

bn386052

Department of Marketing
University of Strathclyde
Glasgow, Scotland

**AN EMPIRICAL INVESTIGATION OF THE
COMPETITIVE BUSINESS STRATEGIES EMPLOYED IN
THE SCOTTISH TEXTILES & CLOTHING INDUSTRY**

ROBERT PAUL

**SUBMITTED IN ACCORDANCE WITH
THE REGULATIONS FOR THE
DEGREE OF M.PHIL.**

February 1994

DECLARATION OF AUTHOR'S RIGHTS

The copyright of this thesis belongs to the author under the terms of the United Kingdom Copyright Acts as qualified by University of Strathclyde Regulation 3.49. Due acknowledgement must always be made of use of any material contained in, or derived from, this thesis.

ACKNOWLEDGEMENTS

I am most grateful for the guidance and assistance provided by my supervisor Professor Stephen Young. I certainly benefited from his meticulous and thorough supervision.

I wish to thank Carol Pringle for her patient and diligent efforts in the typing of the document.

Finally I acknowledge the tolerance and understanding shown by my wife, Sheila, during the time spent on this work, her support was greatly appreciated.

ABSTRACT

The concept of business strategy suggests that the match achieved between distinctive competences and competitive environment determines business performance. The purpose of this investigation was to examine this concept of business strategy in the context of the Scottish textiles and clothing industry.

At the business level, strategy focuses on how to compete in a particular industry, or product/market segment. Consequently the objective of the study was the examination of the competitive business strategies employed by firms in the Scottish textiles and clothing industry.

Three main components of business strategy were investigated in the study:

- (a) The forces of competition within the industry and their respective influence on the competitive performance of individual firms;
- (b) The distinctive competences which would contribute to the achievement of competitive advantage for the individual firms;

(c) The economic performance of the firms surveyed in order to determine their level of business performance.

Field work for the research embraced the main sectors of the Scottish textiles and clothing industry, namely, weaving, spinning, knitwear manufacture, dyeing and finishing, carpet manufacture and clothing manufacture.

The results of the study revealed that there was a lack of formal business strategy practised within the industry and that the level of economic performance was attributable largely to the particular sector in which the firms operated.

Certain competences were however identified as being ones which, if matched with the most influential competition force, resulted in superior business performance.

Business success, therefore, depends on the types and amounts of competences possessed and the strategy used to relate these competences to the competitive environment.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| CHAPTER 1: INTRODUCTION | 1 |
| Rationale for the Study | 1 |
| Aims of the Study | 4 |
| Organisation of the Study | 5 |
| CHAPTER 2: STRATEGIC MANAGEMENT | 7 |
| Introduction | 7 |
| The Development of Strategic Management | 8 |
| Establishing Organisational Direction, Mission & Objectives | 12 |
| Strategy Formulation | 17 |
| Strategy Implementation | 29 |
| Summary | 37 |
| CHAPTER 3: ENVIRONMENTAL ANALYSIS | 40 |
| Introduction | 40 |
| Purpose of Environmental Analysis | 42 |
| Environmental Structure | 43 |
| Environmental Intelligence | 45 |

| | | |
|-------------------|---|-----------|
| | Environmental Scanning | 47 |
| CHAPTER 3: | Summary | 51 |
| CHAPTER 4: | FINANCIAL ASPECTS OF STRATEGIC MANAGEMENT | 53 |
| | Introduction | 53 |
| | Impact of Strategic Planning on Profit | 57 |
| | Portfolio Analysis | 68 |
| | Summary | 71 |
| CHAPTER 5: | COMPETITIVE STRATEGY | 73 |
| | Introduction | 73 |
| | The Analysis of Competition in an Industry | 80 |
| | The Competitive Interaction of Firms | 94 |
| | Three Generic Strategies | 95 |
| | Risks of the Generic Strategies | 117 |
| | Analysing Resources and Capabilities | 126 |
| | Strategic Types, Distinctive Competences & Organisational Performance | 135 |
| | Global Competitive Environment | 140 |
| | Summary | 152 |

