

Activity 3 – Analyze Situations

"Law of the Situation" Each situation being considered by management will dictate the factors to be analyzed, the intelligence and information to be sought, the search methods, analytical approaches and techniques to be used and, ultimately, the decisions to be made.

Introduction

Situation: You are talking to a colleague at work one afternoon about 2:30 when a series of pains shoot through your chest. You wince, grimace a little and head for the nearest chair. Your colleague asks, "What's wrong?" You mumble, "Oh, it's nothing – probably the pizza I had for lunch." Your colleague suggests that you should see a doctor." You reassure her that you are "ok". A little later, another series of pains shoot through your chest. Shortly thereafter, you make an appointment to see your doctor.

Question: What is the doctor likely to do?

Answer: In a word: *analyze*. More explicitly, the doctor solicits relevant information and intelligence; facts about your age, weight and medical history, expressions about how you feel, whether or not chest pains occurred in the past and, if so, under what set of circumstances. He continues his examination by checking your pulse, heart rate, blood pressure, urinalysis, blood tests and other aspects of your health against medical standards, your medical history and your current circumstances.

In effect, the doctor is analyzing, i.e., conducting a careful investigation and evaluation of information and intelligence relevant to your medical condition in order to determine incisively and accurately what is the nature of the situation for which he must make responsible decisions. Based on this analysis, the doctor, either independently or in collaboration with other medical experts and/or the patient, will make a decision or, over time, a series of decisions about what must be done to resolve the situation, i.e., the set of circumstances, that the comprise the patient's health.

One of the key attributes of management, like doctors, is the ability to think analytically. Analysis is not a new concept. It has pervaded the literature and behavior of science, research, the professions and trade for centuries. Being analytical is an important characteristic of strategic managers. The first chapter of Kenichi Ohmae's classic strategic management book is entitled "Analysis: the Starting Point". Kenichi Ohmae, *the Mind of the Strategist - The Art of Japanese Business*, New York: McGraw-Hill Book Company, 1982, pp. 12-13. Competent analytical managers are able to perceive situations with an expansive, open mind that seeks scope and context, then identifies specifically and evaluates critically the priority issues, key factors and significant relationships integral to the situation being considered. Such a manager is keenly attuned, consciously aware of information and intelligence and other sources of knowledge and insight (suggesting wisdom) relevant to the situation(s) being analyzed. This awareness draws on past experience, education, reading, searching the environment, observing, listening to other peoples' knowledge and advice, their good sense and learning lessons of life and successful management.

Contrary to a common misconception, i.e., "paralysis by analysis", analytical thinking is not intended to be overly complex, cumbersome and wasteful. Thinking analytically involves managing complexity. Complex situations require complex analysis but not necessarily thinking complexly. In the previous Activity, emphasis was placed on simplifying the monitoring process, especially in the sub-process of focussing. Among the several ways of simplifying was focussing on issues. During the evolution of tactical and strategic management, issues have come to be a primary focus for analyzing situations. The importance of issues management merits some substantive consideration.

Issues Management

Historically and even to a considerable extent currently, managers focus on "problems", i.e., conditions or situations causing harms or negative effects. During the evolution of management thinking and practice, a shift from problems to a more balanced focus on issues has occurred. Issues, by definition, involve various positions or views about matters that merit discussion, evaluation and decision making. Within these issues are "constituent parts" or factors of varying degrees of importance to managers and the success of their organizations. Oftentimes they emanate in the environment of the organization and encompass positive and negative attributes such as opportunities and threats, benefits and costs, strengths and weaknesses. They may have a range of resources, risk and impact, i.e., from corporate in scope to divisional or business unit to operative level, from billions of dollars or euros to much less but still of significance to small businesses and charities.

Historically, issues were to be avoided, especially in autocratic, e.g., military organizations and corporations. Over time, progressive organizations have become more democratic and participatory thus encouraging involvement, commitment, enhanced input and output by personnel and management. Issues management is one approach that is gaining growing acceptance and use in analyzing situations. With organizational situations becoming increasingly complex, risky and potentially damaging, management requires a growing number and variety of specialized personnel in various areas of an organization, working together, to identify, evaluate and forecast external and internal forces and conditions which will, in probabilistic terms, influence the organization, its performance and strategies. At Georgia Power, issues management has included long-range thinking and strategy development while at Atlantic Richfield the issues management group analyzes trends, legislation and regulations and prepares positions papers, testimony and opinion-editorial materials. Steve Blakenship, "Issues Management", *Communications World*, Vol. 10, Issue 7, August 1993, pp. 24-27. Effective direction and coordination of disparate personnel is imperative to successful managers. Oftentimes, the purposes, vision, missions, objectives, goals or performance targets of an organization or its functional units provide the common aims that coalesce otherwise disparate members of an organization.

