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Hiring skilled international workers can bring new expertise and opportunities to UK businesses. However, employers must consider various financial and legal responsibilities when sponsoring For decades, traditional industries like manufacturing, agriculture, and retail were known for their stable, predictable business models. However, as technology continues to evolve at Photo by Mike Cho on Unsplash In today's fast-paced, tech-driven world, entrepreneurs face a growing need for efficiency, flexibility, and scalability to stay competitive. If you want to stand out in your retail industry or with e-commerce, sustainability is the way to go. Not only is it an Data science has become one of the most critical fields in the technology landscape, driving innovation and providing businesses with valuable insights. Python, due WordPress is the leading CMS since it allows over 40% of worldwide websites to interact using the platform. There are unique aspects that can Strategic analysis examines a company's internal and external environments to develop actionable strategies. Using frameworks like SWOT and PESTLE, it identifies strengths, weaknesses, opportunities, and threats, helping businesses navigate market complexities and align goals with operations and long-term plans.In today's competitive landscape, industries utilize a variety of strategic analysis tools to sharpen their competitive edge. These tools not only simplify the analysis process but also provide valuable insights into market trends, consumer behavior, and competitor strategies. By leveraging analytical methods, businesses can craft coherent action plans that align with their corporate vision and drive growth.As organizations work to secure and sustain competitive advantages, strategic analysis becomes essential. Understanding competitive analysis is crucial for evaluating market dynamics and identifying new business opportunities. It provides stakeholders with clear, data-driven insights that guide strategic initiatives and foster proactive decision-making. By embedding these methods into everyday operations, businesses can stay ahead in an ever-evolving market, ensuring they are well-positioned to capitalize on opportunities and respond to challenges effectively.Easy 7 Step Guide to Conducting a Strategic AnalysisStrategic analysis is vital for organizations to assess both internal and external factors, enabling informed decision-making and the development of effective business strategies. By thoroughly examining key components like objectives, resources, capabilities, market trends, and competition, businesses can craft comprehensive strategies that align with long-term goals and adapt to changing market conditions. This process helps identify strengths, weaknesses, opportunities, and threats (SWOT), ensuring the strategy remains dynamic and relevant.1. Define Strategic ObjectivesStart by aligning the company's goals with its mission and vision. Clear, actionable objectives help focus the strategy and ensure it is measurable. Frameworks such as SMART Goals and the Balanced Scorecard are useful tools for setting precise objectives.Smart Goal Template for Strategic Analysis2. Conduct Internal AnalysisAssess the organization's internal environment by evaluating resources, capabilities, strengths, and weaknesses. This critical step uncovers areas of excellence and areas for improvement. Tools like SWOT Analysis, the VRIO Analysis Framework, and the McKinsey 7S Model assist in conducting a comprehensive internal assessment.VRIO Analysis for Strategic Analysis3. Conduct External AnalysisEvaluate the external environment to identify market trends, competitive dynamics, regulatory changes, and potential threats. Understanding these external forces allows businesses to pinpoint opportunities and risks. Common tools include PESTLE Analysis and Porter's Five Forces, which offer insights into the broader business environment.Simple Analysis PESTEL Template for Strategic Analysis4. Interpret Data & InsightsOnce both internal and external data are collected, the next step is to analyze the information for patterns, opportunities, and challenges. Leveraging data analytics and business intelligence software can help extract actionable insights that inform the strategy development process.5. Develop a Strategic PlanUse the insights gained from internal and external analyses to develop a comprehensive strategic plan. The plan should align with the organization's objectives while being flexible enough to adapt to changing conditions. Tools like Gantt Charts, Strategic Roadmaps, and Cascade Strategy Execution Software are useful for organizing, executing, and tracking the strategy's implementation.Strategy Map Template for Strategic AnalysisThe following table outlines key steps in strategic analysis and implementation, providing a roadmap for organizations to develop and execute effective strategies. It highlights tools and methods for assessing internal and external environments, setting clear objectives, and tracking performance. By using these strategies, businesses can align their goals with their vision, adapt to market changes, and foster continuous improvement to ensure long-term success.StepDescriptionTools & MethodsDefine ObjectivesSet clear, strategic objectives that align with business vision and values. This provides a measurable foundation for the strategy.Balanced Scorecard, SMART Goals, Vision and Mission StatementsConduct Internal AnalysisEvaluate internal capabilities, resources, and performance to identify strengths and weaknesses. Use insights to improve current strategies.SWOT Analysis, VRIO Framework, McKinsey 7S Model, Resource AuditsConduct External AnalysisAssess the external environment to uncover market trends, opportunities, threats, and regulatory changes.PESTLE Analysis, Porter's Five Forces, Market Research Reports, Competitor BenchmarkingBenchmarkingCompare internal performance with industry leaders or best practices to identify areas for improvement.Industry Benchmarks, Competitor Analysis ToolsInterpret DataLeverage data analytics to derive insights, helping to guide decision-making and align with strategic objectives.Data Analytics, Business Intelligence Software, Predictive AnalyticsDevelop and Implement StrategyCreate a detailed strategy based on the analysis insights. Ensure flexibility and scalability to adapt to changes in the market.Cascade Strategy Execution Software, Gantt Charts, Strategic RoadmapsAllocate ResourcesEnsure the right resources (people, budget, time, tools) are aligned with strategic priorities to maximize efficiency.Resource Management Software, Budget Allocation ToolsCommunicate the StrategyEffectively communicate the strategy across all levels of the organization to ensure alignment and engagement.Internal Communication Platforms, Strategy Workshops, Executive BriefingsSet Key Performance Indicators (KPIs)Establish measurable KPIs that reflect the success of the strategy and its alignment with objectives.KPIs, Dashboards, Performance MetricsMonitor and AdjustContinuously track performance against objectives and be prepared to adjust strategies and tactics in response to environmental changes.Performance Dashboards, Continuous Feedback Loops, Quarterly ReviewsRisk ManagementProactively identify, assess, and mitigate risks that may hinder the successful execution of the strategy.Risk Assessment Matrix, Contingency Plans, Risk Mitigation FrameworksFoster InnovationEncourage innovation to adapt and stay competitive in the market by nurturing a culture of continuous improvement.Innovation Workshops, R&D Investment, Crowdsourcing IdeasEvaluate and Refine StrategyRegularly assess the effectiveness of the strategy. Refine and improve based on results, feedback, and evolving conditions.SWOT Analysis, Strategic Review Meetings, Continuous Improvement FrameworksDevelop Leadership and TalentFocus on leadership development and talent management to ensure the organization has the right capabilities to execute the strategy.Leadership Development Programs, Succession Planning, Employee Engagement SurveysBy following this structured approach to strategic analysis, organizations can ensure a comprehensive evaluation of both internal and external factors. This leads to well-informed, aligned, and adaptable business strategies that drive long-term success.Levels of Strategic AnalysisLevels of strategic analysis are essential for businesses to evaluate their strategic positioning and make informed decisions at different organizational tiers. These levels typically include:Corporate-Level StrategyFocuses on the overall direction of the organization.Involves decisions related to diversification, mergers and acquisitions, entering new markets, and managing a portfolio of businesses.Business-Level StrategyCenters on how a company competes in a particular market or industry.Involves decisions about product differentiation, cost leadership, and market positioning to gain a competitive edge within specific segments.Functional-Level StrategyFocuses on the day-to-day operations and specific activities that support higher-level strategies.Involves departments like marketing, finance, HR, and operations, ensuring that each function effectively supports the business and corporate strategies.Each level of strategic analysis is crucial for ensuring that the organization's actions at all tiers align with its overarching goals, contributing to sustainable success and growth.Internal vs. External Strategic AnalysisStrategic analysis is a vital process for shaping business strategies by examining both internal and external factors. Understanding the interplay between internal and external analysis is crucial for making informed and dynamic decisions.1. Internal AnalysisInternal analysis focuses on evaluating a company's strengths and weaknesses. This includes assessing key resources like proprietary technology, unique skills, and efficient processes. Tools such as the McKinsey 7S Model and VRIO framework help businesses analyze their capabilities and resources. By identifying areas of strength and areas needing improvement, companies can maximize their competitive edge and optimize their existing assets.Mckinsey 7s Model for Strategic Analysis2. External AnalysisExternal analysis examines the macro enviromental factors outside the organization, such as market trends, competition, regulations, and socio-economic shifts. Using tools like PESTLE (Political, Economic, Social, Technological, Legal, Environmental) and Porter's Five Forces, businesses can identify opportunities and threats in the external environment. This analysis helps organizations adjust their strategies to align with evolving market conditions, ensuring long-term success and sustainability.Porters Five Forces Template for Strategic AnalysisBoth internal and external analyses must align with business objectives to develop strategies that are realistic and effective. Using frameworks like Creately ensures a well-rounded approach to mapping complex tactical scenarios.Here's a table summarizing Internal vs. External Strategic Analysis:AspectInternal Strategic AnalysisExternal Strategic AnalysisFocusExamines internal strengths and weaknesses of the organization.Analyzes external factors that could impact the organization, such as market trends.PurposeTo assess internal capabilities, resources, and processes.To identify opportunities and threats in the external environment.Key ComponentsOrganizational structure, resources, capabilities, and operational efficiency.Market trends, competition, regulatory changes, socio-economic factors.Tools UsedMcKinsey 7S Model, VRIO Framework, Internal Audits.PESTLE Analysis, Porter's Five Forces, Market Research.Key InsightsIdentifies areas of strength to capitalize on and weaknesses to address.Identifies opportunities to exploit and threats to mitigate.Impact on StrategyHelps shape strategies based on internal strengths and resources.Influences strategies to align with market opportunities and external pressures.ExamplesLeveraging proprietary technology, improving processes, optimizing resources.Understanding competitor dynamics, market growth potential, regulatory changes.By conducting thorough internal and external analyses, businesses can align their capabilities with market opportunities, forming robust strategies for sustainable growth. This data-driven approach promotes continuous learning and adaptability, which are essential for success in today's dynamic business environment.Strategic analysis plays a crucial role in guiding organizations towards informed decision making and competitive advantage. A multitude of tools have been developed to streamline this process, enabling clarity and efficiency in strategy formulation.SWOT Analysis: SWOT Analysis tool helps businesses identify internal strengths and weaknesses while recognizing external opportunities and threats. By providing a clear framework, SWOT assists businesses in aligning their resources to best leverage strengths and mitigate weaknesses.SWOT Analysis Template for Strategic AnalysisPESTLE Analysis: This tool evaluates the broader macro environmental analysis factors that can influence strategic decisions. By analyzing political, economic, social, technological, legal, and environmental aspects, businesses can anticipate market trends and prepare proactive strategies.PESTEL Analysis Template for Strategic AnalysisPorter's Five Forces: Porter's Five Forces Model framework helps organizations understand the competitive forces at play within their industry. By analyzing the threat of new entrants, the power of suppliers and buyers, and the threat of substitute products or services, companies can develop robust strategies to maintain a competitive edge.Porters Five Forces for Strategic AnalysisValue Chain Analysis: Value Chain Model focuses on the value-add at each stage of the business process and can help businesses identify areas for performance improvement or cost reduction.Value Chain Model for Strategic AnalysisA structured strategic analysis process aligns business activities with goals and helps companies address market dynamics. Balanced Scorecard, SWOT, PESTLE, and performance dashboards tools enhance effectiveness. Platforms like Creately support visual strategy mapping, enabling clear communication and adjustments to strategic plans. Read more on What is a strategy map? to understand strategy mapping.Benefits of Strategic AnalysisStrategic analysis offers several key benefits, including identifying opportunities, managing risks, and optimizing resources. It supports informed decision-making, aligns with organizational strategic goals, and helps businesses adapt to market changes. By providing insights into both internal and external factors, strategic analysis ensures long-term success and enhances competitiveness.Informed Decision-Making: Strategic analysis provides businesses with data-driven insights, enabling leaders to make informed decisions based on a clear understanding of both internal and external factors.Improved Competitive Advantage: By identifying strengths and opportunities, strategic analysis helps organizations capitalize on their unique resources and stay ahead of competitors.Risk Mitigation: Analyzing external threats and weaknesses allows businesses to anticipate potential risks and develop strategies to mitigate them, ensuring long-term stability.Alignment with Market Trends: External analysis helps companies stay aligned with changing market conditions, customer preferences, and regulatory changes, enabling them to adapt quickly.Resource Optimization: Internal analysis highlights areas where resources can be better utilized, leading to increased operational efficiency and cost savings.Long-Term Planning: Strategic analysis ensures that business strategies are not only relevant today but also scalable and adaptable for future growth, guiding long-term success.Increased Organizational Focus: By defining clear objectives and aligning the entire organization around a unified strategy, strategic analysis enhances focus and drives execution towards shared goals.Enhanced Innovation: By identifying gaps and opportunities in both internal operations and the external environment, strategic analysis fosters creativity and innovation within the organization.In summary, strategic analysis provides a comprehensive understanding of a company's position, allowing it to make proactive decisions that drive growth, optimize resources, mitigate risks, and adapt to changing market dynamics.Utilizing Creately for Conducting a Strategic AnalysisCreately is an effective platform for visualizing and executing strategic analysis, providing organizations with tools to streamline the process. Here's how you can leverage Creately for each aspect of strategic analysis:Mapping Internal & External FactorsUse Creately's SWOT Analysis template to map strengths, weaknesses, opportunities, and threats, making it easier to visualize and discuss key insights with your team.PESTLE Analysis templates can be used to assess external factors like political, economic, social, technological, legal, and environmental influences.SWOT Analysis Template for Strategic AnalysisPESTEL Analysis Template for Strategic AnalysisStrategy MappingUtilize Creately's strategy map templates to align business objectives with strategic initiatives. This helps visualize how goals and processes interconnect and ensures alignment across the organization.Collaboration & Real-Time FeedbackCreately allows real-time collaboration, enabling teams to work together and share insights instantly. Comments and annotations make it easy for stakeholders to provide feedback and contribute to the analysis.Data VisualizationWith Creately's visual tools, you can turn complex data into easy-to-understand diagrams, flowcharts, and mind maps, helping to identify trends, gaps, and areas for improvement quickly.Competitive AnalysisUse Strategic Group Map tool to map competitors and assess market positioning, identifying opportunities for differentiation or areas to gain a competitive advantage.Competitive Analysis Template for Strategic AnalysisTracking Progress & AdjustmentsCreately can be used to create performance dashboards, track KPIs, and adjust strategies as needed. It helps ensure that the analysis is continuously aligned with business goals and evolving market conditions.By integrating Creately into your strategic analysis process, organizations can enhance their strategic planning, improve team collaboration, and develop actionable, data-driven insights that guide long-term success.ConclusionIn conclusion, strategic analysis is a vital process that empowers organizations to navigate complex market landscapes, optimize internal resources, and make informed decisions that drive long-term success. By leveraging proven frameworks like SWOT and PESTLE, businesses can uncover opportunities, mitigate risks, and align their strategies with both current and future goals. Integrating strategic analysis into day-to-day operations fosters adaptability, innovation, and a proactive approach to challenges, ensuring sustained competitiveness. Ultimately, strategic analysis is not a one-time activity but a continuous practice that lays the foundation for organizational growth and resilience in an ever-evolving business world.ResourcesPESTLE Analysis, 2020. PESTLE Analysis: A Tool for Strategic Management. [Online] Available at: G., Scholes, K. and Whittington, R., 2008. Exploring Corporate Strategy: Text and Cases. 