| | | |
|--------------------|---|------------|
| CHAPTER 6: | INDUSTRY NOTE | 154 |
| CHAPTER 8: | THE FINDINGS OF THE FIELD SURVEY | 215 |
| | Introduction | 154 |
| | The Scottish Textiles & Clothing Industry | 154 |
| | The U.K. Textile Industry | 162 |
| | Industry Performance in Europe | 166 |
| | Competitiveness in the Northern Ireland Clothing Industry | 171 |
| | The International Textiles Market | 175 |
| | The Single European Market | 177 |
| | International Competitiveness | 178 |
| | Critical Success Factors | 185 |
| CHAPTER 9: | Changes in Consumer Awareness | 195 |
| | The Multi-Fibre Arrangement | 197 |
| | Summary | 202 |
| | Suggestions for Further Research | 275 |
| CHAPTER 7: | RESEARCH METHODOLOGY | 204 |
| APPENDICES: | | 217 |
| | Literature Review | 205 |
| | Conceptual Framework | 207 |
| | Skills & Competences | 208 |
| | Methodology | 211 |
| | Analysis & Results | 213 |

CHAPTER 8: THE FINDINGS OF THE FIELD SURVEY 215

The Scottish Textiles and Clothing Industry 218

How Your Firm Competes 224

Industry Competition Forces 238

Company's Sourcing and Outlets 246

Marketing Activities of the Business 247

The Cost of Marketing 253

Demographics of the Business Unit 257

CHAPTER 9: CONCLUSIONS 263

Implications of the Study 273

Suggestions for Further Research 275

REFERENCES: 277

Appendix A 309

CHAPTER ONE

INTRODUCTION

1.1 RATIONALE FOR THE STUDY

The Scottish textiles and clothing industry remains one of the major industries in terms of both gross output and employment within the Scottish economy.

In 1990 the textiles and clothing industry accounted for 5.8 percent of manufacturing output in Scotland and 13.2 percent of manufacturing employment in Scotland.

The textiles and clothing industry is comprised of class 43 of the Standard Industrial Classification which is the textiles sector and class 45 which is the clothing sector. Class 45 also includes footwear.

Since the 1970s the pressure of competition has increased across the whole business sector. In industries producing traded goods the rising tide of international trade has opened previously sheltered domestic markets to vigorous competition.

Far Eastern and Mediterranean countries are becoming increasingly competitive through improved production and

improved raw material quality and design quality. As a result of the political changes in Eastern Europe an increase in competitive activity is expected from this source during the 1990s.

The Scottish textiles and clothing industry has suffered a decline in its competitiveness since the 1970s. This decline is reflected in a severe reduction in employment within the industry, the reduction between 1979 - 1990 being 55.6 percent.(1) (Scottish Abstract of Statistics).

In the short period between 1987 - 1990 employment in textiles and clothing dropped from representing 15.1 percent of total manufacturing employment in Scotland to a figure of 13.2 percent, the comparable decline in gross manufacturing output for textiles and clothing was from 7.2 percent to 5.8 percent.(1) (Scottish Abstract of Statistics).

These figures give rise to a cause for concern and provide the background for this investigation as an attempt to identify the factors which would produce competitive advantage for commercial organisations within the Scottish textiles and clothing industry.

Michael Porter (1985), has asserted that, "the essence

of formulating competitive strategy is relating a company to its environment the key aspect of the firm's environment is the industry or industries in which it competes". Porter has identified five forces which he believes are the forces which drive industry competition. Having identified the most influential of the five forces, competitive advantage will be achieved by developing the particular strength required to exploit this particular force. Such a strength is described as the distinctive competence of the company. (Porter 1985).

Therefore the focus of the investigation is to test that by matching the key competitive force with the appropriate distinctive competence the company will achieve superior economic performance.

The context for the investigation is the Scottish textiles and clothing industry. As shown above this industry is a vital industry within the Scottish economy, particularly in terms of its employment significance.

Initially a personal interview questionnaire survey was used however due to the time consuming nature of this approach this was changed to a postal survey. A total of 68 firms were contacted and 25 positive responses were obtained.

1.2 AIMS OF THE STUDY

This study investigates the relationships, at the business level, between an organisation's competitive strategy, its competencies on its key functional skills, the key competitive force in its industry, and its economic performance. Individual chapters are given below.

