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On Strategic Management

Title of Research:

Issues of improvement of informational base in strategy management (by example of agricultural clusters)

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Contents:

Explanatory Project of Strategic Management

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Abstract

Ansoff has studied strategy separate from goals of organization. To him, strategy is a way of deciding with accepting risks. It is a clear way to get a goal in the first definition; strategy is a kind of execution path, an instruction or collection of instruction to confront with situations. In continuing world attitude toward the Subject, also the portfolio and the following subjects are considered: understand past and present activities of organization, analyzing potential abilities, limits of the company and its strategic units recognizing imbalances in strategic planning.

In this chapter Process of strategic planning and theoretical studies and As Robins and Prerce have mentioned strategic approach is naturally behavioral and its success and failure depend on human factor and how to participate in activities.

We should mention that strategic approach can provide these characteristic but it isn't guaranteed and planners should be careful how to participate in this activity because all the approaches aren't successful. In continuing we have provide How to determine objectives in an organization. In chapter two we have seen the role of this research firstly to find elements of time and place whose standards have been determined by the strategy and secondly we find possibilities which are not according to the planned strategy. Strategic management may be confronted with changes in the environment and one of the reasons can be traditional markets. Theoretical studies included in this chapter we have done in characteristic of research too and the cause of selection of the subject and the importance of it.

Describing research method and hypothesis. It means to test theories and understanding and conclusions of process so that we can provide witnesses to test hypothesis as follows which are used according to the kind of organization also include determining research variables, structure analysis of industries and How can we forecast these structure changes? strategy, finding and processes analysis based on organizational structure and process.

Strategy evaluation can be a complex and sensitive undertaking. Too much emphasis on evaluating strategies may be expensive and counterproductive. No one likes to be evaluated too closely! Dalton and Lawrence emphasize that the more managers attempt to evaluate the behavior of others, the less control they have. Yet, too little or no evaluation can create even worse problems. Strategy evaluation is essential to ensure that stated objectives are being achieved. The process of Evaluating Strategies is the matter that we have seen in this chapter we have suggested. Using computer to evaluate strategies can allow diverse strategy-evaluation reports to be generated for different levels and types of managers. Finally we have considered Efficiency of strategic management.

In last chapter methods of collecting of the agricultural information and data classification in Azerbaijan are investigated.

In the name of God

Title: Explanatory Project of Strategic Management

Introduction

Urgency of the study. A sense of strategy is an important component in the management of a successful business. By a sense of strategy we mean that the top management teams have a shared understanding of where the firm is trying to go. Some view of where and how the firm is trying to compete gives confidence to managers from the top downwards. It assists managers in making resource decisions, and it can instill a sense of purpose. But because the future is uncertain it is impossible to rationally analyze the firm's situation in a way which produces a single "correct" strategy for the business. However, faced with uncertainty and complexity, some sense of direction is better than no sense of direction. We can take heart from the fact that a "right answer" is not attainable. A-well-thought-through and well-argued strategy will not necessarily be the "optimal" strategy for the business, and there may be several viable alternatives, each with their advantages and disadvantages. Nevertheless, a shared and agreed view of where we are trying to take the firm is an essential ingredient for the successful management of today's activities. Armed with this shared understanding, managing on a day-to-day basis becomes more straightforward. If we know where we are trying to head, difficult operational and resource decisions can be made with more confidence, but setting the strategic direction for a business is the most complex task facing any top management team. The complexity arises for a variety of reasons that are peculiar to strategy making, as follows:

- Strategy is about an unknown future;

-there are many paths that a firm could follow; and

- Firm operate in dynamic competitive environments.

Because strategy making involves people, however, the complexity is compounded:

- Each executive involved has his or her own views and motives, which may or may not be explicit

- In deciding strategy, individuals are constrained by their past experiences, taken-for-granted assumptions, biases and prejudices.

There are ways of dealing with these layers of complexity. One is to avoid the problem of strategy altogether by running the business on an ad hoc basis. This can work as long as the things the firm is doing continue to be relevant to the markets it operates within. Sadly, recent history is littered with examples of firms that were market leaders in the 1980s, but which have hit the rocks in the 1990s.

Goal of study**.** Many firms try to deal with an uncertain future through planning systems. At the simpler end of the spectrum, these are merely extended budgeting processes, and at the more elaborate end they are characterized by extensive phases of analysis, option generation and evaluation, leading through to detailed implementation planning. And many senior executives would recognize them as a corporate ritual, largely driven by unrealistic performance targets, and which rarely feed through to implementation.

Unfortunately, this experience of planning has many executives' opinions about strategy. This research is about strategy, not planning. It is designed to help managers who are seriously trying to debate their firm's strategy. The emphasis is on trying to answer some fundamental questions about the firm's future direction. And in addressing these questions, some analytical techniques and frameworks are explained. The stress, however, is clearly on the quality of the strategy debate by the spurious accuracy that only spreadsheet projections can provide.

Once a shared understanding about these questions has been arrived at, then more detailed action planning can take place to try to turn the board intentions into understandable tasks that need to be tackled today. Clearly, at this point in the development of strategy, targets and budgets will need to be set to help in the implementation of the strategy.

Theoretical and methodological base of study is the opinion and researches of researchers devoted to issue.

Scientific and practical significance of the research. This research can be used by researchers, managers and government.

Statistical base is data of Statistical Committee of Azerbaijan Republic.

Object of study is the process of Strategic Management on micro- and mesoeconomic level.

Findings are the following:

A. The methodology is developed to conduct a country's statistics in compliance with cluster development of national economy (P. 126-136).

B. While classification of products on the group of "*012. Live-stock and cattle breeding products*" new indicators are proposed (P. 113-114).

C. The structure of expenditures in agricultural sector of AR is calculated and systemized (P. 128-130).

This research consists of three parts and seven chapters.

Chapter 1 develops define of the subject issue. For example Ansoff has studied strategy separate from goals of organization. To him, strategy is a way of deciding with accepting risks. It is a clear way to get a goal in the first definition; strategy is a kind of execution path, an instruction or collection of instruction to confront with situations. In continuing world attitude toward the Subject also the portfolio and the following subjects are considered: Understand past and present activities of institution analyzing potential abilities, limits of the company and its strategic units recognizing imbalances in strategic planning.

Chapter 2: this chapter describes process of strategic planning and theoretical studies. As Robins and Prerce have mentioned strategic approach is naturally behavioral and its success and failure depend on human factor and how to participate in activities.

We should mention that strategic approach can provide these characteristic but it isn't guaranteed and planners should be careful how to participate in this activity because all the approaches aren't successful. In continuing we have provide How to determine objectives in an organization. In chapter two we have seen The role of this research is firstly to find elements of time and place whose standards have been determined by the strategy and secondly we find possibilities which are not according to the planned strategy. Strategic management may be confronted with changes in the environment and one of the reasons can be traditional markets. Theoretical studies included in this chapter we have done in characteristic of research too and the cause of selection of the subject and the importance of it.

Chapter 3 describes research method and hypothesis. It means to test theories and understanding and conclusions of process so that we can provide witnesses to test hypothesis as follows which are used according to the kind of organization also include determining research variables.

Chapter 4 includes structure analysis of industries and How can we forecast these structure changes?

Chapter 5 includes strategy, finding and processes analysis based on organizational structure and process.

Chapter 6 includes evaluation process. Strategy evaluation can be a complex and sensitive undertaking. Too much emphasis on evaluating strategies may be expensive and counterproductive. No one likes to be evaluated too closely! Dalton and Lawrence emphasize that the more managers attempt to evaluate the behavior of others, the less control they have. Yet, too little or no evaluation can create even worse problems. Strategy evaluation is essential to ensure that stated objectives are being achieved. The process of Evaluating Strategies is the matter that we have seen in this chapter we have suggested. Using computer to evaluate strategies can allow diverse strategy-evaluation reports to be generated for different levels and types of managers. Finally we have considered efficiency of strategic management.

Chapter 7 includes management on mesoeconomic level. In this chapter methods of collecting the agricultural information and data classification in Azerbaijan are investigated.

Part One

General approach to the subject introduction

Chapter One: Subject Planning

1-1-1. Definitions, Understanding and limitations of the subject matter:

Strategy can be defined as a way of sending, taking and guarding. It is supposed this word has been taken from the knowledge and art of ancient Greek general called strategies. According to some other resources, this word has taken from the word stratum meaning path and way. In spite of some differences in definitions but both have something common.

In recent year strategy has been used as a military word. So strategy in war means reaching to goal, science and the art of arranging the army.

Strategy has been used in social sciences in field of economics in the second half of the 20^{th} century. Strategy in economics was used for the first time by Newman and Morgenstern; they were both economist and mathematician. They studied strategy from the personal economic point of view. They tried to explain in a systematic way the cute tricks used by both sides to be a winner.

Chandler has defined strategy as the determining factor of executive goals. On the other hands Andrews defined strategy as a pattern of executive goals. To him strategy determines what the organizations do and what it wants to do.

Ansoff defines strategy as a prescriptive point of view. To him strategy at first considers the outward issues especial in the mixture of the products, the kind of markets in which the products will be sold there. He says strategy is like a link between product and market schedule. Hofer explain strategy as the providing activities between interval resources and talents of organization with outward threats. There is another definition for strategy which says it is the selection of activities necessary for getting goals of organization.

To Steiner, in spite of relation between strategic management and operations, it is strategy which determines the framework of operation management.

Brisen defines strategic planning as follow:

Strategic planning is an organized effort to get fundamental decisions and doing essential operations which determines activities of an organization into a framework. These efforts help the organization to rely on its strength and overcome its weak points.

By careful study of these definitions, it is clear that there is a common understanding about content of the strategy. But there are differences also. For example Ansoff has studied strategy separate from goals of organization. To him, strategy is a way of deciding with accepting risks. It is a clear way to get a goal.

Chandler and Andrews when defining strategy study goals and strategy at the same time as a long term process which includes past successes of organization, present situation and what will be done in the future.

Contrary to these definitions, metro police 93 conference defines strategic planning in a systematic way as follows:

"Strategic planning is a way of making decisions and act to shape a system."

This system can be a town, region or state or an activity like transportation, health or training or a private public organization.

The difference between strategic planning and the forms of planning is to emphasis on the activity and performing, participating of decision-makers and focusing on what is really important for society or organization.

The most important thing is strategic planning for rare resources and crisis activities.

Mintzberg's strategy as a role in the process of decision – making. He offers a more complete definition later.

In this definition, he considers different dimensions of the subject:

a- Strategy as a plan that is operation path which is selected with knowledge.

b- Strategy as play in which we try to compete with another organization.

c- Strategy as a pattern of action.

d- Strategy as a position which can be flexible according to situation.

e- Strategy as a perspective which gathers different ideas together.

In the first definition, strategy is a kind of execution path, an instruction or collection of instruction to confront with situations.

This process is true where rational decision-making is dominant. The problem is that if this is possible theoretically or practically or net.

In the second definition, planning is as a trick against another group. This is where there is competition and managers decide to confront to threats and assess the

situation. This planning emphasizes on the threat and competition and is useful in urban areas.

Third definition can be called a pattern. Pattern is a monotonous behavior. It is testing and making error to get a pattern of measures which are monotonous. In this definition, result is important. The evaluating of such pattern is difficult. Because it is difficult to assess integrity of measures in cities.

In forth definition, strategy is a situation that is placing an organization in its environment to Mintzberg, strategy is an adjusting mechanism between organization and environment or between internal and external framework.

We can talk about the cooperation of several organizations. This is important for urban areas.

In fifth definition, strategy means a series of cognitive concepts. In this sense, strategy is like personality for a person. Strategy here focuses on the recognizing of activities, cultures, behaviors, believes and supposes that each organization has its own characteristics and strategy is a collective phenomenon. This concept is important in cities, especially when creating organizational networks.

Mintzberg warns that we should be cautions against the entire strategic phenomenon because all the strategies are abstract and present just in the mind of those who are interested party.

Reminded that no one has seen a strategy or touch it. Every strategy is a kind of creating or it is a pattern for explaining a behavior which has been done. The definition which will be considered in this research is: strategy is pattern or design which combines goals, policies and chains of operating of an organization into a framework of a inter related planning, can guide the resources of organization and recognize the deficiencies and charge environment to determine what should be achieved.

The points are as follow:

a- Recognizing of strengths and weak points of internal environment of organization.

b- Recognizing of opportunities and threats in external environment

c- Establishing of the mission of organizations and making of goals.

d- Planning of strategy, considering of strengths and weak points, opportunities and threats.

1-1-2. Recognizing of the Subject issue:

It is necessary to know the need of organization to strategy from different perspectives. We can divide the perspectives as follow:

- **Classic approach of strategy.** Classic strategy consists in rational-planned, considered plan of allocation of resources to get the maximum result.
- **Procession Approach**. This approach is the gathering of those who have determined goals and direction for the organization. To these ones, strategy is a continuous process of negotiation because a rational economic man is just a dream.
- **Evolutionary Approach**. In this approach man and organization develop by the same laws having biological base. By this approach economists consider market and let it to make decision. In this way, this is the market which makes decision not the managers. Competition is the most effective way of adaptability. So entering easily to the markets is the only ways of assuring of the healthy industries.
- **Systematic Perspective**. In this approach, it is believed that we can't consider economic activities as calculations of effects of economic entities because economic behavior is itself included in social, family, governmental and professional relations which mainly determine behavior. These relations mainly justify the goals and tools of activities. So the value which guides a strategy are cultural and culture is defined as a series of social systems and affects on the companies, industries and economy and in turn is affected too and also it is important in growing foreign business and investment and has an important historical position.

What is called systematic approach is in fact goals and activities which depend on the social system in which it occurs, and understanding of social and cultural system is emphasized.

The limits of the subject is in the framework of ability of organization to response the problems recognizing strategy, the time of designing of it becoming familiar with strategy, establishing the design of strategy in organization, analyzing the

competitive position in difficult situations, competitive positioning, independent positioning as a tool of changing culture, improving strategy.

- **Portfolio model.** In portfolio model the following subjects are considered:

a. Understand past and present activities of organization.

b. Analyzing potential abilities, limits of the company and its strategic units.

c. Recognizing imbalances in strategic planning.

Here we consider market goals, customer competitors, effect of changes like change of prices, qualities, replacing product, assessing real prices, cash flow, return on the investment, risk return ratio, life cycle stage distribution, multi objective decision making (MODM).

The model of making strategy in portfolio model is a continuous model by which the goals and the tools and risk and initiatives are determined.

Each approach of portfolio is as a planning tool is related to the strategic variables. That is cash flow and return on investment. Each aspect may be a strategic variable or several strategic variables. External aspect is related to growing industry and literal aspect is development, covering distribution network.

In this research, these points are compared to each other and the strengths will be used if needed.

Chapter 2.

1-2- Background of the research and reading other literature

1.

In this research we have tried to explain strategic subjects and also describe the following points:

a- Strategic path

b. Theoretical and practical approaches to strategic management.

c- Strategy along with the success.

d- Determining of limits in the structure of timetable and removing of deficiencies by determining feed back.

e- Determining the efficiency of strategic management in time periods.

f- Separating aggressive or defensive management of planning strategy in regard to strategic dimensions.

Formal strategies have three main elements:

a- The most important goals which have to be gained

b- The most necessary policies to guide or limit operations.

c- Subsequent operation which leads to determined goals and limitations.

Since strategy determines the road, and center of operation of organization, it can't be as the ordinary planning to get the goal. Strategies include concepts and essential movements which gave them balance and concentration. Some of these moves are temporary and some are durable, some are costly.

Company should pick patterns which can provide resources. Organizational units must be coordinated and should move so that supports the pattern

Complex organizations like military, operative and war strategies should have strategies of this own which are related to each other and strengthen one another. Each of these strategies should be complete and at the same time related to other strategies. The important point is that managers should have a systematic tool to examine each secondary strategy and make sure that it is responsive to elements of strategy.

Existing standards make a frame work for strategy but in most cases we can see that formal strategies are not strategy. Because they ignore the essential rules of

strategies and they are just a bunch of philosophical thought without dependency, flexibility movement and so on. Each strategy should be analyzed against proper standards.

1-2-2. Process of strategic planning and theoretical studies:

There are different perspectives, models and approaches used in strategic planning. The way that a strategic plan is developed depends on the nature of the organization's leadership, culture of the organization, complexity of the organization's environment, size of the organization, expertise of planners, etc. There are goals-based, issues-based, organic, scenario (some consider scenario planning as technique, not model) strategic planning models, etc.

a) Goals-based planning is the most common method and starts with focus on the organization's mission (and vision and/or values), goals to work toward the mission, strategies to achieve the goals, and action planning (who will do what and by when).

b) Issues-based strategic planning often starts by examining issues facing the organization, strategies to address those issues and action plans.

c) Organic strategic planning might start by articulating the organization's vision and values, and then action plans to achieve the vision while adhering to those values. Some planners prefer a particular approach to planning, eg, appreciative inquiry.

Some plans are one-year, many are three-year, and some are five-ten-year. Some plans include only top-level information and no action plans. Some plans are short (5-8 pages), while others can be considerably longer.

Regarding to strengths and weak points of the strategic approach, it is clear that strong point of strategic planning has weak points too and new approach of strategy tries to define strategy as an active pattern, a situation and attitude toward performing, flexibility and people participation in solving problem, so that limits of classic strategic planning will be declined.

As Robins and Prerce have mentioned strategic approach is naturally behavioral and its success and failure depend on human factor and how to participate in activities.

We should mention that strategic approach can provide these characteristic but it isn't guaranteed and planners should be careful how to participate in this activity because all the approaches aren't successful.

1-2-3. Objective and its role

The first step to determine the objective is defining strategy of the organization. Objectives are results which a company tries to achieve. So we have tried to explain objective and their role in strategic management in this study and suggest a project. In general, organizations determine path and coordinate it by objectives, define standards and provide necessary ideas for employees.

If employees know the objectives, their difficulty to make decisions will be smaller. Kinds of objectives:

In this research we have tried to assume basic objectives as the strategic goals which affect on the movement, direction and thriving of an organization.

In strategic management, there are three kinds of objectives:

a- Mission

b- Qualitative goals

c- Quantitative goals

The answer of this question says about kind of activity of organization. These objectives determine general directions.

We can define mission as a link between doing social tasks and special goals of organizations which provides a general view for people inside and outside of the organizations. Mission may be too broad which lack the real meaning or so ideal that we can not achieve it. Describing mission we can determine the following element:

A- What does the organization do?

B- What kind of products it has? For instance an organization builds bridge or the company produces oil.

C- Who are the customers?

D- In which area does the organization act? For instance it works in the south.

E- How does the organization provide finances?

F- What are the values dominant in that organization?

Qualitative goals: These determine direction of the movement and the way of using of the facilities of organization. It may determine just the important directions. Qualitative goals are basic for quantitative goals and since they are the main force of

movement considered by the management. For example, the quality of human forces can be one qualitative goal.

Quantitative goals: determine results which should be achieved and what situation should be gained in a determined period of time. So in determining quantitative goals we should consider two points:

a- Quantitative goals determine a situation in a special time in the future

b- Quantitative goals determine results gained in a period of time. For example, the amount of a profit at the end of the year is the first kind and the one year sale or one year profit of the future period is the second kind of quantitative goals.

1-2-4. HOW to determine objectives in an organization:

Objectives of an organization are determined under the influence of some facts inside and outside of organization. So shareholders are interested in the profit. Customers are interested in improving the quality and government is interested in getting taxes.

These elements make effort to get their result and each of them tries to affect on the decision making. The resulting power of each of these forces on the management has an effect on the direction of the organization. In addition to power, there are other elements like economic situation and purchase power of people, technology and competitors which affect on the determining the objective of the organization.

1-2-5. Possession of resources and power links in the organization.

Human and financial facilities are important in determining of the objective of the organization.

An organization which doesn't have high financial ability can not increase its selling tenfold during one year. On the other hand, determining of the objective of organization depends on the power of employees. For example if industrial vice president of an organization is powerful, the objective of that organization tends to productions.

In determining of the objective, allocation of the resources it is recognized that it shifts power and ability in different parts of that organization. Because of that people

resist the shift. So there should be powerful managers of these parts of organization which should be changed. Supports of employees in determining objectives are effective. This supports shows how much information will be given to the high management.

c- Value management system: Values governing the organization are crucial in determining of objective of that organization.

Values include theories determining the quality too, like experimental, economic, aesthetic social, political, religious values. It is important that the values and philosophies should be according to strategy and structure of organization.

d- Past objectives and developing organization: To determine the goals of an organization, past and history of it is important. Managers cannot change their objectives every year. They tend change the goals regarding to development and growth of company.

1-2-6. Process of determining of goals

Managers of each company have specific goals for themselves. Top manager determine the overall goals of organization and other managers should determine. The goals of units and departments personal goals include operative and development goals. There two ways to determine the goals:

a. Determining of goals from top to bottom

b. Determining of goals from bottom to top. In first approach managers determine goals for employees and in second approach the goals are determined by employees and offered to managers.

In first approach people should do according to board of manager. In second approach, it is believed that board of managers need the information from the employees. Selection of one of these two approaches should be according to the situation and size of organization, culture of its method of leadership and emergency of plan.

Objective in strategic management is considered as the values of managers. Without determining the objective Strategic planning is impossible and the following items can not be provided:

A- Determining the position of organization.

B- Determining mechanisms to coordinate decisions and decision-makers.

C- Providing standards to evaluate results.

D- Creating motivation for moving forward the organization.

1-2-7. The effect of time and environment in strategic management:

If we accept that strategy is a collection of rules to decide about the direction of the organization behavior, there would be a collection of strategic plans. The role of this research is firstly to find elements of time and place that affect the strategy and secondly to find possibilities which are not according to the planned strategy.

1-2-8. Environmental element and its effect on the strategic management:

Strategic management needs research about opportunities and threats of the environment, and determining of the source of each of the recognizing environment and environmental elements before creating or changing strategy is vital to each company.

These elements can be divided as follow:

A- Industrial environment in which company compete.

B- External environment in the outside.

Industrial environment includes elements with direct effect on the company like competitors, customers and providers.

External environment includes economic, social, technologic and political position of company.

A Company to be successful should correspond to the external environment. The products should be on the basis of strategy and environment mongers should understand external competitive forces by using proper strategic to increase the income of the company. If the external forces are not recognized, selected strategies would be poor and products will hurt.

Since external threats cause a destroy the productivity of companies, so the strategic managers should set the strategy so that to protect productivity of company.

Environmental factors in business are as follow:

a- Socio-economic factor including economical, geographical and social factors.

b- Technological factors.

c- Government

d- World factor

e- Competition

f- Production factors.

Socio-economic factors:

Present and future of economic situation have effects on the company. Economic factors which are important for companies are as follow:

a. Period of growth or depression

b. Increase or decrease of prices

c. Monetary policy of Central Bank

d. Financial policy

e. Payment balance

Each of these factors affects getting the goals of company.

Growth of the economy has a direct effect on the opportunities and threat of the company. Economy growth allows the companies to grow their functions and this will cause the increase of competition functions. On the other hand this will cause the increase of competition and bring an important threat for productivity.

Strategic managers need to know economic perspectives. For example if managers expect an economic depression, starting a new development strategy will be nonsense. And if the economy is week but a good future can be estimated, it is advised to use growth strategy.

Important factor affecting the growth of company is interest rate which determines the volume of demand for the production of a company. Increase in the rate of interest is a threat and decrease of this rate is an opportunity for the companies.

Interest rate also determines the cost of investment for a company and can be an important factor in decision – making about growth strategy.

The exchange rate also influences growth of company. When exchange rate decreases, the domestic productions become cheaper and more competitive.

The rate of inflation can make the economy unstable and decrease the rate of economic growth. But it should be noted that inflation is dangerous when it is high and unpredictable. But if inflation is at low and predictable level threat for companies is low.

Social factors:

Among the socio-economic factors which have effect on the strategy we can note values and insight of population, customers and employees. These values lead to the style of living which in return strengthens affection for the products and services or relation between agencies or employees.

Society affects the company and vice versa. For example a factory shouldn't produce smoke and pollute the environment. So, if the company show respect to society, the society also respects the company.

The following rules should be considered:

a- Managers believe that they should prefer the benefit of company to their own benefit.

b- They believe that their duty toward the society is more essential than their duty toward their own company.

c- Managers should expose their benefit when it includes the benefit of company and when the benefit of company contradicts the benefit of society.

d- Managers use executive rules to select strategy.

When determining strategic goals demand factors should be determined, such as

a- Change in population

b- Change in the age of population.

c- Distribution of income.

The changes of population affect on the factors creating opportunities and threats. For example in 1980's there were a great number of the young in some countries and this created opportunities and threats. The young people married and the demand for furniture increased and industries tended to produce facilities for the young and the demand for toys increase.

Strategists usually evaluate geographical environment and study it to determine opportunities and threats. Some times these activities include transferring central companies to a new region.

This change may be because of change of population or because of the fact that an institute needs people with enough income.

Technological factor has a rapid growth after world war two. Technology is an important factor which influences the data and production process.

Regarding to changes of technology we should consider the following cases:

a- Computer changes.

b- Changes in communication and transportation system.

c- Changes in energy and its sources.

Changes in technology can lead to sudden drop in existing productions and new ways of producing and creating new production facilities so these changes are either creative or destructive.

It is an opportunity and also is a threat. Since increasing the rate of technology changer. Causes to shorten the durability of products, it is necessary for organizations to predict these changes.

Government sector is one of the important factors in business which affects things like income, price control, equal job opportunities, safety and health, the place of factory, the limit of air pollution and noise pollution, advertisement.

The activities of government affect on the strategic selection of job and can increase opportunities and threats.

Obeying the rules increases the competition of industries. Changes in the world can provide opportunities to develop markets and also threats for international industries.

Appearing European society as a big open market which is a large as half of American market is a threat for American business. They may be a great power and occupy American markets.

The job of strategic managers is to analyze competitive forces to recognize threats and opportunities. Porter has offered a pattern called five force patterns, and emphasizes on the five forces which form the competition in industry (31).

a- The danger of appearing new competitors.

b- The rate of competition between companies.

c- The power of bargaining of customers.

d- The power of bargaining of distributors.

e- Similarity of alternatives for industrial products.

Porter believes that the power of each of these forces can increase the power of companies to raise the prices and gaining interest according to Porter a powerful competitive force can be a threat because it decreases the benefit. A week competitive force makes it possible for the company to gain more benefit. These five forces can

change during the time. So the job of managers is to recognize the opportunities and threats.

A company may change one or more of these forces by choosing a strategy. The main goal of environmental factors is to determine strategy of the company, which is very sensitive job. For this, firstly we should consider to the society view toward this company and analyze its needs.

To determine a successful strategy, the inner environment of company should be evaluated and evaluate its situation in regard to the whole industry.

These factors should be considered in every institute:

a- Attitude toward future of industry or service.

- determining the rate of demand for products or services.
- determining the rate of distribution for products or services.
- determining the rate of change of price.
- determining the position of competitors.
- Recognizing governmental rules a bout industry.
- determining the rate of production and benefit.

b- Recognizing the situation of institute in industry.

- determining the situation of market.
- determining the rate of costs.
- Special regard to competitors.