8th ed. Harlow: Pearson Education. [Online] Available at: M.E., 1980. Competitive Strategy: Techniques for Analyzing Industries and Competitors. New York: Free Press. [Online] Available at: ``Strategic analysis is the comprehensive process of gathering and analyzing data about a business's internal and external environment to create effective strategies. This helps in decision-making, aligning strategies with business objectives, and staying competitive.Strategic analysis is crucial as it identifies an organization's strengths, weaknesses, opportunities, and threats (SWOT), enabling data-driven decisions that drive growth, enhance market position, and achieve long-term objectives.Popular usecases in strategic analysis include SWOT Analysis, PESTLE Analysis, and Porter's Five Forces. These tools help businesses understand the competitive landscape, assess internal capabilities, and anticipate market dynamics.By identifying key trends and data points, strategic analysis helps mold long-term strategies. It guides enterprises in setting achievable goals, optimizing resources, and adapting to changes in the marketplace, thus ensuring sustainable growth.Market research is integral to strategic analysis. It provides insights into market conditions, customer behavior, and competitive dynamics, forming a foundation for informed strategic planning and execution.Strategic analysis can be categorized into internal, focusing on organizational strengths and weaknesses, and external, emphasizing market opportunities and competitive threats. The integration of both aspects helps firms align their operations with strategic objectives. The festival, created to mirror Spain's La Tomatina festival, was hosted in Sutamarchan, north of Colombia's capital Bogota, for its 15th edition this year after many years of suspension. Benefits Q&A on PPC advertising Get expert advice Great PPC discussions Stay updated with PPC news Quick support on tools Discounts and special offers Find out the differences between internal and external analysis and how you can use SWOT and PESTLE models to accomplish both. Strategic management is a popular method for running businesses which involves an analytical approach to setting goals and managing resources. Like strategic planning, strategic management often involves a good dose of business analysis. Broadly speaking, this business analysis can be categorized as either internal or external.In this short guide, we'll walk you through the differences between internal and external analysis and show you how you can use SWOT and PESTLE models to accomplish both.Internal Analysis for Strategic ManagementWhat Is Internal Analysis?Let's start with internal analysis. As the name suggests, internal analysis focuses on evaluating all aspects of the organization itself. Although internal analysis can sometimes take into account the actions of external organizations or market-wide shifts, it is largely related to the inherent traits of the organization at hand.For example, internal analysis can allow you to identify both strong and weak aspects of your organization, without taking into account the performance of external organizations.Here's another way to think about internal analysis: if your organization was the only one that existed — meaning your organization had no competition — and your business environment was entirely neutral — meaning it didn't in any way affect your organization — then what factors would you consider when analyzing your organization?Why Is Internal Analysis Important?In the context of strategic management, internal analysis is crucial for a few reasons. Your organization might be spending too much in some areas due to internal inefficiencies, or, alternatively, your organization could be leaving money on the table. The only way to reveal these things — and get a true understanding of how resources are being used in your organization — is by means of internal analysis.Why Use SWOT as a Tool?The SWOT model is an excellent tool for internal analysis, since it encourages you to think about your organization and only your organization. The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats, which are the four factors you take into account during SWOT analysis as you create the SWOT table.As you can see, the first two of these factors — Strengths and Weaknesses — are very much internal. Neither your competitors nor your external business environment can affect what your organization does well and what your organization does poorly: those things are entirely up to you.With the latter two factors — Opportunities and Threats — you could argue that SWOT analysis doesn't have an entirely internal focus. However, that simply depends on how you use it. If you choose to ignore external factors (such as competitive rivalry, material costs, or government regulations), the Opportunities and Threats categories can still provide valuable insight to the internal aspects of your organization, in the context of strategic management.Getting Started with SWOTSWOT analysis is as easy as it sounds: listing and evaluating the Strengths, Weaknesses, Opportunities, and Threats affecting your organization. Trying to come up with these factors isn't always so easy; it takes a lot of brainstorming.For more information, be sure to read our complete guide to conducting a SWOT analysis.External Analysis for Strategic ManagementWhat Is External Analysis?Let's switch gears and talk about external, or environmental, analysis. Unlike internal analysis, external analysis is less about the organization itself, and more about its business environment (including its competitors). Again: the term is mostly self-explanatory — looking at external business analysis factors instead of internal ones.So, what exactly would an example of an external factor be? The number of new competitors entering your industry, the cost of materials used to manufacture your products, or the regulatory frameworks set out by governments — these are all examples of variables which are out of your organization's control, and should be taken into account in external analysis.One helpful way to tell whether a business analysis factors is external or not is to ask "does this factor apply to other organizations?" For example, an increased tax rate applies all organizations — not just yours — so you know it's an external factor.Why Is External Analysis Important?As you might expect, external analysis is also very important in the context of strategic management. When evaluating your organization's goals and resources, you absolutely need to look at the surrounding business environment. In a perfect world, it would be enough just to look inside your organization; in the real world, you need to be conscious of external forces that might affect your business' operations and throw you off course.Why Use PESTLE as a Tool?For analyzing external factors, the PESTLE model should be your tool of choice. PESTLE stands for Political, Economic, Sociocultural, Technological, Legal, and Environmental, which are the six categories of environmental factors you should take into account during business analysis (like in strategic management).If you look closely, you'll see that these almost all of the factors that fall into these six categories aren't inherently related to your organization, but are related to the overarching business environment:Political. How are government decisions influencing your organization?Economic. How is the local or global economy influencing your organization?Sociocultural. How are changes in social and cultural norms influencing your organization?Technological. How is the advancement, presence, or lack of technology influencing your organization?Legal. How are legal issues influencing your organization?Environmental. How is the environment influencing your organization?Getting Started with PESTLESimilarly to SWOT analysis, using PESTLE analysis is surprisingly easy. Simply categorize the external factors affecting your business as Political, Economic, Sociocultural, Technological, Legal, or Environmental.The challenge is finding those factors in the first place. It's helpful if you have some experience in your industry, which would give you a headstart on where to look. Otherwise, you'll need to do a lot of brainstorming and trawl through plenty of reports to find out which factors really affect your organization.For more information on carrying out an external analysis like this, be sure to read our three-step guide to PESTLE analysis.Internal and External Analysis in Strategic Management: Final ThoughtsStrategic management is a powerful way to run businesses. As a result of this approach's inherently analytical nature, it's important that you use both internal and external business analysis tools to make managerial decisions. You can do so by using the popular models of SWOT and PESTLE, which we have come to know and love in the world of business analysis. An internal and external strategic analysis refers to reviewing your organization's current state from an internal and external perspective. The output of completing an internal and external analysis – also known as a strategic analysis – is to have a clear picture of your organization's current state. How does a strategic analysis fit into strategic planning? Before any organization jumps into the core of strategic planning process, it's vital to clearly understand where your organization is today. Without clearly defining where you are today (your current state), you can't define your bold destination of the future (vision) or create the roadmap to get there (your annual strategic plan). Completing an internal and external analysis lays the groundwork and foundation for the bones of your strategic plan, influencing everything from your competitive advantages, growth strategy, and major themes that influence your entire strategic plan's framework.It also helps you better understand the gaps you need to overcome to reach your future goals. Pro Tip: DO NOT SKIP THIS STEP IN PLANNING! It may seem tempting to skip things like your SWOT, completive analysis, and strategic market analysis, but don't do it! Build a plan that helps you go from where you are today to a bold place in the future. What is the output of an internal and external analysis? The result or output from this work should be a fully fleshed-out current state analysis for your organization's growth. This should include: What you're best at, and what you need to improve upon. Your clearly defined competitive advantages. Areas of market opportunity or growth opportunity to pursue. A clear understanding of your competitors and what they're best at. Strategic themes to use as the framework for your plan. Analyzing Your Internal Factors What is an internal analysis? An internal analysis examines your organization's core competencies today that are influenced by internal factors – factors that are not driven by external market dynamics. This analysis would look at the organization's strengths and weaknesses in meeting the needs of your customers or stakeholders As you dive deeper into an internal analysis process, you will examine internal factors that give an organization advantages and disadvantages in meeting the needs of its market, customers, partners, and even employees. Any analysis of company strengths should be market-oriented/customer-focused because strengths are only meaningful when they assist the firm in meeting customer needs. Internal Factors to Consider An internal analysis can look at all internal factors affecting a company's business performance. Here are the three most common factors to consider as you conduct your internal analysis: Your Organization's Resources A good starting point to identify resources is to look at tangible and intangible resources available to your organization. Tangible resources are the easiest to identify and evaluate financial resources, and physical assets are identified and valued in the firm's financial statements. Intangible resources are largely invisible, but over time become more important to the firm than tangible assets because they can be a main source of competitive advantage. Such intangible resources include reputational assets (brands, images, etc.) and technological assets (proprietary technology and know-how). Your Organization's Capabilities Organizational capabilities are used to refer to a firm's capacity for undertaking a particular productive activity. Our interest is not in capabilities per se but in capabilities relative to other firms. We will use the functional classification approach to identify the firm's capabilities. A functional classification identifies the organizational capabilities of each of the principal functional areas. Your Human Resources (Employees) Technically, this could fall underneath your organization's resources, but it's worth separating human resources into its own category. After all, without your organization's human capital, you wouldn't exist! Data to Use in an Internal Analysis Before you conduct your internal analysis, we recommend collecting the following as references: Employee Surveys What do your employees say your organization does well, and where must you improve? Surveys need to be from within the previous 12 months! Customer Surveys What do customers love most about your organization, product, or service? How do you best meet their needs? Again, these surveys must be from within at least the previous 12 months. Business Strategy of Record + Current Performance Having your previous strategic plan and performance data to reference is always helpful as you complete your strategic internal analysis process. List of Resources Your tangible and intangible resources may directly influence your internal strategic strengths, weaknesses, problems, constraints, and uncertainties. A List of Capabilities Capabilities [or lack of capabilities] are helpful to reference and identify internal strategic strengths, weaknesses, problems, constraints, and uncertainties. Questions to Consider for Your Internal Analysis What do you do best? What do we do best? What do our customers value most from our organization? What do our customers value most from our organization? How do we uniquely serve our customers? What are our company resources – assets, intellectual property, and people? How are we using our resources well? Where do we need to be more efficient? How do our employees or shareholders perceive us? How are we meeting our employees' needs? What are our organization's core capabilities? What do we need to improve upon? Tools to Conduct Your Internal Analysis SWOT Analysis Conducting a SWOT analysis is easily the most common approach to completing an internal analysis. SWOT stands for strengths, weaknesses, opportunities, and threats. The internal component of a SWOT analysis specifically looks at your organization's core strengths (S) and weaknesses (W). Pro Tip: A SWOT's S and W portion is directly influenced by your organization's internal factors – meaning factors you can directly influence. You can check out our full post on SWOT analysis here and download the free SWOT analysis guide here. VRIO Framework The VRIO framework is an internal analysis tool designed to help you identify your organization's competitive advantages. The VRIO analysis too helps you evaluate if a core strength, capability, or resource is a competitive advantage by assessing if that strength is valuable to your market, rare in competition, hard to copy, and organized to act upon. Pro Tip: The VRIO framework evaluates internal strengths but needs external strategic analysis of your competition. So, it uses internal and external factors to help you identify your competitive advantages. Download our Free VRIO Template and Examples! What is the Output of an Internal Analysis? There are a few important outputs from an internal analysis that help create the foundation of your business strategy formulation and direction: Output #1: A clear list of internal strengths and internal weaknesses of an organization. Output #2: Strategic issues to address (from an internal perspective). Output #3: A list of strengths to use as fodder for your competitive advantages (you'll need to use these paired with a competitive analysis to identify competitive advantages). Output #4: Themes to use in your strategic framework and strategic planning objectives. Analyzing Your External Factors An external analysis examines the external factors and forces that impact your organization's operating environment. External factors, by nature, exist beyond the walls of your organization and internal environment. They are forces and dynamics beyond your control, but still, impact your organization level and position in the marketplace. Pro Tip: A helpful way to think about external forces is to ask, "would this be an issue or opportunity even if our organization did not exist?" If yes, it is an issue that is an external force. The goal of these exercises is to identify external opportunities, threats, trends, and strategic uncertainties. External Factors to Consider An external analysis can be used to look at all external factors affecting a company. Here are the three most common factors to consider as you conduct your external analysis: Market Trends Market-level data, including overall size, projected growth, profitability, entry barriers, cost structure, distribution system, trends, and key success factors in your competitive market. Industry Data and Trends This data looks at what's happening in your industry, including factors like vendors, suppliers, competitors, and buyers' power. Operating Environment Trends This looks at global forces, demographic changes, political winds, ecological and natural issues, technological trends, economic factors, and social/cultural shifts. This is most often completed using a PESTLE analysis. Data to Use in External Analysis Industry and Market Reports What are important and potentially important markets? What are their size and growth characteristics? What markets are declining? What are the driving forces behind sales trends? Who competes in your market, and what is their market share? Market Profitability Projections For a holistic strategic analysis of your major market, consider the following factors: Is this a business where the average firm will make money? How intense is the competition among existing firms? Evaluate the threats from potential entrants and substitute products. What is the bargaining power of suppliers and customers? How attractive/profitable is the market now and in the future? Cost Structure What are the major cost and value-added components for various types of competitors? Supplier and Distribution Data What's happening in your supply chain market? What are the alternative channels of distribution? How are they changing? Operating Environment Factors The interest is in environmental analysis and events that have the potential to affect strategy. This analysis should identify such trends and events and estimate their likelihood and impact. When conducting these types of strategic analysis, it is easy to get bogged down in an extensive, broad survey of trends. It is necessary to restrict the analysis to areas relevant enough to impact strategy significantly. Economic: What economic trends might have an impact on business activity? (Interest rates, inflation, unemployment levels, energy availability, disposable income, etc) Technological: To what extent are existing technologies maturing? What technological developments or trends are affecting or could affect our industry? Legal Forces: What changes in regulation are possible? What will their impact be on our industry? What tax or other incentives are being developed that might affect strategy development? Are there political or governmental stability risks? Sociocultural: What are the current or emerging lifestyle, fashion, and culture trends? What are their implications? What demographic trends will affect the market size of the industry? (i.e. growth rate, income, population shifts) Do these trends represent an opportunity or a threat? Questions to Consider for Your External Analysis Assessing Your Marketing (External Factors): What is happening externally and internally that will affect our company? Who are our customers? What are the strengths and weaknesses of each competitor? What are the driving forces behind sales trends? What are important and potentially important markets? What is happening in the world that might affect our company? Assess Your Competition (External Factors): How are we different from the competition? How are our competitors winning? How are our competitors losing? What does our competition do better than us? How do we best serve our market/customers? What competitive moves can we make against our competitors? Tools to Conduct Your External Analysis PESTLE Analysis A PESTLE analysis is an external analysis tool that helps you determine how your business or organization stands up against external, macro-level external environment factors that could impact your business. It is an acronym for Political, Economic, Sociological, Technological, and Environmental factors. These are the core areas in the operating environment that could affect the success of an organization the most. However, it is not enough to just name the external factors that could impact your organization. You must determine whether these factors will primarily pose an opportunity or a threat to your organization's growth. Download our Free PESTLE Template and Examples! SWOT Analysis As we said earlier, a SWOT analysis is the most common approach to finishing your external analysis. To complete the external analysis portion of the SWOT, you'll examine Opportunities (O) and Threats (T). Pro Tip: A SWOT's O and T portion is directly influenced by your organization's external factors – meaning factors you can't directly influence. You can check out our full post on SWOT analysis here and download the free SWOT analysis guide here. Competitor Analysis- Your competitor analysis will look at three different types of competitors: Direct competitors (those in your direct market space and always listed with you in a customer shortlist). Indirect competitors (those who aren't quite in your same market sphere, but who you should still watch out for as indirect competitors could become direct). Substitutes or new entrants (those who may have alternative products or who are not quite at your level as to be considered direct competition). Against whom do we compete? Who are our most intense competitors? Less intense? Makers of substitute products? Can these competitors be grouped into strategic groups based on assets, competencies, or strategies? Who are potential competitive entrants? What are their barriers to entry? What are their objectives and strategies? What is their cost structure? Do they have a cost advantage or disadvantage? What is their image and positioning strategy? Which are the most successful/unsuccessful competitors over time? Why? What are the strengths and weaknesses of each competitor? What is the Output of an External Analysis? Why is it Important in Strategic Planning? Completing an external analysis helps your organization identify opportunities, headwinds, and tailwinds as you build your organization's core strategy, approach to growth, and moves you can make against your competitors. Here are the four common outputs from completing an external analysis. Output #1: Clear market opportunities to use as part of your growth strategy. Output #2: Identify areas of headwinds that will work against your organization. Output #3: Your competitive advantages. Output #4: Competitive moves you could make against your competition. Strategic Analysis Process: Pulling Together Your Internal and External Analysis After you finished analyzing your internal and external environments, it's important to pull it all together as a final product for your strategic plan. A complete strategic analysis looks like this: Synthesized internal strengths and weaknesses. Identified competitive advantages. Competitive moves you can make against your competition. Headwinds and tailwinds for your market. External forces that might impact your organization. A clear set of opportunities to use in your growth strategy. Pulling together a Current State Summary Once you've completed your internal and external analysis, pulling together a current state summary is helpful. This summary captures your current state of the organization and is usually about 3-4 sentences long. It's designed to create an objective summary of your organization – where you are today – to include external environment and internal forces impacting your performance. Quality Check – How You Know You Got it Right A complete strategic analysis should meet the following requirements: Are there clear key components or themes from the SWOT that capture where we are today? What are the key shifts we have seen over the past few years (internally or externally) that define our current state? What have we learned from the internal and external analysis that is critical to address in the strategic plan? Watch the video SWOT – The Most Common Internal and External Analysis Tool We've already mentioned this, but completing a SWOT is the most common exercise to complete both an internal and external analysis. Check out the video, SWOT analysis post, and the free downloadable guide. What is the difference between an internal analysis and an external analysis? An internal analysis looks at the factors that are happening internally in your organization. They evaluate your company's strengths and weaknesses, taking into account things like resource management and employee performance. An external analysis would look at the things surrounding your macro- and micro-operating environment such as a competitor analysis and a PESTLE analysis. Can I just use one or the other? You could use one or the other, but it won't give you the full picture of what your organization is up against or the moves you need to make to ensure you're shoring up your strengths and fixing your weaknesses. Doing both an internal and external analysis, even in the form of a SWOT matrix, will help you get a full picture of your position in your market. It is highly recommended you do both by utilizing at least one internal analysis tool and one external analysis tool. Why is an internal and external analysis so imperative to my strategic