1.3 SIGNIFICANCE OF THE STUDY

The study is important since very little research has been carried out into the commercial performance of the Scottish textiles and clothing industry. In particular there has been no significant research into the reasons for the economic decline of the industry in recent years. In particular it highlights the

1.4 LIMITATIONS OF THE STUDY

Analysis of competitive performance of companies within the Scottish textiles and clothing industry required figures on the economic performance of companies, in particular figures on return on capital employed and sales figures. Unfortunately there was a reluctance from companies surveyed to provide these figures and this resulted in conclusions on economic performance to

be based on a smaller sample of firms than was hoped for.

1.5 ORGANISATION OF THE STUDY

The thesis is organised in nine chapters. A brief description of the individual chapters is given below.

Chapter One outlines the background to the study and identifies the primary objectives of the study.

Chapter Two reviews the relevant literature pertaining to the subject of strategic management.

Chapter Three examines the environment in which business organisations function. In particular it highlights the development of the global business environment and the need for organisations to be aware of this development.

Chapter Four takes account of the financial aspects of strategic management and emphasises two important objectives of strategic management namely the recognition that the business firm is an economic institution and has developed the unique measurement of efficiency which is profit. Secondly this chapter also emphasises the need to avoid short termism and to understand the importance of employing long term

financial objectives.

Chapter Five analyses the focus of strategic management on the performance of the business unit as opposed to company wide performance and at this level the focus is defined as competitive strategy as opposed to corporate strategy.

Chapter Six is the Industry Note and examines the main characteristics of the international textiles and clothing industry with particular focus on the Scottish textiles and clothing industry.

Chapter Seven is an examination of the research methodology used in the study.

Chapter Eight deals with the findings of the field research.

Chapter Nine presents a summary of the conclusions of the study, considering its policy implications as well as specifying proposals for further research.

CHAPTER TWO

STRATEGIC MANAGEMENT

INTRODUCTION

One of the first developments in the field of management thought was the separation of the activities of management into different analytical categories. Probably the best well known of these classification systems was that of planning, organising, staffing, directing and controlling (Koonz & O'Donnell 1972). Initially it was assumed that these activities were the same at different levels in a business. Later research and practice showed that top management spent far more time on planning activities than lower level management.

The work of top level management was then seen as a strategic management process which is quite different from the administrative management processes used by middle-level managers and the operating management processes used by low-level managers.

This chapter examines the background to the development of strategic management and considers the component parts of the strategic management process.

THE DEVELOPMENT OF STRATEGIC MANAGEMENT

The word STRATEGY derives initially from a military meaning. It means the science of planning and directing large-scale military operations specifically, of manoeuvring forces in the most advantageous position prior to engagement with the enemy. (Webster's New World Dictionary 1960).

Business enterprises, successful ones in particular have always had strategies, yet, before the early 1960s business strategy scarcely existed as a distinct area of business analysis (Grant 1991).

Many of the concepts and theories of business strategy extend back to principles enunciated by Julius Caesar and Alexander the Great (Varner and Alger 1978).

Criticisms have been made of the failure, by a large number of business academics, to recognise the linkage between military strategy and business strategy (Tilles 1963; Anthony 1965) and that at least a comparison between the two types of strategy should be included in the introduction to the study of strategic management.

THE CLASSICAL APPROACH

Military - diplomatic strategies have existed since prehistoric times. As societies grew larger and conflicts more complex, generals, statesmen and captains studied codified and tested essential strategic concepts until a coherent body of principles seemed to emerge. In various forms these were ultimately distilled into the maxims of Sun Tzu (1963), Machiavelli (1950), Napoleon (1940), Von Clausewitz (1976), Foch (1970), Lenin (1927), Hart (1954), Montgomery (1958) or Mao Tseung (1967). Yet with a few exceptions - largely introduced by modern technology the most basic principles of strategy were in place and recorded long before the Christian era. More modern institutions primarily adapted and modified these to their own special environments.

MODERN ANALOGIES

Similar concepts have continued to dominate the modern era of formal, strategic thought. Scharnhorst still points to the need to analyse social forces and structures as a basis for understanding effective command styles and motivational stimuli (Von Clausewitz 1976). Jomini (1971) and Von Bulow (1806) stressed the concepts of concentration, points of domination and

rapidity of movement as central strategic themes and even tried to develop them into mathematically precise principles for their time. After the head-on slaughter of the trench warfare in World War I, Hart (1954) revitalised the indirect approach, and this became a central theme of British strategic thinking between the wars. Later in the United States (Hatloff and Snell 1953) began to stress planning for large-scale coalitions as the giant forces of World War II developed. The Enigma group moved secretly to develop the intelligence network that was so crucial in the war's outcome (Stevenson 1976).