Issues management and situational analyses contribute to the orientation and/or the re-orientation of an organization and its strategic management. Following several years of unsatisfactory financial performance, senior management at MacMillan Bloedel

Limited conducted an extensive review of its most pressing issue, the company's operations during the early 1990s. Flowing from this review was a new five year strategy called the "Gap Attack", i.e., an attack on the gaps in the company's performance, an apparent adaptation of management by exception. In 1994, the company implemented the strategy and restructured its organization to focus on three core businesses: building supplies; packaging; and paper products. In its environment, management focussed more on the factors that it could control, e.g., costs, productivity, quality and customer service and less on external factors such as inflation, exchange rates and government regulation. Objectives and goals were set and a detailed action was developed and implemented. MacMillan Bloedel Limited, "Expanding to Meet the Needs of a Competing World", *Annual Report 1995*, Vancouver, February 2, 1996, p. 2. By late 1998, the company's performance received mixed reviews from financial analysts. Although strategic initiatives, cost-cutting and re-structuring resulted in a profitable quarter after five successive losing quarters, environmental factors, such as the Asian economic crisis and United States quotas on lumber, limited the company's SUCCESS. Christopher J. Chipello, "Results elude MacBlo's U.S. cost cutter", *The Wall Street Journal*, December 14, 1998, p. B9. With emerging circumstances, new sets of issues arise to be analyzed and managed.

Issues management benefits from analytical processes. One such process involves the following six steps.

1. Identify the issue(s). Any form of analysis requires a focus. Identifying and defining the issue(s) provides focus for the analysis, the people and other relevant elements in the situation being considered. In legal situations, issues are referred to as "actions" or matters of dispute. In management situations, issues are matters that need to be resolved and typically require action(s).

2. Specify or delineate positions related to the issue(s). Issue analyses thrive on differing positions, even if one of the positions is contrarian, often referred to as the "devil's advocate". In scientific terms, such a position could be a null hypotheses or what a rational manager might identify as "What it is not" position. See, for example, Kepner and Tregoe, *op. cit.*, p. 77. Well-delineated positions are vital to attract a variety of views, creativity, intellect and expertise to the analytically process. Ideally, issues will have a variety of positions that will provide a range of expertise as well as a balanced, object perspective of the situation(s) being encountered the organization and its management.

3. Develop positions. The more substantive and logical are the positions, the better will be the base for and quality of the debate about the core points in question or other important subjects of discussion or pending action, including litigation.

4. Present positions. One payoff from issue management results from well-motivated and capable people communicating and defending their positions substantively and effectively

5. Compare positions. The bases for comparison will range from highly sophisticated and quantitative positions to highly emotional, qualitative views. The challenge to management or others doing the comparing is having a set of common denominators by which to compare the positions. Costs and benefits, negative and

positive impacts or degrees of satisfaction/dissatisfaction are common bases for comparing positions.

6. Select the best position. This is the step where judgment is relied upon if management is to make the optimal decision, a common aim of issues management. However, the best decision today might not be tomorrow. Keep the alternative positions.

Clearly, analysis is a vital part of tactical and strategic thinking. In a reactive situation, it tends to be oriented to past or present problems and their circumstances. In a proactive situation, analysis is based on and guided by organizational purposes, missions, visions and other future value-orientations. It is oriented toward achieving progressive objectives, goals and specific performance targets of the organization, its management and stakeholders. As outlined in the previous Activity, *inputs* into the analysis process come from on-going monitoring and specified studies of the environment (external) and the organization (internal). *Outputs* contribute to the decision making and optimal management of the organization for its stakeholders.

Like the other 26 activities of the TSMP, analyzing situations involves sub-processes. As a highly reputed Managing Director of McKinsey and Company has written,

Faced with problems, trends, events, or situations that appear to constitute a harmonious whole or come packaged as the common sense of the day, the strategic thinker dissects them into their constituent parts. Then, having discovered the significance of these constituents, he reassembles them in a way calculated to maximize his advantage. Ohmae, *op. cit.*, pp. 12-13.

Mr. Ohmae's general observations are developed more fully in the generic approach to situational analysis that follows.

Generic Approach to Situational Analysis

Strategic management is too dynamic to ever become a pure science. Consequently, analytical approaches that provide some structure and process as well as remaining flexible and applicable to dynamic situations are desirable for managers and their strategic decision making obligations and tasks. Such is the nature of the complete TSMP and the generally applied approach to analyzing situations that follows.