plan? Conducting an internal and external analysis is important to conduct and organize before you begin your strategy planning as it allows you to identify and assess your own strengths, weaknesses, and competitive advantages, as well as identify the external factors that may become obstacles in your strategic growth or opportunities for strategic growth. Introduction to Strategic ManagementCourse Objectives • Explain What is Strategic Management • Explain What is a Strategy • Describe the Strategy Statement and its Components • Explain the Steps of Strategic Management Process • Describe the Components of Strategic Management Process • Differentiate between Strategy Formulation and Strategy Implementation • Differentiate between Strategic, Administrative and Operational Decisions • Describe the Qualities of a Strategic Leader • Explain What is a Business Policy • Describe the Structure of BCG Matrix • Describe the Factors of SWOT Analysis • Explain Porter's Five Forces Model of Competition • Explain What is Corporate Governance • Explain What is Business Ethics • Describe the Core Competency Theory of StrategyIntroduction • Helium Inc. is a leading manufacturer of electrical safety equipments such as Miniature Circuit Breakers (MCBs), Molded Case Circuit Breaker (MCCBs) etc. for the past six decades. • It has carved a niche for itself in this area and captures the largest market share in its industry and segment. Introduction • However, now Helium wants to venture into the mobile and Smartphone market. • It has decided to launch a range of mobiles and Smartphone that will cater to the various segments of the society.Introduction • What do you think Helium should do to become successful in its venture? • Yes, a careful strategy planning will help Helium recognize its position in the market, its competitors, and challenges etc. to help it become successful in its new venture.What is Strategic Management? Strategic Management can be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance. Strategic Management is all about identification and description of the strategies that managers can undertake so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.What is a Strategy? The word "strategy" is derived from the Greek word "stratçgos"; stratus (meaning army) and "ago" (meaning leading/moving). Strategy is an action that managers undertake to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process". Hence, a strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vacuum and that any act taken by a firm is likely to be met by a reaction from those affected: competitors, customers, employees or suppliers.Strategy Statement and its Components The 'Strategy Statement' of a firm sets the firm's long-term strategic direction and broad policy directions. It gives the firm a clear sense of direction and a blueprint for the firm's activities for the upcoming years. The main constituents of a strategic statement are as follows: Strategic Intent Statement of Mission Mission Goals and Objectives Vision Statement Let us look at each in detail.Goals and Objectives Goals: A goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain its mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization. Objectives: Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Mission • The following are the features of well defined goals: • They are precise and measurable. • They look after critical and significant issues. • They are realistic and challenging. • They must be achieved within a specific time frame. • They include both financial as well as non-financial components. Goals and ObjectivesReal Life Example Vision Vision: "To create exciting new digital entertainment experiences for consumers by bringing together cutting-edge products with latest generation content and services."Real Life Example Vision Vision Mission Mission: "Sony is committed to developing a wide range of innovative products and multimedia services that challenge the way consumers' access and enjoy digital entertainment. By ensuring synergy between businesses within the organization, Sony is constantly striving to create exciting new worlds of entertainment that can be experienced on a variety of different products."Components of Strategic Management Process The image given below shows the components of the Strategic Management Process. Environmental Scanning Strategy Formulation Strategy Evaluation Strategy Implementation Let us look at each component in detail.Real Life Example Globus Inc. is a leading manufacturer of economy class cars. However, monitoring and analysis of the external environment indicates that original forecasts of the prices of the raw materials that are involved in making the car are no more credible. It has recently decided to launch a new car 'Flash' which will be a low-priced car catering to the low-budget consumers.Strategy Formulation Process Performance Analysis: Performance analysis includes discovering and analyzing the gap between the planned or desired and actual performance. A critical evaluation of the organization's past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.Did You Know? People learn more from their failures than from their success. Hence, one of the best approaches to avoid copying best practices is to create a process involving frank discussion about worst practices. This will help create very effective strategies because people debate on the merits of different examples of good practice, scout the organizations for promising practices that may already be bubbling up and then develop a view of what next practice should be.Strategic

This could be done on a regular basis, by the senior leaders of the organization. Improves the leadership and communication skills of the organization. Quarterly or half yearly meetings with senior management ensures that the strategies are widely known. It allows employees of the organization to have a better understanding of how the strategies are drawn up. An organization reorganizes the structure and the place that the employees need to give their best performance. It also allows the employees to understand the role that they have to play in delivering the goals of the organization. Praising the employees in front of the peers for the good performance will encourage all staff to work towards the improved performance of the organization. So results for the employees, who get the appreciation, will be more than the other workers, as the motivation will remain intact for the rest of the organization. It also gives an opportunity to share the information among the employees and ensure that the strategic goals are always delivered. Instead of carrying out the strategic management one at a time, it should be carried out in a proper way. This will help the employees to know how the strategies have to be implemented. The strategic management for healthcare organizations is an effective and straightforward tool to improve the performance of the organization and ensure that the healthcare sector becomes more efficient in terms of resources. Strategic management helps to achieve results in the best manner through the proper management and focus on the desired goals. It has been realized that the strategic management is effective in many ways as it helps to strengthen the organization level, supports the employees to deliver their best performance and encourages employees to work harder in the organization. It also helps to improve the process thinking, reduce the mistakes and improve the effectiveness of the organizational output. Strategic management has been said to be effective and efficient only if it ensures that the employees are encouraged to think in a broader way about the future of the organization. They will have the chances for the success of strategic management. Innovation contributes to the business growth of the organization, as it helps to keep up with the changes in the market situation. It also ensures that planning of the organization takes part in the strategic management area by ensuring that the strategic goals of the organization are developed in the desired manner. Strategic management is a useful and effective tool to ensure that the healthcare organization delivers the best results. It improves business planning, guiding employees to think in a new and better way about the success of the organization and ensures that the future goals are accomplished. Quality assurance practices contribute to the effective performance of strategic management in the healthcare organization. A strategic management approach also ensures that the communication of the strategy is enhanced among all the departments of the organization. And having a dedicated phone system for healthcare allows the organizations to be nimble and respond to the needs of the clients at a faster rate. It ensures that the performance of the organization is improved in the best manner through the proper management of resources. Strategy is about the choice of a few key initiatives to pursue and the disciplines required to achieve them. Initially, strategic management approach was used to improve the internal environment of the organization. It is important to take into consideration the environment around the organization, as it ensures that the surrounding industry or the competitors of the organization are also taken into proper consideration. It helps to ensure that all the employees are properly motivated and encouraged to deliver their best results by increasing the chances of the success. It also helps the employees to understand their role in the organization and motivates them to work harder towards the success of the organization. It also helps to encourage the teamwork in the organization and reduces the chances of employee turnover. It also helps to assess the performance of the organization in the best manner through the proper strategic management. Strategic management approach also ensures that the employees are involved in the planning of the organization and ensures that the strategic planning is not carried out in a non-participative way. Strategic management discussion helps to understand the business environment of the markets. In this context, it is important to understand the needs of the customers. Taking the market into proper consideration helps the organization to deliver the products or services at the right time. It is necessary to ensure that the right strategies are developed, according to the changing requirements of the customers. It is important to develop a strong understanding of the differentiation of the services and the needs of the customers. The proper planning of the organization helps in ensuring that the strategies are implemented in the correct manner. An organization can take advantage of the strategic management approach that it works with by aligning and communicating the strategic plans of the organization on a regular basis. This can be done by different levels of management through the strategic management approach. It helps to ensure that all the employees are aware of the strategies and the business objectives of the organization. Strategic management also helps in prioritizing the tasks and activities of the organization. It is important to analyze the processes of the organization in a thorough manner and ensure that the system establishes its planning principles. It is also important to analyze the strategic and operating processes of the organization. It helps to ensure that the employees are involved in the strategic and operational management process and also supports them to develop the strategic solutions. It is important to assume the organization can work in a more effective way by including the employees to bring the fresh ideas of the organization. It is also important to properly focus on the internal and external approaches of the organization. It is also important to ensure that the strategy is developed in a proper manner according to the changes or the developments of the external environment. A successful strategic management approach helps to ensure that the strategic management is effective and efficient. It is necessary to adopt the appropriate strategy of the organization, as it helps to ensure that the patients or customers are addressed in the proper manner. It is essential to consider the vision, mission and the values of the organization and developing the strategies according to these factors. It is also essential to align the objectives of the organization with the mission, vision and the values. It is also important to take into consideration the external environment and see how the organization can respond to the changes in the environment. It is also essential to take into consideration the important factors, like the business model, company history, products, customers and industries, when the organization is looking forward to the strategic planning for the future growth of the organization. It is also important to see the relationship between the different areas of the organization, such as finance, operations and marketing, and to assess the impact of the change in one area of the organization. It is also important to consider the regulatory environment of the industry in which the organization works. It is also important to take into consideration the market competition, so that the organization can avoid taking the same strategy of the competitors and stick to its unique strengths. It is also important to see the importance of the employees as they take part in developing the strategy as well. It is also important to see the importance of the management and the employees as they get the opportunity to take part in the developing the strategy. It is also essential for the organization to update their strategies on regular basis. It is also important to create a strategic management plan and to assess the achievement of strategic management plan. It is also important to successfully implement the strategic plan. Strategic management also helps to ensure that the organization creates proper strategies that can ensure the business growth. Strategic management helps to ensure that the proper coordination and collaboration of the various parts of the organization takes place. It also helps in consulting the clients and the employees in the best manner. It is important to ensure that the organization follows the right approach of strategic management in an effective manner. It is important to take into consideration the strengths as well as the competitive position of the organization and to see how the organization can adopt the right strategy of the organization on the basis of these factors. It is important to re-balance the organization and to focus on the best strategy for the organization. Strategic management also helps the organization to ensure that the right strategies are adopted and the organization continues to deliver the best results. Strategic management is important for the employee involvement and for the successful decision-making of the organization. It is also important to involve the members of the organization in strategic management and to ensure that the employees are given a good chance to demonstrate their talent and to implement their ideas in a proper manner. It is important to ensure that the strategic planning is not the responsibility of only one or two persons. It is also important to develop the strategic management plan based on the unique strengths as well as the weaknesses of the organization. It is also important to ensure that the organization develops a strategic management plan in the right manner. It is also important to consider the operations and the processes of the organization, such as the supply chain management, and to develop the strategic management plan in the best manner. Strategic management is important for the achievement of the targets and the goals of the organization. It is fundamental for strategic management to ensure that the organization develops the strategy for the long-term growth of the organization and for the achievement of the long-term objectives. It is also essential for the organization to develop the strategy in a methodical manner. It is also important to develop a strategic management policy, such as the business plan, and also to see how the organization can identify the threats, the opportunities and the strengths of the organization. It is important to see the relationship between the internal and external environment and how the organization can deliver the best on the basis of these factors. It is important to make use of the traditional strategic management tools as well as the modern techniques of strategic management to ensure that strategic management is successful. It is also essential to fully involve the members to evaluate the impact of the culture of the organization as well as the challenges and opportunities of the organization. It is also important to see how the organization can develop a strategic management plan in the best manner and on the basis of the strengths of the organization. It is essential to develop the strategy of the organization and to enhance the performance of the organization in the best manner we can. It is essential for strategic management to recruit the best people to take part in the strategic planning in the organization. It is also important to fully energize the employees and to encourage them to take part in the strategic management process of the organization. It is important for strategic management to ensure that the strategic planning process takes place in time and in the right manner. It is important to involve the strategic management process as well as the strategic management plan in the operational management of the organization. It is also important to make use of the time factor, so that the right strategy of the organization is developed and the planning process is successful. It is important to take into consideration the strengths as well as the resources of the organization and to develop the strategy that the organization should follow in the present as well as in the future. It is important to fully understand the strengths as well as the weaknesses of the organization. It is important to develop the strategy that the organization should follow for the achievement of the targets as well as the objectives of the organization. It is also important to understand the internal environment of the organization and to take into consideration the changes that the organization should make to fulfil the strategic management plan. It is also important to understand the external environment of the organization and to see how the organization strategizes to fulfil the targets and the long-term objectives of the organization. It is important to develop the plan from the corporate perspective as well as the organizational perspective. It is essential for strategic management to develop the strategy for the long-term growth of the organization. Strategic management helps to reflect the state of affairs in the organizational environment and to understand the impact of the internal as well as the external environment on the organization. It is also important to develop the plan if the organization follows the right strategy in the present as well as in the future environment. Strategic management also ensures that the organization has the potential to deliver the best results on the basis of the present as well as future situations. It is important to take into consideration the management as well as the organizational processes, such as the human resources management, to develop the strategic plan of the organization in the best manner. Strategic management is also beneficial for the organization's future success and for the achievement of the goals and the objectives of the organization. It is essential for the strategic management to take into consideration the strong areas as well as the weak areas of the organization. It is important to develop the team of strategic management in the right manner to develop the strategic management plan. It is essential for people to take part in the strategic planning process of the organization to develop the strategy of the organization in the right manner. It is important for the strategic management to ensure that the strategic plan is developed in the right manner and is implemented for the development of the strategic plan, which offers the organization the best opportunities for growth in the near future. It is important to develop the plan that helps the organization in achieving the future goals of the organization. It is essential for strategic management in the organization to develop the strategic management methods for the achievement of the targets and the long-term objectives of the organization. Strategic management is also important for the development of the long-term vision of the organization. Strategic management also ensures that the objectives of the organization are achieved in a proper manner and the targets of the organization are achieved in the near future. It is essential for strategic management to acknowledge the strong as well as the weak points of the organization and to develop the strategic management plan accordingly. It is very important for strategic management to develop the strategic plan and to check the impact of the strategic plan on the organization. It is also important to use the strategic management tools to develop the strategic management plan in the best manner. It is essential for strategic management to follow the right procedure and the method to develop the plan for the achievement of the organizational goals. It is also important to utilize the different kinds of strategic management tools to develop the strategic plan. It is important for the strategic management plan to assess the opportunities and the threats faced by the organization to develop the strategic plan. It is important to assess the opportunities as well as the threats for the achievement of the organizational goal. It is also important to develop the plan in a logical manner. It is essential for strategic management to link the strategic plans to the corporate plans of the organization. It is important to develop the plans in a systematic manner to ensure that the plans are effective for the achievement of the organizational goals. It is important to develop the strategies for the long-term growth of the organization. It is also important to develop the strategies in a methodical manner. It is important for strategic management to develop the strategies in a methodical manner. It is essential for the strategic management to take into consideration the proposed strategies for the long-term growth of the organization. It is very important for strategic management to develop effective strategies for the achievement of the organizational goals. It is important to determine how the strategies will be implemented for the achievement of the targets and the organizational objectives.