All these modern thinkers and practitioners utilised classical principles of strategy dating back to the Greek era, but perhaps the most startling analogies of World War II lay in Patton's and Rommel's battle strategies, which were almost carbon copies of the Macedonian concepts of planned concentration, rapid breakthrough, encirclement, and attack on the enemy's rear (Essame 1974; Farago 1964; Irving 1977; Young 1974).

Similar concepts still pervade well conceived strategies - whether they are government, diplomatic, military, sports or business strategies. What could be more direct than the parallel between Chaeronea (Philip &

Alexander's Battle Strategy at Chaeronea 338BC) and a well developed business strategy that first probes and withdraws to determine opponents' strengths, forces opponents to stretch their commitments, then concentrates resources, attacks a clear exposure, overwhelms a selected market segment, builds a bridgehead in that market, and then regroups and expands from that base to dominate a wider field? Many companies have followed just such strategies with great success.

Competition between countries mainly involved a quest for territory which was pursued through military conflict. Industrial development and the growth of trade has changed the basis of competition from the quest for land to the quest for customers. The consequences are two fold: first, economic competition has displaced military rivalry; secondly, the front-line players in world competition are companies rather than governments (G Gilder 1989).

Strategy is defined as a course of action aimed at ensuring that the organisation will achieve its objectives. (Certo & Peter 1991). According to Mintzberg & Quinn (1991) effective formal strategies contain three essential elements: (1) the most important goals (or objectives) to be achieved; (2) the

most significant policies guiding or limiting action and (3) the major action sequences (or programmes) that are to accomplish the defined goals within the limits set.

Consequently a useful starting point in strategy formulation is to consider the component of OBJECTIVES.

ESTABLISHING ORGANISATIONAL DIRECTION, MISSION AND OBJECTIVES

Two important considerations commonly used by management to establish and document the direction in which an organisation should move are organisational mission and organisational objectives. Essentially, the organisational mission establishes the general direction of the firm, and organisational objectives narrow the focus to more specific targets.

MISSION STATEMENT

The topics included in the organisational mission statement are: company product or service; market; technology; company objectives; company philosophy; company self-concept; public image. (J A Pearce II, 1982).

Public image has become a most important and integral part of strategy (Gray & Smeltzer 1985). What is increasingly important as consumers become better educated and more discerning is not so much the image management wants to project, but the image that the public actually forms of the organisation.

DEFINITION OF ORGANISATIONAL OBJECTIVES

An organisational objective is a target toward which the organisation directs its efforts. (Certo & Peter 1991). There has been an ongoing debate taking place in the management literature about exactly what terms should be used to refer to organisational targets. Some 'management' theorists indicate that the term 'objective' should be used. (K R Andrews 1980). Some suggest using either 'objectives' or 'goals'. (Chandler 1962). Others claim that these two terms mean different things and cannot be used interchangeably. (Ansoff 1965; Hofer & Schendel 1978; Comerford & Callaghan 1985).

The all important point however is the need for an organisation to establish appropriate objectives. Objectives provide for planning, organising, motivating and controlling. Without objectives and their effective

communication, behaviour in organisations can stray in almost any direction (Richards 1986). Dimock uses the analogy of the North Star to describe the need for organisational objectives "fixing your objective is like identifying the North Star - you sight it on your compass and then use it as a means of getting back on track when you stray". (Dimock 1945).

TYPES OF ORGANISATIONAL OBJECTIVES

It is usually agreed that organisations have two different types of objectives. Short-run objectives are targets that the organisation is attempting to reach within about one or two years. Long-run objectives are targets that the organisation is trying to reach within about three to five years.

FORMULATING OBJECTIVES

Since the early history of business, most organisations have focussed on one primary objective: making a profit.