Scanning

In the TSMP, situational analysis flows from *scanning*, i.e., from extensively searching the environment and organization for intelligence and information about issues, problems, trends, forces, conditions, events or sets of circumstances to factors that focus on and are evaluated in relation to the strategies and tactics of management.. Like doctors and other analytically trained professionals, identifying and defining situations is used by management to focus or determine what are the key parameters or constants as well as the major variables inherent in the complex and dynamic sets of circumstances that managers are faced with almost continuously. Situations provide a starting level of

managerial focus; issues provide definition and perspectives; critical factors provide the most specific focus.

Factoring

Factoring is an analytical activity that is derived from mathematics. It refers to separating a product or whole into its parts or factors. In a managerial context, factoring involves the disaggregating or separating out of key elements inherent in a decision situation. As an eminent scientist has written,

Even the most restricted portions of the real world are too complex to be comprehended in complete and exact detail by human effort. For one thing, under increasingly refined observation, it is found that it is impossible to neglect interactions with the rest of the universe. E. Bright Wilson, *An Introduction to Scientific Research*, New York: McGraw-Hill Book Company, Inc., 1952, p. 24.

The more that the universe of management expands, the more complex it becomes and the greater is the need to develop a 3E ability to factor issue situations into sets that are manageable for analytical purposes.

Although each discipline has its taxonomies and ways of factoring complex situations, following are three dyads or contrasting pairs of general factors that can be used by managers.

1. *external-internal*. External factors are those outside the sphere of control of the organization and its management, i.e., uncontrollable or environmental factors. Internal elements are within the sphere of influence and control of the organization and its management. Oftentimes, factors will have external and internal attributes, e.g., employees, bank loans and computer systems.
2. *independent – dependent*. With their relative freedom or uncontrollability, this dyad is similar to the previous one. Scientists typically have sought to identify the independent elements in their analysis as a way of focussing on vital factors to study as well as improving the validity and reliability of their testing processes, procedures and results. Of utmost importance to analysts is their concern about the causal factors in a situation. Independent factors provide a significant set of change forces and conditions, often the source(s) or cause(s) of management's issues, opportunities or threats. Once independent, causal factors are identified, then a series of relationships between and among independent and dependent factors can be established and tested, all the time seeking to determine the most significant elements and relationships among the large set of possibilities in a situation. In science, the analyst seeks three types of evidence relevant to testing causal relationships, notably:
 - a. evidence of concomitant variation, i.e., that the causal variable and the dependent variable are associated;
 - b. evidence that the dependent variable did not occur before the causal variable; and
 - c. evidence ruling out other factors as possible determining conditions of the dependent variable. Claire Selltiz, Marie Jahoda, Morton Deutsch and Stuart W. Cook, *Research Methods in Social Relations*, New York: Holt, Rinehart & Winston, 1966, p. 94

3. *variable – constant*. Change and variability are inherent in the previous dyads. The need for situational analysis frequently emanates from some situational change(s) or varied circumstances. Variability has long been recognized as an important aspect of situational analyses. Change is commonly focussed on as a critical element in problem analysis. Charles H. Kepner and Benjamin B. Tregoe, *The Rational Manager – A Systematic Approach to Problem Solving and Decision Making*, Toronto: McGraw-Hill Book Company, 1973, p. 13. Changed or changing elements provide an important orientation or basis for factoring. Despite the emphasis on change and variability, major proportions of a situation tend to remain unchanging or constant. The constants of a situation provide bases for “bounding” or establishing the limits of the situation.

Although the computer age has enabled managers to access, manipulate and test ever-increasing numbers of elements and their relationships, the need to disaggregate large, complex sets of interrelated elements into smaller, more manageable sets, i.e., factoring, is an important part of managerial analysis. However, another note of caution is necessary. Managerial analysis should not be turned into fragmenting with the result being a lot of small pieces of a situation that are too miniscule or insignificant to be useful in making meaningful evaluations.

Evaluating

Evaluating is the heart of analysis. To perform any type of analysis, analysts need a set of standards, norms or other value-based measures with which to *compare* the factors, e.g., performance, critical in a strategic situation. While engineers have their physical science-based measures, managers typically rely on a mix of quantitative and qualitative measures drawn pragmatically from physical and behavioral sciences, their specialized functional measures and experiential bases for their standards. For example, marketing measures include data on sales, market shares and product profits as well as levels of customer satisfaction, perceived product quality and corporate image.

Evaluating involves another component sub-process of the TSMP. Stated briefly, the sub-process includes:

1. determining *ideal or desired measures*, e.g., goals, performance measures and production levels, which will provide valid and reliable standards of valued, potential performance;
2. identifying in a systematic, accurate and fair manner, the *real or probable performance*, e.g., from reports, records or observations; and
3. comparing the *real or actual performance* to the *ideal or desired standards of performance*.

Where significant discrepancy(ies) exist between the ideal and the actual performance, then additional, more intensive analytical activities are commonly undertaken.

