study of the external environment can help a company avoid adopting a myopic view of its competitors.

The knowledge gained from the external environment analysis could help prevent the loss of competitive advantage, and may even lead to gaining sustainable competitive advantage. To this end, the role of consulting firms can be crucial. Such firms can offer non-bias information, which is both industry specific and globally oriented. Such information can significantly contribute to the strategy formulation process by helping strategists gain a broader picture of the external environment and identify any opportunities and threats that might be faced by each specific company. Companies can save both time and resources by using the services of such consulting firms.

This study has shown that strategists have increased the frequency of their environmental scanning, but have failed to extend the horizons of their industry based scanning away from a purely local focus, to an international and even a global focus. Cost and lack of resources may be offered as reasons, but in the long term, this may prove to be an expensive mistake.

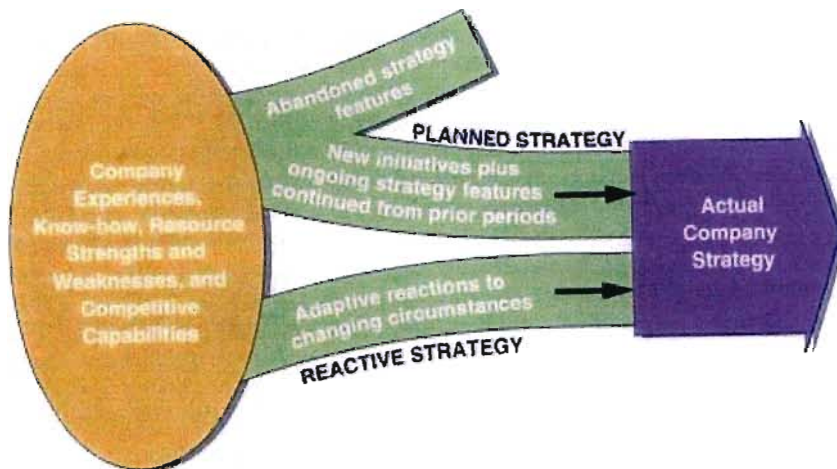
Players in all industries are being wrenched into the global arena, and those who refuse to adapt and change, may find themselves losing competitive advantage, and even failing to retain business.

In order to achieve sustainable competitive advantage, there has to be a strategic fit between the organization and its environment. This competitive positioning is essential for the survival and profitability of any business. However, strategists have discovered that the business environment is hyper-competitive, and there is always a gap between 'planned' and 'realised' strategies. The business environment is rapidly changing, and organizations, through organizational learning, need to change and adapt their strategy to match market changes.

Deliberate and planned strategies are essential, but they need to be flexible and adaptable to changing market conditions. Obviously, a company's actual strategy is partly planned and partly reactive. The strategy-making task commences with an intended strategy but gets adapted in view of changing events and market conditions.

Figure 5.1

A Visual Example Of The Strategy Planning Process.



Source: Thompson A.A. and Strickland A.J. Crafting and Executing Strategy (Mcgraw Hill: 2001)

Every company's strategy can be likened to a ball that gets shaped and reshaped as events occur and the company's competitive advantage is threatened or improves.

A company's strategy is closely linked to competencies and capabilities. Often, organizations mistaken business success to mean that no changes in business strategy are needed. A company basking in the glory of success can fall prey to the 'we have arrived' concept, and find itself being leap-frogged by competitors. Strategy formulation has to be a continuous process, and for this, environmental scanning, both industry and beyond, has to be undertaken continuously. Strategy can no longer be viewed as a formal annual process, but an integral part of everyday management practice.

5.3. CONCLUSION

Strategic advantage can best be described as being comparative. To the first mover, it offers an advantage, but this advantage gets dissipated as others copy the chosen strategy. Strategic competitive advantage needs to be sought in every area and safeguarded with continuous environmental and competitor analysis.

In any organization, the competitive strategy needs to flow into an organisation's development plan. Strategy envelops every aspect of a firm, and is, therefore, the foundation on which each aspect of the organisation is built. Strategies drive the business forward.

Strategies often require rapid responses to new situations. An opportunity presents itself or a threat rears its dangerous head – Managers have to exploit the opportunity – react to the threat. Strategists in all companies are obligated to be able to deal with the realities of the moment – so too must the chosen strategies be flexible.

The existence of competition makes strategy formulation imperative. A superior strategy would make a difference between success and failure in a competitive situation. No one can deny that external events really do affect the company's operations. A thorough understanding and appraisal of these events would ensure the adoption of a superior strategy.

Globalisation offers the opportunity to organizations to gain a strategic competitive advantage. It also imposes a greater burden on strategists. Michael Porter's approach to industry analysis forces the strategist to view the industry from a broader perspective. "The discipline of assessing the relative strengths of the forces operating in the industry can develop new and important insights into the competitive environment, which can help in the construction of better competitive strategies" (Faulkner and Bowman: 1995: 39).

