The external environment (strategic management)

Business, Strategic Management

Review THE EXTERNALENVIRONMENT(STRATEGIC MANAGEMENT)

A host of external factors influence a firm's choice of direction and action, ultimately its organizational structure and internal factors. These factors, which constitute the external environment, can be divided into three interrelated subcategories there are as follows:

A. REMOTE ENVIROMENT

The remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation: economic, social, political, technological, and ecological factors.

That environment presents firm with opportunities, treats, and constraint; but rarely does a single firm exert any meaningful reciprocal influence.

1. Economic Factors

Economics factors concern the nature and direction of the economy in which a firm operates. Because consumption patterns are affected by the relative affluence of various market segment, in strategic planning each firm must consider economic trend in the segment that affect its industry.

2. Social Factors

The social factors that affect a firm involve the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographic, religious, educational, and ethics conditioning. Like other forces in the remote environment, social forces are dynamic, with constant change resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environment factors. One of the most profound social changes in recent years has been the entry of large numbers of women into labor market.

Second, social change has been the accelerating interest of consumers and employees in quality-of-life issues. Third, social change has been the shift in the age distribution of population. A consequence of the changing age distribution of the population has been a sharp increase in demands made by a growing a number of senior citizens.

3. Political Factors

The direction and stability of political factors in a major consideration for managers on formulating company strategy political factors define the legal regulatory parameters within which firm must be operate.

Political constraint are placed on firm through fair trade decisions, antitrust laws, tax programs, minimum wagelegislation, population and pricing policies, administrative jawboning, and many more actions aimed at protecting employees, consumers, the general public, and the environment. Technological Fact To avoid obsolescence and promote the innovation, a firm must be aware of technological changes that might influence its industry. Technological forecasting can help protect and improve the probability of firm in the growing industries. It alerts strategic managers to both impeding challenges and promising opportunities.

4. Ecological Factors

The term ecology refers to the relationship between human beings and other living things and the air, soil, and water that support them. Threats to our life-supporting ecology caused principally by human activities in an industrial society are commonly referred to aspollution, such as water and land pollution.

B. INDUSTRY ENVIRONMENT

To establish a strategic agenda for dealing with these contending currents and to grow despite them, a company must understand how they work in its industry and how they affect the company in its particular situation.

- How Competitive Force Shape Strategy

The essence of strategy formulating is coping with the competition. In the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exists that go well beyond the established combatants in a particular industry.

- Contending Forces

Every industry has an underlying structure, or a set of fundamental economics and technical characteristics, that gives rise to these competitive forces. A few characteristics are critical to the strength of each competitive force.

a. Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. There are six major sources of barriers to entry:

- Economies of Scaledeter entry by forcing the aspirant either to come in on a large scale or to accept a cost disadvantage.

- Product Differentiationto create high fences around their business, brewers couple brand identification with economies of scale in production, distribution, and marketing.
- Capital Requirementscapital is necessary not only for fixed facilities but also for customer credit, inventories, and absorbing start-up losses. Cost Disadvantage Independent of Sizeentrenched companies may have cost advantages not available to potential rivals, no matter what their size and attainable economies of scale.
- Access to Distribution Channels the more limited distribution channels are and more that existing competitors have tied up, obviously the tougher that entry into the industry will be.
- Government Policycan limit or even foreclose entry to industries, which such as controls as license requirements and limits on access to raw material.

b. Powerful Suppliers

Suppliers can exert bargaining power on participants in industry by raising prices or reducing the quality of purchased goods and services. A suppliers group is powerful if: - it is dominated by a few companies and is more concentrate than to the industry is sells, - its product is unique or at least differentiated, or if it has built-up switching cost, - it is not obliged to contend with other products for sale to the industry, - it poses a credible threat of integrating forward into the industry’s business, - the industry is not an important customer of the supplier group.

c. Powerful buyers

A buyers group is powerful if: - it is concentrated or purchases in large volumes, - the products is purchases from the industry are standard or undifferentiated, - the products it purchases from the industry form a component of its product, - it earns profits, which create great incentive to lower its purchasing cost, - the industry's product is unimportant to the quality of the buyers ' products or services, - the industry's product does ot save the buyermoney, - the buyer pose a credible threat of integrating backward to make the industry's product.