Today, however, many companies do not put maximum profit before all else. In practice, no absolute or inviolable financial priorities exist. Priorities shift as the competitive and economic environments change (Donaldson

1984). Donaldson suggests there is a contradiction between theory and practice in relation to setting objectives stating, "one of the primary responsibilities of the CEO of any major corporation is to articulate the company's financial goals as a tangible focus for its business mission and strategy. In theory these goals are imposed by shareholders through stock market responses to company performance. In practice, they are deeply rooted in the CEO's values and political philosophy, and they draw persuasive power from the depth of that conviction". (Donaldson 1985).

Drucker points out that organisations should aim at achieving several objectives instead of just one (Drucker 1954).

A study carried out by Shetty reinforces this point since in his study of 193 companies within four industrial groups of chemicals and drugs, packaging materials, electrical and electronics and food processing, most of them had five or six objectives. (Shetty 1979). In addition Bhatti reported that 80% of the companies in his study of medium-sized companies in the United Kingdom developed a set of multiple objectives. (Bhatti 1981).

Eight areas have been identified (Certo & Peter 1991) as key areas in which organisational objectives should be set, these are: market standing; innovation; productivity; resource levels; profitability; manager performance and development; worker performance and attitude; social responsibility. These almost reflect precisely the key areas described by Rue & Holland, the only difference being in regard to resource levels where this is refined into financial resources; human resources and physical facilities. (Rue & Holland 1991).

HIERARCHY OF OBJECTIVES

Charles Granger defined a hierarchy of objectives as a set of organisational objectives that includes objectives for the organisation as a whole and corresponding subobjectives for significant segments of the organisation (Granger 1963). The purpose of establishing a hierarchy of objectives is to ensure that each significant segment of the organisation knows what role it must play, on both long-term and a short-term basis, in order for the organisation to reach its overall objectives.

STRATEGY FORMULATION

DEFINITIONS OF STRATEGY

The determination of the long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. (Chandler 1962).

Strategy is the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. (Andrews 1987).

ORIGINS OF STRATEGY

The literature on strategy formulation dates back to the mid-1960s, although some important publications precede that date such as Newman's piece 'to show the nature and importance of strategy'. (Newman 1951).

There are a number of distinct schools of thought on the subject of strategy formation. Mintzberg has identified ten of these. (Mintzberg 1989).

Three are prescriptive in orientation treating strategy formation as a process of conceptual design, of formal planning and of analytical positioning. Six other

schools deal with specific aspects of the process in a descriptive way. A final school, also descriptive, but integrative and labelled configurational by seeking to delineate the stages and sequences of the process helps to place the findings of the other schools in context.

According to Mintzberg (1990) the approach which regards strategy formation as a process of conceptual design is the most entrenched of the ten. Its basic framework underlies almost all prescription and has had enormous impact on how strategy and the strategy-making process are conceived in practice as well as in education and research.

The simplest and most fundamental view of strategy formation is as a process of informal conception - the use of a few essential concepts to design 'grand strategy'.

Of these concepts the most essential is that of congruence or match, for example, economic strategy will be seen as the match between qualification and opportunity that positions a firm in its environment. (Christensen, Andrews, Bower, Hammermesh & Porter 1982).

THE DESIGN SCHOOL APPROACH

This approach to strategy formation has been identified as the design school approach and has been associated with the Business Policy Group at the Harvard Business School. Claims however that the concept of business strategy originated with this group at Harvard (Bower 1986) do not stand up to scrutiny.

Some of the basic concepts that underlie the design school appear to have been first stated in the academic world by Philip Selznick. (Selznick 1957).

Another key publication in 1962 Strategy & Structure by Alfred Chandler (Chandler 1962) really established his school's concept of business strategy and its relationship to structure. Other contributions to the development of strategy formation were D G Moore's paper titled 'Managerial Strategies' (Moore 1959), an article by Seymour Tilles (Tilles 1963) entitled 'How to Evaluate Corporate Strategy' and a textbook chapter by William Newman also in 1963. (Newman 1963).

This particular writing might make Newman the real father of the concept of business strategy in academic, although apparently Newman expressed the belief that the overall ideas may have originated in the McKinsey consultancy practice. (McKinsey 1932).

The next significant contribution was the Andrews text in 1965 (Learned, Christensen, Andrews & Guth 1965). The same year Igor Ansoff published his book 'Corporate Strategy' (Ansoff 1965), which was based on many of the same concepts as the Andrew's text, but more in the spirit of the planning school.