Successful companies, realizing the value of sound business strategy, invest time and resources in strategy development. However, the real value of strategy lies in its execution. Companies need to possess tools for executing strategy successfully before it becomes obsolete.

It is safe to conclude that strategy formulation is as old as competition in business. Many businesses succeed without undertaking the formal task of strategy formulation. However, those who become versed in the art and science of strategy have an advantage over their 'unschooled' competitors (Finnie :1994).

From this we can conclude that competitive advantage is a product of superior strategy. What makes any one strategy superior to another is the information available prior to the strategy adoption. Information is a vital tool to the strategists. The accumulation and application of environmental data is what offers any one firm a competitive advantage over another.

Information from within the industry and from the larger macro environment and now on a larger global scale cannot be disregarded. Larger firms enjoy the privilege of extensive internal resources, which allow them to gather the desired information. Smaller firms could acquire this information from consulting firms. This information can be acquired cost effectively, and once combined with a firm's internal resources and strengths, it could be individualized to offer a competitive advantage.

Companies that undertake a thorough environmental analysis of both industry and macro environment are better able to understand the industries, competitors, and customers. As global companies scramble the wall of domestic markets, those failing to undertake environmental analysis find themselves losing market share, and are forced to pursue survival planning.

Companies, the world over, are being forced to change their traditional attitudes and approaches to planning. Companies need to acquire as much information about the environment as possible. The more information accessible to the strategist, the better the possibility of making quality and economically sound decisions.

Companies need to take control of their destinies, and plan for the future. Those who fail to do so may not have a future.

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APPENDICES

1. Covering Letter with Questionnaire
2. Questionnaire

Jooma Properties

Auctioneers • Estate Agents • Appraisers
Member of the Pietermaritzburg Chamber of Business

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April 9, 2003

Pietermaritzburg

Dear *****

MBA : THESIS QUESTIONNAIRE

THE EXTENT OF ENVIRONMENTAL SCANNING UNDERTAKEN BY MANUFACTURING INDUSTRIES IN PIETERMARITZBURG PRIOR TO THE ADOPTION OF SIGNIFICANT CORPORATE STRATEGIES.

Thank you for agreeing to complete the attached questionnaire. I am aware that your time is at a premium and your contribution is appreciated.

I am presently enrolled at the University of Natal, reading for a Master's degree in Business Administration. I have successfully completed the first two years of study and passed all the required courses. The final component is the completion of a research thesis.

This study aims to identify the following perspectives:

- To what extent do manufacturing industries in Pietermaritzburg undertake environmental scanning before adopting a strategy or making strategic changes?
- To what extent are Local organizational strategists aware of political, economic and industry influences impacting on their firms from the extended global economy?
- Are strategists fully aware of the impact of global events and the impact such events will have on their firms in the short and long term?
- Identify the approach taken by large organizations in crafting strategies.

Attached is a questionnaire directed specifically to manufacturing firms operating in Pietermaritzburg and it should take about 10 minutes to complete.

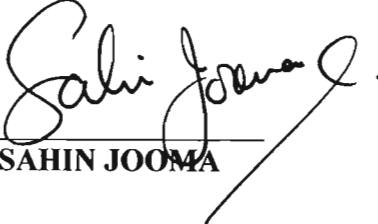
The information required is not confidential. The aim is to merely get a grasp of the extent of environmental scanning undertaken by various industries both within their industry and in the external macro environment beyond the industry.

I assure you that any information provided by you will be treated in strict confidence and used only for the purposes of this study.

Should you have any questions you might want to ask during the completion of the questionnaire, please feel free to call me on (033) 3979751 or 082 4500 222.

Once again THANK YOU.

Yours Sincerely



SAHIN JOOMA

QUESTIONNAIRE

EXTENT OF ENVIRONMENTAL SCANNING PRIOR TO THE ADOPTION OF SIGNIFICANT CORPORATE STRATEGIES.

Please answer all questions, where a question is not applicable kindly denote so with (N/A), otherwise mark with an (X) in the block which applies most closely to your response.

Section A

A1 The name of your organisation: _____

A2 Name and Position of Respondent: _____

A3 The principal product your company manufactures _____

A4.1 Who is responsible for the formulation of corporate / group long term strategy formulation in your organisation?

- CEO
- Board of Directors
- Individual Director
- Division / Department
- Other, please specify: _____

A4.2 Are any of the above assisted by external consulting firms in the strategy formulation process?

Yes

No

A5 Over what time horizon do you undertake strategic planning?

Short Term In Years

Medium Term In Years

Long Term In Years

A6 How often do you undertake the strategic planning exercise?

1. Continuously

2. Annually

3. Other

Specify: _____

Section B

B1 Do your strategist(s) undertake the external environmental Scanning / Audit function of the strategy planning process?

Yes No

B2 If you do undertake the environmental scanning / audit function, to what extent or scope is it regularly undertaken?