d. Substitute products

Substitute products that deserve the most attention strategically are those that are subject to trends improving their price-performance trade-off with the industry's product or are subjected by industries earning high profits.

e. Jockeying for Position

The type of the intense rivalry is related to the presence of a number of factors: competitors are numerous or are roughly equal in size and power, industry growth is slow, the product or service lacks of differentiation or switching costs, fixed costs are high or the product is perishable creating strong temptation, capacity normally is augmented in large increment, exit barriers are high, andthe rivalare diverse in strategies, origins, and personalities. Industry Boundaries Definition of industry boundaries focuses attention on the firm's competitors, and helps executives determine key factors for success. And also gives executives another basis on which to evaluate their firm'sgoals. In defining industry boundaries is very difficult task.

The difficult stems from three sources:

1. The evolution of industries over times creates new opportunities and threats,

2. industry evolution creates industries within industries, and

3. Industries are becoming global in scope.

Having developed a preliminary concept of the industry executives flush out its current component.

Industry Structure

Structural attributes are the enduring characteristics that give an industry its distinctive character. To explaining the variation among industries can doing through examining the variable that industry comprises such are concentration, economies of scale, product differentiation, and barriers to entry.

Competitive Analysis

Usually have objectives such are to identify current and potential competitors, to identify potential moves by competitors, and to help the firm deviseeffective competitive strategies.

C. OPERATING ENVIROMENT

The operating environment, also called the competitive or task environment, comprises factors in the competitive situation that affect a firm success in acquiring needed resources or in profitably marketing its goods and services. Competitive Position Assessing its competitive position improves a firm chance of designing strategies that optimize its environmental opportunities.

Customer Profiles

Developing a profile of a firm’s present and perspective customers improves the ability of its managers to plan strategic operations, to anticipate changes in the size of markets, and to reallocate resources so as to support forecast shifts in demand patterns. The traditional approach to segmenting customers is based on customer profiles constructed from geographic, demographic, psychographic, and buyer behavior information. Suppliers Dependable relationship between a firm and its suppliers are essential to the firm’s long-term survival and growth.

A firm regularly relies on its suppliers for financial support, services, materials, and equipment. In assessing a firm’s relationship with its suppliers, several factors, other than the strength of the relationships, should be considered. Creditors Because the quantity, quality, price, and accessibility of financial, human, and, material resources are rarely ideal, assessment of suppliers and creditors is critical to an accurate evaluation of a firm’s operating environment. Human Resources: Nature of the Labor Market A firm’s ability to attract and hold capable employees is essential to its success.

However, a firm’s personnel recruitment and selection alternatives often are influenced by the nature of its operating environment. A firm’s access to needed personnel is affected primarily by three factors: the firm’s reputation as an employer, local employment rates, and the ready availability of people with the needed skills.

D. EMPHASIS ON ENVIRONMENT FACTORS

The forces in the external environment are so dynamic and interactive that the impact of any single element cannot be wholly disassociated from the impact of other elements.

Strategic managers are frequently frustrated in their attempts to anticipate the environment's changing influences. Different external elements affect different strategies at different times and with varying influences. The only certainty is that impact of the remote and operating environment will be uncertain until a strategy is implemented. This leads many managers, particularly in less-powerful or smaller firm to minimize long-term planning, which requires a commitment of resources. Instead, they favor allowing managers to adapt to new pressures from environment.

The companies that will be entry to business must assessing and consider the external environment of the company that will have potential impact to the company. In assessing the potential impact of changes in the external environment offers a real advantage for the company. It enables decision makers to narrow the range of the available options and to eliminate options that are clearly inconsistent with the forecast opportunities. Environment assessment seldom identifies the best strategy, but it generally leads to the elimination of all but the most promising options.

The external environments that must be considered by the companies are remote environment, industry environment, and operating environment. These factors are lead how the company doing the business. How they take the opportunities from the external environment factor. And also how they make design of their business strategies is based on the conviction that a company able to anticipate future business condition will improve its performance and profitability. So, the companies assessment of external environment is to anticipate the situation and condition of the company in current and future.