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The license may not give you all of the permissions necessary for your intended use. For example, other rights such as publicity, privacy, or moral rights may limit how you use the material. Skip to main content Guides Find guides by sector Find guides by theme Starting a business Finance Taxes Employment and skills Health and safety Efficiency and environment Business premises and rates Innovation and R&D Sales and marketing IT Exporting and importing Grow your business Buy or sell a business Resources News Events No matter your business, you must know your strengths, weaknesses, opportunities, and threats to do well. Internal & External Analysis Internal and external analysis analyses a company's internal capabilities and external environment to make strategic choices. Internal analysis focuses on internal business factors such as resources, culture, and capabilities; external analysis focuses on external market forces such as competitors, regulations, and economic trends. This type of analysis allows businesses to elaborate on a strong business growth strategy and enhance the evaluation of company performance. A proper analysis aids in the discovery of internal strengths and weaknesses and outside opportunities and threats to ensure you succeed in business. Internal analysis lets a company understand its internal abilities and deficiencies. Its focus is on internal company factors that matter for success or failure. Internal analysis involves businesses measuring their capabilities and determining areas for improvement. Download Internal and External Analysis PDF Using internal strengths to inform a business growth strategy. Identifying weaknesses allows the company to address and fix issues before they affect performance. Internally analytical, informed decision-making, For example, internal analyses provide guidelines for strategic decision-making processes. The Pillars of Internal Analysis. Resources and Capacities: A company must consider its financial, human, and technological resources. Operational Efficiency: Assessing how effectively an organization or business operates helps improve productivity. Company Culture: The atmosphere and values within the organization determine how employees perform and make decisions. Brand Reputation: Strong brands ensure higher customer trust and loyalty. Quality of Products and Services: Quality is an important aspect of satisfaction. Businesses own the internal business analysis, which determines their ability and competition status. Leadership, workforce skills, technology and financial strength. Firms with deep internal resources have a competitive advantage and are better equipped to address external challenges. Internal SWOT analysis framework It identifies: Strengths: The powerful assets of your firm, such as very efficient human resources or a well-established brand. Weaknesses: Internal factors like ineffective management or obsolete technology. Opportunities: Market trends a company can leverage to grow. Threats: External challenges that might damage the business performance. A well-founded internal discipline creates a structure to exploit capabilities and minimize vulnerability. External analysis studies a business' external environment. It allows companies to monitor external opportunities and threats. Businesses make sense of economic conditions, competitors, government policies, and customer trends and adjust accordingly to get ahead. The environment for businesses is continuously evolving. If you arrive outside by detecting it, you can adapt the appropriate data to the market trend to stay ahead of the market. This knowledge enables businesses to identify and seize opportunities to grow while identifying threats. Trends in the Industry: Businesses need to understand the industry trends to anticipate what the market will look like. Competitor Strategies: By studying competitors, companies remain in demand. Government Regulations: Failing to comply with laws and policies can put companies at risk. Economic conditions, Inflation, rates of interest, and economic growth have an impact on the performance of business. Customer Preferences: Evolving consumer habits impact demand for goods and services. Companies use competitive analysis tools to research their industry. Here are some great tools to consider: Porter's Five Forces Model : Five Forces Model to evaluate business competition business model analysis by using suppliers, buyers, and competitors. PESTLE Analysis: Covers political, economic, social, technological, legal, and environmental factors that impact business. AM – Stands for "Analytics and Benchmarking" – This enables comparison of company performance with competitors and identifying improvement areas. Environmental scanning process and the external factors that businesses use. These include market trend evaluations, industry reports, technical developments, and customer feedback. Companies that detect external changes are the ones that keep up with changes in the market and are a few steps ahead of their competitors. It is all about finding the right balance, from internal to external analysis. Internal analysis enables companies to identify their strengths and weaknesses. External analysis — Market + industry + competition Understanding. Businesses must integrate both analyses to make informed decisions. A company with strong internal capabilities can use external opportunities effectively. AspectInternal AnalysisExternal AnalysisFocusEvaluates internal strengths and weaknessesExamines external opportunities and threatsFactors ConsideredResources, workforce, operations, financialsMarket conditions, competitors, regulationsPurposeImprove internal efficiency and performanceAdapt to external changes and competitionTools UsedSWOT analysis, internal auditsPESTLE, Porter's Five Forces, industry reportsStrategic UseHelps in internal improvementsHelps in market expansion and risk management Strategic Decision-Making Process – Companies capitalize easily on their internal strengths and combine them with external opportunities and threats to create effective strategies. Business Risk Analysis: Analyzing risks from internal and external sources helps businesses mitigate the challenges. Corporate environment analysis Corporate environment analysis ensures businesses comply with regulations and stay competitive. Both types of analysis are needed by any organization that sells a new product. Internal Analysis: An internal analysis focuses on areas such as: Production capacity Financial strength Workers' skills External factor covers the market demand, customers and competition. This opens up the possibility of making smart strategic decisions based on these insights. That's why so many businesses engage in strategic planning, linking internal strengths with emerging external opportunities. The analysis part of strategic planning naturally helps companies make the right actions and decisions for survivability. Internal Strengths and Weaknesses: Businesses assess resources, workforce, and operations. Examine External Opportunities and Threats – Firms examine market conditions and competitor activities. Formulate Strategies From The Findings — Organizations build action plans based on the results of both analyses. Execute the Strategy – Companies execute their marketing, production, and sales plans in the market. Monitor and Adjust: Track metrics and adjust something whereas required Analyze the industry trends: How it is causing an impact on a client's businesses. Analysis of market trends is critical for strategic planning. Companies that monitor trends can shift strategies to align with consumer preferences and sectoral shifts. Companies utilize reports, surveys, and competitor analysis to remain informed. Strong business risk analysis considers risks both from internal weaknesses and external threats. Companies that prepare for risks can limit losses and increase performance. Internal and external analysis form the crux of the ACCA syllabus as it enables finance professionals to assess a company's financial performance, underlying risk factors, and strategic positioning. The ACCA students understand how to use SWOT analysis rather than work, business risk analysis, and corporate environment analysis to arrive at financial and strategic decisions. Provision of this understanding is vital to the Strategic Business Leader (SBL) and Financial Management (FM) papers, as candidates must evaluate internal performance & external market conditions to assure sustained development. Q1: What many financial analysis concepts and models are used, how do they work, and what is the key to research? A) For analysis of competitors outside of the market B) To analyze internal business elements such as resources and operations C) For economic recession predictions D) For calculating inflation rates in the economy Ans: B) To analyze internal business elements such as resources and operations Q2: Which of the following is an important part of ACCA's external financial management analysis? A) Financial statement analysis B) Analyzing pricing models of competitors C) Performance appraisal of internal employees D) Evaluation of production efficiency Ans: B) Analyzing pricing models of competitors Q3: Importance of SWOT analysis framework in financial decision making. A) It only recognizes external threats to an organization B) It looks only at internal strengths and weaknesses. C) It assesses internal and external factors for strategic planning Financial Ratios Calculation for Risk Management Ans: C) It assesses the internal and external factors for the formulation of strategy Q4 What of the external market forces impact corporate financial strategy? A) Company leadership style B) Government regulations and policies C) Internal cost-cutting measures D) Employee training programs Ans: B) Government regulations and policies Q5: Why is financial management important (higher quality) A) It assists in setting production targets B) It helps retain employees C)It sets the price and market position D) It acts as a catalyst for better internal workflow management Ans: C) It sets the price and market position The US CMA syllabus internal and external analysis encompasses strategic management, financial planning, and risk assessment. CMAs utilize competitive analysis tools such as risk analysis and evaluation of market trends to assist organizations in making economic decisions. These themes are central to Part 1: Financial Planning, Performance and Analytics, and Part 2: Strategic Financial Management, in which candidates assess internal operations and external economic forces impacting business performance. Q1: The CMA syllabus specifically covers internal business analysis. What else does it cover in business analysis? A) Economic policies to be comprehended B) Analyzing internal cost structures and financial resources C) Stock market trend prediction D) Analyzing models of competitor businesses Ans: B) Analyzing internal cost structures and financial resources Q2: What is the importance of external analysis in strategic financial management? A) It points out opportunities for growth as well as threat. B) It assesses the performance of the employees C) It emphasizes lowering internal costs D) It measures internal production efficiency Ans: A)It points out opportunities for growth as well as threat. Q3: What analysis is often used to assess external opportunities and threats? A) Variance Analysis B) SWOT Analysis C) Cash Flow Forecasting D) Internal Rate of Return (IRR) Calculation Ans: B) SWOT Analysis Q4: How did the Market trends evaluation help with the environment scanning process? Competitive forces affect big life: A) Political, economic, social and technological dynamism. A) Only cares about the values of an organization C) It is only used for financial statement analysis D) There is no risk from the outside at all Ans: A)Political, economic, social and technological dynamism. Q5: How does business risk analysis fit into the scope of cost management? A) Identify internal and external risks that can potentially affect profit. B) It only deals with financial statement errors C) It only ensures compliance with tax laws D) It prevents any financial risk Ans: A) Identify internal and external risks that can potentially affect profit. As part of the US (Certified Public Accountant) CPA syllabus, the courses include internal and external analysis in business risk analysis, company performance evaluation and corporate environment analysis. CPAs must evaluate financial risks, economic impacts, and competitive strategies to provide dependable financial reporting and advisory services. Intermediate equations commonly found in the financial stability and strategic decision-making equations are important topics of BEC, FAR. Q1: What is classified as an external opportunity in business risk analysis? Leader, Organisational Leadership Style B) Capital growth and incremental market demand C) Cost-cutting measures internally D) Employee training programs Ans: B) Capital growth and incremental market demand Q2: What is the purpose of financial reporting, and why do CPAs include strategic planning analysis in it? A) To only analyze past finance data B) Aligning the financial strategy and business objectives C) To replace internal audits D) For the exclusive purpose of tax compliance Ans: B) Aligning financial strategy with business objectives Q3: As in every audit external market forces must be analysed. Why even sit down to analyse external market forces? A) Helps CPAs evaluate business risks arising from market conditions B) It powers internal workflow efficiencies C) Just wants to reduce costs for business d) It minimizes and makes financial statement audit unnecessary Ans: A) It supports CPAs to assess business risks in the market conditions: Q4: How does it influence CPA advisory services the corporate environment analysis? A) It helps you in analyzing competition and validating regulatory compliance B) Is only used for salary computation. C) You don't have to budget D) Only focus on internal corporate policies Ans: A) It helps to assess the competition and examination of regulatory compliances. Q5: What tool is used to conduct assessment of competition among industry players in financial reporting? A) Porter's Five Forces Model B) Cash Flow Analysis C) Journal Entries D) Break-even analysis Ans: A) Porter Five Forces Model Investment decision-making and financial strategy are also fundamental to CFA but involve internal and external analysis. To invest in a company, CFA candidates analyze tools of competitive analysis, business risk analysis, and industry competition. They offer programs from Level I to Level III. Download Internal and External Analysis PDF Q1: What is the role of internal analysis in equity valuation? A) An effective tool for evaluation of company financial health and management efficiency. B) Inclusive of external market trends C) Not required for financial statement analysis D) When contemplating a macro perspective only ANS: A) An effective tool for evaluation of company financial health and management efficiency. Q2: How does external analysis help to make investments decisions? A) It analyzes how external market processes influence a business performancen B) Non-corporate taxation only C) It takes away all risks D) It eliminates the necessity for financial ratio analysis. Ans: A) It measures the impact of outside market forces on an organisations performance. Q3: What information does industry competition assessment provide to investors? A) The competitive position of a company in an industry B) Internal flow management of the cash. C) Employee job satisfaction D) Efficiency in processing payroll Ans: A) A companys position relative to its competitors in the industry Q4: External opportunities for a company does NOT include? A) Encouragements by the government policy B) Innovations in the field C) Rise in consumer demand D) Enhanced employee training within the company Ans: D) Enhanced Internal Manpower Training Q5: What is the benefit of the strategic decision-making tool for the portfolio? A) It aids in choosing investments according to both internal as well as external situations B) It guarantees only temporary gains C) It hedges away all the portfolio risks D) It applies only for company taxation policies Ans: A) It aids in choice on investments based on internal and external factors Find out the differences between internal and external analysis and how you can use SWOT and PESTLE models to accomplish both. Strategic management is a popular method for running businesses which involves an analytical approach to setting goals and managing resources. Like strategic planning, strategic management often involves a good dose of business analysis. Broadly speaking, this business analysis can be categorized as either internal or external.In this short guide, we'll walk you through the differences between internal and external analysis and show you how you can use SWOT and PESTLE models to accomplish both.Internal Analysis for Strategic ManagementWhat Is Internal Analysis?Let's start with internal analysis. As the name suggests, internal analysis focuses on evaluating all aspects of the organization itself. 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The only way to reveal these things — and get a true understanding of how resources are being used in your organization — is by means of internal analysis.Why Use SWOT as a Tool?The SWOT model is an excellent tool for internal analysis, since it encourages you to think about your organization and only your organization. The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats, which are the four factors you take into account during SWOT analysis as you create the SWOT table.As you can see, the first two of these factors — Strengths and Weaknesses — are very much internal. Neither your competitors nor your external business environment can affect what your organization does well and what your organization does poorly: those things are entirely up to you.With the latter two factors — Opportunities and Threats — you could argue that SWOT analysis doesn't have an entirely internal focus. However, that simply depends on how you use it. If you choose to ignore external factors (such as competitive rivalry, material costs, or government regulations), the Opportunities and Threats categories can still provide valuable insight to the internal aspects of your organization, in the context of strategic management.Getting Started with SWOTSWOT analysis is as easy as it sounds: listing and evaluating the Strengths, Weaknesses, Opportunities, and Threats affecting your organization. Trying to come up with these factors isn't always so easy; it takes a lot of brainstorming.For more information, be sure to read our complete guide to conducting a SWOT analysis.External Analysis for Strategic ManagementWhat Is External Analysis?Let's switch gears and talk about external, or environmental, analysis. Unlike internal analysis, external analysis is less about the organization itself, and more about its business environment (including its competitors). 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In a perfect world, it would be enough just to look inside your organization; in the real world, you need to be conscious of external forces that might affect your business' operations and throw you off course.Why Use PESTLE as a Tool?For analyzing external factors, the PESTLE model should be your tool of choice. PESTLE stands for Political, Economic, Sociocultural, Technological, Legal, and Environmental, which are the six categories of environmental factors you should take into account during business analysis (like in strategic management).If you look closely, you'll see that these almost all of the factors that fall into these six categories aren't inherently related to your organization, but are related to the overarching business environment:Political. How are government decisions influencing your organization?Economic. How is the local or global economy influencing your organization?Sociocultural. How are changes in social and cultural norms influencing your organization?Technological. How is the advancement, presence, or lack of technology influencing your organization?Legal. How are legal issues influencing your organization?Environmental. How is the environment influencing your organization?Getting Started with PESTLESimilarly to SWOT analysis, using PESTLE analysis is surprisingly easy. Simply categorize the external factors affecting your business as Political, Economic, Sociocultural, Technological, Legal, or Environmental.The challenge is finding those factors in the first place. It's helpful if you have some experience in your industry, which would give you a headstart on where to look. Otherwise, you'll need to do a lot of brainstorming and trawl through plenty of reports to find out which factors really affect your organization.For more information on carrying out an external analysis like this, be sure to read our three-step guide to PESTLE analysis.Internal and External Analysis in Strategic Management: Final ThoughtsStrategic management is a powerful way to run businesses. As a result of this approach's inherently analytical nature, it's important that you use both internal and external business analysis tools to make managerial decisions. You can do so by using the popular models of SWOT and PESTLE, which we have come to know and love in the world of business analysis. Internal Analysis definitionAn internal analysis is the process of an organization examining its internal factors to assess its resources, assets, characteristics, competencies, capabilities, and competitive advantages. This helps management during decision-making, strategy formulation, and execution processes by identifying the company's strengths and weaknesses.Simply put, an internal analysis enables a firm to determine what it can do, increasing internal capability to manage execution and change.An internal analysis in strategic management should serve as the foundation of any business strategy, and we'll show you how to conduct one and which tools you have at your disposal to conduct an internal assessment in strategic management.After you've conducted your analysis, use our free customizable Internal Analysis Strategy Template to build your strategy. This ensures seamless alignment with the insights derived from your strategic analysis.