1-2-9. Theoretical studies

Rumelf says: Strategy of one person is tactic of another person. The strategy of something depends on the place you are and also depends to time. Some thing which today is strategy may be tactic tomorrow. We should consider it carefully. So strategy about everything like products, customers, citizens, social responsibilities and so on we can consider as the definition of General.

Grant about strategy: arranging resources so that leads to the failure of the enemy. Book of Astley and Fombrun is the next step toward the concept of collective strategy that kind which exists among organizations and future competitors. We consider these aspect of strategy including facilities and collective operations from informal to formal

approaches like common management, joint venture, merger, sometimes we can call them political strategy that is to remove.

What is an economic competitive position strategy regarding to organization is like the relation of it to a man. Philip Selznick is one of the first writers of strategy and says character of an organization consist of commitments which are determined and the reflection of what is in that organization.

Even if there are different relations within the theories but none of them can't be better than the others and these are different kinds of competition to be able to replace each other. But they can complete each other.

Not all plans take the form of pattern and net all the patterns are planned. Each theory offers valuable elements to us. The plan is the starting point of ideas about objectives and impresses the informed leadership. Pattern focuses on the action and strategy without a behavior is use less so strategy can be a new phenomenon or originate from outside of the organization.

Finally strategy is a concept and focuses us to the collective aspect of strategy.

The great ambiguity in this regard is the result of contradictory vocabulary. Using different theories we can remove some of these ambiguities.

Planned strategy: The goals are determined by central leadership then it is evaluated to ensure to perform in a balanced environment which is controllable and predictable.

Entrepreneurial strategy goals are present as unspoken thoughts of the leader so they can be adapted to new opportunities. The leader controls the organization and he is supported these strategies can be new.

Ideological strategies. Goals are in the minds of the members and are controlled by the powerful common norms this organizations can be evolved umbrella strategy. The leader controls the tasks and explains goal and strategic borders.

Others should act according to them strategies are half thought and half new. Leader lets the member of company be flexible.

Process strategy: Leader controls different aspects of strategy for example who should be employed but the contents will be delegated to others in this situation, strategy is half thought and half new phenomenon.

Disconnected strategy: Secondary members create patterns related to performances and these are doing in contrast with common goals or central goals of organization. These strategies can be thought for these who created them.

Consensus strategy: Different members of organization have agreements with making balance pattern of organization while there is no common or central goal.

Imposed strategy: External environment determines the strategy or it is directly imposed like imposing by external owner of organization or with compulsory selection of organization. These are neo-phenomenon strategic while they may be thought.

1-2-10. Characteristic of research

In this research we have tried to explain strategic subjects and also describe the following points:

a- Strategic path

b- Access to strategic management theoretically and practically.

c- Strategy along with the success.

d- Make limits in the structure of timetable and removing deficiencies before according or developing strategy by determining feed back.

e- Determining the efficiency of strategic management in time periods.

f- Separating aggressive or defensive management of planning strategy in regard to strategic dimensions.

Strategic dimensions: fundamental view points about dimension and nature and plan of strategic are among the characteristics of this research.

Formal strategies have three main elements:

1- The most important goals which have to be gained

2- The most necessary policies to guide or limit operations.

3- Subsequent operation which leads to determined goals and limitations.

Since strategy determines the road, and center of operation of organization, it can't be as the ordinary planning to get the goal determining the goal is the necessary part of the setting strategy.

Strategies turn around concepts and essential movements which gave them balance and concentration. Some of these moves are temporary and some are durable, some are cost.

We should pick patterns which can provide resources. Organizational units must be coordinated and should move so that supports the pattern.

Complex organizations like military, operative and war strategies should have strategies of this own which are related to each other and en force one another each of these strategies should be complete and at the same time related to other strategies. The important point is that we should have a systematic tool to examine each secondary strategy and making sure that it is responsive to elements of strategy.

Existing standards make a frame work for strategy but in most cases we can see that formal strategies are not strategy.

Because they ignore the essential rules of strategies and they are just a bunch of philosophical thought without dependency, flexibility movement and so on. Each strategy should be analyzed against proper standards.

1-2-11. The cause of selection of the subject and the importance of it

If all industrial institutes follow the competitive rules, they could select different foundations for moving forward. Although all the competitive strategies are not successful but there are way for ideal operation.

Some of the concepts of strategy are on the basis of one way to a better competition. But many of these concepts are not successful. For institutes they persuade other institutes to the same competition and its result is unfavorable.

Some of the concepts for a better competition are as follows:

- Industrial course means to determine limits of an industrial course, recognizing its rule and determining competitors.
- Determining possible competitive movements.
- Selecting one of the common strategies successful rely on the competitive operation.

In a competitive industry we should see competition inside the commercial system. It is like chess, in which we don't ask how I can win, but we ask how I should move each element.

Computer companies should consider competition on the basis of planning, distribution and services and assembling, not just consider to the personal computers.

Internal logic of the system should also be considered that means all the activities of this system should coordinate to produce a product competitors are not just these who

compete they may be other ones in the system who do the essential jobs. These who work against the flow can be problem-making. These ones may de something which is ideal from their point of view but decreases the efficiency of the company.

Recognizing strategic groups

The subject of competition can be recognized by the operation of the group. This provides two points first by looking at confrontation of competitors and how to get superiority, we can get a correct understanding of the system and also by recognizing competitor's point of view, we can recognize competitors.

Analyzing superiority of competition is an unrepeatable part of strategic management. This can be done by a successive process including theories about possible theories and examining these theories in competitive situations and evaluating them. This successive process is a basis on which each operation can lead to superiority of competition.

Part two

Recognizing and analyzing the subject

Chapter three: research method and hypothesis

2-3-1. Research Method:

Effective management requires analysis of the activity and its results. There are two kinds of analysis methods.

a. Explanatory method: in this method strategic management tries to provide statistical studies by collecting ideas and facts, interviews and questionnaires.
b. Developmental and cross-sectional research method: it is an important part of research and studies the growth stages or changes in organization.

In this research we will consider variables and their development in the course of time.

In this study the following questions are expressed:

a. How is the system of changes of growth?
b. How much is the extent of these changes?
c. What is the result of these changes?
d. Which are the factors which have an impact on these changes and characteristics of growth?

2-3-2. Characteristics of True Experimental Method:

a. Serious control of variables and producing experimental situations by direct control and random selection of samples.
b. In this method a group is used as the witness.
c. In this method researcher tries to produce the following situations
    1. Maximize the extent and effect of independent variable on the dependent variables
    2. Minimize the extent and effect of independent variable on dependent variables.
    3. Minimize the extent and effect of statistical mistakes and measurement of results.
d. One important point is that results should response to questions or theories.

e. Generalization is too important. Researcher can provide this by controlling unwanted limitations resulted from research of a great degree.
f. In this method all he variables will be kept constant and controlled. Researcher can determine the effects of main independent variables and distinguish extent of change and effects of unwanted variables and calculate the extent and effect of actions and reactions of effects of variables.

2-3-3. Quasi – experimental Research Method:

The word Quasi – experimental was used for the first time in Campbell dictionary in 1957. Maybe, the most important factor in creation of this method was defects of true experimental method studying man in real situations.

There is no possibility of controlling or manipulation of variables and information and experiment is carried out in environment close to natural.

Characteristics of Quasi – experimental Research Method:

a. This is a scientific method used in social and real situations. In this way, we can't control all the variables, but some of them. So the main role of researchers is to recognize exceptions and limitations and evaluating them.
b. Quasi – experimental method is very sensitive and when men are under study, it will be more sensitive.

2-3-4. Historical Research Method:

In this method researcher tries to gather information and evaluate and analyze them.

Characteristics:

a. Historical research depends on information gathered by others.
b. The information can be gathered by :
    1. Primary sources like documents recorded by observers.
    2. Secondary sources are reports from the events which don't have witness. This report can be based on the interview with witness. For example information in history books or others.

c. Researcher evaluates the information in two ways:
    1. External criticism
    2. Internal criticism

2-3-5. Access to information and method of gathering information and statistical society:

The final goal of gathering information is to provide a foundation to provide theories or questions proposed in the research. Information resources can be divided into three parts as follow:

a. Distributed sources
b. Field sources
c. Statistical sources

Information about competitors can be obtained from the following:

- Essays
- Management speeches
- Analyst reports
- Interview with those who are in contact with competitors
- Evaluating annual reports of competitors
- Financial analyzing of four months regarding the main competitors
- Competitors' costs estimating
- Summary of competitors' reports in planning process
- Selling force and market

Field resources used in this research are mentioned as above:

a. Method of census or study the whole society
b. Getting information by collecting samples

In strategic management, we should be in strategic direction. Strategic direction is related to long-term and short-term of organization and determines the goals of an organization. It is often described in a mission. Mission is a long-term part of planning processes into the organization.

Strategic management is a process by which, organizations analyze internal and external environment of organization and determine strategic direction, create strategies to reach their goals. All done for those whom called stakeholders.

So when collecting information, we should consider the external and internal environment of the organization. The most important factors of external environment are social cultural economic technology, political factors.

Social – cultural Factors:

Social-cultural factors include the following:

a. Anthropology in target market
b. Ideas and values of social environment
c. Social cost of reconstruction to have access to goals of strategic management
d. The way of public increase in social environment awareness
e. Problems and difficulties affected society
f. World subjects affected the strategic management
g. Social and cultural tendencies resulting from immigration and effects of city on individuals
h. Changing patterns of labor and entertainment of people in society
i. Opportunities and threats during collecting information

2- Economic Factors:

Collecting of data on growth rate of economy, interest rate, inflation rate, exchange rate and foreign trade balance should be done.

Each of these factors has an effect on the economic factor. For example economic growth causes the increase in demand. High interests rate way distress flexible strategy by new risks and other threats.

Technology factors:

The task of technology is to change inputs to outputs. New technology has great advantages. But we should notice that some of these new inventions aren't applicable. When a new invention can pass laboratory stage, it can be a new technology like fax, cell phones.

The formal approach to predict a technology is to collect experts' views or interview with them to create opportunities.

In addition, some organizations make agreements with universities to participate in research studies. These projects allow companies have access to new approaches.

Political forces

Political forces are important factors for success of organizations. Even though all organization face to regulations but world industries tend to become private. For example in Portuguese, government encourage banking industries to become private companies. In Western Europe many industries try to create a successful open market. Industrial idealism, regarding to political factor tends to use new opportunities and makes threat to the competitors, so political forces can enforce opportunities or threats. These are political legislative factors.

Competitive forces:

These forces are too important and can be divided into three categories:

a. Existing competitors
b. Potential competitors
c. Indirect competitors

Even though all the customers are important, but some of them are more important. Under the following conditions, customers can enjoy a powerful force for industrial competition.

a. If the number of customer is limited, so loosing one customer will be a loss.
b. Determining customers who buy a great deal of goods.
c. Determining the amount of purchase from one industry is dependent to another industry.
d. Determining customers who has purchased the goods and we can't distinguish them.
e. Determining customers who usually get a little interest.
f. Customers who can get exact information about demand and costs of selling industry.
g. Customers who can provide goods for themselves.

h. Determining customers who can change their purchase from one seller to another.

These forces can determine the ability of customer's negotiation power. So we should consider to powerful customers to collect information.

Existing competitors:

Industrial distributors provide spare parts and raw materials like investment markets and companies' powerful distributors can decrease the interest of industries by increasing prices.

They can also influence purchasing industries by threat to increase the prices and decrease in quality.

Their power is bigger in the following cases:

a. When there is limited number of distributors
b. There is a limited number of similar goods
c. Distributors aren't dependent to purchasing industries to increase the sale.
d. Distributors know that purchasing industries need their services and products to produce goods.
e. Producers produce a variety of goods and purchasing industries are ready to pay more for some other goods.
f. Distributors have acted in a way that substituting distributors is difficult.
g. Distributors can try to expand their products easily to compete with previous purchasers.

Combination of the above factors will show the power of distributors and should be considered in collecting information.

The most important effects of high competition are as follow:

a. Slow industrial development
b. High constant costs
c. Lack of variety of product
d. High number of competitors
e. Large number of obstruction of output

Potential competitors:

We can predict how man new competitors can appear into an industry and should wait for how many competitors by several factors.

New competitors can increase the competition and they may cause to decrease costs and more interests. They may increase capacity, conduct new products or projects and have new ideas.

All these cause to decrease and increase costs or both of them. Forces which obstruct new competitors which are called input obstruction. Some examples are as follow:

a. Economics of scale
b. High investment of equipments
c. High levels of product variety
d. High cost of output
e. Lack of access to distribution channels
f. Government legislation
g. Lack of facilities
h. Way of behaving

Internal environment:

Collecting information from internal environment can influence on the analysis of finding of research in strategic management.

In this part we will consider to the inner part of organization that is stakeholders collecting information is their commitment many of the employees believe that the role of senior management is to use the talents and he has some roles. First: to determine organizations goal, second: to revise policies and goals of organizations.

Employees and culture:

Collecting information regarding to employees function should be considered too.

We can consider employees as a useful source of interest well-trained employees can have a key role in competition.

Organization culture is a complex system of several common values which conducts employees and reflects most of the values and executive management approaches in a high level.

Financial resources:

Financial resources can be good point for an organization. A healthy liquidation, low debt, high credit, and access to investments with low benefit are positive points which can be used as the flexible sources of strategy.

Companies with good investment facing with opportunities and threats can react better financial analysis is an investment to evaluate financial resources.

Determining research variables:

Strategic management based on the strategic planning is a systematic process and includes environmental assessment, strategy making, operating strategy, evaluating and controlling it.

The first step in this process is that there is a problem which should be solved. Before doing something we should know about planning. This knowledge has two points:

a- Certain information in relation to goals. This information is important because of the difference between operations.

b- Information which is effective in operation.

Considering the differences among environments and understanding of manager of the environment are important. Because of that these information are selected.

First job of manager is controlling the environment about the potential changes. In each system of management information, a system of alarming is provided to report about charges of environment. Most of the time people think that the nature of problem is clear to all but this isn't so. Therefore the problem should be explain.

Providing ways to solve the problem is essential. In some cases managers provide one or two solutions and select one. This shortcut causes the more effective solution. Evaluating the solutions and selecting the best one is the essential process of decision-making.

In these stages the manager should decide what to do. The definite and final stage has three steps:

a- Determining the practical ways.

b- Evaluating the practical ways.

c- Selecting the best way.

In decision making what is important is feedback and help the planner to determine effectiveness of selected solution to get the goal.

Second element of evaluating of the effectiveness of a plan is the information related to the operation to compare with the standards.

In theory of strategic management the following variables are considered:

a- The main variables which have effective and positive role in occurring events.

b- The variables which have negative effect.

c- Background variables which provide the situation for main variables and facilitate the situation.

d- Independent variables which can be made lesser or more.

e- Dependent variables which change with independent variables.

f- Unwanted variables or obstructing variables which can have destructive or reforming effect.

2-3-6. The competitive environment

In this chapter we explore techniques that can be used to develop insights into the competitive situation in a particular market segment. A segment is defined as a group of customers who have similar needs, and share similar perceptions of use values that would meet their needs. Thus a segment of demand could span across geographic boundaries: that is, there might be people with very similar needs ranged across the globe. What unite them are perceptions that they have the same or similar needs, and that there are no barriers preventing the offer of the same range of products.

In most strategy "environmental appraisal" is conducted before the exploration of possible competitive strategies:

- An unfocused, general appraisal of the environment usually provides little insight.
- In process terms, beginning with environmental appraisal rarely excites or

energizes the team.

- Broad brush trends and issues identified in the appraisal rarely feed through to affect strategic decisions. These issues are usually judged to be important, but they are conceptually remote in time and space from the immediate concerns of the managers.

Therefore it is more productive to focus on the analysis of specific market segments first, using the customer matrix, before considering how these segments may evolve in the future. In this way, when the environmental analysis is carried out, the team has a more clear focus on the kinds of questions they want answers.

There are two critical issues at segment level:

a. The nature of the effective demand. What is the nature of this demand in the segment? What are the needs of customers? What is the volume of demand? Is demand growing or shrinking?
b. Competence imminence. How easy is it for firms to replicate the key competences required to meet the demand?

The ease with which other firms can enter a market affects the balance of power between an individual firm and customers. More choice of suppliers gives the customer bargaining power over the firm. If the firm is in a strong position, perceived by customers as offering a unique and valued product, the firm is able to charge higher prices and/ or sell to more customers than its competitors.

In order to understand the situation within a particular market segment, it is necessary to be able to identify the "drivers of demand": that is, what factors affect the level of effective demand in the segment. We also need to understand the factors that affect competence imminence, which we shall refer to as the "drivers of imminence".

Drivers of demand

We need to know what determines the level of demand within a particular segment. This question can be broken down into two further questions:

a. What does influence on customer needs in the segment?
b. What does influence on the number of customers in the segment?

In trying to assess the influences on customer needs we require to know a good deal about the customer? A straightforward distinction can be made between customers purchasing on behalf of businesses (Le. business customers) and customers purchasing for their own or their family's consumption. Typically, business customers are purchasing goods and services as inputs to a business process (e.g. components, power, computer software, short-term finance, liability insurance). In order to better understand the drivers of demand for business customers we have to gain insights into their businesses, particularly their needs and how our products and services can meet those needs. We must be able to anticipate how these needs may change in the future, and also whether the number of potential business customers will increase or decrease. This requires a sophisticated knowledge of the customer's industry, their competitors, and their customers. In fact, you have to know nearly as much about your business customer's business as you should know about your own.

In personal customer segments we have to be able to understand their needs, and how these might change in the future. These questions are extremely difficult to answer. To make progress with this analysis we have to comprehend the different layers of needs, not just the more straightforward, obvious motivations that drive customers. We must then identify what trends - social, demographic and economic - affect these needs. This might suggest how the needs may change in the future, and whether the demand within the particular segment is likely to increase or decrease.

Drivers of imitability

We have labeled the factors that influence the ease with which firms can imitate the key competences required to compete in a segment the “Drivers of imitability”. Clearly, these factors will differ from one Segment to another, but based on our discussion in Chapter 3 they will be from the following sources:

- The transparency of the process: that is, how easy it is for an outsider to understand the business processes required to operate in the segment.
- Access to critical resources and systems including resource inputs, brands, reputation, installed base, and access to channels of distribution.
- Economies of scale, scope and experience.
- Technical know-how.

These factors have been variously referred to as barriers to imitation, mobility barriers, or barriers to entry. As we argued earlier, the ease with which new firms are able to enter a market is a critical determinant of the overall attractiveness of a segment. We therefore need to understand, for a particular segment, what affects these barriers to imitability.

There are some existing frameworks and techniques that can help us shed some light on the two issues of demand, and of competence imitability, as follows:

a. The structural analysis of industries which analyzes the forces of competition within an industry (Michael Porter's "Five Force" analysis).
b. Competitor analysis: that is, a detailed assessment of individual competitors.
c. PEST analysis, for analyzing the macro environment.

The first two techniques should help us to address primarily the issue of competence limitability. PEST analysis can help us to explore how segment demand may change in the future. We briefly explain these approaches in this chapter, and at the end of the chapter we examine the extent to which the techniques have been able to illuminate the two critical issues of demand and limitability.

Power

- *The greater external control of an organization, the more centralized and formalized its structure:* This important hypothesis claims that an organization is controlled externally, for example by a parent firm or a government that dominates its external coalition – it tends to centralize power at the strategic apex and to formalize its behavior. The reason is that the two most effective ways to control an organization from the outside are to hold its chief executive officer responsible for its actions and to impose clearly defined standards on it. Moreover, external control forces the organization to be especially careful about its actions.
- *A divided external coalition will tend to give rise to a politicized internal coalition and vice versa:* In effect, conflict in one of the coalitions tends to spillover to the other, as one set of influencers seeks to enlist the support of the others.

- *Fashion favors the structure of the day (and of the culture), sometimes even when inappropriate:* Ideally, the design parameters are chosen according to the dictates of age, size, technical system and environment. In fact, however, fashion seems to play a role too, encouraging many organizations to adopt currently popular design parameters that are inappropriate for themselves. Paris has its salons of haute couture; likewise New York has its office of *'haute structure', the consulting firms that sometimes tend to oversell the latest in structural fashion.*

The Configuration

We have now introduced various attributes of organizations – parts, coordinating mechanisms, design parameters, situational factors. How do they all combine?

We precede hereon the assumption that a limited number of configurations can help explain much of what is observed in organizations. We have introduced in our discussion six basic parts of the organization, six basic mechanisms of coordination, as well as six basic types of decentralization. In fact, there seems to be a fundamental correspondence between all of the sixes, which can be explained by a set of pulls exerted on the organization by each of its six parts. When conditions favor one of these pulls, the associated part of the organization becomes key, the coordinating mechanism appropriate to itself becomes prime, and the form of decentralization that passes power to itself emerge. The organization is thus drawn to design itself as a particular configuration. We list here and then introduce briefly the six resulting configuration, together with a seventh that tends to appear when no one pull or part dominates.

The Entrepreneurial Organization

The name tells it all. The structure is simple, not much more that one large unit consisting of one or a few top managers, one of whom dominates by the pull to lead, and a group of operators who do the basic work. Little of the behavior in the organization is formalized and minimal use is made of planning, training or the liaison devices. The absence of standardization means that the structure is organic and has little need for staff analysts. Likewise there are a few middle–line managers because so much

of the coordination is handled at the top. Even the support staff is minimized, in order to keep the structure lean, the organization flexible.

The organization must be flexible because it operates in a dynamic environment, often by choice since that is the only place where it can outsmart the bureaucracies. But that environment must be simple, as must the production system, or else the chief executive could not for long hold on to the lion's share of the power. The organization is often young, in part because time drives it toward bureaucracy, in part because the vulnerability of its simple structure often causes it to fail. And many of these organizations are often small, since size too drives the structure toward bureaucracy. Not infrequently the chief executive purposely keeps the organization small in order to retain his or her personal control.

The classic case is, of course, the small entrepreneurial firm, controlled tightly and personally by its owner. Sometimes, however, under the control of a strong leader, the organization can grow large. Likewise, entrepreneurial organizations can be found in other sectors too, like government, where strong leaders personally control particular agencies, often ones they have founded. Sometimes under crisis conditions, large organizations also revert temporarily to the entrepreneurial form to allow forceful leaders to try to save them.

The Machine Organization

The machine organization is the offspring of the industrial revolution, when jobs became highly specialized and work became highly standardized. In contrast to entrepreneurial organizations, the machine one elaborates is administration. First, it requires a large techno structure to design and maintain its systems of standardization, notably those that formalize its behaviors and plan its actions. And by virtue of the organization's dependence on these systems, the techno structure gains a good deal of informal power, resulting in a limited amount of horizontal decentralization, reflecting the pull to rationalize. A large hierarchy of middle-line managers emerges to control the highly specialized work of the operating core. But the middle – line hierarchy is usually structured on a functional basis all the way up to the top, where the real power of coordination lies. So the structure tends to be rather centralized in the vertical sense.

To enable the top managers to maintain centralized control, both the environment and the production system of the medicine organization must be fairly simple, he latter regulating the work of the operators but not itself automated. In fact, machine organizations fit most naturally with mass production. Indeed, it is interesting that this structure is most prevalent in industries that date back to the period from the Industrial Revolution to the early part of the twentieth century.

The Professional Organization

There is another bureaucratic configuration, but because this one relies on the standardization of skills rather than of work processes or outputs for its coordination it emerges as dramatically different from the machine one. Here the pull to professionalize dominates. In having to rely on trained professionals – people highly specialized, but with considerable control over their work, as in hospitals or universities – to do its operating tasks, the organization surrenders a good deal of its power not only to the professionals themselves but also to the associations and institutions that select and train them in the firs place. So the structure emerges as highly decentralized horizontally; power over many decisions, both operating and strategic, flows all the way down the hierarchy, to the professionals of the operating core.

Above the operating core we find a rather unique structure. There is little need for a techno structure, since the main standardization occurs as a result of training that takes place outside the organization. Because the professionals work so independently, the size of operating units can be very large, and few first line managers are needed. The support staff is typically very large too, in order to back up the high-priced professionals.

The professional organization is called for whenever an organization finds itself in an environment that is stable yet complex. Complexity requires decentralization to highly trained individuals, and stability enables them to apply standardized skills and so to work with a good deal of autonomy. To ensure that autonomy, the production system must be neither highly regulating complex nor automated.

The Diversified Organization

Like the professional organization, the diversified one is not so much an integrated organization as a set of rather independent entities coupled together by a loose administrative structure. But whereas those entities of the professional organization are individuals, in the diversified one they are units in the middle line, generally called 'divisions', exerting a dominant pull to Balkanize. This configuration differs from the others in one major respect: it is not a complete structure, but a partial one superimposed on the others. Each division has its own structure.

An organization divisional zed for one reason above all, because its product lines are diversified. And that tends to happen most often in the largest and most mature organizations, the ones that have run out of opportunities – or have become bored – in their traditional markets. Such diversification encourages the organization to replace functional by market – based units, one for each distinct product line, and to grant considerable autonomy to each to run its own business. The result is a limited form of decentralization down the chain of command.

How does the central headquarters maintain a semblance of control over the divisions? Some direction supervision is used. But too much of that interferes with the necessary divisional autonomy. So the headquarters relies on performance control system, in other words, the standardization of outputs. To design these control across from the small central support staff that headquarters sets up to provide certain services common to the divisions such as legal counsel and public relations and because headquarters' control, as discussed in the first hypothesis on power, the structure of the divisions tend to be drawn towards the machine form.

The Innovative Organization

None of the structures so far discussed suits the industries of our age, industries such as aerospace, petrochemicals, think tank consulting and film-making. These organizations need above all to innovate in very complex ways. The bureaucratic structures are too inflexible, and the entrepreneurial one too centralized. These industries require 'project structures', ones that can fuse experts drawn from different specialties into smoothly functioning creative teams. That is the role of our fifth

configuration, the innovative organization, which we shall also call 'adhocracy', dominated by the experts' pull to collaborate.

Adhocracy is an organic structure that relies for coordination on mutual encourages by the extensive use of the liaison devices – integrating managers, standing committees and above all task forces and matrix structure. Typically, the experts are grouped in functional units for housekeeping purposes but deployed in small, market – based project teams to do their work. To these teams, located all over the structure in accordance with the decisions to be made, is delegated power over different kinds of decisions. So the structure becomes decentralized selectively in the vertical and horizontal dimensions, that is, power is distributed unevenly, all over the structure, according to expertise and need.

All the distinctions of conventional structure disappear in the innovative organization. With power based on expertise, the line-staff distinction evaporates. With power distributed throughout the structure, the distinction between the strategic apex and the rest of the structure blurs.

These organizations are found in environments that are both complex and dynamic, because those are the ones that require sophisticated innovation, the type that calls for the cooperative efforts of many different kinds of experts. One type of adhocracy is often associated with a production system that is very complex, sometimes automated, and so requires a highly skilled and influential support staff to design and maintain the technical system of the operating core. Here the projects take place in the administration to bring new operating facilities on line (as when a new complex is designed in a petrochemicals firm). Another type of adhocracy produces its projects directly for its clients (as in a think tank consulting firm of manufacturer of engineering prototypes). Here, as a result, the operators also take parts in the projects, bringing their expertise to bear on them; hence the operating core blends into the administrative structure. This second type of adhocracy tends to be young on average, because with no standard products or services, many tend to fail while others escape their vulnerability by standardizing some products or services and so converting themselves to a form of bureaucracy.