Porter wrote of how the ideas in the original text, that is the LCAG text after the names of the original four authors (Learned, Christensen, Andrews & Guth) were subsequently translated and extended by others, citing in particular Ansoff's book 'Corporate Strategy'. (Porter 1981).

Ansoff, in fact, went to press with his similar ideas in the same year (1965) as Learned, Christensen, Andrews & Guth, and neither book references any work by authors of the other. Although in 1966 Learned did note the similarities in a book he published with Sproat, (Learned & Sproat 1966) stating, significantly Ansoff's work offers numerous parallels with Harvard thinking that should not be obscured by differences in terminology, definitions, emphasis and coverage.

Subsequently most authors favoured the more elaborate offerings of the planning or positioning schools as articulated by Tregoe & Zimmerman (1980).

EMPIRICAL STUDIES

Empirical research by Henry Mintzberg and his colleagues at McGill University of the long-term development of strategy in a number of organisations has identified a number of features of the strategy - making process (Mintzberg 1985).

This research has identified two basic approaches to strategy formulation, namely the "rationalist approach" or deliberate strategy and the "incrementalist approach" or emergent strategy.

THE RATIONALIST APPROACH

The rationalist approach equates closely with the design school model. The rationalist approach makes implicit assumptions about the strategy-making process, for example:

Strategy formulation is the preserve of top management. This assumption is reinforced by Andrews who associates strategy with intentionality and he states that corporate strategy defines products and markets - and determines the company's course of action into the almost indefinite future. (Andrews 1987). Andrews continues that responsibility for that control and consciousness must rest with the Chief Executive Officer: that person is THE STRATEGIST. (Andrews 1987).

In the design school approach there is only one strategist, and that is the manager who sits at the apex of the organisational hierarchy. Hayes states "this command - and - control mentality allocates all major decisions to top management, which imposes them on the organisation and monitors them through elaborate planning, budgeting and control systems". (Hayes 1985).

There are a number of writers who subscribe to the view that top management should be responsible for deciding corporate strategy. (Olson 1989; Demb, Chouet, Lossius, Neubauer 1989; Rosenstein 1987; Forman 1988).

Market positioning is important. This assumption reflects the requirement identified by Christensen and his co-authors when they affirm that economic strategy will be seen as the match between qualification and opportunity, that positions a firm in its environment. (C R Christensen, K R Andrews, J L Bower, R G Hammermesh and M E Porter 1982). These writers elaborated on this requirement by stating "find out what you are good at and match it with what the world wants and needs".

Objectives should be clear and the environment known.

Strategy is the best selection of choices.

Other theorists who subscribe to the "rationalist" approach include Ansoff (1984), Day (1984), Porter (1986).

CRITICISMS OF THE DESIGN SCHOOL/RATIONALIST/DELIBERATE APPROACHES TO STRATEGY FORMULATION

The design school model of strategy formation highlights the importance of the assessment of strengths and weaknesses. However how does an organisation know its strengths and weaknesses? There is a tendency in the design school approach to overstate organisation strengths and under emphasise weaknesses. (Katz 1985).

The problem of assessing strengths and weaknesses may go deeper still. Competences might be distinctive according to a particular time, or to a particular application. (Radosevich 1974; Hofer & Schendel 1978). Also can any organisation really be sure of its strengths before it tests them, empirically? Stevenson's study into strengths and weaknesses left the impression that the assessment of strengths and weaknesses may be unreliable, all bound up with aspirations, biases and hopes. (Stevenson 1976).

The design school emphasises the need to articulate strategy and while there are positive reasons for doing so there are also difficulties with this approach. The design school approach assumes conditions of stability or predictability whereas in reality sometimes organisations need to function during periods of unpredictability, when they can not possibly hope to articulate any viable strategy.

As Quinn affirms, "it is virtually impossible for a manager to orchestrate all internal decisions, external environmental events, behavioural and power relationships, technical information needs, and actions of intelligent opponents so that they come together at a precise moment". (Quinn 1978).

Another criticism of the rational, top-down approach to strategy formulation is that it is unlikely that strategy will be the result of decisions by a single person or group represented by top management, rather it is likely to reflect a complex political process of negotiation, bargaining, compromise and window dressing.