⚠ Remember: strengths don't win alone! Knowing your company's inside-out is crucial, but strategy requires action. Cascade Strategy Execution Platform bridges the gap between assessment and execution. Talk to our experts to transform your internal analysis into a winning plan that leverages your strengths and tackles weaknesses.One page summary of Internal AnalysisAn internal analysis highlights an organization's strengths and weaknesses in relation to its internal factors, such as competencies, resources, and competitive advantage.Once complete, the organization should have a clear idea of where it's excelling, where it's doing okay, and where its current deficits and gaps are. The analysis gives management the knowledge to leverage the company's strengths, expertise, and opportunities. It also enables management to develop strategies that mitigate threats and compensate for identified weaknesses and disadvantages.When your business strategy is based on real findings and not assumptions, you can be confident that you're funneling your resources, time, human capital, and focus effectively and efficiently. If you're more of a visual learner, watch this short video to get the article's highlights: How To Conduct An Internal Analysis In 5 Steps5 steps to conduct an Internal Analysis diagramConducting an internal environment analysis doesn't need to be as difficult as it seems (especially when you have our Internal Analysis Toolkit at your disposal).1. Set the goalThe first step is to set the goal, this is essentially the answer as to why you're conducting an internal analysis. For example, the desired outcome of your internal analysis could be to ideate the UI direction for a new product.⃣ This goal helps you remain focused during the following steps.2. Pick a template frameworkThe second step is to download our Free Internal Analysis Toolkit and choose the internal analysis framework template most aligned with the problem you're trying to solve and your goal. We'll get more into the details of each framework in the next section to help you understand which one is the best fit!3. Data collation Use all internal sources to collate information to assist in achieving your goal. In the context of our example from above, research would include interviewing customer success managers, engineers, etc, to gain a better understanding of the gap between the current and desired future state of the UI.4. Framework timeNow you take into account all of the data you collected from your research and feed it into the chosen framework. Once you have completed the framework, leverage the insights to best answer the question of why you conducted an internal analysis.5. Create your planOnce you have answered that question, take the insights and create a strategic plan that enables you to reach that initial goal. So in the case of our goal, to ideate the UI direction for a new product, the vision statement in our strategic plan could be something like, to create a seamless UI that improves user experience through increased retention time.⃣ Here's when you can use our free Internal Analysis Strategy Template that will allow you to build a strategic plan to execute the new insights you've learned. Internal Analysis ToolsInternal Analysis tools: when to choose each framework?Before conducting an internal analysis, you need to decide what tools you will use. There are many tools and internal analysis frameworks, and each one can be valuable—but each one is also best for a specific purpose. The role played by internal analysis in strategic management is key to organizations having a robust strategy.To help you choose the right framework, we've compiled a list of some of the most popular and effective ones, together with descriptions of what they'll help you achieve.Gap AnalysisGap Analysis diagramGap analysis is an evaluation tool that allows organizations to identify performance deficiencies and internal weaknesses.It's a simple and practical framework. It helps you compare your current organizational state to your desired future state. It helps you identify and understand the gaps between the two states and makes it easier to create a series of actions to bridge those gaps.This framework helps management identify if their organization is performing to its potential, and if not, why. In addition, it helps to pinpoint flaws in the company resource allocation, strategic planning, production, etc.Why choose the Gap Analysis frameworkWhile other internal analysis tools, such as SWOT analysis, offer a more comprehensive study of the internal environment and also external factors, Gap analysis is a better framework for fine-tuning a single process (or a selected few) instead of the company as a whole. Read more about Gap Analysis here!Strategy EvaluationA strategy evaluation analyzes the results of a strategic plan's implementation.It's useful to conduct a strategy evaluation regularly to see if everyone understands and acts according to your business strategy. You might want to conduct such an evaluation every six months, every year, or after a revamped business strategy implementation. It mostly depends on the number of changes you're trying to implement.The strategy evaluation process involves looking back at the goals of your strategic plan and assessing how well your strategic management initiatives fared in achieving them.Why choose the strategy evaluation framework for internal analysisUsing the strategy evaluation framework for your internal analysis reveals how effectively your strategy implementation process compares to "business as usual". You might have created a great strategic plan, but it's of no use if it's not being executed.⃣ Use this framework to align your strategy with your company's culture.SWOT Analysis diagramSWOT analysis is one of the better-known and most commonly used business analysis frameworks.It's popular due to its simplicity (it covers both internal and external factors) and its efficacy. Its name is derived from the four factors that form the SWOT matrix:Internal strengthsInternal weaknessesExternal opportunitiesExternal threatsSWOT analysis can uncover a sustainable niche in your market and grow your market share. It allows organizations to discover external opportunities they can exploit while simultaneously identifying internal factors that cause weaknesses. It also helps to reduce the risk of impending possible threats.Starbucks SWOT example - analyzing internal and external factorsStrengthsGlobal leader in coffee and beverage retailingStrong brand equity and great brand recallOne of the largest coffee houses globally, which allows it to price its products for the middle-income groupWeaknessesHeavy dependence on coffee beansCriticized in the past for procuring coffee beans from impoverished third-world farmersThe price is still costly for many working consumersOpportunitiesShould expand to the tier-II cities of the emerging countries in order to further increase its customer baseShould expand its product portfolio to venture into the full spectrum food and beverage businessThreatsProfitability is always at the mercy of the rising prices of coffee beans and the supply networkStrong competition from the local coffeehouses and specialty stores that offer similar products at a cheaper priceStarbucks or any company can then use SWOT for its internal analysis process to develop strategic alternatives that will help it meet its goals by minimizing the company's weaknesses and threats and leveraging business opportunities and strengths.Why choose SWOT for internal analysisIt helps organizations distinguish themselves from competitors by understanding their unique capabilities and sources of competitive advantage, which can help them compete in their given marketplace.A SWOT analysis is also good for combining internal and external analysis. It allows organizations to identify their internal strengths and weaknesses while evaluating external opportunities and threats. This dual focus helps businesses develop strategies that leverage their unique capabilities and address potential challenges.⃣ If SWOT analysis seems like the framework you need, check out our SWOT template here.VRIO AnalysisVRIO Analysis diagramThe VRIO framework is a great tool for assessing an organization's internal environment.It looks at an organization's internal resources and categorizes them based on the overall value they contribute to the company. VRIO is a framework that helps you create sustainable competitive advantages.It enables you to identify your unique strengths and transform them from short-term competitive edges into sustainable performance drivers. Our VRIO framework guide shows you exactly how to do it.Why choose the VRIO analysis framework for internal analysisIf you're looking to develop a strategy that builds on your organization's competitive advantage, VRIO analysis is the tool you need. It will give you a deeper understanding of your assets and your organization's added value. Use your free VRIO strategy template that will help you to develop and execute a strategy based on your VRIO analysis. OCATOCAT diagramThe Organizational Capacity Assessment Tool was designed for non-profit organizations looking to analyze their internal environments.OCAT assesses how well your organization performs across the following 10 internal dimensions::AspirationsStrategyLeadership, Board & StaffFundingMarketing & CommunicationsAdvocacyBusiness ProcessesInfrastructure & Organizational StructureCulture and shared valuesInnovation and adaptationThe results of the assessment help non-profits evaluate and improve their organizational capabilities.Why choose the OCAT framework for internal analysisOCAT dives deeper into organizational structure and internal state than most other frameworks. Its power lies in translating organizational capacities into strategies that boost organizational performance to a new level.McKinsey 7S FrameworkMcKinsey 7S Model diagramMcKinsey 7S is ideal for organizations looking to determine the state of alignment between departments and processes. The model can assess an organization's current state compared to a desired future state and evaluate the gaps and inconsistencies between them.McKinsey 7S prompts you to analyze seven internal aspects that should be aligned if your organization is to reach its full potential. These seven aspects are:StrategyStructureSystemsShared ValuesSkillsStyleStaffWhy choose the McKinsey 7S framework for internal analysisThis framework provides an honest view of the organization's internal alignment. It examines various internal elements, from the company's culture to its staff, leadership capabilities, and process efficiency. Read more about the McKinsey 7S framework in our article.Core Competencies AnalysisThe core competencies analysis helps organizations shape their unique advantage, which can help them overtake the competition.The basic premise of the analysis is to identify the organization's core competencies—the combined resources, knowledge, and skills of an organization that provide unique value for its customers. Once an organization has identified its core competencies, it can implement strategies that focus specifically on its strengths and the added value it provides.Why choose the Core competencies framework for internal analysisCompared to other types of analyses, this one puts a greater emphasis on intangibles instead of focusing solely on tangible resources. It focuses on unique advantages that also make strategic sense.⃣ Check out this article to learn how to perform a core competency analysis.⃣ Learn about other competitive analysis frameworks in our article—6 Competitive Analysis Frameworks: How to Leave Your Competition In the DustAre Internal And External Analysis Connected?Internal environment analysis and external analysis are like yin and yang. Doing one without the other paints an incomplete and one-sided picture.Evaluating the external environment, your market, and industry conditions highlight potential opportunities and threats. Evaluating the internal environment, company's assets, and capabilities highlights organizational weaknesses and strengths.External Analysis definition Combining both findings gives you a broader perspective and a holistic picture of your organization's situation.Both are needed if you want to create a winning business plan that takes into account internal and external factors.When should you conduct internal and external analysis?Internal and external scans should always be done before you start developing your strategy. But even if you already have your strategy in place, you can use these tools to inform your strategy for the next iterations since they always provide interesting insights.If you're in the process of creating a new strategic plan and have skipped this step, pause and complete the internal and external scans first. You can then confidently continue the strategy creation process and correct any potential misassumptions.If you're unsure where to begin, great tools for conducting an external scan are Porter's 5 Forces and the PESTLE analysis framework. These frameworks will help you analyze your organization's environment, trends, and different external factors that will affect your profitability and growth prospects.Internal Analysis ToolkitFree Internal Analysis Toolkit Excel formatDownload our Free Internal Analysis Toolkit to access convenient, structured templates that help you identify your current position and the gaps you need to close for success. Each template includes instructions to guide you through the process and is in Excel format, ready for immediate use.Here's what you will get inside this toolkit: One-

organization, becoming more aware of "yourself," and devising clear plans of action in the next stage of the process: strategy formulation. Simone Smerilli Find out the differences between internal and external analysis and how you can use SWOT and PESTLE models to accomplish both. Strategic management is a popular method for running businesses which involves an analytical approach to setting goals and managing resources. Like strategic planning, strategic management often involves a good dose of business analysis. Broadly speaking, this business analysis can be categorized as either internal or external.In this short guide, we'll walk you through the differences between internal and external analysis and show you how you can use SWOT and PESTLE models to accomplish both.Internal Analysis for Strategic ManagementWhat Is Internal Analysis?Let's start with internal analysis. As the name suggests, internal analysis focuses on evaluating all aspects of the organization itself. 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Internal analysis empowers organizations to evaluate their resource optimization, core competencies, and strategic capabilities, often leveraging tools like SWOT, VRIO, and Value Chain analyses. Conversely, external analysis enables businesses to anticipate market dynamics, competitor strategies, and customer behaviors through PESTEL analysis, Porter's Five Forces, and competitive benchmarking. By integrating these methodologies, companies achieve strategic alignment, enhance organizational resilience, and secure long-term competitive positioning. Continuous monitoring and adapting strategies based on a balanced analysis of internal strengths and external opportunities ensure sustainable growth, market leadership, and enhanced profitability. 1. Introduction to Strategic Analysis Strategic management involves analyzing internal and external factors influencing a company's success. Internal analysis helps businesses evaluate resources, capabilities, and competitive advantages, while external analysis assesses market trends, industry forces, and macroeconomic conditions. Key Fact: Companies conducting internal and external strategic analyses are 33% more likely to achieve long-term success (McKinsey & Company). 2. Internal Analysis in Strategic Management Internal analysis focuses on identifying strengths and weaknesses within an organization. 2.1 Importance of Internal Analysis Organizations that leverage internal analysis report 22 percent higher efficiency in decision-making (Harvard Business Review). 2.2 Common Internal Analysis Tools SWOT Analysis Identifies Strengths, Weaknesses, Opportunities, and Threats. It is used by 89 percent of Fortune 500 companies for strategic planning (Forbes). VRIO Framework Evaluate resources based on Value, Rarity, Imitability, and Organization. Companies using VRIO gain a 15 percent sustainable competitive advantage (Harvard Business School). Value Chain Analysis Examines business activities to enhance efficiency and reduce costs. Organizations implementing value chain analysis increase profit margins by 10 to 20 percent (Deloitte). 3. External Analysis in Strategic Management External analysis helps businesses identify industry forces, emerging risks, and competitive threats. 3.1 Importance of External Analysis Market Positioning: Helps businesses stay ahead of competitors. Risk Mitigation: Identifies potential economic, legal, and technological threats. Competitive Advantage: Informs pricing, product development, and customer acquisition strategies. Eighty-six percent of businesses using external analysis report higher adaptability in volatile markets (MIT Sloan). 3.2 Common External Analysis Tools PESTEL Analysis Analyzes Political, Economic, Social, Technological, Environmental, and Legal factors. Companies using PESTEL analysis reduce business risks by 40 percent (World Economic Forum). Porter's Five Forces Evaluates industry competition, supplier and buyer power, the threat of new entrants, and substitutes. Businesses using Porter's Five Forces achieve 20 percent higher profitability (Harvard Business Review). Competitive Benchmarking 4. Integrating Internal and External Analysis for Competitive Advantage A well-rounded strategy combines internal strengths with external opportunities. 4.1 Steps to Integration Conduct internal analysis to identify core competencies, financial health, and operational gaps. Perform external analysis to evaluate industry trends, customer behavior, and emerging risks. Align strategy with findings to develop actionable goals based on internal capabilities and external market conditions. Monitor and adapt strategy quarterly to stay competitive. Companies integrating both analyses outperform competitors by 35 percent in long-term growth (Deloitte). 5. Case Studies: Strategic Analysis in Action Apple Inc. Used SWOT and PESTEL analysis to anticipate technological trends, leading to the iPhone's market dominance (Inc.). Amazon Leveraged Porter's Five Forces to optimize supply chains and expand globally, boosting market share by 38 percent (Harvard Business Review). 6. Final Thoughts Strategic success requires a balance between internal capabilities and external market forces. Organizations that actively monitor, adapt, and integrate their analysis strategies achieve higher profitability, resilience, and long-term sustainability. References About The Author The process of conducting research on a company and its operating environment to formulate a strategy Over 2 million + professionals use CFI to learn accounting, financial analysis, modeling and more. Unlock the essentials of corporate finance with our free resources and get an exclusive sneak peek at the first module of each course. Start Free Strategic analysis refers to the process of conducting research on a company and its operating environment to formulate a strategy. The definition of strategic analysis may differ from an academic or business perspective, but the process involves several common factors: Identifying and evaluating data relevant to the company's strategy Defining the internal and external environments to be analyzed Using several analytic methods such as Porter's five forces analysis, SWOT analysis, and value chain analysis What is Strategy? A strategy is a plan of actions taken by managers to achieve the company's overall goal and other subsidiary goals. It often determines the success of a company. In strategy, a company is essentially asking itself, "Where do you want to play and how are you going to win?" The following guide gives a high-level overview of business strategy, its implementation, and the processes that lead to business success. Vision, Mission, and Values To develop a business strategy, a company needs a very well-defined understanding of what it is and what it represents. Strategists need to look at the following: Vision – What it wants to achieve in the future (5-10 years) Mission Statement – What business a company is in and how it rallies people Values – The fundamental beliefs of an organization reflecting its commitments and ethics After gaining a deep understanding of the company's vision, mission, and values, strategists can help the business undergo a strategic analysis. The purpose of a strategic analysis is to analyze an organization's external and internal environment, assess current strategies, and generate and evaluate the most successful strategic alternatives. Strategic Analysis Process The following infographic demonstrates the strategic analysis process: 1. Perform an environmental analysis of current strategies Starting from the beginning, a company needs to complete an environmental analysis of its current strategies. Internal environment considerations include issues such as operational inefficiencies, employee morale, and constraints from financial issues. External environment considerations include political trends, economic shifts, and changes in consumer tastes. 2. Determine the effectiveness of existing strategies A key purpose of a strategic analysis is to determine the effectiveness of the current strategy amid the prevailing business environment. Strategists must ask themselves questions such as: Is our strategy failing or succeeding? Will we meet our stated goals? Does our strategy align with our vision, mission, and values? 3. Formulate plans If the answer to the questions posed in the assessment stage is "No" or "Unsure," we undergo a planning stage where the company proposes strategic alternatives. Strategists may propose ways to keep costs low and operations leaner. Potential strategic alternatives include changes in capital structure, changes in supply chain management, or any other alternative to a business process. 4. Recommend and implement the most viable strategy Lastly, after assessing strategies and proposing alternatives, we reach a recommendation. After assessing all possible strategic alternatives, we choose to implement the most viable and quantitatively profitable strategy. After producing a recommendation, we iteratively repeat the entire process. Strategies must be implemented, assessed, and re-assessed. They must change because business environments are not static. Levels of Strategy Strategic plans involve three levels in terms of scope: 1. Corporate-level (Portfolio) At the highest level, corporate strategy involves high-level strategic decisions that will help a company sustain a competitive advantage and remain profitable in the foreseeable future. Corporate-level decisions are all-encompassing of a company. 