One of the difficult challenges in evaluating is attributing value to performance. Some serious questions arise about attributing value to performance. Who does the attributing? On what bases is value attributed? How is value attributed? When and how are value attributions adjusted to changing circumstances? Additional questions may be

posed which challenge the validity, reliability and legitimacy of evaluating. Despite the difficulties inherent in evaluating, it is an integral activity in analyzing situations.

Concluding

Concluding is the fourth step in this generic approach to tactical and strategic analysis. Analysts are expected to synthesize a set of substantive, logically reasoned and justified conclusions. Typically, conclusions tend to be narratives that deal summarily with key factors such as changing forces and conditions and their logical effects, impacts or other consequences on the performance and/or the state of the organization. Causes of problems or sources of issues are common conclusions drawn from managerial analyses. Another cautionary note is necessary: few consequences or effects have single causes. Seldom is one factor, decision or decision maker to blame for negative or positive results or consequences. Experienced managers know that multiple causes, effects and many interrelationships are inherent in most situations. Such experience and thinking leads to the realization that conclusions often need to be based on a system of factors which have varying impacts as circumstances change. Consequently, the conclusions that the analytical manager arrives at are relative to time, strengths of intervening forces or conditions such as competitive or government actions and other environmental and organizational influences. They may be tempered also by management's intuition, and its "agenda", i.e., its purposes, objectives, goals and other value orientations.

Recommending

Ideally, managerial conclusions will be oriented, within reasonable ranges of probabilities and sets of circumstances, to projecting logical consequences of past, present and future conditions and actions. Such logical projections become bases for recommending, the ultimate activity in the analytical process. Since management is expected to improve the performance of their organizations they, in turn, are commonly required to use situational analyses as bases for a series of recommended, probable and beneficial priority courses of action. Optimal recommendations commonly use the highly technical, expert analyses of specialists supplemented by the knowledge, even wisdom, intuition and judgment of experienced managers. Again a cautionary note: analysts and strategists are not clairvoyants. They cannot predict the future. They can only make projections based on the conclusions flowing logically from the analytical and related processes of thinking.

The ability to analyze situations efficiently, effectively and economically is imperative for management. Faced with ever-increasing complexity, time pressures, uncertainty and risk, management needs to seek logical (maybe even perceptually illogical) ways of analyzing situations. Although managers may underutilize new and advanced methods of analysis, commonly excused by the urgency of the situation, the emphasis placed on making optimal strategic decisions will compel them to develop and use analytical capabilities, either their own or those of others.

Common Approaches and Methods of Situation Analysis

Numerous approaches and ways of doing situational analyses are readily available for managers and other analytical personnel. Several of the approaches are commonly applicable also in evaluating strategic and tactical alternatives. In the section that follows, four approaches, i.e., cost-benefit, strategic four factor, S.W.O.T. (strengths, weaknesses, opportunities, threats) and directional strategy matrix are introduced but presented more fully in Activity 18, Evaluate Strategies.

Cost-benefit Analysis

Cost-benefit analysis is one of the oldest and most useful approaches for managerial analyses. In 1772, Benjamin Franklin expressed his “moral algebra” in terms of “pros” and “cons”. (Please see an excerpt following.) It is a widely applicable way of evaluating two sets of common, basic components of almost any kind of situation, tactical, strategic or otherwise. In its simplest form, the analysis is based on the value of the tangible and intangible costs subtracted from the tangible and intangible benefits. Costs and benefits are as tangible, specific and quantitative as dollars, pounds, francs, yen or rubles of expenditures and revenues or as intangible and qualitative as negative consumer attitudes or enhanced employee motivation.

Cost-benefit analysis is referred to as
... a practical way of assessing the desirability of projects, where it is important to take a long view and a wide view, i.e., it implies the enumeration and evaluation of all the relevant costs and benefits. A.R. Prest and R. Turvey, "Cost-Benefit Analysis: A Survey", *Economic Journal*, December, 1965, p. 683.

Managers who use such analysis vouch for its ease of understanding, flexibility, adaptability and usefulness.

Although many different approaches are used in cost-benefit analyses, a basic, functional approach involves five steps. They are outlined as follows and presented more fully in Activity 18.

Step One. Develop the aims. An essential task of management is to decide what are the purposes, objectives and goals to be served by the analysis. Once the aims have been determined then the analyst(s) proceeds.

Step Two. Develop alternative ways to achieve the aims. For rational managers, the basic premise for formulating alternatives is that a reasonable probability exist that each proposed course of action is a feasible way to achieve the organization's aims. For other managers, the alternatives might be more like those of Bill Gates and Paul Allen, the Microsoft “whiz kids” when they dreamed, speculated and envisioned the widespread use of microcomputers and their need for software.

