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Environmental Consideration in Strategy Formation

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ENVIRONMENTAL CONSIDERATION IN STRATEGY FORMATION

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ABSTRACT

The perishable service industries suffer from a lack of management expertise. This is due to poor education, a skill rather than management emphasis in universities and colleges, and a belief in the apprenticeship system at all levels. This paper will discuss these underlying problems and propose a model to analyze these issues.

ENVIRONMENTAL CONSIDERATION IN STRATEGY FORMATION

INTRODUCTION

The Recreation, Travel and Hospitality sector in North America have rarely utilized available management tools properly. This is due to:

1. A cottage industry philosophy.
2. Educational programs geared to producing supervisors rather than managers.
3. An apprenticeship system of training.
4. A feeling that this industry is "different".

In the last few years this has changed dramatically with:

1. Increasing concentration of the industry.
2. More management orientation in educational programs.
3. Sophisticated management-oriented training.
4. Environmental factors are a major influence in key sectors of large organizations.

The net result has been an increasing interest in more sophisticated planning tools and techniques-often borrowed from traditional industries. Unfortunately, most of the borrowing concentrated on the relatively hard models, that is, building and operational analysis with only a rare nibble at strategy and policy formulation. In the few companies that the author has observed, the policy formulation process concentrated only on

evaluating corporate strengths and weaknesses, goals, objectives and problems, and then came up with a plan based on management perceptions of their competitors strengths and weaknesses.

MODEL DEVELOPMENT-EXTERNAL INFULENCES

While hard models were adequate in the 1950's and 60's, they can now lead organizations down "the yellow brick road." This is due to an increasingly complex external and internal environment with constantly shifting currents and crosscurrents which require analysis and monitoring. It is perhaps one reason why chief executive offices of successful organizations spend 60 to 70% of their time outside their office in meetings with the external influencers of their company's futures.

This paper is not intended to be an exhaustive examination of external environmental factors affecting this industry, but rather an overview of those areas which planners must examine prior to strategy development. Internal environment will be the subject of a future paper.

MODEL EXPLANATION

The environmental area analysis format has been set up as a two dimensional matrix of environmental factors as well as their impacts on organizations and consumers. The governmental factor may be overlaid to develop a three-dimensional model. However, the author's research techniques are not as sophisticated to attempt such an effort.

The basic environmental factors selected were:

1. Competition (both direct and indirect) - since hospitality, travel and recreation compete with not only their own species but also with durable goods, education and insecurity (that is increased savings).
2. Society - until recently (and probably in the future) societal groups (both users and non-users) have focused upon the service industry in order to protect consumers, employees and the general public.
3. Suppliers - covers a veritable spectrum of organizations ranging from landlords and utilities through the normal purveyors and boils down to labor, which if it ever becomes strongly unionized or professionalized, will have to be dealt with like other contractors or purveyors.
4. Physical environment - has generally been accepted as a given factor and is more amenable to changes, as well as constraints falling out from the Society factor.
5. Market - is an increasingly complex, segmented factor which, due to a lack of research, has been often treated as a one or three dimensional lump by the industry. The increasing complexity and

availability of choice has made the market a more complex factor than previously assumed.

6. Government - has been a growing nemesis and boom to the industry since it not only regulates but is the source of many attractions, events access and recreation media. Until recently, it was widely (and probably wisely) assumed that government was increasing it's regulatory stranglehold daily. However, recent events lead one to question this assumption. Nevertheless, it should still be the major overlying hydra-headed factor (that is local, regional, state/provincial or federal) in industry planning. (As mentioned earlier, it could possibly be a separate third dimension to this model.)

For simplicity, the above factors will be illustrated from four different viewpoints (see Figure 1).

1. Vehicle - what mechanism, structure or organization is used to achieve the ends.
2. Sensitivity - what outside and inside pressures control, block or preempt their activities.
3. Organizational impact - how these factors affect an organizations ability to increase profitability, efficiency, market share, or other directional change, especially in the strategy formulation process.
4. Consumer impact - the way in which these factors affect the consumer from both a positive or negative viewpoint depending on the vehicles used and organizational reactions.

CONCLUSION

Figure 1 shows the various factors and their impact where one will notice that some are contradictory, that is, competition/consumer impact limited choice vs. increased choice. It simply shows the gamut of possible impacts without a judgmental input since the exact impact is determined by various competitors, abilities to cope, strategy selection and government regulation and/or interference.

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FIGURE 1
 GOVERNMENTS' ROLE IN
 ENVIRONMENTAL CONSTRAINTS ON TOURISM STRATEGY DEVELOPMENT
 AND THEIR IMPACT ON ORGANIZATIONS AND CONSUMERS

FACTOR	COMPETITION -direct -indirect	SOCIETY	SUPPLIERS -services -raw materials -labor	PHYSICAL ENVIRONMENT	MARKET	GOVERNMENT
VEHICLE	cartels trade associations lobbying marketing	pressure groups consumer associations moral suasion lobbying	pricing delivery constraints capacity unions	seasonality/climate geographical constraints ecological constraints accessability zoning capacity	voluntary traveler involuntary traveler consumer choice communications barriers to entry	regulatory agencies legislation/regulation incentives/marketing bodies trade/industry assoc. education support marketing support infrastructure superstructure
SENSITIVE TO	anti-trust legislation competitive pressure market technological change	press reaction consumer support technological changes	big business/big unions trade associations legislation technological change	pressure groups government carrying capacity	economic conditions government intervention communications motives discretionary income	lobbying by industry political pressure groups economic environment financial constraints
ORGANIZATIONAL IMPACT	stifles competitive drive increased cost creates barriers to innovation creates barriers to entry	better/safer product lower profit increased cost	increase training & recruiting costs availability	increased costs physical constraints limited capacity	cost of entry market share	increased costs observance of rules paperwork & taxes separate jurisdictions
CONSUMER IMPACT	limited choice increased choice increased cost	increased cost better/safer product reassurance	increased cost lower quality decreased choice	limit availability increased costs better product	choice cost	increase costs by limiting competition inflating prices