The Missionary Organization

Our six configuration forms another rather distinct combination of the elements we have been discussing. When an organization is dominated by its ideology, its members are encouraged to pull together, and so there tends to be a loose division of labor, little job specialization, as well as a reduction of the various forms of differentiation found in the other configurations – of the strategic apex from the rest, of staff from line or administration from operations, between operators, between divisions, and so on.

What holds the missionary together – that is, provides for its coordination – is the standardization of norms, the sharing of values and beliefs among all its members. And the key to ensuring this is their socialization, effected through the design parameter of indoctrination. Once the new member has been indoctrinated into the organization – once he or she identifies strongly with the common beliefs – then he or she can be given considerable freedom to make decisions. Thus the result of effective indoctrination is the most complete form of decentralization. And because other forms of coordination need not be relied on, the missionary organization formalizes little of its behavior as such and makes minimal use of planning and control systems. As a result, it has little techno structure. Likewise, external professional training is not relied on, because that would force the organization to surrender a certain control to external agencies.

Hence, the missionary organization ends up as an amorphous mass of members, with little specialization as to job, differentiation as to part, division as to status.

Missionaries tend not to be very young organizations – it takes time for a set of beliefs to become institutionalized as an ideology. Many missionaries do not get a chance to grow very old either (with notable exceptions, such as certain long – standing religious orders). Missionary organizations can not grow very large *per se* – they rely on personal contacts among their members – although some tend to spin off other enclaves in the form of relatively independent units sharing the same ideology. Neither the environment nor the technical system of the missionary organization can be very complex, because that would require the use of highly skilled specialists, who would hold a certain power and status over others and thereby serve to differentiate the structure. Thus we would expect to find the simplest technical systems in these

organizations, usually hardly any at all, as in religious orders or in the primitive farm cooperatives.

The Political Organization

Finally, we come to a form of organization characterized, structurally at least, by what it lacks. When an organization has no dominate part, no dominant mechanism or coordination and no stable form of centralization or decentralization, it may have difficultly tempering the conflicts within its midst, and a form of organization called the *political* may result. What characterizes its behavior is the pulling apart of its different parts.

Political organizations can take on different forms. Some are temporary, reflecting difficult transitions in strategy or structure that evoke conflict. Others are more permanent, perhaps because the organization must face competing internal forces (say, between necessarily strong marketing and production departments), perhaps because a kind of political rot has set in but the organization is sufficiently entrenched to support it (being, for example, a monopoly or a protected government unit).

Together, all these configurations seem to encompass and integrate a good deal of what we know about organizations. It should be emphasized however, that as presented, each configuration is idealized – a simplification, really a caricature of reality. No real organization is ever exactly like any one of them, although some do come remarkably close, while others seem to reflect combinations of them, sometimes in transition from one to another.

The first five represent what seem to be the most common forms of organizations; thus these will form the basis for the 'context' section of this book – labeled entrepreneurial, mature, diversified, innovation and professional. There, describing its structure, functioning, conditions, strategy-making process and the issues that surrounds it. Other readings in these chapters will look at specific strategies in each of these contexts, industry conditions, strategy techniques, and so on.

The other two configurations – the missionary and the political – seem to be less common, represented more by the forces of culture and conflict that exist in all organizations than by distinct forms as such.

Chapter Four: Research report setting and gathering

2-4-1. Structure and element of research report

2-4-2. Structural analysis of industries

Competitive Strategy (Free Press, 1999), Michael Porter develops what has become a very popular framework for analyzing the structure of an industry or market segment, from the viewpoint of its attractiveness to a player already in the industry. For the purposes of this analysis, an industry is defined as a group of firms producing similar goods or services for the same market. Porter's approach concentrates on the competitive forces operating in the industry, the outcome of the analysis being an assessment of the attractiveness of the industry, defined by how profitable the industry is likely to be for the firms already in it. The real benefit of the approach is that it forces the management team to view the industry from a broader perspective than would typically be the case. The discipline of assessing the relative strengths of the forces operating in the industry can develop new and important insights into the competitive environment, which can help in the construction of better competitive strategies.

Porter argues that there are five competitive forces which operate in an industry and together they determine the potential profitability of that industry (31). The five forces are as follows:

a. Rivalry among existing firms.

b. The barriers to new entrants.

c. The bargaining power of buyers.

d. The bargaining power of suppliers.

e. The threat from substitute products or services.

Each will be considered in turn. Figure 4.1 sets out a schematic check list of the forces.

Rivalry

Rivalry refers to the intensity of competitive behavior within the industry. It addresses such issues as whether firms are continually seeking to outmaneuver their rivals through price cuts, new product innovations, advertising, credit deals, or promotional campaigns. Or whether perhaps there is little competitive activity, and firms are con· tent to stick with their shares of the market and unwilling to upset the balance of the industry by, say, instigating a price war.

There are a number of factors which, Porter suggests, determine the probable intensity of rivalry in an industry, as follows:

- Slowing growth of demand, or declining demand if demand slows, firms can only maintain historic growth rates by gaining market share from competitors. This tends to intensify rivalry as firms battle for market share by price cuts or other attempts to boost sales. Declining demand will lead to further intensification of competitive activity, particularly if there are exit barriers to the industry. These barriers can take the form of large investments of capital that has no alternative use, few transferable skills, and high costs of plant closure including redundancy costs. It is important to note that this factor refers not to slow growth itself, but to the slowing of growth in the absence of the exit of any competitors.

- High fixed costs. If the cost structure of the industry is such that there is a high fixed cost, and a low marginal cost component. Then firms will be under intense pressure to produce near full capacity. If demand falls off, therefore, firms will use price cuts and other weapons to maintain sales. Similar behavior can occur in industries with highly perishable products.

- Unpredictable and diverse competitors. If the industry is made up of a diverse group of firms, their behavior is likely to be unpredictable. If there are new entrants from other countries or industries who do not play by the "rules", their maverick behavior will probably lead to an extremely volatile competitive arena.

- Low switching costs. Switching costs are costs incurred by the buyer in moving from one supplier to another. For example, switching costs are incurred if an airline moves from an all Boeing fleet to a mixed Airbus/Boeing fleet: for example, the need for crew training spares inventories, and so forth. If switching costs are low in an industry, buyers are able to switch between suppliers without any penalty. Switching cost may be tangible, as in the airline example, or may be composed of the intangible costs evolving from being accustomed to working smoothly with a particular supplier.

- A commodity product. The more a firm is able to differentiate its product either by establishing a strong brand name or by offering clearly distinct the less it needs to fear its rivals, as it is laying claim to the argument that it alone supplies a given market need. Correspondingly, the nearer its product is to being a commodity, the greater is likely to be the rivalry it faces. Brand names therefore tend to reduce rivalry since they

emphasize differentiation, and establish at least psychological switching costs for the consumer if he or she is to move to a different brand. IBM has 100 per cent of the market for IBM computers after all, and always will have!

- Cyclicality leading to periodic overcapacity. During these periods of spare capacity, rivalry will be intense as firms fight to fill their factories.

- High corporate stakes in difficult times, the options are "fight or flight". If the market is an important one to the main players in it they will be inclined to fight. This will also be the case if exit costs are high, or if it is critical to gain a dominant position early on in an emerging industry (e.g. VHS versus Betamax, Microsoft versus Apple's Macintosh).

Barriers to entry

New firms enter an industry, they bring additional capacity. If demand not increasing to absorb this additional capacity, then the new traits will have to compete for a share of the existing demand. To. Entry they may either compete with lower prices or with enhanced or both. The net effect of these new entrants will probably be to entry the overall level of profitability in the industry. Entry is deterred the presence of barriers to entry, which can stem from a number of sources. We have already considered some of these barriers in our mission of immutability, but for completeness we set out the barriers notified by Porter, as follows:

- Economies of scale. If there are major cost advantages to be gained from operating at a large scale, then new entrants will either have to match that scale, or have higher unit costs and suffer lower margins. Scale economies are usually thought of as a production phenomenon, but may also exist in advertising, purchasing, R&D, after-sales services and elsewhere.

- Experience benefits. Low unit costs can be achieved by accumulated learning: that is, finding progressively more efficient ways of doing things, which, if they are significant, would place inexperienced new entrants at a unit cost disadvantage?

- Access to know-how. Patents can protect firms from new entrants, and difficulties in accessing process knowledge and particular skills can be substantial barriers to entry.

- Customer brand loyalty. Customers may have preferred brands, or they may

have strong relationships with their existing suppliers, which they are reluctant to break. New entrants would have to persuade customers that it was worth their while incurring these switching costs involved in moving to the product of a new entrant. This may provide a strong barrier to entry.

- Capital costs of entry. If capital costs are high, this will limit the number of potential entrants. Such costs include setting up production facilities, research and development costs, establishing dealer networks and initial promotion expenses.

- High switching costs. If customers will incur high switching costs if they move to a new entrant's product, this constitutes a barrier to entry. Thus, if IBM have a high installed base in the mainframe computer market. This constitutes a very effective barrier to the entry of other potential rivals, as winning orders against the supplier of the installed base would require a really special advantage to overcome the switching costs of changing computer systems.

- Government policy. Government policy may also provide a barrier to entry as the government seeks to regulate the industry by restricting licenses, issuing exclusive franchises, or establishing regulations that are onerous and costly to implement.

- Access to low-cost inputs Entry by potential competitors will be difficult without such access. For example, low labor costs in the Far East have provided barriers to the future development of textile industries in the developed world.

Bargaining power of buyers

Customers/buyers can have considerable bargaining power for a variety of reasons. For example:

- When there are few buyers, and they purchase in large quantities.
- When the buyers have low switching costs, and therefore probably low loyalty. Highly differentiated products offer less opportunity for the exercise of buyer power than do relatively undifferentiated products.
- When buyers face many relatively small sellers.
- When the item being purchased is not an important one for the buyer, and therefore he or she can take it or leave it.
- When they have a lot of information concerning competitive offers, which they can use for bargaining.

- When there is a real risk that the buyer's firm may decide to integrate backwards: that is, to make the product itself rather than buy it in.

Thus where buyers are faced with many alternatives, and the cost of switching is low or non-existent, buyers have power. The more concentrated the buyers, the greater their power. Buyer power is normally evidenced by the ability of the buyer to bargain the price downwards.

Bargaining power of suppliers

Correspondingly, the ability of suppliers to increase prices without losing sales illustrates their power. Such power may come about in the lowing circumstances:

- When the purchase is important to the buyer.
- When buyers have high switching costs.
- When there are few alternative sources of supply.
- When any particular buyer is not an important customer of the supplier.
- When there is the real risk that the supplier may integrate forward: for instance, instead of the car maker supplying its independent dealers, it may decide to set up its own dealer subsidiary.

Examples of powerful supplier relationships would be gas supply to the glass container industry, and microchip suppliers to the computer industry.

The term "suppliers" includes the providers of capital and of specialist skills. Hence, if an industry is dependent on particularly skilled people, these individuals can bargain up their pay levels: for example, advertising agencies are highly dependent on a few creative individuals, and their pay is accordingly high.

If suppliers are powerful they can increase the prices of their inputs, thus extracting potential profits from the industry. If firms are facing both powerful suppliers and buyers, profits will be severely squeezed, as input cost increases cannot be passed on in higher prices to buyers. Such a situation is likely to make the industry unattractive to potential entrants.

Threat of substitutes

Industries are usually defined in terms of the products or services they provide. Hence, we have the aluminum can industry, the sugar industry, or the pizza restaurant

industry. This enables us to identify a group of firms doing similar things who would see themselves as being in competition with each other. However, if we define industries from the buyer's perspective, we might come up with a quite different set of firms, who do not provide similar products, but who do nevertheless meet the same types of buyer needs. The buyer who likes sweet coffee might consider manufacturers of sugar and of artificial sweeteners to be in direct competition. A lunchtime shopper may see a pizza restaurant, a hamburger outlet. a pub and a delicatessen selling sandwiches as being in direct competition for his or her custom.

Substitute products are alternative ways of meeting buyer needs. In this respect, the fax machine provides a substitute for the letter but not for parcel post, and E-mail is a substitute threat to the fax. The effect of substitute products on the previously product-defined industry is to place a ceiling on prices, since a price rise may cause a previously loyal customer to shift to the substitute product. Furthermore, no purchase at all may have the same effect as that of a substitute product, since both represent a reduction of effective demand from the industry.

The threat of substitutes is high in the following situations:

- When there are a number of equally cost-effective ways of meeting the same customer need.
- When the customer faces few switching costs in moving to the substitute product.
- When the customer exhibits high price sensitivity and the substitute has a low price.

Illustration 4.2 points out the potential threat of substitute products or services. Asking questions about substitutes focuses attention on the underlying needs of the customer.

Defining the boundaries of an industry is more an art than a science, but it is crucial to an accurate assessment of industry attractiveness. If an overly narrow product-based definition is adopted, there are risks that the analysis will miss critical aspects of the competitive environment. Some industries are geographically fragmented, with each locality having just one or two producers (e.g. quarries, cinemas, zoos, or regional newspapers). In most respects, similar firms in different regions are not direct competitors. Therefore, one of the key decisions to make in a five force analysis is the

choice of industry boundary. The market is not an arbitrary one, it is a "strategic market": that is, one supplying a distinct customer-determined need to a geographically defined customer group Whether it be local, regional, national, pan-national, the characteristic of the market will determine which of these types of market is appropriate for a particular analysis. Thus, although the corrugated card boar market is said to be limited to a fifty-mile radius of the producer f reasons of transport costs in relation to an undifferentiated product, t market for video recorders can be legitimately regarded as global. T five-force analysis boundaries adopted must reflect these different face if the analysis is to be useful for generating insights into possible competitive strategies.

Managers can of course redefine their "industry" by operating the five forces themselves (e.g. developing brand names, create switching costs). In other words, by developing and sustaining competitive advantage, the industry structure is redefined: for example rivalry is reduced, entry becomes more difficult, and buyers have less power and so forth.

2-4-3. Advantages of the five-force framework

The main benefit of using this technique is that it provides a structure for management thinking about the competitive environmental force can be examined using the check lists set out above. Some will be highly relevant to the industry and some less relevant. Son valuable insights into the nature of the industry will usually emery from such analysis.

It can also be useful if two or more groups of managers carry out (appraisal independently. Differences of perceptions can then are raise and discussed, and where agreement is reached, some confidence can placed in the judgments.

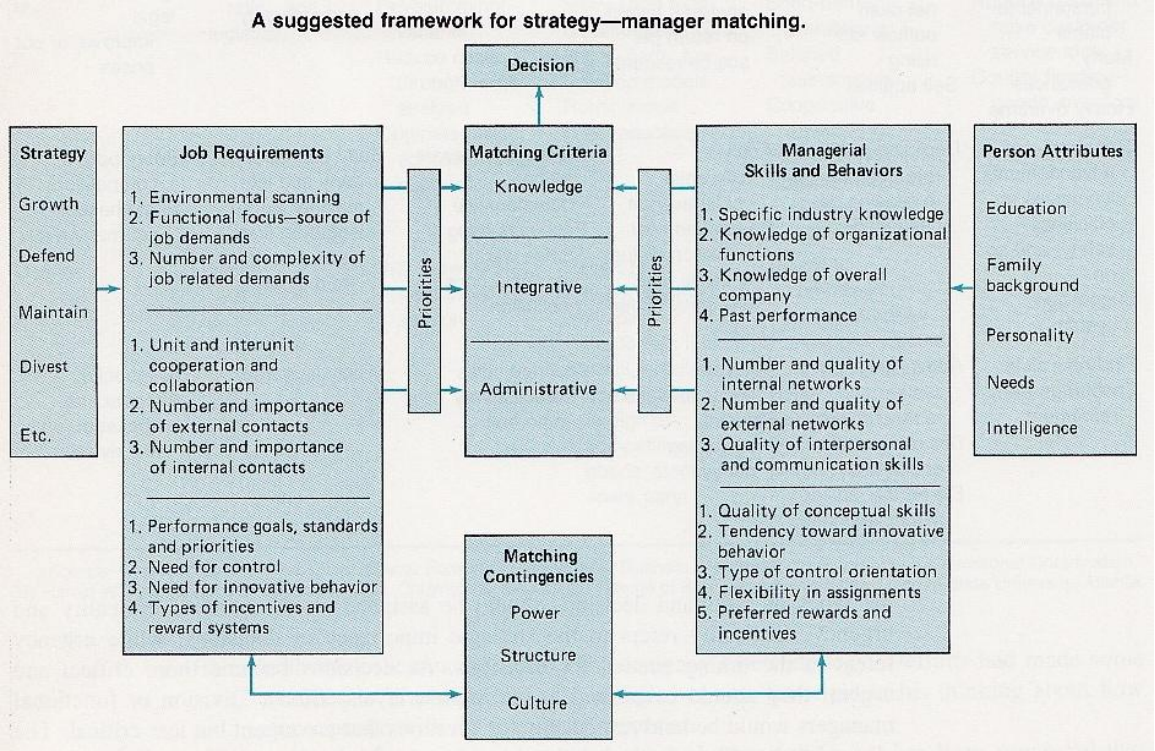
Several industry/market analyses will often be worthwhile. The firm would be for the industry as a whole, while subsequent analyses will focus on particular segments. A third round might consider the Industry at some defined point in the future, in order to introduce this element into what has so far been an exercise in analyzing the cure situation. The framework can then be productive in helping to different strategic segment boundaries, in revealing insights about the key force(in the competitive environment, and in identifying which forces can be transformed into advantageous

ones by operating proactively upon them: for example, by creating switching costs, or in establishing stronger barriers to entry by building strong brand names.

Further advantage is possible through rating the strength of each of r five forces. This will help to focus attention on the main competitive Colors in each segment, and to compare the attractiveness of each segment. A simple points system would be: 1 = a weak force, 5 = a strong force. Under such a schema an "attractive" industry would be one scoring 12 points or less. The disadvantage of such a simplistic is that it assumes each force is equally important. But in, for sample, a patent-dominated industry, or a defense industry, barriers to entry, or supplier power respectively would merit above-average weighting. However, this could be allowed for in an amended scoring system.

This conglomerate has businesses that compete in a wide range of product markets, from newspapers, through TV to banking. Emily Bell recommends that Pearson should focus on one type of business. In making a choice of where it should be operating, a sound understanding of the markets Pearson currently competes in would be beneficial. Then they could assess the extent to which Pearson has the competences to compete successfully in each of these markets. This would also help m identify their core competences, which they could leverage across different group businesses. Clearly, though, Pearson is facing corporate strategy problems.

Five-force analysis provides useful insights into the structure of a industry, but it is more valuable to be able to look ahead, to predict how raise forces might change in the future. What the analysis gives us is a 'snapshot" of the industry's structure at one point in time; what we d is the injection of a dynamic element into the model.



Industry life cycle

The stage of an industry's development can influence the nature of petitive rivalry. For instance, in the early days of a new industry there are usually many new entrants. They are joining a growing Industry where demand is outstripping supply, and consequently, the firms can meet their growth aspirations without poaching customers from rival firms. In this emergent phase there are no "rules of the game" established, which means that a wide variety of products are on offer made by many different processes, and some firms are advertising heavily, while others are relying on their access to distribution channels to push the product into the market place. Often market share gained in the early stages of an industry's development can reap rich rewards later on, especially if there are advantages to be gained from acquiring experience faster than the competition (the experience curve). However, this assumes that the basis of competition remains the same. If it changes - for instance, from a strong emphasis on manufacturing experience to keep costs down, to a new emphasis on the importance of marketing sophistication - these advantages are considerably reduced.

As the industry starts to mature, "rules" become accepted and understood, consumers now have expectations about quality and performance, and industry

standards are established. Competition, in the transition to maturity, will become more intense as rapid growth can now only be achieved by capturing customers from rival firms. Cumulative experience no longer provides an important advantage to one firm because all firms have now gained all the advantages that are available. A significant feature of maturing industries is the tendency for competition to be based on price, since firms' product offerings tend to become very similar and attempts at innovation are soon copied.

In declining industries, only the most efficient firms can earn reasonable profits, and the marginal players are "shaken out" of the industry. Where there are high exit barriers, rivalry can become very intense as marginal firms hang on in the industry, leading to chronic overcapacity.

Interrelationships between the five forces

We need to understand how a change in one of the five forces can impact upon another. Let us suppose that, due to a technological breakthrough, entry into the industry became much easier. If the industry is earning above average profits, new firms are likely to enter. This in turn could make rivalry more intense, and may well feed through to the buyers, who are now better able to play one firm off against another.

So all these forces are interconnected, and changes in one are likely Impact on the others.

How can we forecast these structure changes?

Forecasting is notoriously difficult, but that is no reason not to try to about the future. One way in to the problem is to look at trends the environment that looks as if they might continue into the future. Wider environment in which the firm and its industry are located can subdivide for forecasting purposes into the following four sectors:

- The Political environment.
- The Economic environment.
- The Social environment
- The Technological environment.

T analysis can be useful if it encourages us to think more broadly at environmental

influences on the firm. Some examples of trends changes in the wider environment are given considers how the introduction of European Union might impact upon firms trading in Europe. The introduction of a single currency is clearly going to affect most busies. The problem facing a particular firm is to try to work out more how it will affect their operations and strategy. The check list should be applied to your firm's circumstance. One way of translating these broader issues into more precise.

Distinguish of how it might impact upon a particular firm is to use

Five-forces model as a "filter" between the broader macroeconomic and the particular circumstances facing the firm. Thus these raised by the article in the illustration could be applied to each of five forces in turn. For example:

- How will a single currency affect the way firms compete in our existing markets?
- Will it make entry into the market more or less easy? How will monetary union affect our customers' buying behavior? Will it increase or decrease their power?

Competitor analysis between market & industry

The market or "industry" environment is obviously key to the identification of opportunities and constraints facing the firm. However, f accurate competitive positioning, a more detailed and specific analysis of the "rivalry" category of the five-forces analysis needs to be carried out by means of an accurate profile of each of the firm's main competitors.

It is important to understand your competitors for the following reasons:

a. To try to predict their future strategies.

b. To assess accurately their probable reactions to your strategic moves.

c. To estimate their ability to match you in the quest for competitive advantage.

Competitor analysis is more important in some industry structures than in others. In terms of five-force analysis, the stronger the "rivalry" force, the more important it is to understand your rivals, since only then can you combat them successfully. In very fragmented industries, like hairdressing, for example, competitor analysis may not be crucial to success. Firms are typically small, the product or service may well be undifferentiated, and the key to success may be not a distinctive competitive strategy, but the provision of a valued service at an acceptable price to a number of locally semi-

captive clients. Or the product may be a commodity (e.g. concrete), and price at the required quality is the only thing that matters in the buying transaction.

In a concentrated industry, however, competitor analysis is important, since the competitive battle is essentially between a small number of relatively large companies, normally with differentiated products, and often with strong brand names. In such cases, relative market share becomes crucially important in order to be able to keep down costs by taking advantage of the experience curve, of scale economies, and of scope economies.

Competitor analysis is concerned with the following five basic attributes of the competitor:

a. Its comparative market strength.
b. Its resources and core competences.
c. Its current and possible future strategy.
d. Its culture, and hence the assumptions it makes about itself and the industry.
e. Its objectives and goals, both at corporate level and at business-unit level.

Competitor analysis must carry out on a segment-by-segment basis. In this way, the specific competences necessary to achieve competitive advantage in each segment are compared firm by firm.

The current strategy of competitors is discernible partly from what each company has to say, but more importantly from what it does. To assess either factor, a positive effort will need to be made at competitor data collection, in excess of the information that will easily come the company's way through a conscientious reading of the press. Effective competitor analysis requires the creation of a file on each competitor, which must be maintained in up-to-date condition by an enthusiastic executive who can act as "champion" for the specific task. In the absence as such conditions, the file is likely to become outdated after a few months.

The competitor's intended - or at least declared - strategy can usually be discovered from the chairman's message to shareholders in annual reports, and by interviews in the press given by senior executives. The competitor's realized strategy, however, is the more important, and this can only be discovered by tracking the competitor's actions over a period of time and by scanning it for consistency of purpose. Such direct observation can be supplemented by deliberately seeking out comments

from suppliers who deal with both the analyst company and the competition, by interviewing buyers, by recruiting and debriefing executives from competitor companies, and by talking to journalists and other industry analysts. It is particularly important to gain early information of a competitor's possible change of strategy, and this may be signaled in a number of ways: by comment, by an unusual acquisition, by announced personnel changes at the top, and so forth.

The competitor's culture is normally an important factor in setting limits to the actions the competitor is likely to take in a market. An understanding of that culture will reveal the way the company operates, and the constraints within which it often subconsciously operates. A company's culture embodies the core values that executives in the company take for granted, and an understanding of that culture can therefore be very valuable to a competitor. In Chapter 6 we explore organizational culture in more depth.

The objectives of the competitors are a fifth factor to be assessed in a competitor analysis exercise. A company concerned to achieve short term financial objectives, for example, is likely to react quite differently from one with longer-term market-share objectives and willing to take perhaps a ten-year view to establish its position in the market.

If the competitor is a subsidiary of a major corporation, it is also necessary to understand the basic objectives of the parent. A company owned by the Hanson Group, for example, will probably be far more constrained in terms of research and development expenditure, or in adopting a new initiative with a long gestation time, than would a company that is part of Shell, accustomed as the latter is to the high risks associated with oil exploration. The level of autonomy the competitor possesses in seeking to achieve its objectives is also relevant to the competitor assessment exercise.

Equipped with competitor information, the analyst will be in a strong position to address key questions, as follows:

a. Is the competitor satisfied with its current market position, or is it likely to become aggressive in the near future?
b. Where is the competitor most vulnerable?
c. Is it likely to change strategy in the near future? If so, how?
d. What action by us is likely to provoke the greatest least retaliation by the

competitors?

e. In what areas might it be possible to cooperate with the competitors?

f. How might we shift the basis of competition in the market towards qualities in which we have excellence?

It is based on answers to questions such as these that new ideas for achieving competitive advantage may be developed.

There are two critical issues at segment level: the nature of the effective demand in the segment, and competence immutability. We then explored three commonly used analytical approaches - the structural analysis of industries, competitor analysis, and PEST analysis - to assess the extent 10 which these techniques can help us answer questions of demand and immutability.

We concluded that these techniques were helpful, although they did not address our two concerns of demand and immutability in particularly direct ways. Their main benefit would appear to be in structuring and broadening strategic discussions, and in prompting managers to try to gather better quality information on their competitors.

Chapter Five: Analysis of research finding

2-5-1. Strategy structure and processes

A relatively neglected area in competitive strategy is the link between product/market strategy and the structure of the firm. I believe that imaginative approaches to organizational structure can help a firm both gain and sustain advantage. In this chapter, therefore, we shall address the relationships between strategy, structure and organizational processes.