Step Three. Estimate the costs. What has to be expended or sacrificed to achieve the aims and their expected benefits? More precisely, what is the price or the cost of each

alternative approach to achieving the aims desired? These two questions are essential to determining the costs in the analyses.

Step Four. Estimate the benefits. Benefits are the positive outcomes expected from each of the alternatives being considered. They are the results of the costs or the resources allocated to alternative courses of action.

Step Five. Compare costs to benefits and apply decision criteria. Simplistically, the best alternative is the one where the benefits most greatly exceed the costs. Questions: does that simple decision rule apply in the short, medium or long term? Does it apply for the entire organization, a division, department or individual? Does it apply to a simple set of aims like “maximizing profits” or does it encompass more wide-ranging objectives such as establishing long range financial viability, supporting stakeholders’ involvement, being socially responsible or even a more comprehensive set of objectives and goals?

Each situation that management faces provides the context and imperatives for cost-benefit analysis of some form and substance. As stated in the “law of the situation”, each situation being considered by management will dictate the factors to be analyzed, the intelligence and information to be sought, the search methods, analytical approaches and methods to be used and, ultimately, the decision(s) that are made.

Excerpt from Benjamin Franklin’s Moral Algebra

(letter to Joseph Priestley, London, September, 1772)

When difficult cases occur, they are difficult, chiefly because, while we have them under consideration, all the reasons *pro* and *con* are not present to the mind at the same time; but sometimes one set present themselves, and at other times another, the first being out of sight. Hence the various purposes or inclinations that alternately prevail, and the uncertainty that perplexes us.

To get over this, my way is, to divide half a sheet of paper by a line into two columns; writing over the one *pro* and over the other *con*; then during three or four days consideration, I put down under the different heads short hints of the different motives, that at different times occur to me, *for* or *against* the measure. When i have them all together in one view, I endeavour to estimate their respective weights; and, where I find two (one on each side) that seem equal, I strike them both out. If I judge a reason *pro* equal to some *two* reasons *con*, I strike out the *three*. If i judge some *two* reasons *con*, equal to some *three* reasons *pro*, I strike out the *five*; and thus proceeding I find at length where the *balance* lies; and it, after a day or two of farther consideration, nothing new that is of importance occurs on either side, I come to a determination accordingly. And, though the weight of reasons cannot be taken with the precision of algebraic quantities, yet, when each is thus considered separately and comparatively, and the whole lies before me, I think I can judge better, and am less liable to make a rash step; and in fact I have found great advantage from this kind of equation, in what may be called *moral* or *prudential algebra*. Benjamin Franklin, *The Life and Letters of Benjamin Franklin*, Eau Claire, Wisconsin: E.M. Hale & Company, undated, pp. 193-194

Strategic Four Factor Analysis

Like cost-benefit analysis, this approach is used in organizing or structuring and evaluating organizational situations as well as choosing tactics and strategic alternatives. Like cost-benefit analysis and other generic approaches, it is flexible and applicable to situations encompassing various sets of circumstances. While this approach encompasses four sets of common factors and related activities that influence management strategy, it is readily modified for use in particular sets of circumstances or situations. Such circumstances and the vital elements inherent therein are determined to a great extent by the environment of the organization and how it is perceived and to be managed by the organization.

Strategic four factor analysis is framed within the external and internal environments of the organization and its management. The simple closed systems model has five main components: strategic planning, resource requirements, strategic control and organizational considerations all of which are interactive and driven by strategic management values. (Please see Exhibit 18B.) As inferred, management's values underlie the analysis and are manifested in the beliefs and attitudes that influence the perceptions of desirable aims, intelligence and information, the various factors that are evaluated and the choices made by managers and other stakeholders of the organization.

S.W.O.T. (Strengths, Weaknesses, Opportunities, Threats) Analysis

For various reasons, SWOT analyses are one of the most widely used in analyzing situations. First of all, it involves generic conditions that are common to all organizations and the situations that they encounter. The approach is balanced, i.e., it has two sets of positive factors and two sets of negative ones as well as three sets of time frames, i.e., past, present and future. Such analyses enable management to look outward into the external environment as well as into the organization, determine the conditions in both contexts and how they relate to each other.

The four key factors are perceptual but their indicators can be quantified to facilitate rigorous analyses. An organization's strengths may be perceived as its product line or service offerings. That perception may be quantified by identifying how many people use a service, e.g., have their taxes returns prepared, have a therapeutic massage or attend church each week, month or year. Those services may be further quantified by how much people pay or contribute for their use, e.g., pay accountants' fees, pay for massages or "put in the collection plate". Similarly, weaknesses may be perceived in the product or service lines, in part, by comparison to objective product or service features, regulatory standards, market demands and competitive offerings. Strengths and weakness are basically inherent within the organization.