2. Business-level At the median level of strategy are business-level decisions. The business-level strategy focuses on market position to help the company gain a competitive advantage in its own industry or other industries. 3. Functional-level At the lowest level are functional-level decisions. They focus on activities within and between different functions, aimed at improving the efficiency of the overall business. These strategies are focused on particular functions and groups. Related Readings Thank you for reading CFI's guide to Strategic Analysis. To keep learning and advancing your career, the following CFI resources will be helpful: Find out the differences between internal and external analysis and how you can use SWOT and PESTLE models to accomplish both. Strategic management is a popular method for running businesses which involves an analytical approach to setting goals and managing resources. Like strategic planning, strategic management often involves a good dose of business analysis. Broadly speaking, this business analysis can be categorized as either internal or external.In this short guide, we'll walk you through the differences between internal and external analysis and show you how you can use SWOT and PESTLE models to accomplish both.Internal Analysis for Strategic ManagementWhat Is Internal Analysis?Let's start with internal analysis. As the name suggests, internal analysis focuses on evaluating all aspects of the organization itself. Although internal analysis can sometimes take into account the actions of external organizations or market-wide shifts, it is largely related to the inherent traits of the organization at hand.For example, internal analysis can allow you to identify both strong and weak aspects of your organization, without taking into account the performance of external organizations.Here's another way to think about internal analysis: if your organization was the only one that existed — meaning your organization had no competition — and your business environment was entirely neutral — meaning it didn't in any way affect your organization — then what factors would you consider when analyzing your organization?Why Is Internal Analysis Important?In the context of strategic management, internal analysis is crucial for a few reasons. Your organization might be spending too much in some areas due to internal inefficiencies, or, alternatively, your organization could be leaving money on the table. The only way to reveal these things — and get a true understanding of how resources are being used in your organization — is by means of internal analysis.Why Use SWOT as a Tool?The SWOT model is an excellent tool for internal analysis, since it encourages you to think about your organization and only your organization. The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats, which are the four factors you take into account during SWOT analysis as you create the SWOT table.As you can see, the first two of these factors — Strengths and Weaknesses — are very much internal. Neither your competitors nor your external business environment can affect what your organization does well and what your organization does poorly: those things are entirely up to you.With the latter two factors — Opportunities and Threats — you could argue that SWOT analysis doesn't have an entirely internal focus. However, that simply depends on how you use it. If you choose to ignore external factors (such as competitive rivalry, material costs, or government regulations), the Opportunities and Threats categories can still provide valuable insight to the internal aspects of your organization, in the context of strategic management.Getting Started with SWOTSWOT analysis is as easy as it sounds: listing and evaluating the Strengths, Weaknesses, Opportunities, and Threats affecting your organization. Trying to come up with these factors isn't always so easy; it takes a lot of brainstorming.For more information, be sure to read our complete guide to conducting a SWOT analysis.External Analysis for Strategic ManagementWhat Is External Analysis?Let's switch gears and talk about external, or environmental, analysis. Unlike internal analysis, external analysis is less about the organization itself, and more about its business environment (including its competitors). Again: the term is mostly self-explanatory — looking at external business analysis factors instead of internal ones.So, what exactly would an example of an external factor be? The number of new competitors entering your industry, the cost of materials used to manufacture your products, or the regulatory frameworks set out by governments — these are all examples of variables which are out of your organization's control, and should be taken into account in external analysis.One helpful way to tell whether a business analysis factors is external or not is to ask "does this factor apply to other organizations?" For example, an increased tax rate applies all organizations — not just yours — so you know it's an external factor.Why Is External Analysis Important?As you might expect, external analysis is also very important in the context of strategic management. When evaluating your organization's goals and resources, you absolutely need to look at the surrounding business environment. In a perfect world, it would be enough just to look inside your organization; in the real world, you need to be conscious of external forces that might affect your business' operations and throw you off course.Why Use PESTLE as a Tool?For analyzing external factors, the PESTLE model should be your tool of choice. PESTLE stands for Political, Economic, Sociocultural, Technological, Legal, and Environmental, which are the six categories of environmental factors you should take into account during business analysis (like in strategic management).If you look closely, you'll see that these almost all of the factors that fall into these six categories aren't inherently related to your organization, but are related to the overarching business environment:Political. How are government decisions influencing your organization?Economic. How is the local or global economy influencing your organization?Sociocultural. How are changes in social and cultural norms influencing your organization?Technological. How is the advancement, presence, or lack of technology influencing your organization?Legal. How are legal issues influencing your organization?Environmental. How is the environment influencing your organization?Getting Started with PESTLESimilarly to SWOT analysis, using PESTLE analysis is surprisingly easy. Simply categorize the external factors affecting your business as Political, Economic, Sociocultural, Technological, Legal, or Environmental.The challenge is finding those factors in the first place. It's helpful if you have some experience in your industry, which would give you a headstart on where to look. Otherwise, you'll need to do a lot of brainstorming and trawl through plenty of reports to find out which factors really affect your organization.For more information on carrying out an external analysis like this, be sure to read our three-step guide to PESTLE analysis.Internal and External Analysis in Strategic Management: Final ThoughtsStrategic management is a powerful way to run businesses. As a result of this approach's inherently analytical nature, it's important that you use both internal and external business analysis tools to make managerial decisions. You can do so by using the popular models of SWOT and PESTLE, which we have come to know and love in the world of business analysis. Initiatives to enhance the performance of firms in external environments In the field of management, strategic management involves the formulation and implementation of the major goals and initiatives taken by an organization's managers on behalf of stakeholders, based on consideration of resources and an assessment of the internal and external environments in which the organization operates.[1][2][3][4] Strategic management provides overall direction to an enterprise and involves specifying the organization's objectives, developing policies and plans to achieve those objectives, and then allocating resources to implement the plans.[5] Academics and practicing managers have developed numerous models and frameworks to assist in strategic decision-making in the context of complex environments and competitive dynamics.[6] Strategic management is not static in nature; the models can include a feedback loop to monitor execution and to inform the next round of planning.[7][8][9] Michael Porter identifies three principles underlying strategy:[10] creating a "unique and valuable [market] position" making trade-offs by choosing "what not to do" creating "fit" by aligning company activities with one another to support the chosen strategy. Corporate strategy involves answering a key question from a portfolio perspective: "What business should we be in?" Business strategy involves answering the question: "How shall we compete in this business?"[11][12] Alternatively, corporate strategy may be thought of as the strategic management of a corporation (a particular legal structure of a business), and business strategy as the strategic management of a business. Management theory and practice often make a distinction between strategic management and operational management, where operational management is concerned primarily with improving efficiency and controlling costs within the boundaries set by the organization's strategy.[citation needed] Strategy has been practiced whenever an advantage was gained by planning the sequence and timing of the deployment of resources while simultaneously taking into account the probable capabilities and behavior of competition. Bruce Henderson[13] In 1988, Henry Mintzberg described the many different definitions and perspectives on strategy reflected in both academic research and in practice.[14][15] He examined the strategic process and concluded it was much more fluid and unpredictable than people had thought. Because of this, he could not point to one process that could be called strategic planning. Instead Mintzberg concludes that there are five types of strategies: Strategy as plan – a directed course of action to achieve an intended set of goals; similar to the strategic planning concept; Strategy as pattern – a consistent pattern of past behavior, with a strategy realized over time rather than planned or intended. Where the realized pattern was different from the intent, he referred to the strategy as emergent; Strategy as position – locating brands, products, or companies within the market, based on the conceptual framework of consumers or other stakeholders; a strategy determined primarily by factors outside the firm; Strategy as ploy – a specific maneuver intended to outwit a competitor; and Strategy as perspective – executing strategy based on a "theory of the business" or natural extension of the mindset or ideological perspective of the organization. In 1998, Mintzberg developed these five types of management strategy into 10 "schools of thought" and grouped them into three categories. The first group is normative. It consists of the schools of informal design and conception, the formal planning, and analytical positioning. The second group, consisting of six schools, is more concerned with how strategic management is actually done, rather than prescribing optimal plans or positions. The six schools are entrepreneurial, visionary, cognitive, learning/adaptive/emergent, negotiation, corporate culture and business environment. The third and final group consists of one school, the configuration or transformation school, a hybrid of the other schools organized into stages, organizational life cycles, or "episodes".[16] Michael Porter defined strategy in 1980 as the "...broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals" and the "...combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." He continued that: "The essence of formulating competitive strategy is relating a company to its environment."[17] Some complexity theorists define strategy as the unfolding of the internal and external aspects of the organization that results in actions in a socio-economic context.[18][19][20] Michael D. Watkins (2007) argued that strategic management operates as a critical bridge between an organization's mission, vision, and execution. He asserted that if the mission statement and goals answer the 'what' question, and if the vision statement answers the 'why' questions, then strategy provides answers to the 'how' question of business management. In other words, strategy encompasses the methods, frameworks, and decision-making processes that enable a company to translate its aspirations into concrete actions and competitive success.[21] Strategic management processes and activities Strategy is defined as "the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals".[22] Strategies are established to set direction, focus effort, define or clarify the organization, and provide consistency or guidance in response to the environment.[23] Strategic management involves the related concepts of strategic planning and strategic thinking. Strategic planning is analytical in nature and refers to formalized procedures to produce the data and analyses used as inputs for strategic thinking, which synthesizes the data resulting in the strategy. Strategic planning may also refer to control mechanisms used to implement the strategy once it is determined. In other words, strategic planning happens around the strategic thinking or strategy making activity.[24] Strategic management is often described as involving two major processes: formulation and implementation of strategy. While described sequentially below, in practice the two processes are iterative and each provides input for the other.[24] Formulation of strategy involves analyzing the environment in which the organization operates, then making a series of strategic decisions about how the organization will fulfill its mission. Formulation ends with a series of goals or objectives and measures for the organization to pursue. Environmental analysis includes the: Remote external environment, including the political, economic, social, technological, legal and environmental landscape (PESTLE); Industry environment, such as the competitive behavior of rival organizations, the bargaining power of buyers/customers and suppliers, threats from new entrants to the industry, and the ability of buyers to substitute products (Porter's 5 forces); and Internal environment, regarding the strengths and weaknesses of the organization's resources (i.e., its people, processes and IT systems). Strategic decisions are based on insight from the environmental assessment and are responses to strategic questions about how the organization will compete, such as: What is the organization's business? Who is the target customer for the organization's products and services? Where are the customers and how do they buy? What is considered "value" to the customer? Which businesses, products and services should be included or excluded from the portfolio of offerings? What is the geographic scope of the business? What differentiates the company from its competitors in the eyes of customers and other stakeholders? Which resources, skills and capabilities should be developed within the firm? What are the important opportunities and risks for the organization? How can the firm grow, through both its base business and new business? How can the firm generate more value for investors?[25] The answers to these and many other strategic questions result in the organization's strategy and a series of specific short-term and long-term goals or objectives and related measures.[24] The second major process of strategic management is implementation, which involves decisions regarding how the organization's resources (i.e., people, process and IT systems) will be aligned and mobilized towards the objectives. Implementation results in how the organization's resources are structured (such as by product or service or geography), leadership arrangements, communication, incentives, and monitoring mechanisms to track progress towards objectives, among others.[24] Running the day-to-day operations of the business is often referred to as "operations management" or specific terms for key departments or functions, such as "logistics management" or "marketing management", which take over once strategic management decisions are implemented.[24] The strategic management discipline originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were Peter Drucker, Philip Selznick, Alfred Chandler, Igor Ansoff,[26] and Bruce Henderson.[6] The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years. Prior to 1960, the term "strategy" was primarily used regarding war and politics, not business.[27] Many companies built strategic planning functions to develop and execute the formulation and implementation processes during the 1960s.[28] Peter Drucker was a prolific management theorist and author of dozens of management books, with a career spanning five decades. He addressed fundamental strategic questions in a 1954 book The Practice of Management writing: "... the first responsibility of top management is to ask the question 'what is our business?' and to make sure it is carefully studied and correctly answered." He wrote that the answer was determined by the customer. He recommended eight areas where objectives should be set, such as market standing, innovation, productivity, physical and financial resources, worker performance and attitude, profitability, manager performance and development, and public responsibility.[29] In 1957, Philip Selznick initially used the term "distinctive competence" in referring to how the Navy was attempting to differentiate itself from the other services.[6] He also formalized the idea of matching the organization's internal factors with external environmental circumstances.[30] This core idea was developed further by Kenneth R. Andrews in 1963 into what we now call SWOT analysis, in which the strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment.[6] Alfred Chandler recognized the importance of coordinating management activity under an all-encompassing strategy. Interactions between functions were typically handled by managers who relayed information back and forth between departments. Chandler stressed the importance of taking a long-term perspective when looking to the future. In his 1962 ground breaking work Strategy and Structure, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction and focus. He says it concisely, "Structure follows Strategy." Chandler wrote that: "Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."[22] Igor Ansoff built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration and diversification. He felt that management could use the grid to systematically prepare for the future. In his 1965 classic Corporate Strategy, he developed gap analysis to clarify the gap between the current reality and the goals and to develop what he called "gap reducing actions".[31] Ansoff wrote that strategic management had three parts: strategic planning; the skill of a firm in converting its plans into reality; and the skill of a firm in managing its own internal resistance to change.[32] Bruce Henderson, founder of the Boston Consulting Group, wrote about the concept of the experience curve in 1968, following initial work begun in 1965. The experience curve refers to a hypothesis that unit production costs decline by 20–30% every time cumulative production doubles. This supported the argument for achieving higher market share and economies of scale.[33] Porter wrote in 1980 that companies have to make choices about their scope and the type of competitive advantage they seek to achieve, whether lower cost or differentiation. The idea of strategy targeting particular industries and customers (i.e., competitive positions) with a differentiated offering was a departure from the experience-curve influenced strategy paradigm, which was focused on larger scale and lower cost.[17] Porter revised the strategy paradigm again in 1985, writing that superior performance of the processes and activities performed by organizations as part of their value chain is the foundation of competitive advantage, thereby outlining a process view of strategy.[34] The direction of strategic research also paralleled a major paradigm shift in how companies competed, specifically a shift from the production focus to market focus. The prevailing concept in strategy up to the 1950s was to create a product of high technical quality. If you created a product that worked well and was durable, it was assumed you would have no difficulty profiting. This was called the production orientation. Henry Ford famously said of the Model T car: "Any customer can have a car painted any color that he wants, so long as it is black."[35] Management theorist Peter F Drucker wrote in 1954 that it was the customer who defined what business the organization was in.[25] In 1960 Theodore Levitt argued that instead of producing products then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them. The fallacy of the production orientation was also referred to as marketing myopia in an article of the same name by Levitt.[36] Over time, the customer became the driving force behind all strategic business decisions. This marketing concept, in the decades since its introduction, has been reformulated and repackaged under names including market orientation, customer orientation, customer intimacy, customer focus, customer-driven and market focus. In 1985, Ellen Earle Chaffee summarized what she thought were the main elements of strategic management theory where consensus generally existed as of the 1970s, writing that strategic management:[11] involves adapting the organization to its business environment; is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses; affects the entire organization by providing direction; involves both strategy formulation processes and also implementation of the content of the strategy; may be planned (intended) or unplanned (emergent); these may differ from each other and also from the realized strategy which results from them (Chaffee, p. 89) is done at several levels: overall corporate-level strategy, and individual business-level strategies; and involves both conceptual and analytical thought processes. Chaffee further wrote that research up to that point covered three models of strategy, which were not mutually exclusive: Linear strategy: a planned determination of goals, initiatives, and allocation of resources, along the lines of the Chandler definition above. This is most consistent with strategic planning approaches and may have a long planning horizon. The strategist "deals with" the environment but it is not the central concern. Adaptive strategy: in this model, the organization's goals and activities are primarily concerned with adaptation to its environment, analogous to a biological organism. The need for continuous adaption reduces or eliminates the planning window. There is more focus on means (resource mobilization to address the environment) rather than ends (goals). Strategy is less centralized than in the linear model. Interpretive strategy: as a less developed model than the linear and adaptive models, dating from the 1970s, interpretive strategy is concerned with "orienting metaphors constructed for the purpose of conceptualizing and guiding individual attitudes or organizational participants". The aim of interpretive strategy is legitimacy or credibility in the mind of stakeholders. It places emphasis on symbols and language to influence the minds of customers, rather than the physical product of the organization.