I. Not done at all

OR

II. Industry Only Locally Nationally Internationally Globally

III. Beyond the industry Locally Nationally Internationally Globally

IV. Both the industry and Beyond Locally Nationally Internationally Globally

B3 Professor Michael Porter of the Harvard Business School has convincingly demonstrated that the state of competition in any Industry is a composite of five competitive forces.

Indicate what your firms views are on the following questions:

Please place a cross (x) next to the response that applies most closely to your firm's views on the question asked.

To what extent do the following forces place competitive pressure on your firm?

	To a large extent	None at all	To a small extent
Rivalry among competing sellers in the industry			
The potential entry of new competitors			
The market attempts of companies in other industries to win customers over to their own substitute products.			
The competitive pressures stemming from supplier/ seller collaboration and bargaining			
The competitive pressures stemming from seller/ buyer collaboration and bargaining			

- B4 There are two external “environments” that are matched to the firm’s internal Strengths and weaknesses, viz;
- the industry(s) in which the firm operates, as described by Professor Michael Porter of the Harvard Business School, with all sources of competitive advantage only attributable through the industry’s 5 forces and all influences beyond the industry affecting firms equally and not a source of competitive advantage.
 - the external macro environment beyond the industry made up of political, environmental, technological and social forces.

As a source of competitive strategic advantage, what does your firm deem to be the source?

- A** **A only**, with forces outside the industry being significant primarily in a relative sense, since outside forces usually affect all firms in the industry.
- B** **B only**, from macro environmental forces and not to industry forces as described by Porter.
- C** To a combination of the forces in **A & B**.
- D** **Other** than A or B, specify:
-

- B5 If you answered yes to “C” in question B4 above, state the approximate average ratio of “A” to “B” so as to indicate the weighting you place on industry forces to macro forces in strategy formulation.

$$\begin{array}{c} \text{A} \\ \hline \% \\ \hline \end{array} + \begin{array}{c} \text{B} \\ \hline \% \\ \hline \end{array} = 100\%$$

B6 Indicate what your firm's views are on the following questions.

Please place a cross (x) next to the response that applies most closely to your firm's views on the question asked.

Globalisation of Environmental Scanning (ES)

	Strongly disagree	Disagree somewhat	Neither Agree nor Disagree	Agree somewhat	Strongly agree
Agree ES can be expanded to a global basis.					
ES should not be expanded to a global basis.					
ES expansion costs will not exceed the benefits derived in the strategic formulation process.					
Expanding the ES to a global scale will not result in additional benefits to the strategic planning process.					
Our strategic planners have sufficient knowledge and access to sources of information so as to perform a global environmental scan.					
We currently make use of the services of an external consulting firm to provide or assist in the formulation of strategy.					
We currently do not make use of the services of external consulting firms, but if they could provide global ES we would consider using their services in order to access their global database.					

Section C

- C1 Since the relaxation of sanctions and trade barriers after the 1994 elections, South Africa has more fully entered the global marketplace with foreign competitors competing for a slice of the local market share in most industries. With the increase of foreign entrants to local markets and the resultant loss of local market share by local firms:

Has your firm changed the scope or nature of your environmental scanning process?

YES NO

If yes, how? _____

- C2 Since the global economic turmoil of 1998/99 and the realization of just how seriously SA can be influenced by events in other countries and industries in the "global village", have you changed the nature and / or scope of your environmental scanning function or strategy formulation?

YES NO

If yes, how? _____

C3 Indicate what your firm's views are on the following questions:

Please place a cross (x) next to the response that applies most closely to your firm's views on the question asked.

	Strongly Disagree	Disagree Somewhat	Neither Disagree Nor Agree	Agree somewhat	Strongly agree
As part of our strategy formulation process we have extended the external environmental scanning horizons beyond our own industry(s)					
As part of our strategy formulation process we have not extended the external environmental scanning horizons to a global horizon, in order to preempt or consider the impacts of global events on our organization's strategy formulation.					
Traditionally strategic planning and formulation have a long term objective.					
Due to the globalization on business and the subsequent reduction of trade barriers, our strategists have shortened the time horizons and increased the frequency of strategy formulation and environmental scanning exercises.					

If strategy Consulting Firms were in a position to compile a global data base of external environmental scanning information, gained through their global presence and access to organizations and information across continents, countries, industries and business;

Strongly Disagree	Disagree Somewhat	Neither Disagree Nor Agree	Agree somewhat	Strongly agree
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We would use this service to gain access to their global database of information.					
The consultants database would eliminate the need for us to scan the external environment beyond our own industry.					
The consultants database would be used to complement our own external environmental scanning process to expand it's vision.					
We feel that this global database would help identify global trends in the macro environment.					
We are of the opinion that such a global database of environmental information would offer added value and that it would eliminate the need for extensive or excessive resources by our firm to undertake the same function.					
Improved environmental scanning which is expanded to a global basis would improve the quality of our strategic planning function and result in an improved fit of our organization's resources to the present and future external environment.					

THANK YOU.