Opportunities are conditions that exist or have potential largely, although not exclusively, outside of the organization. Discovering desirable and feasible circumstances to develop are an important aspect of situational analyses and orienting an organization and its' TSMP. Opportunities often shape the future direction of an organization, its

programs, activities and resource allocations. The history books are filled with examples of organizations taking advantage of emerging opportunities in business, government and charities. Offsetting the positive prospects and consequences of opportunities are the threats that organizations and their stakeholders face day by day, week by week, year by year. Threats are commonly perceived to be more numerous and endangering than are the positive prospects of opportunities. Even opportunities have their costs which must be considered to be part of the set of threats inherent in organizational situations. Threats take many forms. Some are obvious like loss of customers or clients, declines in revenues and debt payments. Others, like terrorist attacks and the spread of bacteria or viruses, are less obvious and more insidious. SWOT analyses encourage and require managers to be highly sensitive to the four generic sets of forces and conditions that can and often do impact of their organizations, their programs, activities and resource allocations.

Vulnerability Analysis

In each of the analytical approaches outlined so far, efforts have been made to present them from balanced environmental and organizational perspectives. Similarly, vulnerability analyses encompass external forces, e.g., threats, as well as internal conditions, e.g., weaknesses. Therefore, such analyses are useful in assessing situations and strategic or tactical alternatives (Activities 18 and 19). Historically, most managers and their staffs have been reluctant, for a variety of reasons, e.g., loss of "face", incomes or employment, to suggest, acknowledge or, much less, focus on the shortcomings of their organization, its plans, programs, activities and resource allocations. Over time and with impetus from enlightened management academics, consultants and progressive managers has come the realization that weaknesses are a natural characteristic of all organizations and have to be identified and evaluated precisely and thoroughly. Life has its storms as well as its fair weather. Consequently, vulnerability analysis was developed as an explicit effort to focus on and deal with the weaknesses and threats identified in **SWOT** analyses and other ways that an organization, its management and strategies are or might be susceptible to harm by attack, competition, public criticism or other source(s).

Vulnerability analyses are conducted in various ways. In some organizations, such analyses originate from consultants, focus groups, research studies, internal reports, staff, other stakeholders or managers being the "devil's advocate", pointing out susceptibilities or criticizing actual or planned endeavors. A more subtle approach is by asking a series of questions directed toward actual or potential shortcomings in an organization and its management. Common questions include:

- * Is our purpose best for the organization, its strategies, programs and resources?
In complementary terms, do we have meaningful objectives and accurate, achievable goals and other performance targets?
- * Does the organization have the requisite resources, notably financial and human, to launch and complete a set of specified initiatives?
- * What is the optimal timing for the launch of a planned initiative and its expected completion?

- * What are the organization's critical weaknesses and how susceptible do they make the organization and its resources to risk, loss or other types of damage;
 - * What set of circumstances in the future, i.e., negative scenario(s), would make the organization vulnerable to losses or other types of damage? Related to this question is a sequel: does the organization have adequate capabilities to prevent or protect against such susceptibilities?
 - * Is the organization and its management capable of rectifying its vulnerabilities?
- Certainly, other cogent questions could be developed and asked which would help management focus on actual or potential vulnerabilities AND think about ways to manage such threatening situations.

One 3E way to address organizational deficiencies is by using a process of vulnerability analysis. Following is one that includes four steps.

1. Identify weaknesses, threats or susceptibilities from previous organizational, program or other evaluations in addition to complaints or criticisms from customers, employees, suppliers, investors, industry experts, public officials and/or other relevant people, including managers and other experienced and expert personnel at all levels. The vulnerabilities are listed in a hierarchy of impacts, grouped into interrelated sets and evaluated on the basis of organizational priorities, including projected harms or adverse consequences.

2. Identify, explain or otherwise justify several negative scenarios for each major individual or set of vulnerabilities. (Please see Activity 5.) Such scenarios are given a weighting, e.g., from -10 to -1, and ranked from high to low negative potential consequences, including a worst case scenario.

3. Estimate or determine the probability of occurrence for each negative scenario, deficiency, shortcoming and/or threat. The probabilities are expressed in their normal way, i.e., percentage chances out of 100.

4. Evaluate each scenario in terms of consequence and rank accordingly. Rankings are based on combining the hierarchy of negative scenarios times the probability of occurrence. A table of values can be set up like the following one.