[11] J I Moore identifies four related levels at which strategies can be devised: enterprise, corporate, business and functional Levels. The functional level applies to specific functional areas within an organisation such as its finance department, HR team or IT section.[37] In 2004, George Stalk, a Boston Consulting Group writer, distinguished between two extremes of business strategy using baseball metaphors: Softball: relying on weak competitive tactics which appear to be "strategic" but in fact "do little more than keep the company in the game for the short term"; Hardball: engaging with tough competitive strategies, "relentlessly" aiming for success.[38] The progress of strategy since 1960 can be charted by a variety of frameworks and concepts introduced by management consultants and academics. These reflect an increased focus on cost, competition and customers. These "3 Cs" were illuminated by much more robust empirical analysis at ever-more granular levels of detail, as industries and organizations were disaggregated into business units, activities, processes, and individuals in a search for sources of competitive advantage.[27] Main article: SWOT analysis A SWOT analysis, with its four elements in a 2×2 matrix. By the 1960s, the capstone business policy course at the Harvard Business School included the concept of matching the distinctive competence of a company (its internal strengths and weaknesses) with its environment (external opportunities and threats) in the context of its objectives. This framework came to be known by the acronym SWOT and was "a major step forward in bringing explicitly competitive thinking to bear on questions of strategy". Kenneth R. Andrews helped popularize the framework via a 1963 conference and it remains commonly used in practice.[6] Main article: Experience curve The experience curve was developed by the Boston Consulting Group in 1966.[27] It reflects a hypothesis that total per unit costs decline systematically by as much as 15–25% every time cumulative production (i.e., "experience") doubles. It has been empirically confirmed by some firms at various points in their history.[39] Costs decline due to a variety of factors, such as the learning curve, substitution of labor for capital (automation), and technological sophistication. Author Walter Kiechel wrote that it reflected several insights, including: A company can always improve its cost structure; Competitors have varying cost positions based on their experience; Firms could achieve lower costs through higher market share, attaining a competitive advantage; and An increased focus on empirical analysis of costs and processes, a concept which author Kiechel refers to as "Greater Taylorism". Kiechel wrote in 2010: "The experience curve was, simply, the most important concept in launching the strategy revolution...with the experience curve, the strategy revolution began to insinuate an acute awareness of competition into the corporate consciousness." Prior to the 1960s, the word competition rarely appeared in the most prominent management literature; U.S. companies then faced considerably less competition and did not focus on performance relative to peers. Further, the experience curve provided a basis for the retail sale of business ideas, helping drive the management consulting industry.[27] Completion of an importance-performance matrix forms "a crucial stage in the formulation of operations strategy",[40] and may be considered a "simple, yet useful, method for simultaneously considering both the importance and performance dimensions when evaluating or defining strategy".[41] Notes on this subject from the Department of Engineering at the University of Cambridge suggest that a binary matrix may be used "but may be found too crude", and nine point scales on both the importance and performance axes are recommended. An importance scale could be labelled from "the main thrust of competitiveness" to "never considered by customers and never likely to do so", and performance can be segmented into "better than", "the same as", and "worse than" the company's competitors. The highest urgency would than be directed to the most important areas where performance is poorer than competitors.[40] The technique is also used in relation to marketing, where the variable "importance" is related to buyers' perception of important attributes of a product: for attributes which might be considered important to buyers, both their perceived importance and their performance are assessed.[42][43] Main articles: Modern portfolio theory and Growth–share matrix Portfolio growth–share matrix The concept of the corporation as a portfolio of business units, with each plotted graphically based on its market share (a measure of its competitive position relative to its peers) and industry growth rate (a measure of industry attractiveness), was summarized in the growth–share matrix developed by the Boston Consulting Group around 1970. By 1979, one study estimated that 45% of the Fortune 500 companies were using some variation of the matrix in their strategic planning. This framework helped companies decide where to invest their resources (i.e., in their high market share, high growth businesses) and which businesses to divest (i.e., low market share, low growth businesses.)[27] The growth-share matrix was followed by G.E. multi factoral model, developed by General Electric. Companies continued to diversify as conglomerates until the 1980s, when deregulation and a less restrictive antitrust environment led to the view that a portfolio of operating divisions in different industries was worth more as many independent companies, leading to the breakup of many conglomerates.[27] While the popularity of portfolio theory has waxed and waned, the key dimensions considered (industry attractiveness and competitive position) remain central to strategy.[6] In response to the evident problems of "over diversification", C. K. Prahalad and Gary Hamel suggested that companies should build portfolios of businesses around shared technical or operating competencies, and should develop structures and processes to enhance their core competencies.[44] Michael Porter also addressed the issue of the appropriate level of diversification. In 1987, he argued that corporate strategy involves two questions: 1) What business should the corporation be in? and 2) How should the corporate office manage its business units? He mentioned four concepts of corporate strategy each of which suggest a certain type of portfolio and a certain role for the corporate office; the latter three can be used together:[45] Portfolio theory: A strategy based primarily on diversification through acquisition. The corporation shifts resources among the units and monitors the performance of each business unit and its leaders. Each unit generally runs autonomously, with limited interference from the corporate center provided goals are met. Restructuring: The corporate office acquires then actively intervenes in a business where it detects potential, often by replacing management and implementing a new business strategy. Transferring skills: Important managerial skills and organizational capability are essentially spread to multiple businesses. The skills must be necessary to competitive advantage. Sharing activities: Ability of the combined corporation to leverage centralized functions, such as sales, finance, etc. thereby reducing costs.[45] Building on Porter's ideas, Michael Goold, Andrew Campbell and Marcus Alexander developed the concept of "parenting advantage" to be applied at the corporate level, as a parallel to the concept of "competitive advantage" applied at the business level. Parent companies, they argued, should aim to "add more value" to their portfolio of businesses than rivals. If they succeed, they have a parenting advantage. The right level of diversification depends, therefore, on the ability of the parent company to add value in comparison to others. Different parent companies with different skills should expect to have different portfolios. See Corporate Level Strategy 1995 and Strategy for the Corporate Level 2014 Main article: Competitive advantage In 1980, Porter defined the two types of competitive advantage an organization can achieve relative to its rivals: lower cost or differentiation. This advantage derives from attribute(s) that allow an organization to outperform its competition, such as superior market position, skills, or resources. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage.[34] A graphical representation of Porter's Five Forces Main article: Porter five forces analysis Porter developed a framework for analyzing the profitability of industries and how those profits are divided among the participants in 1980. In five forces analysis he identified the forces that shape the industry structure or environment. The framework involves the bargaining power of buyers and suppliers, the threat of new entrants, the availability of substitute products, and the competitive rivalry of firms in the industry. These forces affect the organization's ability to raise its prices as well as the costs of inputs (such as raw materials) for its processes.[17] The five forces framework helps describe how a firm can use these forces to obtain a sustainable competitive advantage, either lower cost or differentiation. Companies can maximize their profitability by competing in industries with favorable structure. Competitors can take steps to grow the overall profitability of the industry, or to take profit away from other parts of the industry structure. Porter modified Chandler's dictum about structure following strategy by introducing a second level of structure: while organizational structure follows strategy, it in turn follows industry structure.[17] Main article: Porter's generic strategies Michael Porter's Three Generic Strategies Porter wrote in 1980 that strategy target either cost leadership, differentiation, or focus.[17] These are known as Porter's three generic strategies and can be applied to any size or form of business. Porter claimed that a company must only choose one of the three or risk that the business would waste precious resources. Porter's generic strategies detail the interaction between cost minimization strategies, product differentiation strategies, and market focus strategies. Porter described an industry as having multiple segments that can be targeted by a firm. The breadth of its targeting refers to the competitive scope of the business. Porter defined two types of competitive advantage: lower cost or differentiation relative to its rivals. Achieving competitive advantage results from a firm's ability to cope with the five forces better than its rivals. Porter wrote: "[A]chieving competitive advantage requires a firm to make a choice...about the type of competitive advantage it seeks to attain and the scope within which it will attain it." He also wrote: "The two basic types of competitive advantage [differentiation and lower cost] combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation and focus. The focus strategy has two variants, cost focus and differentiation focus."[34] The concept of choice was a different perspective on strategy, as the 1970s paradigm was the pursuit of market share (size and scale) influenced by the experience curve. Companies that pursued the highest market share position to achieve cost advantages fit under Porter's cost leadership generic strategy, but the concept of choice regarding differentiation and focus represented a new perspective.[27] Michael Porter's Value Chain Main article: Value chain Porter's 1985 description of the value chain refers to the chain of activities (processes or collections of processes) that an organization performs in order to deliver a valuable product or service for the market. These include functions such as inbound logistics, operations, outbound logistics, marketing and sales, and service, supported by systems and technology infrastructure. By aligning the various activities in its value chain with the organization's strategy in a coherent way, a firm can achieve a competitive advantage. Porter also wrote that strategy is an internally consistent configuration of activities that differentiates a firm from its rivals. A robust competitive position cumulates from many activities which should fit coherently together.[46] Porter wrote in 1985: "Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation...the value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation."[6] Interorganizational relationships allow independent organizations to get access to resources or to enter new markets. Interorganizational relationships represent a critical lever of competitive advantage.[47] The field of strategic management has paid much attention to the different forms of relationships between organizations ranging from strategic alliances to buyer-supplier relationships, joint ventures, networks, R&D consortia, licensing, and franchising.[48] On the one hand, scholars drawing on organizational economics (e.g., transaction costs theory) have argued that firms use interorganizational relationships when they are the most efficient form comparatively to other forms of organization such as operating on its own or using the market. On the other hand, scholars drawing on organizational theory (e.g., resource dependence theory) su

functioning in alignment with one another. This develops consistency across management and employee behaviour. Research has indicated that this alignment has led to improved firm performance.[84] Following the embedding of sustainability in a firm's strategic management plan, to fully reap the benefits the agenda must be communicated effectively to internal and external stakeholders. Doing so satisfies stakeholder theory, whereby the firm maintains 'trustful and mutually respectful relationships with the various stakeholders'. In the past, this has consisted of advertising and disclosing sustainability information and reports. Firms are available to promote their superior sustainability performance and ultimately possess higher market valuations in comparison to firms that do not provide sustainability reporting.[85] The amalgamation and alignment of these key internal strategic management components, in conjunction with thorough communication of the firm's sustainability agenda, is required to achieve these associated benefits and is the reason many firms are pursuing such tactics more frequently. See also: Organizational learning In 1990, Peter Senge, who had collaborated with Arie de Geus at Dutch Shell, popularized de Geus' notion of the "learning organization".[86] The theory is that gathering and analyzing information is a necessary requirement for business success in the information age. To do this, Senge claimed that an organization would need to be structured such that:[87] People can continuously expand their capacity to learn and be productive. New patterns of thinking are nurtured. Collective aspirations are encouraged. People are encouraged to see the "whole picture" together. Senge identified five disciplines of a learning organization. They are: Personal responsibility, self-reliance, and mastery – We accept that we are the masters of our own destiny. We make decisions and live with the consequences of them. When a problem needs to be fixed, or an opportunity exploited, we take the initiative to learn the required skills to get it done. Mental models – We need to explore our personal mental models to understand the subtle effect they have on our behaviour. Shared vision – The vision of where we want to be in the future is discussed and communicated to all. It provides guidance and energy for the journey ahead. Team learning – We learn together in teams. This involves a shift from "a spirit of advocacy to a spirit of enquiry". Systems thinking – We look at the whole rather than the parts. This is what Senge calls the "Fifth discipline". It is the glue that integrates the other four into a coherent strategy. For an alternative approach to the "learning organization", see Garratt, B. (1987). Geoffrey Moore (1991) and R. Frank and P. Cook[88] also detected a shift in the nature of competition. Markets driven by technical standards or by "network effects" can give the dominant firm a near-monopoly.[89] The same is true of networked industries in which interoperability requires compatibility between users. Examples include Internet Explorer's and Amazon's early dominance of their respective industries. IE's later decline shows that such dominance may be only temporary. Moore showed how firms could attain this enviable position by using E.M. Rogers' five stage adoption process and focusing on one group of customers at a time, using each group as a base for reaching the next group. The most difficult step is making the transition between introduction and mass acceptance. (See Crossing the Chasm). If successful a firm can create a bandwagon effect in which the momentum builds and its product becomes a de facto standard. Bolisani & Bratianu (2017) [90] have defined knowledge strategy as an integration of rational thinking and dynamic learning. Rational planning contains a three-step process where the first step is to collect information, the second step is to analyze the information and the third step is to formulate goals and plans based on information. Emergent planning also contains three steps to the opposite direction starting from practical experience, what is analyzed in the second step, and then formulated to a strategy in the third step. These two approaches are combined to the "integrated view" with the Bolisani and Bratianu research implications. To start the planning process for knowledge and KM strategy creation, company can prepare a preliminary plan with the basis of rational analysis from internal or external environments. While creating rational and predictive plans, company can similarly utilize practical adapted knowledge for example learning from the ground. The idea behind the integrated view is to combine the general visions of knowledge strategy with both the current practical understanding and future ideas. This model will move the decision-making process in a more interactive and co-creative direction. In 1969, Peter Drucker coined the phrase Age of Discontinuity to describe the way change disrupts lives.[91] In an age of continuity attempts to predict the future by extrapolating from the past can be accurate. But according to Drucker, we are now in an age of discontinuity and extrapolating is ineffective. He identifies four sources of discontinuity: new technologies, globalization, cultural pluralism and knowledge capital. In 1970, Alvin Toffler in Future Shock described a trend towards accelerating rates of change.[92] He illustrated how social and technical phenomena had shorter lifespans with each generation, and he questioned society's ability to cope with the resulting turmoil and accompanying anxiety. In past eras periods of change were always punctuated with times of stability. This allowed society to assimilate the change before the next change arrived. But these periods of stability had all but disappeared by the late 20th century. In 1980 in The Third Wave, Toffler characterized this shift to relentless change as the defining feature of the third phase of civilization (the first two phases being the agricultural and industrial waves).[93] In 1978, Derek F. Abell (Abell, D. 1978) described "strategic windows" and stressed the importance of the timing (both entrance and exit) of any given strategy. This led some strategic planners to build planned obsolescence into their strategies.[94] In 1983, Noel Tichy wrote that because we are all beings of habit we tend to repeat what we are comfortable with.[95] He wrote that this is a trap that constrains our creativity, prevents us from exploring new ideas, and hampers our dealing with the full complexity of new issues. He developed a systematic method of dealing with change that involved looking at any new issue from three angles: technical and production, political and resource allocation, and corporate culture. In 1989, Charles Handy identified two types of change.[96] "Strategic drift" is a gradual change that occurs so subtly that it is not noticed until it is too late. By contrast, "transformational change" is sudden and radical. It is typically caused by discontinuities (or exogenous shocks) in the business environment. The point where a new trend is initiated is called a "strategic inflection point" by Andy Grove. Inflection points can be subtle or radical. In 1990, Richard Pascale wrote that relentless change requires that businesses continuously reinvent themselves.[97] His famous maxim is "Nothing fails like success" by which he means that what was a strength yesterday becomes the root of weakness today, We tend to depend on what worked yesterday and refuse to let go of what worked so well for us in the past. Prevailing strategies become self-confirming. To avoid this trap, businesses must stimulate a spirit of inquiry and healthy debate. They must encourage a creative process of self-renewal based on constructive conflict. In 1996, Adrian Slywotzky showed how changes in the business environment are reflected in value migrations between industries, between companies, and within companies.[98] He claimed that recognizing the patterns behind these value migrations is necessary if we wish to understand the world of chaotic change. In "Profit Patterns" (1999) he described businesses as being in a state of strategic anticipation as they try to spot emerging patterns. Slywotsky and his team identified 30 patterns that have transformed industry after industry.[99] In 1997, Clayton Christensen (1997) took the position that great companies can fail precisely because they do everything right since the capabilities of the organization also define its disabilities.