We shall approach this difficult area by starting with some very basic concepts: specialization and coordination, and then go on to consider the most typical organizational structure, the functional organization. The rest of the chapter is taken up with the development of a "contingency" approach to the strategy-structure relationship. This approach argues that there is no 'one best way' to structure an organization; it all depends on the situation facing the firm. Is it large or small? Is it facing a rapidly changing environment or a stable one? Does it have a huge range of products selling into many different markets, or is it basically a one· product firm? In order to determine the appropriate organizational structure to suit a particular strategy we need to identify the key variables that influence structure and the range of structural options available that fit particular combinations of these key contingency variables.

2-5-2. Organizational structure: some basic concepts

The approach to structure summarized in this section is based on the work of Henry Mintzberg. Because, generally, managers appear to have a rather undeveloped understanding of organization structure, we think that a sound grasp of some basic issues and themes will help to lift the level of debate. So, no apologies for taking a rather theoretical stance on structure. Stay with it, since mastering these concepts should really advance understanding of structure.

The strategy-structure relationship addresses the following two issues:

a. Once the strategy has been decided, how should we carve up the overall tasks facing the firm into discrete activities, and how should we allocate them to individuals and groups - in essence, how should we specialize?
b. Having divided the task into manageable areas of activity, how do we make sure that it all gets done, so that the strategy is achieved – that is, how do we

coordinate the separate activities?

The first issue, specialization, is reflected in the organizational structure of the firm: the departments or divisions that focus on particular activities. This is "horizontal" specialization. The different levels of management we refer to as "vertical" specialization. We can obtain a picture of the way the firm has chosen to specialize by inspecting its organization chart (see Figure 5.1). The most basic form of specialization is by function, which is explored in the next section. Staff can also be grouped in other ways: by product or product group, by type of customer, by market or geography, or by project. There are advantages to grouping in particular ways as it helps to focus the development of expertise, and it facilitates the sharing of knowledge. However, specializing and grouping people around, for example, a project can lead to a gradual reduction in particular functional competences that are combined to deliver the project. This can happen because specialist engineers spend little time with other engineering colleagues, which reduces the flow of ideas and experience between these specialists.

So each way of specializing has advantages and some disadvantages.

The second issue, coordination, is achieved through organizational processes that are designed to ensure that the separate activities are linked together in such a way that the overall mission of the firm is achieved. Six basic ways of achieving coordination can be identified, as follows:

a. Direct, face-to-face discussion and communication. That is, between those engaged in different activities. This has been called "mutual adjustment". It can be a purely informal activity assisted by locating people in close proximity, or it can be facilitated by setting up formal meetings, project teams or task forces. The advantages of this coordinating mechanism are that it can help to achieve rapid changes to the way things are done, and it can encourage creativity by bringing together different specialists to work on a problem. The disadvantages are that it might be an ad hoc process leading to poor coordination; it can be time-consuming if extensive consultations are required, and it is not appropriate if large numbers of people are involved.

b. Direct supervision. Here instructions about how to do parts of the overall task are issued by the manager to subordinates, and as long as the staff carry out their instructions the overall task is accomplished. This coordinating mechanism

requires the manager to be able to understand the task, break it down into separate activities, and issue clear instructions to subordinates. Therefore, this mechanism is only really appropriate when fairly simple, easily understood tasks are being tackled. There is a limit to the number of subordinates that can be supervised in this management-intensive way, so the size of the organization and/or the size of each unit may be constrained if this is the predominant coordinating mechanism to be employed. The main advantage of the approach is that rapid changes in activity can be achieved by the manager issuing different instructions.

c. Standardizing the way the activities are performed. If an activity is to be repeated many times, it is worth finding out the best way of doing it. This is what method study tries to do. By standardizing the way the work is done, and by ensuring that one activity dovetails into the next step in the process, highly specialized activities can be effectively coordinated. This mechanism is only really applicable if the firm is facing a sufficiently predictable workload to justify the investment in standardization. Its advantage is that the work can be routine to the point where semi-skilled or unskilled people can do it. The experience curve is largely based on the development of standardized "best practice". Its disadvantages emerge from the intrinsically boring and unchallenging work that may be an outcome of standardization, and the lack of organizational flexibility that may result. The organization is only really good at doing a limited range of tasks very efficiently.

d. Standardization of outputs. Coordination between different activities can be achieved if, at each stage of the process, the activity produces a standardized output. This then becomes a standardized input for the next stage of production. Using tight specifications to set output standards can permit different activities to be performed in different locations (e.g. the coordination between the partners in Airbus Industries) or even in different organizations, through subcontracting.

e. Standardization of skills. Here the people carrying out the activity have standardized skills. If they exercise their skills in the appropriate ways, their activities will mesh with the work of other specialists to enable the whole task to be accomplished. Organizations that use this mechanism extensively are

"professional" organizations like accountancy practices, hospitals and universities.

f. Standardization of values. This might seem a strange way of bringing about coordination. It refers to groups of people who subscribe to a set of shared values that help to ensure they behave in predictable and appropriate ways. This form of coordination is particularly appropriate where the work of the organization is fragmented, and where staff inculcated with the right values can be trusted to perform in the "correct" way. Examples might be the army, police work, or, from the commercial sector. Standardization of values is made easier through selection processes that identify people with attitudes and beliefs which are similar to those required. However, the processes whereby people acquire and change their values are not well understood, and it may be extremely difficult to encourage a significant shift in the values held by a group of people. This is considered further in the next chapter.

Coordination within a particular organization can be achieved by using some, or possibly all of these mechanisms. However, one of the six mechanisms often tends to predominate, for example direct supervision, and can have a strong influence on the type of organization that emerges. For instance, where there is extensive use of work-process standardization, the organization tends to look like a "machine bureaucracy" with a mass-production type of operations system, a large number of technical staff (production engineers, cost estimators, procurement, production scheduling and control, work measurement) and usually a rather heavy management presence, with many levels in the hierarchy and a fairly autocratic style.

As organizations grow, the predominant coordinating mechanism may change. For example, in a newly established small business, coordination is likely to be achieved either by direct supervision - the entrepreneur directs the activities of a few staff - or by face-to-face communication. These informal mechanisms are likely to be less effective as the business grows: there are now too many people to supervise directly and informal communications are not sufficient to keep everyone in the picture. If the organization settles down into providing a limited range of products or services, it may be worth trying to standardize the way the products are made in order to improve productivity and quality: that is, to benefit from the advantages of the experience curve.

If the organization subsequently diversifies into several lines of business, for example through acquisition, the corporate centre may choose to manage each business unit by setting profit targets, a form of output standardization.

The five parts of the organization

Mintzberg argues that an organization can be subdivided into five different parts, as follows:

a. The strategic apex. These people control the organization and are held accountable for its performance.
b. The operating core. These deliver the basic mission or task of the organization.
c. The middle line. These are the managers and supervisors in direct line authority from the strategic apex to the operating core.
d. The techno structure. These are staff analysts that help to bring about coordination through standardizing processes, outputs, skills or values.
e. The support staffs. These are staff activities that support the main work of the organization. For instance, in a manufacturing firm, support staff would include building maintenance, restaurant staff, public relations, office cleaning, and so forth.

The size and significance of these groups will vary depending on, for example, the type of work the organization is doing, the stability of its environment, and the size of the organization. We therefore need to understand these "contingency variables" and the effect they have on the structure of the business. But before we explore these relationships, we shall refer briefly to the organizational processes that bring the structure to life.

Organizational processes

This chapter is concerned with the links between strategy, organization structures and organizational processes. Included in organizational processes are decision-making, delegation, formal and informal communication, training, indoctrination, quality assurance, operations planning and control, leadership, formal and informal power relationships, management information systems, budgetary control, target-setting, incentive systems and disciplinary procedures. The aim of these

processes is either specialization (e.g. training) or coordination (e.g. quality control, planning, and delegation, target-setting).

Certain types of structure make extensive use of particular processes. For example, operations planning and control, training, quality assurance and disciplinary processes are features of the large mass production firm, the "machine organization". In contrast, informal communication networks, incentive systems and decentralized decision making might be typically found in a software development company, the "innovative organization". Therefore, it is important to understand the role that organizational processes are playing in bringing about specialization or coordination within a particular organizational configuration, and not to view them as separate dimensions that can be changed or manipulated independently. Hence programmers that concentrate on changing quality systems or improving communications need to be tackled with a full appreciation of the role these processes play in the wider organization. Other aspects of formal and informal organizational processes are explored in more depth in the next chapter.

2-5-3. Linking strategy, structure and process

We shall now look at the links between strategy and structure. As most business units adopt some form of functional structure it is worth looking at the strategy-structure relationship within a functional structure first. We will then explore other strategy-structure relationships.

2-5-4. The functional structure

Most firms solve the first problem of organization, how we should specialize, by adopting a functional structure, which groups people according to the type of activity they are engaged in. An engineering organization might have the following functions: production, engineering, sales, accounts, administration, personnel, warehouse/transport.

As a firm grows, the number of functional specializations tends to increase, and they may emerge in a typical order. For example, the very small one- or two-person firm concentrates initially on some form of production (e.g. making novelty candles). Growth in orders means that they have to think about how to manage the production

activity, so more staff is taken on and some further specialization takes place within the production function: mould making, dying, finishing, and packing. Managing the finances and accounts soon becomes an issue. Handled initially by a subcontractor, the firm's accountant, the volume of work now requires the employment of a full-time specialist management accountant. Initially, orders came in without the need for a great deal of marketing effort, but there may now be a need to employ sales people. The amount of paperwork increases and the loss of a valuable order through poor administration lead to the development of systems to handle orders, cash flow, scheduling and so on.

Thus, as the firm grows, activities that initially formed just part of the founder's responsibility emerge as specializations in their own right, and within functions, further specialization takes place.

Coordination within the operational area in a larger firm is probably achieved through standardization of work processes. The way the work is done is decided by, for example, work study or production engineers, and coordination across the functions is probably achieved through a combination of direct supervision (decisions and interventions by the managing director), standardization (budgets and targets will be set for each function) and ad hoc discussion or formalized meetings between managers from different functions (mutual adjustment).

Functional specialization has the advantage of encouraging the development of expertise, but the downside is that it can lead to parochialism and poor coordination of activities across the organization. It is probable that some form of functional specialization is essential in most organizations, otherwise the basic tasks of the organization could not be fulfilled effectively: for example, patients treated, newspapers printed, cars designed and manufactured. These basic tasks are likely to be common to all firms in a particular industry.

2-5-5. A "contingency" approach to strategy and structure

Nowadays, few writers would subscribe to the classical rules of good organization (e.g. "unity of command", limited "span of control"), favoring instead a contingency approach. This approach takes as its starting point that there is no one best way to organize - it all depends on the situation. The most thorough exposition of the

contingency approach is probably Mintzberg's synthesis of prior studies in organization set out in his Structuring of Organizations (Prentice Hall, 1979). He argues that the appropriate organizational form is contingent upon the states of certain variables: the age of the organization, its size, environmental dynamism and complexity, external power relationships, and the technical system employed by the organization: for example, small batch production, or continuous flow processes.

Particular combinations of these contingent variables would indicate that some organizational forms are more appropriate than others. For example, a "machine bureaucratic" structure would fit the following set of contingency conditions: a stable environment, a simple task, powerful external influences, and the old and large organization.

Strategy as such is not referred to explicitly in Mintzberg's contingency approach. We could infer, however, that insofar as a strategy determines, for instance, a firm's target markets, how it is to address its environment (Le. to compete on price and become the lowest-cost producer), the contingent variables identified by Mintzberg would, inter of determined by the strategy. In other words, we are aiming to serve an essentially stable environment, we must achieve large volumes to be the lowest-cost producer, and the chosen technology is a regulating mass production system, and so on.

This relationship could be set out as follows:

Strategy -> contingent variables -> structure

Mintzberg suggests that, although in theory there is a potentially huge array of organizational forms, in reality just a few configurations account for most types of organization. He identifies the machine organization, the professional organization, the entrepreneurial organization, the diversified organization, the innovative organization, and the missionary organization. The fact that commonly occurring structures can be found amongst firms in the same industry lends some support to the configuration argument. If firms face the same contingent conditions, then a process of natural selection would drive them to take on the same structural form. I think this would be true where firms are being compared in fairly broad terms, but, as we saw in Chapter 3, sources of advantage can derive from quite subtle differences in the way common activities are performed in different firms. Embedded know-how may be present in one

firm and lacking in another, even though their structures, on the face of it. Look very similar. Thus, within the broad arguments advanced by the contingency approach, we should also be alert to more "fine-grained" differences at the operational and tactical level that can confer advantage.

2-5-6. Changes in the contingent variables

If the strategy of the organization leads to significant changes in the contingent variables, substantial structural changes may be required, which may result in the firm moving from one configuration to another: for example, from a machine organization to a division structure. These inter structural changes may be required in the following circumstances:

- When substantial changes in product/market scope have been introduced: new markets, exporting, launching different types of product in existing markets, diversification, new products and new markets.
- When there have been significant shifts in the tasks facing the firm: the tasks may have become increasingly complex, or technical or procedural developments may have simplified the task.
- When there have been significant changes in the dynamism of the environment: an increased pace of change in the unpredictability of the environment requires the firm to be much more flexible and adaptable.
- When the "rules of the game" have been changed: increasing competitive pressures lead to more emphasis being given to, for example, the pace of new product introductions, the tight control of costs, moves towards vertical integration (either forwards into distribution or retail, or backwards into component manufacture), increasing use of subcontractors for core activities.

Changes of this nature and scope are likely to put the existing structure under considerable pressure. There is evidence to suggest that structural reorganization often lags well behind the change in strategy. There is inertia in many organizations, compounded by reluctance on the pan of top management to grasp the nettle of structural change that results in damaging mismatches being perpetuated between the new strategic position of the firm and the former, now inappropriate, structure. Unfortunately, it is often only when a crisis of some sort is reached that the necessary

structural changes are introduced. The crisis may take the form of, for example, a dramatic downturn in performance, a takeover threat, or replacing the chief executive officer.

Strategy changes that result in significant changes in the contingency variables require shifts in structure to achieve a better strategy structure alignment. To explore the structural implications of changes in the contingent variables resulting from the strategy change, where three of the more important contingent variables are presented in the form of continuums. The organizational implications of each of these three contingent variables are expected to be as follows:

a. Environmental dynamism. When the organization is facing a relatively stable and predictable environment, the four standardizing processes - work processes, skills, outputs, values - are viable coordinating mechanisms. These mechanisms are likely to lead to a high degree of specialization and the emergence of staff groups involved in effecting standardization: for example, those staff concerned with production engineering, organization and methods, budgeting and standard costing, training and induction, and operations planning and control. Standardization becomes less viable when the organization is facing a rapidly changing and unpredictable environment. Increasing environmental dynamism can be coped with through flexible organization structures that encourage informal communication: matrix structures, project teams.

b. Task complexity. When the basic tasks of the organization are straightforward those tasks can be broken down into easily understood activities. Simple tasks mean that decisions can be made centrally, using direct supervision as the coordinating mechanism, and when they are broken down into separate, simple steps, relatively unskilled people can carry them out. Complex tasks cannot be broken down into easily understood steps, and usually require highly skilled specialists to execute them. With complex tasks, decision-making tends to be located at the level of experts with the required specialist knowledge: task complexity then tends to be associated with decentralized decision-making.

c. Product/market diversity. Firms trading in one market with a limited range of products can manage effectively with a single, integrated unit. As the markets served and/or the range of products offered become more diverse, the single unit is placed under strain. The requirements of different products and markets tend to pull the

organization in different directions, leading to conflicting demands and priorities. If no structural change takes place the resulting performance of the firm is likely to deteriorate. Increasing diversity is best dealt with by allowing parts of the organization to tailor their activities to match the particular requirements of the product/markets they serve, leading ultimately to a multidivisional structure. One interim solution is the matrix structure, which usually involves overlaying the existing functional specializations with a product/market or project organization.

Combinations of these contingent variables lead to pressure to adopt particular types of structure. Four different combinations of task complexity and environmental dynamism are represented. Finns tackling simple tasks in stable environments are likely to evolve structures that are centralized and use extensive work-process standardization. As the environment becomes more dynamic, standardization becomes less viable, as the firm needs to be much more responsive to unpredictable changes. Because of the basic nature of the tasks, coordination can be effected through direction from the top.

Complex tasks being tackled in stable environments mean that it is worthwhile investing time in developing specialist skills to cope with the complexities involved (e.g. in surgery). Each specialist can work almost independently if the environment remains stable and predictable. The anesthetist and the surgeon need not even speak to each other in the operating theatre. However, increasing dynamism unpredictability mean that new problems emerge, and new creative solutions are required. Now the experts must collaborate in multi disciplinary teams that form and reform according to changing t demands.

2-5-7. Structural responses to changes in strategy and environment

Changes in the environment (e.g. from stable to dynamic) can be regarded as passive strategic decisions insofar as the firm's management chooses to continue to operate in the changing environment. They could, conceivably, consider withdrawing from increasingly hostile environments. However, changes in task complexity and product market diversity are more clearly the stuff of strategic decisions.

If the strategy change involves a shift along just one of the three main contingent variables it should be fairly clear what the required structural changes are likely to be. Moreover, coherent structures can be achieved with the four combinations

of environmental dynamism and task complexity. Mintzberg in Structures in Fivtt Designing Effective organizations (Prentice Hall, 1983) identifies the four structure types as follows:

a. Simple task/stable environment = the machine organization: a centralized bureaucracy with formalized procedures, sharp divisions of labor, functional groupings and an elaborate hierarchy; an extensive group of staff analysts concerned with effecting work standardization, and a large support staff to reduce uncertainty.
b. Simple task/dynamic environment = the entrepreneurial organization: a simple structure, few staff roles and few middle managers; activities revolve around the founding entrepreneur, who coordinates through direct supervision.
c. Complex task/stable environment = the professional organization: a large and powerful operating core consisting of highly specialized professionals (lawyers, surgeons, professors); a large support staff, shallow hierarchy, with coordination being effected by standardization of skills.
d. Complex task/dynamic environment = the innovative organization: an organization which typically has a fluid, organic and decentralized structure, experts deployed in multidisciplinary teams, coordination through mutual adjustment, and perhaps a matrix structure.

Each of these four configurations is internally consistent combinations of structure and organization processes that are suited to the tasks and environments facing them. However, because the systems, structures and processes are mutually consistent and reinforcing, changing from one configuration to another is very difficult. Each configuration habits its own self-preserving dynamic or momentum, which leads to the structure continuing long after the strategy or environment, has changed. As suggested earlier, it is often only when the mismatch between the new strategy and the old structural arrangements becomes great that performance dramatically deteriorates, that a structural reorganization is attempted.

The problems involved in shifting from one configuration to another are immense, particularly if the change challenges existing values and power structures. The move from one configuration to another is likely to be evolutionary in nature, and may even be only perceptible in hindsight.

Structural transformations that involve a shift in just one contingent variable are likely to be less challenging than those requiring shifts in two or three variables. For example, if the entrepreneurial organization is successful, growth in orders may reduce the unpredictability of the environment. The essentially simple nature of the tasks, coupled with increasing stability and an increasing volume of work, should lead to the firm effecting a smooth transition into the machine organization, as more parts of the task are standardized and routine. This change would probably not seriously challenge the centralization of decision making. However, the values of those who were involved in the early entrepreneurial years (resulting from shared experiences in overcoming the challenges of starting a new business) may well be quite different from those of new employees, who may have a more calculative involvement in the firm. They are there for the money.

Illustration explains some of the effects of a particular form of structural change, moving from the employment of full-time employees -time staff. From the firm's point of view, the short-term cost tags of lying off full-time staff need to be weighed against the r-term effects on competitiveness. Sometimes, this rather crude of cost-cutting destroys a source of advantage, like shared know, or a culture that encourages staff to contribute more than their actual minimum effort.

If task complexity and environmental dynamism change, then shift from one configuration to another may be quite traduce. Take, for example, a small management consultancy, with com tasks in a dynamic environment (= innovative organization) that on the strength of a particular approach to payment systems. Firm begins to employ fewer skilled staff, using a procedural zed roach, increasing task simplification and environment stability, and inexorably towards the machine organization. The reasons why the founders started the venture - the pursuit of variety and economy, and the challenge of tackling complex problems - are laced by the need to manage an increasingly centralized, systematic organization.

Consider also the case of the manufacturing firm facing increasing reign competition. Predictability in the environment is undermined, in order to keep pace with competitive threats the firm needs idly to improve its products. So, the comfortable and stable situation t encouraged the emergence of a machine organization is replaced by increasingly hostile and unpredictable environment and increasing **task** complexity as the

pace of new product introductions is stepped up. These changes in contingent conditions could drive the firm towards the imitative organization, but this configuration is almost the polar opposite of the machine organization. Structures, processes, styles and values appropriate to one configuration are entirely inappropriate in the other, hence the challenge of managing such an organizational transformation are immense.

Coping with diversity

The strategic logic underpinning a move to increase product/market diversity must be considered when determining the appropriate structural response. For example, if the increasingly diverse product/market portfolio is the result of attempts to reduce the business risk of the corporation, then it would be appropriate to manage the activities involved in serving these product/markets in autonomous business units. However, if the increasing diversity is the outcome of a strategy built on the notion that the firm possesses some core capabilities. Then structures and processes will be required that enable the corporation to utilize these skills across a widening scope of activities. Similarly, if the increasing diversity is the result of attempts to achieve synergy by bringing two businesses together, so that the whole is greater than the sum of the parts, then systems and structures will be required to foster the transfer of expertise, shared procurement, R & D and so on. The strategic logic of the move towards increased product/market diversity is therefore central to decisions about the appropriate structural form to adopt. Here, the tensions and conflicts in strategy structure relationships become apparent. Product/market diversity is best managed where subunits are allowed to develop activities that are tailored to particular product/markets. However, leveraging core skills across different subunits, sharing resources and centralizing certain activities (e.g. bulk purchasing) operate against the logic of the de· centralized multiunit structure.

The benefits of fostering interrelationships between units and sharing resources need to be weighed against the advantages of subunit autonomy, tailoring activities and management accountability. Compromise solutions are possible where certain activities are managed centrally in order to gain the advantage of scale and scope economies (e.g. procure· of standard inputs, basic research), while preserving the essential autonomy

and bottom-line accountability of each business unit.

Before we leave this exploration of strategy-structure relationships we need to note that structure also has a strong role in constraining strategy.

We conclude with the following set of practical implications of the arguments contained in this chapter:

- Structure is important, and it deserves serious consideration. Management teams should be encouraged to challenge the existing structure, and explore different ways of organizing.
- The structure of the organization sets out how the overall task facing the firm has been broken out into separate, specialized jobs. Looked at another way, the structure sets out responsibilities and accountabilities. These should be driven by the strategy of the firm. So if the strategy requires a focus on cost reduction, or more rapid new product introductions, or improved coordination with key suppliers, then someone should be responsible for these things. By allocating a clear responsibility to an individual, that person can be given the resources and authority to pursue that priority, and he or she can be held accountable for progress.
- Specialization allows people to become expert at one part of the task. To deliver value to customers, however, these separated activities must be coordinated together. So where you encourage specialization you must think clearly about how all these parts are to be linked back together. The simplest form of coordination is to encourage people to meet together. This can be facilitated by locating people in the same space, or by encouraging communication via electronic means (e.g. phones, E-mail, video conferencing).
- Structural changes tend to be avoided, but delay in realigning the structure merely builds up stresses that manifest themselves in poor performance. We suspect that many senior managers lack the confidence to tackle a major structural change, for fear of disrupting the basic routines of the organization.
- All structural solutions, whether they are straightforward functional organization, a matrix, or a divisional zed form, are a compromise. Functional structures are excellent at fostering expertise, but they create problems of

coordination across the separated functional activities. Matrix structures address the problems of cross-functional integration, but at the cost of clarity in reporting arrangements and accountability. Divisional zed structures are designed to allow business units or divisions to focus on their particular markets, but this can hamper the achievement of synergies across these divisions. The trick is to adopt the structure which is most appropriate at delivering the primary thrust of the competitive strategy, and to address the weaknesses in the selected structure in other ways. Thus, for example, to be more customer focused we regroup people into teams to address different customer types (e.g. large corporate account, small businesses, personal customers), and we address the problems of sharing expertise across these customer-focused units by convening regular team meetings of, say, engineering staff located across the divisions.

- When a new CEO changes the structure of the organization, often the chosen solution is one that is well known to the CEO. This gives the CEO the confidence in the detail of the new structure; he or she is very familiar with the day-to-day routines, and understands how the organization should look and feel.
- As all structures are a compromise, most structures can be made to work if people want them to work. As soon as morale dips, however, all the ambiguities, tensions and problems within the structure will be exposed and exploited to meet the narrower sectional interests of individuals or groups.

Finally, this chapter has focused attention on major structural changes. However, although the same broad structures might be adopted
by competing firms, they can contain subtle differences between firms at a more operational level, which can be the sources of competitive advantage. This Chapter highlighted the role of know-how and tacit knowledge in competitive advantage. In the following chapter we explore this phenomenon from the perspective of the culture of the organization.

2-5-8. Confidence in setting strategy

As we asserted at the start of the chapter, there are no “right answers” in strategy.

We believe that if a team can unite behind a board understanding of where they think the business should be going, they can gain in confidence. This shared sense of direction helps members of the executive team to make important operational decisions. The feeling of direction cascades down the structure, and this will help to increase confidence among middle-level managers.

It is the responsibility of senior executive to set the strategic direction for their business or business unit. Some find the task too difficult, and spend most of their time engaging in important operational or functional work. This reluctance to engage in the strategic agenda is understandable. If you have no training in strategy, you have to make your contribution in the areas of the business where you feel you have expertise. This is invariably within the functional area in which you have built your career. But the strategic implications of this understandable behavior are serious. The most predictable outcome is "strategic drift", where, through small incremental adjustments to the status quo, the firm drifts further away from the more rapidly changing environment. This eventually precipitates a crisis, as the mismatch between what the firm is doing and the changed business environment results in a serious downturn in performance.

Often the crisis acts as a trigger for change, forcing the management team to act dramatically. Unfortunately, the easiest reaction to a serious downturn in performance is to cut costs. This rarely leads through to a sustainable competitive position. In this rather negative way, however, at least the top management are forced to behave strategically ("There is no alternative").

2-5-9. Managing strategic change

We argued in the previous chapter that culture plays a central role in the strategy process. Therefore, in order to understand some of the Issues in managing strategic change it is appropriate to use the cultural perspective developed.

Culture and strategic change

In many mainstream strategy textbooks, strategy implementation is mated as a sequential step following on from strategy formulation. 'Those who have wrestled with the problems of managing strategic change, however, can find it difficult to identify with an orderly. Formulation/implementation sequence managing strategic is often

messy, complex and stressful. Routines - the old ways of doing things - often exert a powerful influence. And even though may be intellectual agreement and understanding of the need for, routine ways of behaving can predominate. This is probably because the routines are embedded in an organizational structure that ports behavior in line with the routines, and makes behavior inside the routines quite difficult. For example, the functional structure, the power relationships, the way people relate and interact, and control systems are congruent with the old routines, not the new ended strategy.