Scenario	Level of negativity	Probability of Occurrence	Consequence.
Devastation	-10	.1	- .1
Moderate misery	- 5	.5	-2.5
Unpleasantness	- 1	.4	- .4

This simple example poses a "decision maker's dilemma". Would the "rational" decision maker choose to act against the devastation situation because of the high level of negativity, even with a low probability of such a scenario occurring or ignore it, given the expected lowest negative consequence? Or would a manager allow its organization to be eroded through incremental "unpleasantness" or bankrupted by "moderate misery"? Because of the *relatively* high negative consequence, managers would probably monitor

and plan to prevent or remedy the conditions of “moderate misery”. Astute managers keep such scenarios available as they endeavor to counter the organization’s many vulnerabilities on a priority basis, starting with the most serious and probable set of weaknesses and threats on through to the point of low or no marginal utility or benefit. A basic cost-benefit or marginal utility question arises: at what point do additional allocations of resources exceed incremental gains from such resources? Sequel questions include: when and for how long will such marginal contributions not be needed? Is it likely that such vulnerabilities will be eradicated, never to occur again? To varying degrees, all organizations are vulnerable. Critical analyses are needed, in part, to help management counter such susceptibilities.

Industry Attractiveness - Company's Competitive Capabilities Matrix

This matrix provides another approach to macro and micro situations. The industry that a company is in and its comparative competitive capabilities relate to external forces and conditions predominantly, although not exclusively. In many respects, it is similar to the directional strategy matrix and is presented more fully in Activity 18, Evaluate Strategies. However, this matrix includes a set of attractiveness factors that are useful in assessing the industry presently and in the future. The key competitive factors emphasize the position of the company more than it does the state of competition in the industry. In effect, this approach is more oriented to the organization’s strategies than it is to the environmental forces and conditions that influence and shape the alternative courses of action available to management.

Competitive Strategy

In the history of management, few other approaches have been as complete as the competitive strategy framework developed by Professor Michael Porter of the Harvard Business School. (Please see Exhibit 3A.) In his renowned book, *Competitive Strategy*, he brought together dozens of elements related to analyzing industrial competition from a structural perspective. His substantive model was based on the numerous environmental and organizational sources driving five major forces of industrial competition. Insight into his approach is outlined in the following statement,

Knowledge of these underlying sources of competitive pressure highlights the critical strengths and weaknesses of the company, animates its positioning in its industry, clarifies the areas where strategic changes may yield the greatest payoff, and highlights the areas where industry trends promise to hold the greatest significance as either opportunities or threats. Porter, *op. cit.*, p. 4

Professor Porter’s competitive strategy framework is ideal for illustrating situational analysis. The general approach outlined earlier in this Activity is readily applicable. As you may recall, scanning is the first step. From an industrial economics perspective Professor Porter has provided an extensive search of the environment and organizational activities, identifying five main forces which, separately or in combination(s), influence the intensity and effects of competition. The forces are: *threat of entry into the market; intensity of rivalry among exist competitors; competitive*

pressures from substitute products; bargaining power of buyers; and bargaining power of suppliers. From the basic five forces, the competitive strategy can be disaggregated into the number of factors that management deems necessary. In the Exhibit, the industrial competitive framework has been factored into three levels and 39 competitive factors in total. More or less factors are plausible according to management's situation and its analytical needs. These factors provide the core elements for evaluating, the third step in the generic approach to situational analysis. Flowing from the evaluation is the communicating, i.e., concluding and recommending, necessary to complete the analytical process.

Exhibit 3A

**Composite List of Factors
in Porter's Competitive Strategy Framework**

Forces:	Threat of Entry	Rivalry among Competitors	Pressure from Substitute Products	Bargaining Power of Buyers	Bargaining Power of Suppliers
	- barriers to entry	- interacting factors of rivalry	- availability of attractive substitutes	- power of buyers to influence terms	- suppliers' influence on terms and conditions
	* economies of scale	* number of competitors	- buyers' view of satisfactory substitutes, e.g., performance, quality, other attributes	* buyer's costs of switching	- extent of supplier-seller collaboration in industry
	* cost disadvantages	* slow growth of industry	- ease of buyers switching to substitutes	* number/importance of buyers	
	* product differentiation	* high fixed costs		* buyers informed about prices, etc.	
	* capital requirements	* lack of differentiation or switching costs		* threat of backward integration	
	* switching costs	* large increments of capacity added		* buyer discretion about purchase	
	* access to distribution	* diversity of competitors		- importance of seller-buyer relationships in the industry	
	* government policy	* high stakes			
	- expected retaliation	* high exit barriers			
	- entry benefits v deterrence costs	- shifting rivalry			
	- other entry barrier properties	- exit/entry barriers			

Clearly, Michael Porter's approach provides a comprehensive basis for analyzing strategic situations. Such analysis is a vital part of the TSMP. His book and related articles provide a more thorough discussion of the factors and his qualitative analysis. In addition to *Competitive Strategy*, please see Michael E. Porter, "How Competitive Forces Shape Strategy", *Harvard Business Review*, March-April, 1979, pp. 133-142 and Michael E. Porter, "Industry Structure and Competitive Strategy: Keys to Profitability", *Financial Analysts Journal*, July-August, 1980, pp. 30-38. Many of his concepts were

expanded into a macro competitive model of strategy that was applied to ten national economies, including that of Canada.