[100] Christensen's thesis is that outstanding companies lose their market leadership when confronted with disruptive technology. He called the approach to discovering the emerging markets for disruptive technologies agnostic marketing, i.e., marketing under the implicit assumption that no one – not the company, not the customers – can know how or in what quantities a disruptive product can or will be used without the experience of using it. In 1999, Constantinos Markides reexamined the nature of strategic planning.[101] He described strategy formation and implementation as an ongoing, never-ending, integrated process requiring continuous reassessment and reformation. Strategic management is planned and emergent, dynamic and interactive. J. Moncrieff (1999) stressed strategy dynamics.[102] He claimed that strategy is partially deliberate and partially unplanned. The unplanned element comes from emergent strategies that result from the emergence of opportunities and threats in the environment and from "strategies in action" (ad hoc actions across the organization). David Teece pioneered research on resource-based strategic management and the dynamic capabilities perspective, defined as "the ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments".[103] His 1997 paper (with Gary Pisano and Amy Shuen) "Dynamic Capabilities and Strategic Management" was the most cited paper in economics and business for the period from 1995 to 2005.[104] In 2000, Gary Hamel discussed strategic decay, the notion that the value of every strategy, no matter how brilliant, decays over time.[71] A large group of theorists felt the area where western business was most lacking was product quality. W. Edwards Deming,[105] Joseph M. Juran,[106] Andrew Thomas Kearney,[107] Philip Crosby[108] and Armand V. Feigenbaum[109] suggested quality improvement techniques such total quality management (TQM), continuous improvement (kaizen), lean manufacturing, Six Sigma, and return on quality (ROQ). Contrarily, James Heskett (1988),[110] Earl Sasser (1995), William Davidow,[111] Len Schlesinger,[112] A. Paraurgman (1988), Len Berry,[113] Jane Kingman-Brundage,[114] Christopher Hart, and Christopher Lovelock (1994), felt that poor customer service was the problem. They gave us fishbone diagramming, service charting, Total Customer Service (TCS), the service profit chain, service gaps analysis, the service encounter, strategic service vision, service mapping, and service teams. Their underlying assumption was that there is no better source of competitive advantage than a continuous stream of delighted customers. Process management uses some of the techniques from product quality management and some of the techniques from customer service management. It looks at an activity as a sequential process. The objective is to find inefficiencies and make the process more effective. Although the procedures have a long history, dating back to Taylorism, the scope of their applicability has been greatly widened, leaving no aspect of the firm free from potential process improvements. Because of the broad applicability of process management techniques, they can be used as a basis for competitive advantage. Carl Sewell,[115] Frederick F. Reichheld,[116] Christian Grönroos,[117] and Earl Sasser[118] observed that businesses were spending more on customer acquisition than on retention. They showed how a competitive advantage could be found in ensuring that customers returned again and again. Reicheld broadened the concept to include loyalty from employees, suppliers, distributors and shareholders. They developed techniques for estimating customer lifetime value (CLV) for assessing long-term relationships. The concepts begat attempts to recast selling and marketing into a long term endeavor that created a sustained relationship (called relationship selling, relationship marketing, and customer relationship management). Customer relationship management (CRM) software became integral to many firms. Michael Hammer and James Champy felt that these resources needed to be restructured.[119] In a process that they labeled reengineering, firm's reorganized their assets around whole processes rather than tasks. In this way a team of people saw a project through, from inception to completion. This avoided functional silos where isolated departments seldom talked to each other. It also eliminated waste due to functional overlap and interdepartmental communications. In 1989 Richard Lester and the researchers at the MIT Industrial Performance Center identified seven best practices and concluded that firms must accelerate the shift away from the mass production of low cost standardized products. The seven areas of best practice were:[120] Simultaneous continuous improvement in cost, quality, service, and product innovation Breaking down organizational barriers between departments Eliminating layers of management creating flatter organizational hierarchies. Closer relationships with customers and suppliers Intelligent use of new technology Global focus Improving human resource skills The search for best practices is also called benchmarking.[121] This involves determining where you need to improve, finding an organization that is exceptional in this area, then studying the company and applying its best practices in your firm. Professor Richard P. Rumelt described strategy as a type of problem solving in 2011. He wrote that good strategy has an underlying structure called a kernel. The kernel has three parts: 1) A diagnosis that defines or explains the nature of the challenge; 2) A guiding policy for dealing with the challenge; and 3) Coherent actions designed to carry out the guiding policy.[122] President Kennedy outlined these three elements of strategy in his Cuban Missile Crisis Address to the Nation of 22 October 1962: Diagnosis: "This Government, as promised, has maintained the closest surveillance of the Soviet military buildup on the island of Cuba. Within the past week, unmistakable evidence has established the fact that a series of offensive missile sites is now in preparation on that imprisoned island. The purpose of these bases can be none other than to provide a nuclear strike capability against the Western Hemisphere." Guiding Policy: "Our unswerving objective, therefore, must be to prevent the use of these missiles against this or any other country, and to secure their withdrawal or elimination from the Western Hemisphere." Action Plans: First among seven numbered steps was the following: "To halt this offensive buildup a strict quarantine on all offensive military equipment under shipment to Cuba is being initiated. All ships of any kind bound for Cuba from whatever nation or port will, if found to contain cargoes of offensive weapons, be turned back."[123] Active strategic management required active information gathering and active problem solving. In the early days of Hewlett-Packard (HP), Dave Packard and Bill Hewlett devised an active management style that they called management by walking around (MBWA). Senior HP managers were seldom at their desks. They spent most of their days visiting employees, customers, and suppliers. This direct contact with key people provided them with a solid grounding from which viable strategies could be crafted. Management consultants Tom Peters and Robert H. Waterman had used the term in their 1982 book In Search of Excellence: Lessons From America's Best-Run Companies.[124] Some Japanese managers employ a similar system, which originated at Honda, and is sometimes called the 3 G's (Genba, Genbutsu, and Genjitsu, which translate into "actual place", "actual thing", and "actual situation"). In 2010, IBM released a study summarizing three conclusions of 1500 CEOs around the world: 1) complexity is escalating, 2) enterprises are not equipped to cope with this complexity, and 3) creativity is now the single most important leadership competency. IBM said that it is needed in all aspects of leadership, including strategic thinking and planning.[125] Similarly, McKeown argued that over-reliance on any particular approach to strategy is dangerous and that multiple methods can be used to combine the creativity and analytics to create an "approach to shaping the future", that is difficult to copy.[126] A 1938 treatise by Chester Barnard, based on his own experience as a business executive, described the process as informal, intuitive, non-routinized and involving primarily oral, 2-way communications. Bernard says "The process is the sensing of the organization as a whole and the total situation relevant to it. It transcends the capacity of merely intellectual methods, and the techniques of discriminating the factors of the situation. The terms pertinent to it are "feeling", "judgement", "sense", "proportion", "balance", "appropriateness". It is a matter of art rather than science."[127] In 1973, Mintzberg found that senior managers typically deal with unpredictable situations so they strategize in ad hoc, flexible, dynamic, and implicit ways. He wrote, "The job breeds adaptive information-manipulators who prefer the live concrete situation. The manager works in an environment of stimulus-response, and he develops in his work a clear preference for live action."[128] In 1982, John Kotter studied the daily activities of 15 executives and concluded that they spent most of their time developing and working a network of relationships that provided general insights and specific details for strategic decisions. They tended to use "mental road maps" rather than systematic planning techniques.[129] Daniel Isenberg's 1984 study of senior managers found that their decisions were highly intuitive. Executives often sensed what they were going to do before they could explain why.[130] He claimed in 1986 that one of the reasons for this is the complexity of strategic decisions and the resultant information uncertainty.[131] Zuboff claimed that information technology was widening the divide between senior managers (who typically make strategic decisions) and operational level managers (who typically make routine decisions). She alleged that prior to the widespread use of computer systems, managers, even at the most senior level, engaged in both strategic decisions and routine administration, but as computers facilitated (She called it "deskilled") routine processes, these activities were moved further down the hierarchy, leaving senior management free for strategic decision making. In 1977, Abraham Zaleznik distinguished leaders from managers. He described leaders as visionaries who inspire, while managers care about process.[132] He claimed that the rise of managers was the main cause of the decline of American business in the 1970s and 1980s. Lack of leadership is most damaging at the level of strategic management where it can paralyze an entire organization.[133] According to Corner, Kinichi, and Keats,[134] strategic decision making in organizations occurs at two levels: individual and aggregate. They developed a model of parallel strategic decision making. The model identifies two parallel processes that involve getting attention, encoding information, storage and retrieval of information, strategic choice, strategic outcome and feedback. The individual and organizational processes interact at each stage. For instance, competition-oriented objectives are based on the knowledge of competing firms, such as their market share.[135] The 1980s also saw the widespread acceptance of positioning theory. Although the theory originated with Jack Trout in 1969, it didn't gain wide acceptance until Al Ries and Jack Trout wrote their classic book Positioning: The Battle For Your Mind (1979). The basic premise is that a strategy should not be judged by internal company factors but by the way customers see it relative to the competition. Crafting and implementing a strategy involves creating a position in the mind of the collective consumer. Several techniques enabled the practical use of positioning theory. Perceptual mapping for example, creates visual displays of the relationships between positions. Multidimensional scaling, discriminant analysis, factor analysis and conjoint analysis are mathematical techniques used to determine the most relevant characteristics (called dimensions or factors) upon which positions should be based. Preference regression can be used to determine vectors of ideal positions and cluster analysis can identify clusters of positions. In 1992 Jay Barney saw strategy as assembling the optimum mix of resources, including human, technology and suppliers, and then configuring them in unique and sustainable ways.[136] James Gilmore and Joseph Pine found competitive advantage in mass customization.[137] Flexible manufacturing techniques allowed businesses to individualize products for each customer without losing economies of scale. This effectively turned the product into a service. They also realized that if a service is mass-customized by creating a "performance" for each individual client, that service would be transformed into an "experience". Their book, The Experience Economy,[138] along with the work of Bernd Schmitt, convinced many to see service provision as a form of theatre. This school of thought is sometimes referred to as customer experience management (CEM). Many industries with a high information component are being transformed.[139] For example, Encarta demolished Encyclopædia Britannica (whose sales have plummeted 80% since their peak of $650 million in 1990) before it was, in turn, eclipsed by collaborative encyclopedias like Wikipedia. The music industry was similarly disrupted. The technology sector has provided some strategies directly. For example, from the software development industry agile software development provides a model for shared development processes. Peter Drucker conceived of the "knowledge worker" in the 1950s. He described how fewer workers would do physical labor, and more would apply their minds. In 1984, John Naisbitt theorized that the future would be driven largely by information: companies that managed information well could obtain an advantage, however the profitability of what he called "information float" (information that the company had and others desired) would disappear as inexpensive computers made information more accessible. Daniel Bell (1985) examined the sociological consequences of information technology, while Gloria Schuck and Shoshana Zuboff looked at psychological factors.[140] Zuboff distinguished between "automating technologies" and "informating technologies". She studied the effect that both had on workers, managers and organizational structures. She largely confirmed Drucker's predictions about the importance of flexible decentralized structure, work teams, knowledge sharing and the knowledge worker's central role. Zuboff also detected a new basis for managerial authority, based on knowledge (also predicted by Drucker) which she called "participative management".[141] An organisation's regulatory strategy accounts for how the organisation will respond to its regulatory bodies and standards as a feature of its operating environment, for example for businesses in the financial services, health care or energy industries. Beardsley et al., for example, refer to companies who are fatalistic or confrontational in their approach to being regulated. They recommend instead that the regulatory aspects of the business environment need to be integrated into the wider aspects of strategic planning and a coordinated approach taken in dialogue with regulators.[142] The term "regulatory strategy" is also used by regulators and legislators to define the aims and processes through which they will undertake their regulatory functions.[143] McKinsey & Company developed a capability maturity model in the 1970s to describe the sophistication of planning processes, with strategic management ranked the highest. The four stages include: Financial planning, which is primarily about annual budgets and a functional focus, with limited regard for the environment; Forecast-based planning, which includes multi-year budgets and more robust capital allocation across business units; Externally oriented planning, where a thorough situation analysis and competitive assessment is performed; Strategic management, where widespread strategic thinking occurs and a well-defined strategic framework is used.[27] The long-term PIMS study, started in the 1960s and lasting for 19 years, attempted to understand the Profit Impact of Marketing Strategies (PIMS), particularly the effect of market share. The initial conclusion of the study was unambiguous: the greater a company's market share, the greater their rate of profit. Market share provides economies of scale. It also provides experience curve advantages. The combined effect is increased profits.[144] The benefits of high market share naturally led to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, franchises, mergers and acquisitions, joint ventures and organic growth were discussed. Other research indicated that a low market share strategy could still be very profitable. Schumacher (1973),[145] Woo and Cooper (1982),[146] Levenson (1984),[147] and later Traverso (2002)[148] showed how smaller niche players obtained very high returns. See also: Military strategy In the 1980s business strategists realized that there was a vast knowledge base stretching back thousands of years that they had barely examined. They turned to military strategy for guidance. Military strategy books such as The Art of War by Sun Tzu, On War by von Clausewitz, and The Red Book by Mao Zedong became business classics. From Sun Tzu, they learned the tactical side of military strategy and specific tactical prescriptions. From von Clausewitz, they learned the dynamic and unpredictable nature of military action. From Mao, they learned the principles of guerrilla warfare. Important marketing warfare books include Business War Games by Barrie James, Marketing Warfare by Al Ries and Jack Trout and Leadership Secrets of Attila the Hun by Wess Roberts. The marketing warfare literature also examined leadership and motivation, intelligence gathering, types of marketing weapons, logistics and communications. By the twenty-first century marketing warfare strategies had gone out of favour in favor of non-confrontational approaches. In 1989, Dudley Lynch and Paul L. Kordis published Strategy of the Dolphin: Scoring a Win in a Chaotic World. "The Strategy of the Dolphin" was developed to give guidance as to when to use aggressive strategies and when to use passive strategies. A variety of aggressive strategies were developed. In 1993, J. Moore used a similar metaphor.[149] Instead of using military terms, he created an ecological theory of predators and prey(see ecological model of competition), a sort of Darwinian management strategy in which market interactions mimic long term ecological stability. Author Phillip Evans said in 2014 that "Henderson's central idea was what you might call the Napoleonic idea of concentrating mass against weakness, of overwhelming the enemy. What Henderson recognized was that, in the business world, there are many phenomena which are characterized by what economists would call increasing returns—scale, experience. The more you do of something, disproportionately the better you get. And therefore he found a logic for investing in such kinds of overwhelming mass in order to achieve competitive advantage. And that was the first introduction of essentially a military concept of strategy into the business world. ... It was on those two ideas, Henderson's idea of increasing returns to scale and experience, and Porter's idea of the value chain, encompassing heterogenous elements, that the whole edifice of business strategy was subsequently erected."[150] Like Peters and Waterman a decade earlier, James Collins and Jerry Porras spent years conducting empirical research on what makes great companies. Six years of research uncovered a key underlying principle behind the 19 successful companies that they studied: They all encourage and preserve a core ideology that nurtures the company. Even though strategy and tactics change daily, the companies, nevertheless, were able to maintain a core set of values. These core values encourage employees to build an organization that lasts. In Built To Last (1994) they claim that short term profit goals, cost cutting, and restructuring will not stimulate dedicated employees to build a great company that will endure.[151] In 2000 Collins coined the term "built to flip" to describe the prevailing business attitudes in Silicon Valley. It describes a business culture where technological change inhibits a long term focus. He also popularized the concept of the BHAG (Big Hairy Audacious Goal). Arie de Geus (1997) undertook a similar study and obtained similar results.[152] He identified four key traits of companies that had prospered for 50 years or more. They are: Sensitivity to the business environment – the ability to learn and adjust Cohesion and identity – the ability to build a community with personality, vision, and purpose Tolerance and decentralization – the ability to build relationships Conservative financing A company with these key characteristics he called a living company because it is able to perpetuate itself. If a company emphasizes knowledge rather than finance, and sees itself as an ongoing community of human beings, it has the potential to become great and endure for decades. Such an organization is an organic entity capable of learning (he called it a "learning organization") and capable of creating its own processes, goals, and persona.[152] Will Mulcaster[153] suggests that firms engage in a dialogue that centres around these questions: Will the proposed competitive advantage create Perceived Differential Value?" Will the proposed competitive advantage create something that is different from the competition?" Will the difference add value in the eyes of potential customers?" – This question will entail a discussion of the combined effects of price, product features and consumer perceptions. Will the product add value for the firm?" – Answering this question will require an examination of cost effectiveness and the pricing strategy. Business portal Balanced scorecard Business analysis Business model Business plan Concept-driven strategy Cost overrun Dynamic capabilities Enterprise risk management Financial risk management § Corporate finance Goal ambiguity Integrated business planning Marketing Marketing plan Marketing strategies Management Management consulting Military strategy Morphological analysis Overall equipment effectiveness Outline of management Real options valuation Results-based management Revenue shortfall Six Forces Model Strategy (game theory) Strategy dynamics Strategic planning Strategic Management Society Strategy map Strategy Markup Language Strategy visualization Value migration

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