Frequently, there is overwhelming pressures to retain existing ways and to change behavior in these circumstances will there probably require more than merely an intellectual agreement. The structures and processes in which the old routines are bedded must be changed as well. This would suggest that real change can only be achieved through changes in cultural processes and that such changes will have to be tackled on a broad front in which the many interlocking dimensions of culture - structures, systems, symbols and so on - are addressed.

A further implication of this line of reasoning is that if implementation is attempted through existing structures and processes it is possible that the culture will absorb dilute and dissipate the intended strategy. Moreover, if the influence of the culture in preserving old routines is pervasive, it is absolutely vital that the management team trying to effect changes not only understand and agree with the strategy, but are also highly committed to it themselves and firmly believe that change is essential.

As we explored in Chapter 1, there may be a relationship between the quality of the content of a strategy and the quality of commitment to change the organization in line with the intended strategy. It may well be desirable to trade off the content quality of the strategy in order to improve the level of commitment to change.

Commitment is usually generated through involvement. If the members of the executive team feel that the strategy is really theirs, that they own the strategy, then the required changes, even though they may be painful and difficult, are much more likely to be driven through. So it is vital that the process of strategy-making is one that generates commitment to change: this suggests that the strategy must be decided by those executives who will be responsible for its implementation. However, we noted in the last chapter that the members of a management team may be constrained by a paradigm. They may hold a set of beliefs and assumptions about, for example, their

strengths, customer needs and competitors' capabilities that are implicit and never discussed. If strategy-making is left entirely to this group, there is a danger that the quality of debate and the challenging of assumptions that are required to produce high-quality strategic thinking will not take place. The resulting strategy is most likely to be some incremental adjustment to existing patterns of activity. Even if analytical processes are used, there is a danger that the results of analysis will be used selectively to justify the strategy that has emerged from past ad hoc, incremental decisions.

So we have a dilemma. If the strategy is left to "objective outsiders" - for example, the staff in the strategic planning department or external consultants - the quality of the strategy may be high but the chances of it being implemented may be low. However, if the members of the executive team construct the strategy, there is a danger that they may generate a large degree of commitment to the "wrong" strategy. What is required are processes that mitigate the dangers of paradigm dominated thinking, but that capitalize on the benefits of involvement. Such processes should lead to high levels of commitment towards a sound strategic direction.

Triggering change

We can refer to our culture model set out to explore some issues in the change process. We have reproduced the model.

Relationship 1 between the external environment and the organization is most keenly felt by "boundary spanning" staff like sales people.

External influences often, early signals of the need for change are picked up by these staff. They sense that the existing products and services are becoming uncompetitive, or they start to encounter a new player in the market. However, often these signals fail to reach top managers early enough, or even if they do, the messages contained within them lose some of their impact as they are reinterpreted to justify the current ways of doing things. It is often only when a crisis is precipitated, usually in the form of a serious deterioration in performance (Relationship 2), that senior executives grasp the nettle of change. However, this may be too late to save the firm. The usual action that flows from this realization is cost-cutting in all its various forms: the crisis leads to staff lay-offs, delaying, downsizing, drastic trimming of the softer budgets like training, research and development, and even to plant closures. These cuts are easy to

understand and relatively straightforward to implement, although they can be painful for those adversely affected. At this stage in the change process, there is no sense of a new strategy or vision informing these actions. The management is merely destroying parts of the past (Relationship 3).

In order to embark upon a new phase of development, there needs to be some sense of a new future, a vision or strategy that builds rather than destroys the organization. Relationship 4 suggests that for this to happen there may need to be structural and process changes first. The most obvious is the arrival of a new CEO with ways of thinking new to the organization.

If a new strategy is to be realized it has to affect routine behaviors. Successful implementation of the new strategy would manifest itself through new routines being embedded in the organization (Relationship 5), leading to the emergence of the new realized strategy (Relationship 6). If it is the right strategy for the firm, it should lead to more sustained performance improvements than simply those stemming from cost-cutting. In the rest of this chapter, we consider a range of process interventions that can help bring about significant change in the organization. I refer to the culture model to assess the role and contribution of each prescription.

2-5-10. The mission statement

We begin with mission statements, which seem to have a very mixed press. When working with executives two contrasting opinions appear about the usefulness of missions. Most executives view them rather cynically. However, a minority values them and perceives them to be hugely influential in their organizations. We rarely encounter executives with moderate views about mission statements. They either love them or hate them. Clearly, there must be some contextual or process factors that are causing these extreme reactions. We shall return to these following a brief summary of mission statements.

The roles of the mission statement. Mission statements are supposed to capture the essence of the firm's strategy in a concise statement of intent. They may be very brief indeed, like "A Personal Computer in Every Home" or Komatsu's "Encircle Caterpillar", or they may extend to several paragraphs. Sometimes they take on a rather dry and objective tone that sets out broad guidelines for the organization; others are

very visionary and inspirational.

However, like the fate of many management fads, the quality of the implementation of the idea can be very poor. Many organizations have mission statements, but few managers, even those in senior positions, could tell you what is in the statement. Those that can remember them may well not believe in the statements made. This is a pity, because a good mission statement cans playa powerful part in strategic change. It can also empower managers at the apex of the organization, providing them with the confidence to make tough decisions that are in line with the agreed mission.

If the statement is to play this role, it needs to be carefully crafted, and we shall now set out some useful guidelines for drawing up a mission statement.

The mission statement: some guidelines

The purpose of the mission statement is to communicate to those inside the organization the broad ground rules that the organization has set itself in conducting its business, and it should therefore have the following characteristics:

- It should be a broadly framed and enduring statement of intent.
- It should be essentially an internal working document.

The statement should set out as clearly as possible the essence of the competitive strategy, as follows:

- the target markets (and segments);
- how competitive advantage will be gained in those markets;
- how competitive advantage will be translated into superior profitability (including cost management);
- a summary (if appropriate) of the required competences to achieve the competitive strategy;
- how success will be measured; and
- attitudes to growth, diversification and to financing.

It may also be appropriate to include statements of intent towards various stakeholders, staff, society, and the local community.

The statement needs to be concise, but at the same time it must provide unambiguous guidance. It is this last requirement that makes mission statements so difficult to get right. Although brevity is desirable, if it results in ambiguity or, worse still, a set of bland and generalized "motherhood", the statement will not be a living document. It will be viewed cynically and seen as irrelevant.

Although it may be desirable to include value statements about concern for employees or the environment, this should only be done if the team members believe in them sufficiently to back them up with visible actions. If the team puts in pious statements for public and/or employee relations purposes that it has no real intention of implementing, then as soon as one piece of evidence is found that demonstrates a lack of commitment to the espoused values, the mission statement as a whole will fall into disrepute.

As a working document for managers, the statement should be as tough and as clear as possible. If a statement is required for PR purposes, then one should be drawn up separately to meet this requirement. The trap of trying to construct one statement to satisfy two requirements should be avoided, since the usual result of the attempt is a bland "wish list" that satisfies neither need well.

In order to draw up a mission statement, the management team must engage in a full-scale strategic analysis. When setting the guidelines for the medium-term strategy of the firm, markets must be analyzed, trends in customers' needs understood, and the relative performance of competitors and the threat of entrants assessed. Choices must be made to move in to or out of particular markets or segments of markets. The competences required to deliver the strategy must be identified and target levels of attainment should be set: for example, the fastest new-product development cycle in the industry, or 99 percent right first time.

In summarizing the essence of the competitive strategy it is sometimes useful to focus attention, first, on those product/service dimensions that are valued by customers and can be made better than those offered by the competitors, and, secondly, on those dimensions where the aim is to be as good as the competitors.

One way of judging how good the statement is, is to ask the following questions about it:

- Would a new manager entering the firm have a clear view, just from reading

the mission statement, of what is trying to be achieved?

- Does each phrase and sentence help to clarify the firm's intentions? If one does not, why is it in there? Could it be taken out?

- Does the top team really believe in the statement (that means every word)? If not, it should be torn up and started again.

- Is it obvious how a whole set of schemes must be set in motion if the intentions in the statement are to be realized?

If there are substantial differences between the product markets that the firm intends to trade in, and if the capabilities required to gain advantage in these markets are also very different, it will probably be necessary to draw up more than one mission statement. If the firm prefers to have one overarching document at corporate level, this can be supplemented by a strategy statement for each substantial market or segment grouping.

As a rough guide, mission statements should have an effective life of at least two years. Bringing the organization into line with the intentions set out in the statement will take time, and people in the organization will need to see some stability in the direction the firm is taking if they are to commit themselves to the required changes. A continually changing mission statement will not be perceived as a credible document. Whether this is a believable statement depends upon the extent to which these values are translatable into tangible action, and whether staffs from the top downwards are clearly seen to act in line with these values. The statement of ethics can actually be operational zed. It suggests that the test would be whether staff has pride in the company. This can be tested through surveys and group discussions, benchmarks can be set, and progress or otherwise monitored. Thus even a seemingly vague and aspiration statement of values can be turned into something measurable. Similarly, customers' expectations could be measured and monitored to check whether those expectations are indeed being exceeded. But there are still areas of some ambiguity in this statement:

"We will work to be the best" - compared to whom? "Shareowners are properly rewarded" - what is a "proper" level of reward?

Looked at in this light, it is clear that the mission statement summarizes the output of an extensive process of strategic thinking. It should not, therefore, be drawn up at the start of such a process. If the mission statement captures the essence of the strategy, it can then be used as the key strategic document. A whole set of actions should then be driven by the mission statement.

The role of the mission statement in strategic change. We can assess the way in which a mission statement may assist in the process of cultural change. If the team that drafts the statement has not engaged in a challenging debate about strategy, the chances are that the statement will merely confirm past realized strategy. The cognitive processes of the group responsible for the mission may restrict and constrain the emerging vision to the extent that no real change is seen to be required to organization processes or behaviors. We should not underestimate the attractions of such an outcome. A mission that confirms, broadly, the legitimacy of the status quo also confirms the practices, routines and priorities of the past, and it justifies the existing structures and power relationships. A mission statement like this is likely to be warmly and actively supported by all those who benefit from the status quo.

Mission statements that call for significant shifts in the way things are done in the firm can come about in a variety of ways. They can be drawn up with the involvement of outside consultants, who, being in a more objective position, may be able to set out dispassionately the nature and the extent of the changes required. The chances of this statement impacting on the organization will depend upon the power relationships within the structure, particularly the extent to which the CEO backs the strategy set out by the consultants. Whether change is wholeheartedly adopted by other top-team members will depend on the degree to which they are dissatisfied personally with their current situations. A crisis precipitated by a serious deterioration in performance may persuade these executives that change is the only option. More positively, there may be attractions in pursuing the change of direction if the executive perceives positive outcomes for him- or herself.

For a top team to construct and be committed to a strategy of change themselves requires them to engage in new ways of thinking. While the impetus to explore new strategies may be encouraged by outside events - for example, performance problems, a new entrant into the market, or pressure from the corporate centre - the

ability to conceive of new ways of doing things can certainly be facilitated by outsiders.

These outsiders may be consultant facilitators who are able to inject new ways of analyzing and can import a wider base of experience; in other cases it may be a new CEO or other significant top-team member who injects new thinking. The CEO may have the advantage of past success, which both in self-confidence and can inspire the rest of the team to take on the personal risks of changing.

We have had some involvement as a facilitator with top teams who are genuinely searching for a clearer sense of strategic direction. Where these teams come to some agreement about the broad thrust of their fins strategy, and where they have been able to summarize this into a concise statement of strategic intent, the teams appear to be empowered. The clarification of the firm's strategy gives them confidence in making day-to-day operational decisions that may previously have been made on a more ad hoc basis. Thus, when confronted by a reporting manager requesting more staff or capital expenditure, the executive can refer to the strategy in making this judgment. If the manager's request is in line with the intended direction, then the request wins the executive's full support; if it does not support the strategy, the request is denied. This feeds down through the structure, empowering managers at lower levels. There is a sense of direction; middle managers might not agree with all of it, but at least there is a consistent "line" coming down from the top.

From mission statement into action. If the mission statement is to be a live document it must be translated into action. There is no obvious and foolproof way of doing this, but perhaps the least useful approach is to pass on the statement to the executives of each of the existing functions and have them interpret what it means to them. The main reason why this is unlikely to result in the required actions is that, if the statement does not merely endorse the strategy of the past, it will include statements of intent that will require changes to the current ways of doing things. If the statement is passed on to the existing functional heads, it is likely to be interpreted and absorbed into current functional routines. The intended strategy as an organizational process should initiate changes in cognitions that would lead, in turn, to changes in behavior, but the intentions can be reinterpreted and comfortably absorbed into existing routines.

Using the status quo to change the status quo the existing structures and processes in the organization support the current ways of doing things. Should the new

strategy indicate that the organization needs to behave in different ways; a problem is likely to arise if the existing structures are the primary vehicle for implementing the changes. Current structures and processes may well distort and dilute the intended strategy to the point where no discernible change takes place.

If the intended strategy is implemented through the existing functional structure of the firm, it will be interpreted by functional manage in terms that make sense to them and in ways that reflect the types of activity which the function has previously been responsible for. However, it may be that critical actions are required that fall outside the traditional functional division of tasks. By translating the strategy only into behaviors that reflect the past functional specialization, actions that lie outside the existing functions, or, more typically, actions that cut across several existing functions, will not be picked up.

It may therefore be necessary to employ other structures and processes if significant changes to routine behavior are required. Using structures and processes that lie outside the status quo should reduce the possibility that the intended strategy will become assimilated into existing routines.

Chapter six: Evaluation process

The nature of strategy evaluation

The strategic-management process results in decisions that can have significant, ling-lasting consequences. Erroneous strategic decisions can inflict sever penalties and can be exceedingly difficult, if not impossible, to reverse. Most strategists agree, therefore, that strategy evaluation is vital to an organization's well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. Strategy evaluation includes three basic activities: (1) examining the underlying bases of a firm's strategic, (2) comparing expected results with actual results, and (3) taking corrective actions to ensure that performance conforms to plans. The strategy evaluation stage of the strategic management process.

Adequate and timely feedback is the cornerstone of effective strategy evaluation. Strategy evaluation can be no better than the information on which it operates. Too much pressure from top managers may result in lower managers contriving numbers they think will be satisfactory. Strategists for Boy Scouts of America recently determined, for example, that membership had motivated people to increase the number of new members reported, but had no motivated them to increase the number of Boy Scouts actually enrolled.

Strategy evaluation can be a complex and sensitive undertaking. Too much emphasis on evaluating strategies may be expensive and counterproductive. No one likes to be evaluated too closely! Dalton and Lawrence emphasize that the more managers attempt to evaluate the behavior of others, the less control they have. Yet, too little or no evaluation can create even worse problems. Strategy evaluation is essential to ensure that stated objectives are being achieved.

In many organizations, strategy evaluation is simply an appraisal of how well an organization has performed. Have the firm's assets increased? Has there been an increase in profitability? Have sales increased? Have productivity levels increased? Have profit margin, return on investment, and earnings-per-share ratios increased?

Some firms argue that their strategy must have been correct if the answers to

these types of questions are affirmative. Well, the strategy or strategies may have been correct, but this type of reasoning can be misleading, because strategy evaluation must have both a long–run and short-run focus. Strategies often do not affect short-term operating results until it is too late to make needed changes. Braniff Airlines, for example, did not know that its worldwide market development would result in bankruptcy until hundreds of new planes had been purchased and extensive resources committed. It is impossible to demonstrate conclusively that a particular strategy is optimal or even to guarantee that it will work. One can, however, evaluate it for critical flaws. Richard Rumelt offers four criteria that could be used to evaluate a strategy: consistency, consonance, advantage, and feasibility. Consonance and advantage are mostly based on a firm's external assessment, whereas consistency and feasibility are largely based on an internal assessment.

Strategy evaluation is important because organization face dynamic environments in which key external and internal factors often change quickly and dramatically. Success today is no guarantee for success tomorrow! An organization should never be lulled into complacency with success. Countless firms have thrived one year only to struggle for survival the following year. For example, IBM's profit dropped in 1993 to negative $7.99 billion. Other companies that experienced net profit losses in excess of $1 billion in 1993 were Fort Howard and Eagle-Picher Industries. Organizational demise can come swiftly, as further evidenced.

Strategy evaluation is becoming increasingly difficult with the passage of time, for many reasons. Domestic and world economies were more stable in years past, product life cycles were longer, product development cycles were shorter, technological advancement was slower, and change occurred less often, there were fewer competitors, foreign companies were weak, and there were more regulated industries. Other reasons why strategy evaluation is more difficult today include the following trends:

a. A dramatic increase in the environment's complexity

b. The increasing difficulty of predicting the future with accuracy

c. The increasing number of variables

d. The rapid rate of obsolescence of even the best plans

e. The increase in the number of both domestic and world events affecting organizations.

f. The decreasing time span for which planning can be done with any degree of certainty.

2-6-1. The process of Evaluating Strategies:

Strategy evaluation is necessary for all sizes and kinds of organizations. Strategy evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation. Regardless of the size of the organization, a certain amount of "management by wandering around" at all levels is essential to effective strategy evaluation. Strategy –evaluation activities should be performed on a continuing basis, rather than at the end of specified periods of time or just after problems occur. Waiting until the end of the year, for example, could result in a firm "closing the barn door after the horses have already escaped.

An evaluation strategy on a continuous rather than a periodic basis allows benchmarks of progress to be established and more effectively monitored. Some strategies take years to implement; consequently, associated results may not become apparent for years. Successful strategists combine patience with a willingness to take corrective actions promptly when necessary. There always comes a time when corrective actions are needed in an organization! Century's age, a writer, perhaps Solomon made these observations about change:

There is a time for everything,

- a time to be born and a time to die,
- a time to plant and a time to uproot,
- a time to kill and a time to laugh,
- a time to mourn and a time to dance,
- a time to scatter stones and a time to gather them,
- a time to embrace and a time to give up,
- a time to search and a time to give up,
- a time to keep and a time to throw away,
- a time to tear and a time to mend,
- a time to be silent and a time to speak,
- a time to love and a time to hate,
- a time for war and a time for peace.

Lindsay and Rue hypothesized that strategy-evaluation activities would be conducted more frequently as environmental complexity and instability increased. However, the researchers found a surprising inverse relationship between "planning review frequency" and organizational environment. Top managers in dynamic environments performed strategy-evaluation activities less frequently than those in stable environments. Lindsay and Rue concluded that forecasting is more difficult under complex and unstable environmental conditions, so strategists may see less need for frequent evaluation of their long- range plans. Evidence for this conclusion was stronger for large firms than for small ones.

Matrix should indicate how effective a firm's strategies have been in response to key opportunities and threats. This analysis could also address such questions as

a. How have competitors reacted to our strategies?

b. How have competitors' strategies changed?

c. Have major competitions making certain strategic changes?

d. Why are competitors making certain strategic changes?

e. Why are some competitions' strategies more successful than others?

f. How far can our major competitors be pushed before retaliating?

g. How far can our major competitors be pushed before retaliating?

h. How could we more effectively cooperate with our competitors?

Numerous external and internal factors can prohibit firms from achieving long-term and annual objectives. Externally, actions by competitors, changes in demand, changes in technology, economic changes, demographic shifts, and governmental actions may prohibit objectives from being accomplished. Internally, ineffective strategies may have been chosen, or implementation activities may have been poor. Objectives may have been too optimistic. Thus, failure to achieve objectives may not be the result of unsatisfactory work by managers and employees. All organizational members need to know this to encourage their support for strategy-evaluation activities. Organizations desperately need to know as soon as possible when their strategies are not effective. Sometimes managers and employees on the "front line" discover this well before strategists.

External opportunities and threats and internal strengths and weaknesses that represent the bases of current strategies should continually be monitored for change. It is not sent the bases of current strategies should continually be monitored for change. It is not really a question of whether these factors will change, but rather when they will change in what ways. Some key questions to address in evaluating strategies are given here.

a. Are our internal strengths still strengths?

b. Have we added other internal strengths? If so, what are they?

c. Are our internal weaknesses still weaknesses?

d. Do we now have other internal weakness? If so, what are they?

e. Are our external opportunities still opportunities?

f. Are there now other external opportunities? If so, what are they?

g. Are our external threats still threats?

h. Are there now other external threats? If so, what are they?

i. Are we vulnerable to a hostile takeover?

Measuring Organizational Performance. Another important strategy-evaluation activity is to measure organizational performance. This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Both long-term and annual objectives are commonly used in this process. Criteria for evaluating strategies should be measurable verifiable. Criteria that predict results may be more important than those that reveal what already has happened. For example, strategists do not want to find out that sales last quarter were 20 percent under what were expected. More importantly, they need to know that sales next quarter may be 20 percent below standard unless some action is taken to counter the trend. Really effective control requires accurate forecasting?

Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective actions. Many factors, such as unreasonable policies, unexpected turns in the economy, unreliable suppliers or distributors, or ineffective strategies, can result in unsatisfactory progress toward meeting objectives. Problems can result from ineffectiveness (not doing the right things) or inefficiency (doing the right poorly).

Determining which objectives are most important in the evaluation of strategies can be difficult. Strategy evaluation is based on both quantitative and qualitative criteria. Selecting the exact set of criteria for evaluating strategies depends on a particular organization's size, industry, strategies, and management philosophy. An organization pursuing a retrenchment strategy, for example, could have an entirely different set of evaluative criteria from an organization pursuing a market-development strategy.

Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons: (1) comparing the firm's performance over different time periods, (2) comparing the firm's performance over different time periods, (2) comparing the firm's performance to competitor's and (3) comparing the firm's performance to industry averages. Some key financial ratios that are particularly useful as criteria for strategy evaluation include:

a. Return on investment
b. Return on equity
c. Profit margin
d. Market share
e. Debt to equity
f. Earnings per share
g. Sales growth
h. Asset growth

But there are some potential problems associated with using quantitative criteria for evaluating strategies. First, most quantitative criteria are geared to annual objectives rather than long-term objectives. Also, different accounting methods can provide different results on many quantitative criteria. Third, intuitive judgments are almost always involved in deriving quantitative criteria. For these and other reasons, qualitative criteria are also important in evaluating strategies. Human factors such as high absenteeism and turnover rates, poor production quality and quantity rates, or low employee satisfaction can be underlying causes of declining performance. Marketing, finance/accounting, R & D, or computer information systems factors can also cause financial problems. Seymour Tilles identifies six qualitative questions that are useful in evaluating strategies:

a. Is the strategy internally consistent?
b. Is the strategy consistent with the environment?
c. Is the strategy appropriate in view of available resources?
d. Does the strategy involve an acceptable degree of risk?

e. Does the strategy have an appropriate time framework?

f. Is the strategy workable?

Some additional key questions that reveal the need for qualitative or intuitive judgment in strategy evaluation are

a. How good is the firm's balance of investments between high- risk and low-risk projects?

b. How good is the firm's balance of investments between long-term and short-term projects?

c. How good is the firm's balance of investments between slow-growing markets and fast-growing markets?

d. How good is the firm's balance of investments among different divisions?

e. To what extent are the firm’s balances of investments among different divisions?

f. What are the relationships among the firm's key internal and external strategic factors?

g. How are major competitors likely to respond to particular strategies?

Taking Corrective Actions. The final strategy-evaluation activity, taken corrective actions, requires making changes to reposition a firm competitively for the future. Some examples of changes that may be needed are altering an organization's structure, replacing one or more key individuals selling a division, or revising a business mission. Other changes could include establishing or revising objectives, devising new policies, issuing stock to raise capital, adding additional salespersons, allocating resources differently, or developing new performance incentives. Taking corrective actions does not necessarily mean that existing strategies will be abandoned or even that new strategies must be formulated.

The probabilities and possibilities for incorrect actions increase geometrically with an arithmetic increase in personnel. Any person directing an overall undertaking must check on the actions of the participants as well as the results that they have achieved. If either the actions or results do not comply with preconceived or planned achievements, then corrective actions are needed.

No organization can survive as an island; no organization can escape change. Taking corrective action is necessary to keep an organization on track toward achieving

stated objectives. In his thought-provoking books, Future Shock and The Third Wave, Alvin Toffler argues that business environments are becoming so dynamic and complex that they threaten people and organizations with future shock, which occurs when the nature, types, and speed of changes overpower an individual's or organization's ability and capacity to adapt. Strategy evaluation enhances an organization's ability to adapt successfully to changing circumstances. Brown and Agnew refer to this notion as "corporate agility." As indicated in the Natural Environment perspective, Taiwan is one country that experienced future shock in the 1980s and almost overnight required all of its business firms to use corporate agility to preserve the county's beauty and resources.

Taking corrective actions raises employees' and managers' anxieties. Research suggests that participation in strategy-evaluation activities is one of the best ways to overcome individuals' resistance to change. According to Erez and Kanfer, individuals accept change best when they have a cognitive understanding of the changes, a sense of control over the situation, and an awareness that necessary actions are going to be taken to implement the changes.

Strategy evaluation can lead to strategy-formulation changes, strategy-implementation changes, both formulation and implementation changes, and no changes at all. Strategists cannot escape having to revise strategies and implementation approaches sooner or later. Hussey and Langham offer the following insight on taking corrective actions:

Resistance to change is often emotionally based and not easily overcome by rational argument. Resistance may be based on such feelings as loss of status, implied criticism of present competence, fear of failure in the new situation, annoyance at not being consulted, lack of understanding of the need for change, or insecurity in changing from well-known and fixed methods. It is necessary, therefore, to overcome such resistance by creating situations of participation and full explanation when changes are envisaged.

Corrective actions should place an organization in a better position to capitalize upon internal strengths; to take advantage of key external opportunities; to avoid, reduce, or mitigate external threats; and to improve internal weaknesses. Corrective actions should have a proper time horizon and an appropriate amount of risk. They actions should be internally consistent and socially responsible. Perhaps most

importantly, corrective actions strengthen an organization's competitive position in its basic industry. Continuous strategy evaluation keeps strategists close to the pulse of an organization and provides information needed for an effective strategic-management system. Carter Byles describes the benefits of strategy evaluation as follows:

Evaluation activities may renew confidence in the current business strategy or point out the need for actions to correct some weaknesses, such as erosion of product superiority or technological edge. In many cases, the benefits of strategy evaluation are much more far-reaching, for the outcome of the process may be a fundamentally new strategy that will lead, even in a business that is already turning a respectable profit, to substantially increased earnings. It is this possibility that justifies strategy evaluation, for the payoff can be very large.

2-6-2. Published sources of strategy evaluation information

A number of publications are helpful in evaluating a firm's strategies. For example, in May and June issue each year, Fortune identifies and evaluates the Fortune 1,000 (the largest manufactures) and the Fortune 50 (the largest retailers, transportation companies, utilities, banks, insurance companies, and diversified financial corporations in the United States). In these issues, fortune also ranks the best and worst performers on various factors such as return on investment, sales volume, and profitability.

In its January issue each year, Fortune evaluates organizations in twenty-five industries. Eight key attributes serve as evaluative criteria: quality of management; innovativeness; quality of products or services; long-terms investment value; financial soundness; community and environmental responsibility; ability to attract, develop, and keep talented people; and use of corporate assets, Fortune's 1993 evaluation reveals the following firms to be best in the respective industries.