Macro-Micro Competitive Forces and Strategy

Michael Porter's Five Forces provides a fairly exhaustive taxonomy for managers to use in evaluating competitive situations, considering strategic alternatives and making the decisions necessary to formulate, implement and adapt optimal organizational strategies. More recently, Professor Porter developed a framework of attributes for evaluating the competitiveness of nations. That framework is referred to as "the diamond of national advantage" and was used for a ten-nation study that was completed in the early 1990s. The four main attributes were:

1. factors of production, i.e., land, labor, natural resources, infrastructure, highly specialized pools of skills and technology;
2. demand conditions, i.e., the nature of home market and foreign demand for goods and services with which a nation might have a competitive advantage;
3. related and supporting industries, i.e., the presence or absence in the country of supplier and related industries that are internationally competitive; and
4. firms' strategy, structure and rivalry, i.e., the conditions in the country influencing how businesses are created, organized and managed to meet domestic and foreign rivalry.

Michael E. Porter, *Canada at the Crossroads - The Reality of a New Competitive Environment*, Harvard Business School and Monitor Company, October, 1991, p. 24.

In addition, Professor Porter identifies government policy and chance, i.e., conditions outside the control of the country's government and its companies, which influence the competitive environment.

Michael Porter's analytical frameworks enable managers, at the micro and macro levels, to evaluate and choose strategic alternatives. At the micro level, he offers four approaches:

1. positioning – This approach is evaluated in *defensive* and *offensive* terms. Positions in markets are taken or maintained to defend against competitors either entering a market or building their market power. In offensive terms, companies seek increased sales, market share and positions based on their strengths and competitors' weaknesses.

2. achieving balance - Too often, strategies are dictated by the strongest group within an organization, e.g., marketing, finance, technical or production. Numerous problems arise from such unbalanced strategies, including vulnerability to competitors. Optimum strategies need to have functional, geographical, resource and other forms of balance.

3. exploiting change - Progressive managers constantly search for changing conditions that can be exploited with their organizational strategies. Compared to past propensities to resist change, modern managers are more comfortable with the dynamics in their environment. They seek changes and the opportunities they offer for strategic advances.

4. diversifying - In evaluating and preparing strategies, this approach is a two-edged sword. One edge allows organizations to cut into larger markets, gaining economies of scale, complementary and synergistic programs and activities and other strategic benefits. The other edge cuts into management's capability to focus the organization on its core competences, market and other strengths and not spread scarce resources so thinly that the organization is overly vulnerable to competition

At the macro level, Professor Porter evaluated numerous national political policies, industrial economic structures and activities and related conditions. Consequently, he identified seven general imperatives for an economic vision of Canada and the strategies of companies in that country. The imperatives were:

1. become an innovation-driven economy - Innovation is the critical requirement for economic upgrading and increased prosperity. Governments must align their policies to support this strategic objective.

2. increase the sophistication of the natural resource sector - Threats to the sustainability of Canada's position in resource-based industries require efforts to use more advanced technology and specialized skills, increase productivity and develop more sophisticated and differentiated products and services.

3. make free trade complete within Canada - Barriers to interprovincial trade need to be eliminated so that the benefits of economies of scale, specialization and competition can be attained across the country

4. overcome barriers to upgrading throughout the economy - Eliminating barriers to upgrading productivity must be a priority for business and government. Incentives would be shifted to encourage a greater focus on work, investment and skill building.

5. transform foreign subsidiaries into a Canadian base - Managers in multinational corporations would make decisions about whether or not to support or move branch plants. Their decisions would be based on such factors as whether or not the Canadian environment is conducive to innovation and productivity growth and the investments in new skills, technologies and product lines necessary to achieve corporate objectives.

6. build on the nation's regional strength - Rather than emphasize economic diversification, the focus should be on building business or industry clusters where they have been or can be based on competitive advantages and other strengths.

7. create and maintain a supportive, stable macroeconomic climate - To achieve lower costs of capital, encourage investment and neutralize the effects of exchange and interest rates, fiscal, monetary, tax and regulatory policies should be aimed at lower inflation, balanced and manageable public finances and a stable economic climate.

The nine approaches outlined in this Activity are another example of the “tip of the iceberg” phenomenon. Many more approaches are available for management to analyze the situations they encounter in the performance of their responsibilities and duties. The situations that they encounter will influence, if not determine, the approach as well as the level of methodology and degree of specialized expertise that is required to analyze situations optimally.