2-6-3. Characteristic of an effective evaluation system

Strategy evaluation must meet several basic requirements to be just as bad as too little information, and too many controls can do more harm than good. Strategy – evaluation activities also should be meaningful; they should specifically relate to a firm's objectives. They should provide managers with useful information about tasks over which they have control and influence. Strategy-evaluation activities should

provide timely information; on occasion and in some areas, managers may need information daily. For example, when a firm has diversified by acquiring another firm, evaluative information may be needed frequently. However, in an R & D department, daily or even weekly evaluative information could be dysfunctional. Approximate, information that is timely is generally more desirable as a basis for strategy evaluation than accurate information that does not depict the present. Frequent measurement and rapid reporting may frustrate control rather than give better control. The time dimension of control must coincide with the time span of the event being measured.

Strategy evaluation should be designed to provide a true picture of what is happening. For example, in a server economic downturn, productivity and profitability ratios may drop alarmingly, while employees and managers are actually working harder. Strategy evaluation should portray this type of situation fairly. Information derived to those individuals in the organization who need to take action based on it. Managers commonly ignore evaluative reports that are provided for informational purposes only; not all managers need to receive all reports. Controls need to be action- oriented rather than information –oriented.

The strategy-evaluation process should not dominate decisions; it should foster mutual understanding, trust, and common sense! No department should fail to cooperate with another in evaluating strategies. Strategy evaluations should be simple, not too cumbersome, and not too restrictive. Complex strategy-evaluation systems often confuse people and accomplish little. The test of an effective evaluation system is its usefulness, not its complexity.

Large organizations require a more elaborate and detailed strategy-evaluation system because it is more difficult to coordinate efforts among different divisions and functional areas. Managers in small companies often communicate with each other and their employees daily and do not need extensive evaluative reporting systems. Familiarity with local environments usually makes gathering and evaluating information much easier for small organizations than for large businesses.

But the key to an effective strategy-evaluation system may be the ability to convince participants that failure to accomplish certain objectives within a prescribed time is not necessarily a reflection of their performance.

There is no one ideal strategy-evaluation system. The unique characteristics of an organization, including its size, management style, purpose, problems, and strengths, can determine a strategy-evaluation and control system's final design. Robert Waterman offers the following observation about successful organizations' strategy evaluation and control systems:

A basic premise of good strategic management is that firms plan ways to deal with unfavorable and favorable events before they occur. Too many organizations prepare contingency plan just for unfavorable events; this is a mistake, because both minimizing threats and capitalizing on opportunities can improve a firm's competitive position.

Regardless of how carefully strategies are formulated, implemented, and evaluated, unforeseen events such as strikes, boycotts, natural disasters, arrival of foreign competitors, and government actions can make a strategy obsolete. To minimize the impact of potential threats, organizations should develop contingency plans as part of the strategy-evaluation process. Contingency plans can be defined as alternative plans that can be put into effect if certain key events do not occur as expected. Only high-priority areas require the insurance of contingency plans. Strategists cannot and should not try to cover all bases by planning for all possible contingencies. But in any case, contingency plans should be as simple as possible.

Some contingency plans commonly established by firms include the following:

a. if a major competitor withdraws from particular markets as intelligence reports indicate, what actions should our firm take?

b. If our sale objectives are not reached, what actions should our firm take to avoid profit losses?

c. If demands for our new product exceed plans, what actions should our firm take to meet the higher demand?

d. If certain disasters occur, such as loss of computer capabilities, a hostile takeover attempt, loss of patent protection, or hurricanes, what actions should our firm take?

e. If a new technological advancement makes our new product obsolete sooner than expected, what actions should our firm take?

Too many organizations discard alternative strategies not selected for implementation, when the work devoted to analyzing these options is valuable information. Alternative strategies not selected for implementation can serve as contingency plans, in case the strategy or strategies selected do not work.

When strategy-evaluation activities reveal the need for a major change quickly, an appropriate contingency plan can be executed in a timely way. Contingency plans can promote a strategist's ability to respond quickly to key changes in the internal and external bases of an organization's current strategy. For example, if underlying assumptions about the economy turn out to be wrong and contingency are ready, then managers can make appropriate changes promptly.

In some cases, external or internal conditions present unexpected opportunities. When such opportunities occur, contingency plans could allow an organization to capitalize on them quickly. Lineman and Chandran report that contingency planning gives users such as Du Pont, Dow Chemical, Consolidated foods, and Emerson Electric three major benefits: it permits quick response to change, it prevents panic in crisis situation and it makes managers more adaptable by encouraging them to appreciate just how variable the future can be. They suggest that effective contingency planning involves a seven-step process as follows:

a. Identify both beneficial and unfavorable events that could possibly derail the strategy or strategies.

b. Specify trigger points. Calculate about when contingent events are likely to occur.

c. Assess the impact of each contingent event. Estimate the potential benefit or harm of each contingent event.

d. Develop contingency plans. Be sure that contingency plans are compatible with current strategy and are economically feasible.

e. Assess the counter impact of each contingency plan. That is, estimate how much each contingency plan will capitalize on or cancel out its associated contingent event. Doing this will quantify the potential value of each contingency plan.

f. Determine early warning signals for key contingency events. Monitor the early warning signals.

e. For contingent events with reliable early warning signals, develop advance action plans to take advantage of the available lead time.

A frequently used tool in strategy evaluation is the audit. Auditing is defined by the American Accounting Association (AAA) as "a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to interested users. People who perform audits can be divided into three groups: independent auditors, government auditors, and internal auditors. Independent auditors basically are certified public accountants (CPAs) who provide their services to organizations for a fee; they examine the financial statements of an organization to determine whether they have been prepared according to generally accepted accounting principles (GAAP) and whether they fairly represent the activities of the firm. Independent auditors use a set of standards called generally accepted auditing standards (GAAs). Public accounting firms often have a consulting arm that provides strategy-evaluation services.

Two government agencies, the General Accounting Office (GAO) and the Internal Revenue Service (IRS), employ government auditors responsible for making sure that organizations comply with federal laws, statues, and policies. GAO and IRS auditors can audit any public or private organization. The third groups of auditors are employees within an organization who are responsible for safeguarding company assets, for assessing the efficiency of company operations, and for ensuring that general accepted business procedures are practiced. To evaluate the effectiveness of an organization's strategic-management system, internal auditors often seek answers to the questions posed in Table 9-4. Aaron Kelly developed the Planning Process Audit (PPA) presented. The Environmental Audit: For an increasing number of firms, overseeing environmental affairs is no longer a technical function performed by specialists; it rather has become an important strategic-management concern. Product design, manufacturing, transportation, customer use, packaging, product disposal, and corporate rewards and sanctions should reflect environmental considerations. Firms that effectively manage environmental affairs are benefiting from constructive relations with employees, consumers, suppliers, and distributors.

In a recent article, Shimell emphasizes the need for organizations to conduct environmental audits of their operations and to develop a Corporate Environmental Policy (CEP). Shimell contends that an environmental audit should be as rigorous as a financial audit and should include training workshops in which staff can help design and implement the policy. The CEP should be budgeted and requisite funds allocated to ensure that it is not a public relations façade. A Statement of Environment Policy should be published periodically to inform shareholders and the public of environmental actions taken by the firm.

Instituting an environmental audit can include moving environmental affairs from the staff side of the organization to the line side. Some firms are also introducing environmental criteria and objectives in their performance appraisal instruments and systems. Conoco, for example, ties compensation of all its top managers to environmental action plans. Occidental Chemical includes environmental responsibilities in all its job descriptions for positions.

2-6-4. Using computer to evaluate strategies

The usefulness of computers in facilitating strategy evaluation cannot be overestimated. When properly designed, installed, and operated, a computer network can efficiently acquire information promptly and accurately. Computers can allow diverse strategy-evaluation reports to be generated for different levels and types of managers. For example, strategists will want reports concerned with whether the mission, objectives, and strategies of the enterprise are being achieved. Middle managers could require strategy-implementation information, such as whether construction of a new facility is on schedule or a product's development is proceeding as expected. Lower-level managers could need evaluation reports that focus on operational concerns such as absenteeism and turnover rates, productivity rates, and the number and nature of grievances. Computers are being used more and more to integrate reports and enhance strategy evaluation at all levels in organizations.

For over a decade, we have been reading about the senior executive "war room" and what more recently has been termed "the office of the future" a room containing a number of computer terminals with graphic displays. There the chief executive officer of an organization spends most of the day monitoring the firm's internal and external

condition and formulating, implementing and evaluating strategies. The corporate war room may never become a reality, but computers are becoming an integral part of strategic-management systems. Computers now offer strategists integration, uniformity, analysis, and economy in evaluating strategic-management activities.

Business today has become so competitive that strategists are being forced to extend planning horizons and to make decisions under greater and greater degrees of uncertainty. As a result, more information has to be obtained and assimilated to formulate, implement, and evaluate strategic decisions. In any competitive situation, the side with the best intelligence (information) usually wins; computers enable managers to evaluate vast amounts of information quickly and accurately. Xerox president Paul use a personal computer daily to make faster and better decisions.

A limitation of computer-based systems to evaluate and monitor strategy execution is that personal values, attitudes, morals, preferences, politics, personalities, and emotions are not programmable. This limitation accents the need to view computers as tools, rather than as actual decision-making devices. Computers can significantly enhance the process of effectively integrating intuition and analysis in strategy evaluation. The General Accounting Office of the United States Government offers the following conclusions regarding the appropriate role of computers in strategy evaluation:

The aim is to enhance and extend judgment. Computers should be looked upon not as a provider of solutions, but rather as a framework which permits science and judgment to be brought together and made explicit. It is the explicitness of this structure, the decision-maker's ability to probe, modify, and examine "what if?" alternatives that is of value in extending judgment.

2-6-5. Efficiency of strategic management

Falling to follow guidelines in conducting strategic management can foster criticisms of the process and crate problems for the organization. An integral part of strategy evaluation must be to evaluate the quality of the strategic-management process. Issues such as "Is strategic management in our firm a people process or paper process? should be addressed.

Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts! Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Strategic management must not become a self-perpetuating bureaucratic mechanism. Rather, it must be a self-reflective learning process that familiarizes managers and employees in the organization with key strategic issues and feasible alternatives for resolving those issues. Strategic management must not become ritualistic, stilted, orchestrated, or too formal, predictable, and rigid. Words supported by numbers, rather than numbers supported by words, should represent the medium for explaining strategic issues and organizational responses. A key role of strategists is to facilitate continuous organizational learning and change. Robert Waterman emphasizes this, saying:

Successful companies know how to keep things moving. If they share a habit pattern, it's the habit of habit breaking. Sometimes they seem to like change for its own sake. IBM's chief executive, John Akers, says "IBM never reorganizes except for a good business reason, but if they haven't reorganized in a while, that's a good business reason." Successful companies are deliberate bureaucracy-busters. They delight in smashing pettifogging encumbrances that Harry Quadracci calls "playing office".

R.T. Lenz offers some important guidelines for effective strategic management: Keep the strategic-management process as simple and non-routine as possible. Eliminate jargon and arcane planning language. Remember, strategic management is a process for fostering learning and action, not merely a formal system for control. To avoid routinized behavior, vary assignments, team membership, meeting formats, and the planning calendar. The process should not be totally predictable, and settings must be changed to stimulate creativity. Emphasize word-oriented plans with numbers as back-up material. If managers cannot express their strategy in a paragraph or so, they either do not have one or do not understand it. Stimulate thinking and action that challenge the assumptions underlying current corporate strategy. Welcome bad news. If

strategy is not working, managers desperately need to know it. Further, no pertinent information should be classified as inadmissible merely because it cannot be quantified. Build a corporate culture in which the role of strategic management and its essential purposes are understood. Din not permit "technicians" to co-opt the process. It is ultimately a process for learning and action. Speak of it in these terms. Attend to psychological, social, and political dimensions, as well as the information infrastructure and administrative procedures supporting it.

An important guideline for effective strategic management is open-mindedness. A willingness and eagerness to consider new information, new viewpoints, new ideas, and new possibilities is essential; all organizational members must share a spirit of inquiry and learning. Strategists such as chief executive officers, presidents, owners of small businesses, and heads of government agencies must commit themselves to listen to understand managers' position well enough to be able to restate those positions to the managers' satisfaction. In addition, mangers and employees throughout the firm should be able to describe the strategists' positions to the satisfaction of the strategists. This degree of discipline will promote understanding and learning.

No organization has unlimited resources. No firm can take on an unlimited amount of debt or issue an unlimited amount of stock to raise capital. Therefore, no organization can pursue all the strategies that potentially could benefit the firm. Strategic decisions thus always have to be made to eliminate some courses of action and to allocate organizational resources among others. Most organizations can afford to purpose only a few corporate-level strategies at any given time. It is a critical mistake to pursue only a few corporate-level strategies at any given time. It is a critical mistake for managers to purpose too many strategies at the same time, thereby spreading the firm's resources so thin that all strategies are jeopardized. Joseph Charyk, CEO of The Communication Satellite Corporation (COMSAT), said, "We have to face the cold fact that Comsat may not be able to do all it wants. We must make hard choices on which ventures to keep and which to fold."

Strategic decisions require trade-offs such a long-range versus short-range considerations or maximizing profits versus increasing shareholders' wealth. There are ethics issues too. Strategy trade-offs require subjective judgments and preferences. In many cases, a lack of objective as possible in considering qualitative factors.

Part Three

Practical application

Chapter seven: Management on mesoeconomic level

3-7-1. Methods of collecting of the agricultural information and data classification Azerbaijan

Agriculture is one of the most important areas of national economy in Azerbaijan. 1553 thousand people work in the agriculture at present. It contains 17,8% of the population of the country, or 38% of the population working in the economic. But the share of agriculture in gross domestic product is 5.7%. Production funds in agriculture equal to 7.4% of the total production funds of the country. 4756.7 hectares of the total land fund of Azerbaijan are arable lands. It is 54.5% of the territory of the country.

Azerbaijan is rich country for its land resources for European conception. Here 0.55 ha plot of arable lands and 0.21 hectares crop field falls to the share of each person.

Domestic production covers 60-70% of the domestic demand on various kinds of harvest at present. But demand for potato is being fully paid on the account of domestic production and even possible part is exported. Nevertheless, Azerbaijan has negative foreign trade balance on food products.

The results obtained in agricultural production have been put forward as a main goal of the agrarian reforms implemented in the country. To strengthen material and technical base of economically weak and small farms, to increase specific weight of commercial products and productivity, stimulating of production and selling of produced goods is the basic obligation now. The situation requires patronizing of the producers, and protecting them from the influence of the external market.

Support of producers includes also information and advisory support. Classification of advisory and information service has many models. Some of them have been described below:

- Office or department on information and advisory service consisting of local and regional sources is established within the structure of the Ministry of Agriculture.

- Advisory and information service is represented in the base of agricultural schools or colleges, and universities.

- Advisory and information service is established by farm organizations and unions.
- Advisory and information services are established as commercial enterprise.
- Advisory and information service is organized by private owners.

Each of these models has specific advantages and disadvantages. For example, advisory and information service has been established attached to the Ministry of Agriculture in the Switzerland. The department connects educational, advice giving and improving activity of local departments. 50 local departments are included into the structure of the department. Advisers working in the departments are considered state workers. Advisers collect the statistical data, control if the limit of quota on output production is maintained or not, and ecological norms, help preparing of financial and credit documents, give advice on agriculture areas and take part in carrying out the public policy, here advisory and information service is financed 50% by the State Budget and 50% by specialized unions of agriculture. Advisers are elected by interview.

Advisory and information service in England and USA was established on the basis of diversified regional agrarian universities. This time educational-methodical and financial-technical opportunities of high schools are used. Experience and practical level of professor-teacher stuff and scientific workers of laboratories, departments and faculties provides advisory service on a high level to farmers on all spheres of agrarian science and practice. Belief of producers in advisers, specialists neither than in officials influence positively on efficiency of advisory and information service. Prestige of high schools, mutual relations with state structures and agricultural enterprises, commerce and other organizations contributes to influence to forming of agricultural policy. Practically, this model has not got a weak side. Advisory and information service is financed on the account of national and regional budget in the countries it is applied. Some areas of advisory and information service are financed by itself or compensate some part of the expenses at its own charges. The law about composition of advisory and information service was accepted in the USA since 1914. 200 people are working in the central office of agriculture department. All the activities implemented in different states are managed and related with each other by the central office. Basic plans are organized on agricultural production in central office for economic development of

agriculture, development of farmer families, youth program, natural resources, managing of environment and other issues. Concrete programs on advisory and information service are prepared in universities. Professors and teachers of universities are engaged in scientific works, education and other advice giving activities according to private contracts. The relations between Agriculture department and the university are regulated by contracts. Local departments of advisory and information service are governed and coordinated by the existing departments of the universities. Advisory and information service was organized on the basis of agricultural colleges and vocational schools in Germany. It was difficult for teachers to gain respect and trust of their students and local leaders who have great influence. Such a mutual relation increases effectiveness of advisory and information service.

Advisory and information service in Denmark was established on the basis of farmers' organizations and industrial associations. Private advisory service plays an important role in the agricultural development of New Zealand. Advisory and information service is fully financed on the account of budget resource in Belgium and Italy, and is presented to farmers free of charge. In France and Finland advisory and information service is led by farmer organizations and partly financed by state budget. Information service is led by companies and farmer organizations in Netherlands, Australia and Israel. In this case, 50% of service fees are paid on the account of state budget, the other part by agriculture producers. So, different organizational models of advisory and information service for farmers are operating in world practice. Development of each of them is connected with historical traditions, economical situation, state policy and other issues existing in the country.

Collecting and managing the information mostly depends on proper selection of research objects or sources of information, and their classification.

According to the Classification of the kinds of economical activities agriculture, hunting and forestry is divided into 2 sectors, 6 groups and 13 classes.

Composition elements of agriculture, hunting and forestry are comprehensively characterized as follows:

A. Section. Agriculture, the hunting and forestry

01. Rendering services to agriculture, hunting and these spheres:

011. Plant-growing

0111. Cultivating of the agriculture plants which are not included into grain-crops, technical and other groups;

0112. Production outputs like vegetable, decorative gardening and seedling cultivating;

0113. Production of fruit, nuts, plants for production of drinks and spicees ***(cultivating agricultural plants for production of fruit, nut, drink and spice);***

012. Cattle-breeding:

0121. Big horned cattle-breeding;

0122. Feeding of sheep, coat and horses;

0123. Pig-breeding;

0124. Poultry keeping;

0125. Other cattle breeding areas;

013. Plant-growing connected with cattle-breeding:

(Plant-growing connected with cattle-breeding is included to this subclass in condition that level of specializing in this sphere would not be more than 66% of received common harvest)

*014. Services rendered to plant-growing and cattle-breeding (**except veterinary**), planting of greenery:*

015. Bringing up game-birds and hunting, services rendered to these spheres;

02. Forestry and services rendered to areas:

According to the classification of the types of economical activities, agriculture, hunting and forestry are accepted as production sphere in modern international standards. With the purpose to meet the demand of people on food and non food products, and demand of economy on raw materials and stuffs products got from forest fund and land surface are included into the same group.

This is considered main and leading field in the system of economical relations. The development of other activity spheres depends on this sphere.

Areal composition of agriculture is approached in other way when appreciating economical relations traditionally. In economic literature it has to main branches: plant growing and cattle-breeding.

In condition of formation of modern whole world economic system we consider that, research of economic relation and its appreciation must be approached in new way. In other words, in appropriate thematic researches agriculture is divided in five

subbranches: plant-growing, plant growing connected with cattle-breeding (feeding), service to plant-growing and cattle-breeding, hunting and service rendered to these spheres.

The 3rd group of agriculture on international classification mentioned above is called "013. *Plant growing connected with cattle-breeding*".

We think, it is necessary to carry out specifying here. Such case arises in translation and other technical errors. Very likely, here, the case is feeding. Therefore, the appropriate addition in brackets is offered by us. We are completely sure that, it is necessary to carry out corresponding specifying in the classification of the types of economical activities. At the same time, to co-ordinate appropriate sections and subsections of this classification to the classification of product types is advisable.

"014. Additional explanation is needed about the group *"Service (except veterinary services) to plant-growing and cattle-breeding, greenery works"*. Thus, in condition of modern economical relations various services rendered to two main sectors of agriculture is wide spread in world countries. Various types of services like ploughing, sales of goods, obtaining raw materials, etc. are rendered by specialized enterprises. To obtain the development of the sector and product abundance is possible only at the result of organizing such form of agricultural production.

Some other classification types are of vital importance during the process of information preparing. The classification of types of products, The classification of industrial products (PRODCOM), classification of expenses by costs, employment classification, classification of buildings and facilities by its functional appointment, classification of units of measure, classification of world countries, classification of administrative-territorial units, explanation to statistical classifications of products (goods and services), etc. are included into such kind of classifications.

Classification of the kinds of product. Grouping produced goods and rendered services in single principles and accounting them accurately is of great importance for the purpose to provide comparativeness of information characterizing economical-social development of different countries and to establish mutual relations inside national economical system, to systematize and to direct them.

Every subject (unit) of economical relation produces some goods, renders services or consumes them.

Classification of the types of product in the international experience is CPA (The *Classification* of Products by Activity) classification which was set by Statistical Commission of European Economic Community and its application is obligatory for the countries entering this community.

Classification object of CPA is product and services. It provides account of produced and consumed productions, rendered and demanded services.

Like other classification types, CPA resembles a coded and text list set on two main principles.

During classification of information and collecting agricultural information in agricultural sphere the characteristics of goods' production must be taken into consideration. As is known, production of goods has its specific features in agriculture.

Features of output production in plant-growing. Two stages of the process of output production in farming are distinguished from one another: autumn and spring sowings.

In farming harvest gathered from fields is distinguished according to its level of wetness, dump and quality indicators and quantity of produced output is counted by different parameters: amount of products is defined for quality type, in natural weight, in counted weight.

Output production in natural weight shows the weight of harvest gathered from fields. For instance, damp and littery wheat (barley) received from combine harvester, soil potatoes gathered from sowing area, corn-cob maize for crop, crude sunflower, etc.

But counted weight shows the accounted quantity of product depending on percentage of dampness and wetness quantity calculated to product in fresh weight of natural weight.

Depending on quality indicators, calculation of output production characterizes mellow or solid, classes they belong in grain-growing, I-IV sort of harvests in cotton-growing, composition of appropriate productions according to sorts in tobacco-cultivation, potato culture, etc. and other ploughing spheres.

Conception of main and additional product is widely used in cropping. Main product is the product which is used directly for the main purpose, for example wheat, barley, corn, grain are considered main products in grain-growing, their straw, chopped straw, chaff, stem, etc. are considered additional products.

Additional products are used for feed, mattress, etc. in cattle-breeding.

Two features of output production on sowing of fodder crops appear: harvest (fodder) gathered from cropped area of annual fodder crops and perennial fodder crops.

Cropped area of annual fodder crops is the area on which fruitroot and leguminous forage crops are planted every spring of a year and mass of green forage and weight of dry grass gathered from these areas shows its harvest.

But perennial fodder crops are once planted, and then reaped few times a year and for several years. Depending on this, green mass and weight of dry grass reaped at the result of all reaping is considered as harvest of the area.

On vine-growing and fruit growing harvest is gathered from only productive areas, not from all perennial cropped areas. Various fruit trees does not crop in the first year of planting, these areas are considered as productive areas after the second and next years, usually they are considered as productive gardens after 3-15 years.

2 kinds of conception of time are used during the process of evaluation of results of economical activities, organization of production area, directing in plant growing: agricultural year and calendar year.

Agricultural year surrounds the period beginning from autumn ploughing sowing and tillaging for output production in the next year, to the time of gathering of the harvest. Tillaging is done in autumn in order to plant spring plants.

But calendar year surrounds the period from the 1st day of the concrete year till the end of the year (from 1st of January till 31st of December).

Calculation of output production is carried out according to the calendar year.

Features of output production in cattle-breeding. Specific features of output production in cattle-breeding are much more than in plant-growing.

After harvests are gathered from the plant-growing areas, if fits for meeting the stuff demand of industrial spheres, demand of people to foodstuffs, in case of cattle-breeding this principle is not proved.

The first product got in cattle-breeding is to buy cubs. This kind of product assumes vital importance for the development of the sector.

As the newly-born cubs grow, their weight is increasing in a period of time. So increase in the weight of newly-born and young livestock is considered to be the second

kind of output production. This harvest is important for the development of cattle-breeding.

Livestock is sold or cut only after reaching the definite age. Live weight of the cattle sold and cut for definite purposes is considered the last product and meets the demand of consumer (they are sold as marketable produce, or cut for meeting the demand of the consumer).

Sold milk, shorn wool, received egg is included into other kinds of main product got from poultry and livestock in cattle-breeding.

Products of the bee-keeping are honey, bee wax, swarms of bees.

Product of the silkworm breeding is valued with quantity (weight) of brought cocoon.

Additional products of cattle-breeding are manure and other wastes which are considered to fit for energy production, used as fuel material, and organic fertilizer.

Quantity of producing cattle-breeding products is counted according to the calendar year.

Output of unfinished product in agriculture. Conception of "Unfinished product" assumes vital importance in agriculture. So, first of all, tillage is carried out in autumn for next year and autumn sowings are done. Expenses are spent for carrying out these works in the autumn of the current year for the production of the harvest of the next year.

Secondly, expenses are spent in more than two years with the purpose to make young gardens for fruit growing, cultivate them till they yield fruits, and to look after them.

But in cattle-breeding definite expenses are spent with the purpose to look after young live-stock till marketable produce is received and it is included into the group of productive live-stock.

Such features of the production process characterize the essence of the unfinished production in agricultural production. Though expenses are spent to unfinished production in definite calendar year, instead of that, product is received only in the next year (years).

According to this feature, to count expenses of unfinished production correctly assumes special importance in order to evaluate efficiency of production, and economical efficiency, to output production, and to define expenses spent on it.

Expenses of the unfinished production are counted at the beginning of every calendar year.

While counting both cost of production and expenses spent on production the difference between the cost of unfinished production accounted for the beginning and the end of the year is taken into consideration.

To base on classification on the international standards while looking through features of output production is one of the urgent problems of modern economical relations.

According to the classification of product kinds used in member countries of the European Union classification of products of forestry, hunting and agriculture is given corresponding to the composition elements of forestry, hunting and agriculture mentioned above.

All producers of agriculture can be divided into three groups: producers of plant-growing, cattle-breeding products and feeding agriculture. Meanwhile, mixed agricultures can be included into one of these three groups correspondingly, according to special weight of produced output.

In this case, at the result of carrying out corresponding adapts in the classification of kinds of product to prepare information on areas, sections, groups and classes characterizing quantity and cost of produced product becomes possible.

It must be noted therewith that, the product of cattle-breeding is defined not only based on its marketable feature, for principles of production-technology as well. Until newly born cubs and incubation chickens are sold or pass to the group of productive live-stock, their weight growth is considered as product in cattle-breeding, taking into account such products is important while evaluating production relations, studying economical efficiency issues.

To our mind, while classification of products on the group of "*012. Live-stock and cattle breeding products*" increasing the indicators like following can be considered advisable.

Bring up livestock and bird in live weight, altogether

Including:

- *Live weight of the newly-borns;*
- *Weight growth of the young;*
- *Weight of live-stock and birds which are sold alive*
- *Live weight of birds, livestock cut in the agriculture and presented*
- *Live weight of stolen, died, lost livestock and birds*

To include "*Live weight of stolen, died, lost livestock and birds"* into the production indicators can seem strange to some readers. In this connection, it must be noted that, every owner spends money with the purpose of output production. As agricultural activities has not been set up properly, zoo-technical demands are not obeyed, etc. such losses were inevitable. Definite part of the spent expenses falls on the share of died, lost, stolen livestock and birds. Thus, such cases should be taken into consideration in economical calculations about production indicators and expenses, while studying efficiency issues.

Investigations and observations conducted by us provide basis to say that, it is expedient to divide scope of the economical investigations into three stages in modern time. We include microeconomic, mesoeconomic and macroeconomic approach forms to these stages.

We are in solidarity with researchers about microeconomic approach. It is known that, the smallest element of the research object of the economical relations is *individual, family, household, establishment, and firms.* Namely in this level microeconomic researches renders the most correct and substantial information about existence of products and services, about their production, import, export and consumption, about the results (cost, value, expenses, income, collection) of their economic-statistic calculation, numerous common and specific (private) features are found out, objective laws are studied, etc. Microeconomic researches are diversified and many-branched. In the primary stage of the system of economical relations implementing of organizational and management principles is important method. Without microeconomic researches, without getting its information it is impossible to carry out macroeconomic generalization. Microeconomic researches are considered as a composition part of macroeconomic researches.

Meanwhile, to get macroeconomic results without generalization, grouping, and systematizing according to definite principles is difficult or impossible. Here another method is needed. It is characterized by mesoeconomic approach method. ***"Mezos"*** means middle from Greek and mesoeconomic characterizes mid-level researches between micro and macroeconomic researches.

Duties of ***mesoeconomic*** researches are to prepare information by settlements, economic and administrative regions, production associations, classes, groups, subsections, and sections of economic system, definite socioeconomic groups (rural and urban, woman and man, population groups at able-bodied age, below able-bodied age and above able-bodied age, number of family members, etc.), to generalize them, to analysis, and to study its development regularities.

Mesoeconomic research is a method of studying rather common signs of circumstances and events according to definite principles. Mesoeconomic researches condition the necessity of coordinating the results of microeconomic researches with macroeconomic researches not directly, but by means of mesoeconomic researches.

As a result of mesoeconomic researches perfect information is obtained about different territories of the country, production areas, features and situation of relations among socioeconomic groups, development inclinations are defined, existing undesirable cases are revealed, and measures are taken to remove them and so on.

Mesoeconomic researches facilitate macroeconomic researches, and provide to obtain correct results and carry out efficient measures.

Macroeconomic research is a form of economical approach directed to studying agricultural system of the country, regions and the world entirely.

At the result of macroeconomic researches level of socio-economic development of different countries is evaluated for its most general features, their comparison is provided, development inclinations are defined and definite measures are taken.

Macroeconomic researches are a means of connecting every country to the whole world economy system. Its research object is to prepare classifications appropriate to international standards and the most general indicators according to methodology.

Researchers include the following features to the most general and important principles of forming of any information system in the modern stage: substantiality

(integrity); thematicality; grouping according to space and time; conception (indicator) that it expresses, identity and community of classification and methods; being means of succession and adaption; topicality; correctness; objectivity; neutrality. Mentioned principles are criterion and quality signs of information.

It is known that, philosophy uses law and category and conceptions while studying research object and carrying out its duties. During economic researches those category and conceptions works as indicators. Economical-statistical evaluation of research object is carried out by means of indicators.

Primary information characterizing the results of economical relations is formed in the subjects (individual, family, agriculture and firms) that produce output and render services, and their consumers as well. Observations are carried out in this stage. Primary calculation information is prepared.

Usually book-keeping is set up for juridical persons. Book-keeping is a permanent and continuous observing form of existing economical relations on formal and definite principles. Book-keeping is not usually set up for physical persons. As a result of conducted timings, from time to time on specific programs necessary and primary information is obtained through oral interviews, with methods of measurement and weight.

Persons preparing information are classified in this way: juridical persons engaged in economic activities; counter-experts involved in one-time requests; state and non-governmental organizations preparing information (information associations of committees, statistics, finance, tax authorities, unions, fields, ministry, social organizations, social research centers, scientific-research organizations, and researchers).

Each of used numerous indicators do not operate separately, but in a unique system that is in mutual relation with each other according to definite principles.

Researchers offer the most general principles of system of unique indicators being used as follows:

- Micro and macro indicators;
- Natural and cost indicators;
- Individual (specific) and general indicators;
- extensive and intensive indicators;

Plan indicators, statistical counting indicators, finance counting indicators and operative counting indicators differ from each other according to assignment of using.

According to research stages it is divided into microeconomic, mesoeconomic and macroeconomic indicators.

Specific (individual) indicators system of agrarian sector is established according to classification of products and classification of kinds of activities that are offered by international organizations.

Unlike traditional approaches, according to kinds of activities 4 spheres of agrarian production are defined: plant-growing; cattle-breeding; forage and service sphere.

We consider that, while carrying out duties researchers should operate according to classification offered by international organizations for formation of counting and calculation, but not according to two spheres of agriculture.

Depending on output production on every sphere and areal approach to agriculture, its system of indicators is defined.

Grouping according to criterions like setting up the system of indicators, property forms of units of economic relations in creation of relations between sections, subsections, groups and classes, production volume (small, middle and large-scale), area of situation, organizational-legal forms, specialization level, research levels and so on.

Indicators system of agriculture is compiled so that, by means of microeconomic, mesoeconomic and macroeconomic researches conducted according to included indicators, to obtain complete and qualitative information about existing situation of the sector, and to define correct agrarian politics concerning its development and to implement them could be possible.

Example of indicators system of agricultural production is given in Table 1. As seen from the table, indicators system characterizing agricultural production is very extensive, comprehensive and composite. To carry out innersector management, to establish intersector relations, to establish agrarian policy, to define development directions, to carry out scientific researches by means of such system is possible.

Table 1

General scheme of indicators system on agricultural spheres

Name of the indicator	Type of the indicator	Spheres of agriculture *			
		1	2	3	4
Indicators characterizing financial-technical reserve					
Number of individuals (units) engaged in economical activities	Absolute, natural	+	+	+	+
Existing of land and its usage (by quantity and quality indicators and forms of property)	Absolute, natural	+	+	+	
Production powers, circulation funds, value of main funds (main production funds) its movement, etching and residue	Absolute, natural	+	+	+	+
Existence of equipment (depending on types)	*Absolute, natural*	+	+	+	+
Existing of electrification, mechanization and automation facilities	Absolute, natural	+	+	+	+
Existing of productive live-stock and birds and its movement (by kinds)	Absolute, natural relative		+		
Existing of young live-stock and birds, and its movement (by types)	Absolute, natural relative		+		
Manpower and indicators characterizing its usage:					
Number, gender, age, and occupational composition of workers	Absolute, natural	+	+	+	+
Number of involved hired workers, their age, gender and occupational composition	Absolute, natural	+	+	+	+
Working time (manpower) and its usage	Absolute, natural relative	+	+	+	+
Salary of involved hired workers (I_s)	absolute, value, relative	+	+	+	+
Income of owner, shareholders (O_i.)	absolute, cost, relative	+	+	+	+
Indicators characterizing situation of productions:					
Product resources (spinster) - by kind, sort and quality parameters)	Absolute, natural, cost	+	+	+	
Output production(by kind, sort and quality parameters)	Absolute, natural, cost	+	+	+	

3-7-2. Creation of the test informational base for organizing and working of the informational and monitoring system for the farms, analysis and evaluation of the materials

Macroeconomic indicators in the agriculture and the features of their calculation. The aim of complex economic-geographical research of the agricultural production stems from objective to make connected research of all sections of the sphere, learn its equilibrium position, define feature of development and provide effective development of its.

Analysis of each section may be made mainly on physical indicators and some times value indicators are used. But it is not advisable to use physical indicators for complex analysis. Variety of technology, kind, assortment, etc. doesn't give opportunity to sum products of all areas and come to a common conclusion. In other words grain, cotton, tobacco, vegetable, milk, egg, wool is not got together.

Generalized indicators are expressed by value quantity. Products of all areas on these indicators are summarized, relative comparison indicators, compound indicators by sectors, products, regions, etc. are calculated and on the their basis analysis is made.

There are 3 most general indicators used in complex analysis of agriculture and its areas: total value of output, intermediate consumption expenditures and new generated (added) value.

Total value of output (V). Total value of output is formed from value of different main and additional products. In many cases its also named "total product" or "total value of product".

According to classic economic theory value is created by labour and appears at the market. This theory considered as axiom of economic knowledge system functions also in modern economic relation system. Or value is generated as a result of production, by labour, formed through notion of "price" that arise as a result of transaction between producer and consumer. In other words in production sphere total value of product is calculated as a product of physical volume of output and selling prices. Selling price used in calculations named producer price. As usual average selling price over a period is calculated and by multiplying by physical volume of output total value of product is defined.

Intermediate consumption expenditures (I_e). As in other economic areas in agriculture also for production of any product raw material and materials are used. Raw material and materials are the result of the past production, product and cost of the past labor. Directly participate in the generation of new product and immediately, directly

transfer herself cost to new product. In other words value generated in previous production process is also embodied in value of produced product. This value is the cost consumed during the production of new product. Final consumption is the cost of raw material and materials used (consumed) in the stage of reproduction. It is a cross-sectoral consumption and named intermediate consumption expenditures.

Intermediate consumption expenditures are defined on the base of purchase price of raw material and materials production areas have bought. This price in many times is called consumer price.

Intermediate consumption expenditures are calculated as the product of physical volume (quantity) of raw material and materials used in the production process and their consumer price. Depreciation of fixed assets and wage paid to employers is not included in intermediate consumption expenditures.

New generated (added) value (N_v). New value generated in current production process is the value of the living labor. When calculating it intermediate consumption expenditures (cost of previous labor, materialized cost) are deducted from the value of output (total value). Or the following formula is used:

$$Y_d = D\text{-}A_x \qquad (1),$$

New generated (added) value is used in calculation of nation-wide indicators such as GDP (Gross Domestic Product) and national income. In many times three difference indicators presented there are identified. But their meaning is not the same, they are different indicators used for various aims.

New generated (added) value is the most important indicator used for evaluation of final result of production, analysis of economic areas.

GDP is a sum of new generated (added) value of economic areas, it includes taxes on products and imports, and subsidies (aids) on products and imports are deducted from it.

GDP is most aggregate indicator characterizing the level of production, power, facilities, development tendency of national economy. GDP includes also the results of economic activity of foreign countries' citizens in the Azerbaijan.

National income is calculated according to GDP. The results of economic activity of foreign countries' citizens in the Azerbaijan are not included in this indicator, but

results of economic activity of Azerbaijan citizens in the foreign countries are included in this indicator. National income is most aggregate indicator characterizing the change of standard of life and wealth of the nation.

Value indicators defining the effectiveness level are also included in most general indicators characterizing agriculture production. Defining of the production effectiveness is considered to be one of the main objective of complex analysis.

Total product, marketable produce in the agriculture and the importance of their calculation. Saying total product it is meant the value of output in all areas of economy, including agriculture.

The value of output is defined in the base of two factors: quantity of products (q) and producer (selling) price:

$$v = qp \qquad (2),$$

v is value of various products.

Total value of output is calculated:

$V = Q*p$ = (30989*545.7)/1000=16911 million manat.

For calculation of the share of marketable produce by wheat production (table 2) the following formula have been used:

$I_{x.ç}$ =q/Q=(13161/30989) *100 = 0.425 * 100 = 42.5%.

According to the average annual prices by questioned farms the value of output by country, regions and sort of agriculture products is calculated (The value, volume and selling prices of goods in process haven't been included in calculation) (table 2 and 3).

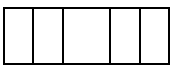


Table 2 ***Calculation of value of wheat production by the questioned farms by Azerbaijan regions in 2009***

	Production, ton (Q)	Sale			Value of output (V), thous. manat	The share of marketable produce, %
		Ton (q)	Income from sale, without VAT and excises , thous.	P, manat/kg (p)		
Absheron	130	71	8.2	0.11	14.3	54.9
Ganja-Gazakh	3493	1446	170.9	0.12	419.2	41.1
Sheki-Zagatala	4344	1929	178.6	0.09	390.9	44.4
Lankaran	1126	247	26.8	0.11	123.9	21.9
Guba-Khachmaz	3667	1749	213.0	0.12	440.0	47.7
Aran	11921	5233	578.8	0.11	1311.3	43.9
Yuxari-Garabagh	1993	837	79.2	0.09	179.4	42.0
Kelbajar-Lachin	361	112	11.7	0.10	36.1	31.1
Mountain Shirvan	2615	758	80.7	0.11	287.7	29.0
Nakhchivan	1339	778	89.5	0.12	160.7	58.1
Azerbaijcan	30989	13161	1436.5	0.11	3408.8	42.5

Source: SSC (34) and our calculations

Table 3 ***Output value of the main sort of agriculture products by the Azerbaijan regions in 2008, thous. manat***

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kelbajar-Lachin	Mountain Shirvan	Nakhchivan	Azerbaijcan
Grain-total	320	25300	26560	19080	16760	78100	8380	220	17940	7240	199900
Potatoes	80	75040	4240	22480	5700	6100	960	-	1700	3540	119840
Vegetable	1240	14880	6120	24200	13940	15240	2580	-	1680	75407	87420
Garden crops	120	1300	1040	1480	240	12920	120	-	320	4160	21700
Cotton	-	920	-	-	-	16440	820	-	160	-	18340
Tabacco	-	20	4780	80	-	20	-	-	-	20	4920
Fruit	500	11840	13220	6040	16660	17820	1060	-	1860	4780	73780
Grapes	340	1960	380	160	780	2280	240	-	1480	1940	9560
Tea leaves	-	-	-	260	-	-	-	-	-	-	260
Grass and straw	200	5480	2920	2460	1660	17820	1400	60	3060	2960	28320
Plant-growing products	***2800***	***136700***	***59260***	***766640***	***55840***	***166740***	***15400***	***280***	***28200***	***32180***	***574040***
Meat	602	44840	36500	37380	24340	120120	13120	4660	30760	13720	331460
Milk	394	27220	26040	26120	20020	79220	6760	2640	12140	11920	216020
Eggs	408	4380	3700	4060	3140	1040	1260	300	1400	2840	34160
Wool	340	2540	1280	860	1000	3860	600	360	1100	700	12640
Livestock products	***14380***	***15796000***	***67040***	***68420***	***47500***	***213600***	***31740***	***7960***	***45400***	***29180***	***594280***
Total agriculture products	***17180***	***215680***	***126380***	***145060***	***13340***	***380340***	***37140***	***8240***	***73600***	***61360***	***1168320***

Source: SSC (34) and our calculations

In compliance with the same methodology the value of output by services sectors is calculated.

So, absolute information about output in agriculture by sectors is prepared. Its exemplary scheme likes that:

I. *Value of Plant-growing products:*

I.1. value of the main products;

I.2. value of addition (subsidiary) products;

I.3. value of goods in process.

II. *Value of livestock products*

II.1. value of the main products;

II.2. value of addition (subsidiary) products;

II.3. value of goods in process.

III. *Value of feed output:*

III.1. value of the main products;

III.2. value of goods in process.

IV. *Value of services of services sectors*

Value of output in agriculture (I+II+III+IV)

value of the main products (I.1.+II.1.+III.1.+IV);

value of addition (subsidiary) products (I.2.+II.2.)

value of goods in process (I.3.+II.3.+III.2.).

Saying goods in process in plant-growing, livestock and feed it is meant uncompleted production expenditure.

Autumn sowing expenditure in plant-growing, young parennial sowings expenditures that don't yield fruit are expenditures on goods in process.

Young cattle expenditures in cattle-breeding form volume of goods in process.

Sowing of parennial fodder crops expenditures in feed farms reflect value of goods in process.

Economic evaluation of the result of uncompleted production is very complex. So, total uncompleted production expenditure on the beginning of each year is calculated. Difference between uncompleted production expenditure at the beginning of previous and last year is conditionally considered as the value of uncompleted production for certain year. Negative or positive is observed as remainder.

Intermediate consumption expenditures and its elements. Intermediate consumption expenditures reflect production expeditures. There is difference between raw materials and matirials used in the production of goods. For example, in grain farming seeds are used, in fruit-growing – planting materials, in vegetable-growing – sowing materials, in cattle-breeding feed is more used, etc.

To calculate intermediate consumption expenditures the quantity of every raw material and materials used in production is defined.

Then purchase (consumer) prices of these raw material and materials in consumer market are found. Consumer prices are calculated in concordance with the following rule:

a. Quantity of bought raw materials (kg, piece, etc.);
b. Money paid for these raw materials (without VAT and excise, including transport- carrying charges), manat;
c. Consumer price (2/1), manat/kg (piece).

Not all money paid for raw material and materials, only cost of raw material and materials used in goods production concerns production cost and included in consumption expenditure.

Calculation of material cost by example of wheat likes the following:

Calculation of seed cost in the production of wheat

1. *seed wheat have been bought, 10 centners;*
2. *money paid for seed wheat, VAT and excise is not included, transport-carrying charges are included, 146 manat;*
3. *purchase (consumer) price of the seed wheat, 146 manat/kg;*
4. *sowed wheat at sowing areas 9 centners;*
5. *seed cost on wheat sowing, 9*100*146=131.4 thous. manat.*

In this rule other materials and other wheat production costs (ploughing, sowing, swarming, fertilization, chemical control measures, harvest, carrying, etc.) are calculated. So, total production costs are found.

The findings characterize production cost by questioned producers. It does not concern directly other farms and so, calculation of relative, average magnitude is required (total 1 kg wheat production cost is calculated). Calculation by selected farms likes the following:

- total wheat production cost, 1402.1 thous. manat;
- quantity of produced wheat, 320413 centners;
- 1 kg wheat production cost, 0.04 manat/kg [(1402.1*10)]/320413.

It is possible according to the relative, average magnitude (1 kg wheat production cost) found as a result of calculation to calculate by questioned farms the

wheat production cost (intermediate production cost) by country, administrative and economic regions (table 4).

Table 4

Intermediate wheat production cost in 2009 by Azerbaijan regions, thous. manat

	Output, ton (Q)	Total 1 kg wheat production cost by questioned farms, overage, manat/kg (c)	Total intermediate wheat production cost by the country and regions, thous. manat (Q*c)
Absheron	1420	0.05	71
Ganja-Gazakh	156947	0.04	6277.9
Sheki-Zagatala	175434	0.05	8771.7
Lankaran	144529	0.06	8671.7
Guba-Khachmaz	118473	0.05	5923.6
Aran	654539	0.04	26181.6
Yuxari-Garabagh	83744	0.04	3349.8
Kelbajar-Lachin	1885	0.05	94.2
Mountain Shirvan	123385	0.05	6169.2
Nakhchivan	33385	0.05	1669.2
Azerbaijcan	1493741	0.04	59749.6

Source: SSC (34) and our calculations

After such calculations by every sort of products it is possible to find intermediate consumption expenditure by various products, areas, clusters and in whole agriculture. In the table 5 the intermediate consumption expenditure by livestock cluster is given. Studying of the structure of intermediate consumption expenditure allows to define importance of cost in the structure of production cost.

Table 5

Intermediate consumption expenditure by livestock cluster in 2009, thsnd. manat

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbajar-Lachin	Mountain Şhirvan	Nakhchivan	Azerbaijan
Livestock cluster products	***2960***	***38520***	***31740***	***30720***	***24360***	***102880***	***9980***	***3920***	***23240***	***12820***	***285140***
Meat	3500	25520	21720	20220	1480	71520	6980	2860	17300	7320	191420
Milk	1640	10440	8440	8300	8480	24860	2220	760	4600	3980	73760
Eggs	1640	1380	980	1860	820	4380	480	120	700	1180	1340
Wool	180	1180	560	340	580	2120	300	180	640	340	6420

Source: SSC (34) and our calculations

Calculation of intermediate consumption expenditure is used in the calculation of materials output ratio, new generated (added) value and other economic indicators.

Materials output ratio is the material cost on per unit output production. Materials output ratio is calculated by total production cost, current material cost (without depreciation of fixed assets) or various sort of material resources (fuel, energy, metal, etc.). Materials output ratio being calculated by material resources it is used information in value and physical term.

Material costs in agriculture cover material resources cost and production work (services) cost. Material costs of the agriculture output production and sales include seed and sowing materials; feed, including feed produced in industry, other agriculture products (manure, mattress materials, egg for incubation); mineral fertilizer; oil products; electricity; fuel; repair parts; repair and construction materials; decontamination and medicine preparations; expenditure on work and services of outside organizations (transportations, improvement and enrichment of land and other agrarian-chemical works, repair of techniques, zootechniques and zoobayts, etc.).

Carrying out complex analysis it is aroused interest for studying the structure of intermediate consumption expenditure on output production. It is very important also

for analysis of livestock cluster. Such information usually is defined by selected farms on the base of survey and calculations and is expressed in relative and average term. In table 6 the structure of the production cost of meat in live weight is presented.

Table 6

Structure of the production cost of meat in live weight in 2009 in questioned farms by economic- geographical regions, % to total cost

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbəjar-Lachin	Mountain Şirvan	Nakhchivan	Azerbaijan
Value of feed	87.4	85.0	84.1	89.5	87.3	89.1	91.0	95.0	94.7	95.2	90.0
Value of the other agriculture products	0.0	0.1	0.0	0.2	0.0	0.5	1.3	0.0	0.2	0.0	0.1
Value of the oil products	1.2	0.7	2.3	1.3	0.3	0.3	0.0	0.0	0.0	0.0	0.6
Value of fuel	0.0	1.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Value of electricity	0.9	1.0	3.8	0.3	0.7	0.2	0.0	0.0	0.0	0.2	0.7
Value of the services of outside organizations and persons	0.7	4.8	0.6	2.1	4.8	2.9	2.6	0.0	1.5	0.6	1.9
Value of the post and communication services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Value of the banking services	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Value of the medicinal and disinfection preparations for cattle-breeding	9.7	5.4	6.5	4.5	4.5	3.6	5.0	4.9	3.4	3.1	4.9
Value of the repair parts for the repair of the machinery and equipment	0.0	1.2	0.9	0.1	0.0	1.8	0.0	0.0	0.0	0.1	0.5
Value of the low priced working wears and cloths	0.1	0.5	0.6	0.6	0.1	1.2	0.0	0.0	0.1	0.6	0.5
Value of other costs	0.1	0.2	1.2	1.3	2.4	0.3	0.0	0.0	0.1	0.1	0.7

Source: SSC (34) and our calculations

By analyzing absolute and relative indicators of the intermediate consumption expenditure in time series, in mutual relation by regions and component element the valuable results are received.

New generated (added) value, economic approaches of its division and using. New generated (added) value is most general indicator characterizing the effectiveness of the modern economic relations (table 7).

New generated (added) value characterizes the generated value in production process (in economic year). Two factors play more much role in its generation: living labour (labor force) and capital (investment).

Table 7

New generated (added) value by livestock cluster products in 2009, thous. manat

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbajar-Lachin	Mountain Şhirvan	Nakhchivan	Azerbaijan
Livestock cluster products	**7420**	**40460**	**35380**	**37700**	**23140**	**11720**	**11760**	**4040**	**22160**	**16320**	**309140**
Meat	2520	19320	14780	17160	9860	48600	6140	1800	13460	6400	140040
Milk	2300	16780	17560	17820	11540	54360	4540	1880	7540	7940	142260
Eggs	2440	3000	2320	2200	1320	6020	780	180	700	1660	20620
Wool	160	1360	720	520	420	1740	300	180	460	360	6220

Source: SSC (34) and our calculations

It isn't possible to analyse on the base of absolute quantity. So, they are used for the calculations of relative quantities. Most significance relative quantity are the following:

- *dynamics relative quantities.* Information of time series is compared. Tendency and objective laws of the changes of absolute and relative quantities of new generated

(added) value by every sort of product and region are defined, analysed and definite conclusion is come.

- *compound relative quantities.* By the use of these indicators the share of new generated (added) value in produced value (in total output); share of the different sort of the product in new generated (added) value; share of different regions in new generated (added) value produced in country is calculated (their role are defined) ant etc. component elements are studied. Compound relative quantities are also used in the learning of domestic component elements of the regions;
- *Comparative relative quantities*. These indicators allow to evaluate cost-output ratio, productivity and etc. economic results. Ratio of the new generated (added) value to intermediate consumption expenditures allows to define the change of the level of the new generated (added) value for the per unit conditional cost (1, 100, 1000 manat). Received results characterize change tendency of the productivity by various production sectors and regions. Cost-output ratio indicator contrary to previous method characterizes the change tendency of the actual cost level for per unit new generated (added) value and is calculated as the ratio of the intermediate consumption expenditures to new generated (added) value. During economig-geographic research most significant comparison includes indicators used to study change peculiarities of ratio of relative quantities to relatively new for the corresponding regions value (added) generated;
- By the use of *the average relative quantities* average absolute quantity of the new generated (added) value by 1 producer, 1 employer, per capita and etc. conditional units are characterized. Relative comparison on the base of average relative quantities creates conditions for getting more accurate results.

Table 8 **Share of the new generated (added) value by livestock cluster products in 2009, % to total output**

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbajar-Lachin	Mountain Şirvan	Nakhchivan	Azerbaijan
Livestock cluster products	51.6	51.2	52.7	55.1	48.7	51.8	54.1	50.8	48.8	56.1	52.0
Meat	41.9	43.1	40.5	45.9	40.5	40.5	46.8	38.6	43.8	46.6	42.2
Milk	58.4	61.6	67.4	68.2	57.6	68.6	67.2	71.2	62.1	66.6	65.9
Eggs	59.8	68.5	70.3	54.2	61.7	57.9	61.9	60.0	50.0	58.5	60.4
Wool	47.1	53.5	56.3	60.5	42.0	45.1	50.0	50.0	41.8	51.4	49.2

Source: SSC (34) and our calculations

Information about regional and sectoral structure of the new generated (added) value by livestock cluster also is very important (table 9 and 10).

Table 9

Sectoral structure of the new generated (added) value in the livestock cluster in 2009, % to the new generated (added) value by the agriculture

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbajar-Lachin	Mountain Şirvan	Nakhchivan	Azerbaijan
Livestock cluster products	80.0	33.3	49.2	43.3	42.6	54.1	61.1	97.1	61.9	44.9	48.0
Meat	27.2	15.9	20.6	19.7	18.1	23.7	31.9	43.3	37.6	17.6	21.7
Milk	24.8	13.8	24.4	20.5	21.2	26.5	23.6	45.2	21.1	21.8	22.1
Eggs	26.3	2.5	3.2	2.5	2.4	2.9	4.1	4.3	2.0	4.6	3.2
Wool	1.7	1.1	1.0	0.6	0.8	0.8	1.6	4.3	1.3	1.0	1.0

Source: SSC (34) and our calculations

Table 10 ***Regional structure of the new generated (added) value in the livestock cluster products in Azerbaijan in 2009, % to the new generated (added) value by the country***

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Quba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbajar-Lachin	Mountain Şhirvan	Nakhchivan	Azerbaijan
Livestock products	2.4	13.1	11.4	12.2	7.5	35.8	3.8	1.3	7.2	5.3	100.0

Source: SSC (34) and our calculations

Producer (entrepreneur) carries out finance obligations from the new generated (added) value:

- *pay taxes.* Repayment of tax is regulated by legislation and is considered mandatory payment;
- *repay credit and loan debts;*
- *pay off interests on credits and loans;*
- *pay interests on economic sanctions;*
- *pay wages to employers;*
- *carry out insurance payout.* There are compulsory and voluntary insurance obligations. Compulsory insurance obligations are derived from the legislative act. Voluntary insurance obligations are created subject to the entrepreneur's wish. There are mainly three forms of the insurance payout: social insurance; medical insurance; property and product insurance;
- *carry out deprecation cost.* To buy (create) new technique and technology entrepreneur collects one part of the new generated value in special account and doesn't use for other goals;
- *pay production management cost.*

After deduction of payments and charges by finance debts from the new generated (added) value, value at entrepreneur's (producer's) disposal (net profit) is created.

Net profit remain at producer's (entrepreneur's or entrepreneurs') disposal, they are free in using it. It is used for creation and improvement of life; are directed to organization of extended reproduction; are used for charity; are directed to saving (by deposit in banks, giving loan, and etc.).

3-7-3. Effectiveness in agriculture and its computation method

Effectiveness is notion used for evaluation of the final result of any activity. Effectiveness is the result of the achieving of aim. Effectiveness is the criterion used for evaluation of the achieving of the aim. Effectiveness is such elastic (changeable) econimic nition that it may be used as an criterion evaluating results on the solution of different task.

There are some kinds of effectiveness general used: economic, social, public and private effectiveness.

Economic effectiveness is defined in the result of the production process. Saying about economic effectiveness, economists as a rule characterize its as the ration of got result to costs.

Economic effectiveness is the general result formed under the influence of the results of many effective activities. Its level are affected by effective using of present reserves, effective using of the produced output, availability of the favorable market relations, feature of the change of the producer and consumer prices, quality of the production and other factors.

To characterize effectiveness of the production process in agriculture the following forms of its are used:

a- effectiveness of the using of the land;
b- effectiveness of the using of the labor (labor force);
c- effectiveness of the using of the capital;
d- general economic effectiveness, and etc.

Effectiveness of the using of the land is characterized by the following indicators:

a. value of output per conditional unit (1, 10, 100 ha) or new generated (added) value;
b. amount of costs per conditional unit;

c. quantity of product gathered from each ha.

When rising of the level of the first and third indicator, effectiveness of the using of the land increases too, but uptrend of the second indicator vice versa decreases the effectiveness.

Effectiveness of the using of the labor (labor force) is characterized by the following indicators:

a. amount of the new generated value per employer;

b. quantity of labor per unit of the product (people-hour).

Uptrend of the first indicator positively influence on effectiveness and increases its level. Rising of the second indicator is in inverse proportion with the rising of the effectiveness. Or when rising of the number of the people-days per unit of the product, effectiveness decreases.

Effectiveness of the using of the capital is defined on the base of the following indicators:

a. fund of returning (value of total production per 100 manat of fixed production asset);

b. productivity indicators in cattle-breeding (yield of milk from each head of mother, rise of weight, and breeding (meat production) per head of mother), child-bearing per 100 head of mother, shearing of the wool per sheep, egg per hen, and etc.);

c. productivity (new generated (added) value per 1, 10, 100 manat of intermediate consumption expenditure) (see table 12);

d. cost ratio (intermediate consumption expenditure per 1, 10, 100 manat of new generated (added) value) (see table 13).

Uptrend of the first three indicators increases effectiveness, but when rising of fourth indicator effectiveness falls down. Third and fourth indicators are opposite to each other.

General economic effectiveness charecterizes final result, is created under the influence of the indicators showen above and is calculated in accordance with the following formula:

$$E_{ef} = N_v / I_c * 100 \qquad (3),$$

N_v is new generated value, I_c is intermediate consumption expenditures.

In literature it is proposed to calculate effectiveness as the ratio of value of sold production to production cost (6, 262). It seems to us that such approach doesn't fully reflect reality.

Firstly, income from the sale (value of sold production) in general may be compared not with production cost, but only with the production cost of sold output. This method may be considered correct only for marketable large producers.

Secondly, under condition of modern economic relation entrepreneur uses large part of produced output for various intraeconomic aims, swaps by the commodity exchange and uses for other aims. In this circumstance the ratio of the value of sold product to production cost doesn't allow to come to a correct conclusion, effectiveness indicator fall down and some times false result of unprofitability arises.

At last if one speak about effectiveness of sold product, it is possible to agree with colleague's proposal. But statement of problem is the production effectiveness.

Result of production is considered effective if received against cost (intermediate consumption expenditure) value, new generated (added) value allows fulfill finance obligation and entrepreneur gain spare money balances (net disposable income). It is naturally that entrepreneur to fulfill production functions and obligations, achieve an object, gain net profit must have modern production culture and effectively use produced output.

Table 11

Productivity of the new generated (added) value in the production of livestock cluster by Azerbaijan regions in 2009, per 100 manat of intermediate consumption expediture

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbajar-Lachin	Mountain Şirvan	Nakhchivan	Azerbaijan
Meat	72.0	75.7	68.0	84.9	68.1	68.0	88.0	62.9	77.8	87.4	73.2
Milk	140.2	160.7	207.1	214,7	136.1	218.7	204.5	247.4	163.9	199.5	192.9
Eggs	148.8	217.4	236.7	118.3	161.0	137.4	16	150.0	100.0	140.7	152.3
Wool	88.9	115.3	128.6	152.9	72.4	82.1	100.0	100.0	71.9	105.9	96.9
Livestock cluster products	106.6	105.0	111.5	122.7	95.0	107.6	117.8	103.1	95.4	127.6	108.4
Total agriculture products	117.5	129.0	131.7	149.9	111.1	116.6	107.5	102.0	94.6	146.2	123.0

Source: SSC (34) and our calculations

Effectiveness level by regions of the country and sorts of livestock product in the aspect of cost-output ratio is characterized by the information of the table 13.

Table 12

Cost ratio of the new generated (added) value by livestock cluster products by Azerbaijan regions in 2008, intermediate consumption expediture per 100 manat of new generated (added) value, manat

	Absheron	Ganja-Gazakh	Sheki-Zagatala	Lankaran	Guba-Khachmaz	Aran	Yuxari-Garabagh	Kəlbajar-Lachin	Mountain Şirvan	Nakhchivan	Azerbaijan
Meat	138.9	132.1	147.0	117.8	146.9	147.2	113.7	158.9	128.9	114.4	136.7
Milk	71.3	62.2	48.3	46.6	73.5	45.7	48.9	40.9	61.0	50.1	51.8
Eggs	67.2	46.0	42.2	84.5	62.1	72.8	61.5	66.7	100.0	71.1	65.7
Wool	112.5	86.8	77.8	65.4	138.1	121.8	100.0	100.0	139.1	94.4	103.2
Livestock cluster products	93.8	95.2	89.7	81.5	105.3	92.9	84.9	97.0	104.9	78.4	92.2
Total agriculture products	85.1	77.5	75.9	66.7	90.0	85.7	93.0	98.1	105.7	68.4	81.3

Source: SSC (34) and our calculations

It is naturally that in that last table passiv tendencies are characterized by larger figures, and activ tendencies – by low figures.

Effectiveness carries relative character and is approached from the point of view of certain aims. In all circumstance studying economic effectiveness, connection with finance results is preferred, or is connected with price (value). For example, to learn effectiveness of the using of the sowing areas, value of harvest and according to the cost appropriate calculation is carried out. Let's complete our thought by defining the effectiveness of the wheat sowing.

Table 13

Calculation of the effectiveness of the wheat sowing in 2009 by questioned farms in Azerbaijan

	Unit	Symbolic notation	Estimate of the indicators
Area of the wheat sowing	Ha	A	14287
Harvest	Cent	H	320413
Productivity	cent/ha	p=H/A	22.4
Average sale price of 1kg	man/kg	p	0.11
Value of total products	thous. manat	Hp	3524.5
Value of harvest from 1 ha	manat	pp	246.4
Expenditure on 1 kg	man/kg	e	0.04
Expenditure on total product	thous. manat	He	1281.6
Expenditure on harvest from 1 ha	manat	pe	89.6
Effectiveness of 1 ha of wheat sowing	Per cent	or pp/ pe*100	275

Source: SSC (34) and our calculations

Effectiveness of the sowing areas of the main sort of the agriculture plants is characterized by the information of the table 15.

Table 14

Economic effectiveness of the sowing areas of the main sort of the agriculture plants, %

	Wheat sowings	Barley sowings	Corn sowings	Potato sowings	Vegetable sowings	Cotton sowings	Tobacco sowings	Fruit sowings
Absheron	248	187	-	190	183	-	-	-
Ganja-Gazakh	278	144	262	217	552	153	225	317
Sheki-Zagatala	174	202	341	238	553	-	334	411
Lankaran	184	142	206	279	805	-	200	199
Guba-Khachmaz	242	151	178	191	370	-	-	237
Aran	290	210	270	240	390	130	205	280
Yuxari-Garabagh	224	145	199	255	409	141	215	301
Kelbajar-Lachin	212	146	199	109	407	-	-	134
Mountain Shirvan	232	184	242	228	257	-	281	204
Nakhchivan	214	228	202	266	583	-	187	235
Azerbaijcan	247	182	295	234	464	130	300	273

Source: SSC (34) and our calculations

Producer's (entrepreneur's) activity is evaluated not only for production results, but for income gained from estate and property. From renting and leasing of the estate and property the obligations arose, income is gained and money is spent. So during the calculation of the indicators of effectiveness the results of those transactions are taken into account.

3-7-4. Formation directions of data supply system of competitive agriculture

During the process economical researches special demands are required to be made on data supply. These demands characterize togetherness of the criteria of use comfort and adequacy to objective reality to empirical materials in the each stage of scientific investigations carried out.

Economic researches give opportunity to regulate forthcoming development trends by appreciating received results, use situation of existing potential and activity condition of agrarian structures.

It is known that economical researches greatly depend on fulfillment of main tasks, quality and quantity parameters of information base, level of their meeting necessary demands.

Objects and subject of researches in agrarian sector have specific peculiarities:

- Necessity of investigating joint influence circle of economical, social and biological factors;
- majority of the agriculture producers in number;
- Scatteredness of space of production;
- Variety of agrarian relations;
- Sensibleness to influence of transition problems and reforms.

Features of agrarian sector demand scientifically grounded approach to each element of data base.

Data supply of agrarian scientific investigations should reflect signs of new quality based on reality in the modern time. From this point of view, we consider important to explain these signs of quality assuming vital importance in economical investigations.

Information about human factor plays decisive role in information society. Information is turned into strategic resource while agrarian reforms are carried out, value of knowledge takes basic place in foreground, the value of labour and existing resources become less important. Methods and means of collecting, processing, preserving information and its realization form development structure of ownership in agrarian sector. In this case serious changes happen in division of labor. Thus, majority of able-bodied population is involved to the new sphere of activity- information economy. In modern condition informationization is accepted as an objective direction of development of society. Positive solution of problems of informationization depends on efficiency of social and technical processes, quality and effectiveness of scientific and technical support, carrying out fundamental investigations, scientific-technical achievement (especially facilities of technique, telecommunication and scientific and technical achievements in information technologies area) at present.

Actually, society of global information is formed in local levels and its forming in different countries happens in different intensity and specific form. Despite it, transition to information society is general peculiarity and lawfulness both for developed and developing countries. Therefore, each country should prepare its conception of entering to information society appropriate to concrete condition, and it must be based on development project of legislation base, information industry and telecommunication.

Serious work are carried out in our country in this direction at present and information technologies sector is one of priority directions of development of the country. "National information and communication technologies Strategy for the development of the Republic of Azerbaijan" was affirmed by the President of Azerbaijan Republic in February 7, 2003. General line of the work to be implemented during future 10 years have been determined according to this national strategy. Azerbaijan is the only country in the South Caucasus that national strategy was accepted.

Azerbaijan government has prepared and implemented complex measures after admittance of the National Strategy. Participation and speech of Mr. Ilham Aliyev, the president of Azerbaijan Republic, at International Summit about "Information Society" in December 12, 2003 informed international public about the interest of Azerbaijan in this sector once again. Law of Azerbaijan Republic "About electronic signature and documents" came into force on June 1, 2004 and it created wide opportunities for exchange of electronic documents, development of processes of usage of electronic signatures, formation of new economical activity areas in the country as well.

A new level of quality achieved in the development of national economy makes necessary livening up and renewal of existing intellectual potential. In this regard, information technologies find a way to all fields of life not only in the capital and big cities, in all regions without any exception as well, it creates great opportunities for development of appropriate educational and enlightenment system. “Program of provision of Educational Establishments in the Republic of Azerbaijan with Information and Communication Technologies” (decree of the President of Azerbaijan Republic on August 21, 2004) affirms priority role of modern technologies in raising of the quality of the education once again.

The determined legal base serve improving the efficiency of the use of information and communication technologies in management organs, simplifying of relations and connections of people with these organs, elimination of bureaucratic obstacles, as well as mutual formation with different kinds of information systems created in the country.

The second half of XX century is remembered in memories with rapid formation of scientific bases of intensive development directions in agriculture. Agriculture directly depends on the usage level of contemporary information technologies like other areas of economy. The main purpose of informationization in agrarian sector is characterized with helping acceleration of reforms aimed at raising the quality and sustainability of agricultural production, improve the life of rural socio-economic and environmental conditions, ensure optimal management of households according to scientifically based business plans in order to ensure food safety for the country by application of modern scientific and technical achievements, usage of new effective technologies, proportionate formation of labour and production, carrying out perfect calculations and analysis, provide agriculture producers with marketing and regulating information as well.

Taking into account mutual relations of collections of information connected with market conjuncture and regulating assume decisive importance in formation of data base of agrarian sector.

Taking into account adequately supply-demand ratio and impact of regulatory acts is required in organization of arrays, in processing of information streams characterizing factors creating prices of bought necessary resources (mainly of industrial origin) for effective activity of agrarian sector and agricultural output production.

It is known that information relations of the existing market are not sufficient for substantiating of theoretical theses. Therefore there is a need to determine the same theses gradually from point of view of demands of real environment.

This stage draws attention for agrarian economy- in most cases it has a decisive influence on the rate and character of formation of data supply. It is quite difficult to determine quantitative impact of regulatory measures by information about tax, credit, cost and other directions based on official statistics and documented circulation of

information and in some cases it is almost impossible. Thus, being correspondent with objective reality of information arrays prepared for practical calculation should be considered primary and necessary term.

Taking into account parameters of space and time and volume of the capital capacity of informationizing of agrarian sector, it is expedient to begin from informationizing of the agrarian science.

Solution of the essential problems met while informationization of agrarian science can give strong stimulus for future development of Azerbaijan agrarian science. We can arrange the problems which are met while creating efficient information portal in agrarian science as follows:

- Economic and institutional problems of systematizing the large scale and expanding scientific information resources of Subordinate organizations to Agrarian Science Center;
- weakness of access of scientific information to tele-communication channels and weak internet broadcasting;
- Search and usage processes cost much and take a long time while creating integrated systems of agrarian scientific information flows, etc.

While eliminating these problems organizational and technical issues of usage of conveniences providing integration of information resources in different areas of the science must not be delayed.

It is quite important to create and develop electron catalogues of publications by Agrarian Scientific Centre (ASC), to form electronic variants of these publications, provide its access to electron facilities, and transmit scientific publications in form of modern material host files or in the form of e-libraries having opportunities to be accessed by internet. This process intends to provide access to world electron transmission base.

One of the most important directions of informationization of agrarian science is to supply with software complexes and advanced network technological facilities which will provide effective solution of scientific and practical issues of research centers in a high level.

Information sources of economical investigations have different peculiarities in agrarian sector and such variety aggrevates comparative analyses. On the other hand,

information relations between scientific research and information service agencies need to be actively regulated in the following directions:

- Information service agencies should take into account the main peculiarities of scientific research institutions while determining structure of data carriers it presents periodically;
- efficiency of relations with appropriate research groups should be raised while important works are being done by organs of official statistics in the direction of theoretical methodological specifies;
- Directions of modernization in mechanism of regulation of real economy must be accompanied by corresponding innovations in data sand structure improvement, etc.

Information sources of agrarian economy science are the followings:

- Results of activities of scientific investigation organizations concerning to agrarian sector;
- Information resources presented by agencies rendering different databases and information-search service
- Information resources of international organizations and foreign countries.

Purpose of informationizing activity processes and economic researches in agrarian sector is to raise the quality of researches; its role in development of rural social sphere and agricultural output production, as well as it is the solution of the urgent problems of development.

We can include the followings to the important directions of informationization of agrarian science:

- to provide efficiency of scientific researches and achievements;
- to manage different achievements of agrarian scientific spheres in related form on a regional level and according republic standards;
- to form mechanism of efficient realization of the decisions accepted by the government concerning agrarian politics and other legal normative documents;
- to provide with necessary facilities in order to form sustainable development of informationization of agrarian sector;
- to provide rural producers and villagers with modern applied information;
- Integration to the international scientific society ;

Key principles of informationizing of agrarian science are the followings:

- achievements should be implemented based on "open system" principle, to create opportunities to enter to data bases which have limited access to Azerbaijan and world information resources (except data bases intended for common use) imposed by ASC enterprises;
- as advanced techniques are used by special workers, and workers of ASC bodies, there is a need to adopt modern technical facilities;
- to carry out realization of projects in stages, adoption of new techniques by workers, to concretize and precise composition of each future stage taking into account technical supply and material opportunities according to adoption level and results of the previous stage;
- to project together the integration of programs and technical complexes by means of network and development opportunities

Theoretical-methodological explanation of existing situation of data supply of economical investigations is not enough for definite evaluating practical aspects in the agrarian sector. Meanwhile, investigating theoretical and empirical problems of data supply in a unit context creates necessary opportunities in explaining the relations of real scientific information.

Information difficulties of reform period display itself more seriously in agrarian scientific researches. Increases of number of farms ten times at the result of agrarian reforms in a short period of time and conservatism of information infrastructure directed to public farming, failing in formation of informational environment of new economical system are the main reasons of the problems observed in data supply of economic researches.

Of course, many other factors are causing the problems; they should also be taken into account. Abrupt changes observed in the structure of agricultural production, especially in specialization and concentration must be reflected in all parameters of information flows. Certainly, this problem can not be resolved in a short period of time. Therefore, implementation sequence of necessary changes in data supply should be defined first of all. We consider that, first of all, relations between the collections of documented information should be definitely determined, indicators must be

enumerated in accordance with the degree of urgency, their semantic and pragmatic assessment criteria should be defined precisely.

So as it was mentioned, after the implemented agrarian reforms the number of households functioning in agrarian sector of the republic has increased over and again. These farms operate as state agricultural enterprises, cooperatives, joint stock companies, private entrepreneurs, peasant family farms and households. In this connection, one of formation directions of data supply system of agriculture is establishment of database about those farms. In particular, information about private entrepreneurs, peasant family farms and households is limited and more than 90 % of agricultural products of produced in the republic falls into the share of agricultural agencies, so implementing of some activities in this direction becomes important.

In recent years some work have been done in this direction. In particular, "economic information and help the establishment of Monitoring System" project of the UN Food and Agriculture Organization (FAO) carried out jointly with IA (Institute for Agriculture) and AzETKTİ (Scientific-Research Instutute of Agricultural Economy/Azerbaijan) is of great importance. Project covered Khachmaz, Guba, Lankaran and Salyan regions. As a result of the project, special questionnaires were compiled collecting agricultural information and special program was created for systematization of collected data.

The main purpose of the mentioned project is to establish comprehensive information system about the producers of agricultural products. The idea is that the information collected from farms is systematized and processed by means of special computer program so that, it would be possible to get information about farms simply by years, regions, type of product, according to farming form, gained income , plot of land, and other indicators.

Here confidentiality of the entrepreneurs is protected and it is one of the peculiarities of the system. So, while looking at information about agriculture, information about the owner of farm will remain confidential.

Table 15

Analysis of financial-economic activity of some farms

Type of production	Sowing area: ha	Productivity: centner/ha	Production: Ton	Sale: ton	Income from sale: man	Expenditure: Manat	Profit: manat
1. Private farm of Behehmedov Islam, Akif. Guba region, Alpan village							
Apple	1,16	50,0	5,80	5,00	1000,0	280,0	720,0
Wheat	1,16	20,0	2,32	1,00	200,0	195,4	4,6
Total:					1200,0	475,4	724,6
2.Peasant family farm of Aliyev Vahid, Mowsum. Guba region, Zardabi village							
Apple	1,5	70,0	10,5	10	6000,0	775,0	5225,0
Total:					6000,0	775,0	5225,0
3.Peasant family farm of Mahmudov Habil, Sayadallah. Khachmaz region, Hasanbala village							
Tomato	0,5	280	14	13,5	2700	291	2409
Lucerne	0,92	14,1	13	11	605	282,4	322,6
Wheat	1,5	13,3	2	1	250	278	-28
Livestock products							
Milk	2 (animal)		2,8	2	600	252	348
Total:					4155	1103,4	3051,6
4.Peasant family farm of Chingiz Hajiehmedov, Khachmaz region, Palchiq-oba village							
Tomato	0,5	240	12	11,8	2360	299	2061
Lucerne	1	150	15	12	660	252	408
Wheat	1	20	2	1	300	227	73
Barley	0,5	30	1,5	1,2	180	130	50
Livestock products							
Milk	6	17,5 centner/per animal	10,5	10	3000	1460	1540
Meat	5	2 centner/per animal	1	1	1800	850	950
Total:					8300	3218	5082

At the result of generalization of the information shown in questionnaires, to compare financial agricultural activity of private farms becomes possible. To that end financial agricultural activity of some private farms was analyzed for the year 2008.

Farms which we are going to analyze are situated in Guba and Khachmaz regions. Comprehensive information has been received in these farms by various products, sowing area, productivity, common production, sale, expenses, and profit indicators as a result of analyze. Here the basic directions of the expenses have been defined and it has an important part in defining directions of regulating measures for providing efficient activities of farms. Let us pay attention to the table shown above.

As is seen from the table, productivity indicators by apple is 50 centner/ha, and 20 centner/ha by wheat. This is not a high level at all. In addition 1 kilogram apple cost 0.2 manats, and this price very low compared with market prices. Sale price of wheat was 0.2 manats; this is closer to market prices. But nevertheless with the income got from sale the farm could cover expenses and had some profits (724.6 manats). Though received profit is not too high, we must take into account that one part of produced output was not sold; it was spent on meeting the home demands, needs of the family. Expenses by apple was spent on nitrogen fertilizer (40 manats) and splashing (240 manats). But composition of expenses by wheat is more complex. Main expenses were spent on seed (50 manats), nitrogen fertilizer (40 manats) and tillage (34.8 manats). Remainder part of the expenses was spent on goods, sowing, reaping and carrying. So, total expenses organized 39.62 % of received income from product sale. As it is seen, expenses are more than income, so it caused decrease of level of income. At the same time, 17 manats were spent on tax to the government. If we take into account it in the last result, then profits got from farm will make 707.6 manats.

The second agricultural activity of which we have analyzed is plant-growing. Unlike the first farm, there was more profit in this farm. The productivity here is much higher and sale price of the product is higher. These factors are reason for that. Thus, productivity indicator was 70 centners per hectare; sale price of product was 0.6 manats. This is 40% and 3 times more than the indicators of the first farm accordingly. 15 manats of expenses falls into the share of tax, the rest to water, fertilizer and splashing.

It seems from the table that, the 3rd activity of farm of which we have analyzed, has finished successfully its financial-economic activity and gained profits in the sum of

3051.6 manats. It is known from the information that, the farm has not sold all the output produced. A part of the unsold product was used for family consumption, but the other part was spent on cattle-breeding. When paid attention to sale price of the products, it becomes clear that, products have been sold here with lower prices compared with market prices.

One more farm of Khachmaz region has been investigated. It is family peasant farm of Chingiz Hajiehmedov, a countryman in Palchiq-oba village, Khachmaz region. As is seen from the information of the table, this farm could finish successfully its financial-agricultural activity and had success to get profits in the sum of 5082 manats. It is clear from here that, 1 kilogram tomato was sold for 0.2 manats, which is too low price compared with market prices. Cattle-breeding products like meat and milk were also sold on lower prices compared with market prices. So, sale price of these products was 0.3 and 1.8 manats accordingly.

Composition of the expenses was approximately similar in all farm activity of which we have investigated. These expenses were spent basically on fertilizer and technical services. We would like to note that, those expenses are more than income. So, sum of the expenses organizes 39.62% of the income received in the 1st farm. This indicator in other farms was 12.92%, 26.56% and 38.77% accordingly. In addition, sale price of products sold by farms was less than market prices as well. It is because of access to market of those farms is limited and they have to sell their products to cheaper price to trade mediator. All these factors bring to the decrease of profits.

So the mentioned project has a great importance from the point of view of obtaining information about subjects of entrepreneurship operating in agriculture. The project is already to be completed. However, we think there is a need to continue and to expand the project in the republic-level. More regions and more farms should be covered in order to create larger database. It requires a great financial support.

CONCLUSION

This chapter presents a strategy-evaluation framework that can facilitate accomplishment of annual and long-term objectives. Effective strategy evaluation allows an organization to capitalize on internal strengths as they develop, to exploit external opportunities as they emerge, to recognize and defend against threats, and to improve internal weaknesses before they become detrimental.

Strategists in successful organizations take the time to formulate, implement, and then evaluate strategies deliberately and systematically. Good strategists move their organization forward with purpose and direction, continually evaluating and improving the firm's external and internal strategic position. Strategy evaluation allows an organization to shape its own future rather than allowing it to be constantly shaped by remote forces that have little or no vested interest in the well-being of the enterprise.

Although not a guarantee for success, strategic management is allowing more and more organizations to make effective long-term decisions, to execute those decisions more efficiently, and to take corrective actions as needed to assure success. Computers are being used increasingly to coordinate strategic-management activities and to assure that decisions are based on good information. A key to effective strategy evaluation and to successful strategic management is an integration of intuition and analysis.

A potentially fatal problem is the tendency for analytical and intuitive issues to polarize. This polarization leads to strategy evaluation that is dominated by either analysis or intuition, or to strategy evaluation that is discontinuous, with a lack of coordinating among analytical and intuitive issues.

Strategists in successful organizations realize that strategic management is first and foremost a people process. It is an excellent vehicle for fostering organizational communication. People are what make the difference in organizations.

The real key to effective strategic management is to accept the premise that the planning process is more important than the manager is continuously planning process is more important than the written plan, that the manager is continuously planning and does not stop planning when the written plan is finished. The written plan is only a snapshot as of the moment it is approved. If the manager is not planning on a continues basis-planning, measuring, and revising the written plan can become obsolete the day it

is finished. This obsolescence becomes more of a certainty as the increasingly rapid rate of change make the business environment more uncertain.

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