The politics of strategic decision-making mitigates strongly against the feasibility of the 'rationalist' approach as identified in a study carried out by Eisenhardt and Bourgeois (1988).

Another criticism of the 'rationalist' approach is that it does not accommodate a dynamic mechanism for dealing with the fast changing business environment.

THE INCREMENTALIST APPROACH

The second approach is the "incrementalist approach" or emergent strategy.

The assumptions which underlie the "incrementalist" approach are:

strategy should constantly be revised as required;
uncertainty can never be overcome;
strategy has an uneven flow of objectives.

Theorists who subscribe to this approach include Pettigrew 1987; Mintzberg 1985; Quinn 1988.

They argue that plans and patterns can be quite independent of each other. When plans are realised as intended they are "deliberate". When however the strategy observed in the pattern of decisions of the organisation deviates substantially from the intended strategy then this is termed "emergent strategy" (Mintzberg 1985).

In an earlier writing Mintzberg described three distinct approaches, or modes, for making strategy (Mintzberg 1973). These are:

1. the entrepreneurial mode;
2. the adaptive mode;
3. the planning mode.

Of these three modes, the entrepreneurial mode is least formal, and the planning mode is most formal.

The "rationalist" approach Mintzberg identified in his later research equates with the planning mode (Mintzberg 1985) whereas the "incrementalist" approach equates more with the adaptive and entrepreneurial modes.

A study of the strategic change process in ten major companies undertaken by Quinn (1978) produced findings which reinforced the merits of the incrementalist approach.

For example Quinn's investigation showed that neither the "power - behavioural" nor the "formal systems planning" paradigm adequately characterises the way that successful strategic processes operate. He found that effective strategies tend to emerge from a series of "strategic subsystems", each of which attacks a specific class of strategic issue (eg acquisitions, major reorganisations) in a disciplined manner, but which is blended incrementally and opportunistically into a cohesive pattern that becomes the company's strategy. Finally this investigation demonstrated that incrementalism is not "muddling". It is a purposeful, effective, proactive management technique for improving and integrating BOTH the analytical and behavioural aspects of strategy.

Two terms are used to contrast the different approaches to strategy formulation, are that of PLANNING and of CRAFTING. (Mintzberg 1987).

Mintzberg describes these terms as follows:

Imagine someone planning strategy. What likely springs to mind is an image of orderly thinking; a senior manager, or a group of them, sitting in an office formulating courses of action that everyone else will implement on schedule. The keynote is reason-rational control, the systematic analysis of competitors and markets, or company strengths and weaknesses, the combination of these analyses producing clear explicit, full-blown strategies.

Now imagine someone CRAFTING strategy. A wholly different image likely results, as different from planning as craft is from mechanisation. Craft invokes traditional skill, dedication, perfection through the mastering of detail. What springs to mind is not so much thinking and reason as involvement, a feeling of intimacy and harmony with the materials at hand, developed with the materials at hand, developed through long experience and commitment. Formulation and implementation merge into a fluid process of learning through which creative strategies emerge.

CRITICISMS OF THE "INCREMENTALIST" APPROACH

The main criticism of the "incrementalist" approach is that it tends to diminish the importance of systematic analysis as a vital input into the strategy process

(Grant 1991). Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for the comparison and evaluation of alternative strategies.

However as Grant (1991) points out the two approaches are not antithetical.

Indeed a third variation to strategy formulation has been identified by Miller & Friesen (1984) who found that firms followed a long period of strategic stability with a quantum leap of strategic change, and they labelled this variation as the "quantum theory of strategic change". One example of this strategic behaviour was the tumultuous shift of the 1970s made by VOLKSWAGEN changing from the traditional BEETLE to the AUDI-type design.

The fundamental requirement in strategy formulation however is the need for strategic awareness and a strategic orientation within companies in order to avoid the conditions described by Miller & Friesen (1978) as "the impulsive firm running blind". How often has this condition been seen in companies that go on acquisition sprees?

STRATEGY IMPLEMENTATION

Once strategies have been formulated they have to be put into action, consequently implementing strategies is a vital stage of the strategic management process. In fact, the success of organisations depends on the effective implementation of strategies.

The first attribute listed, by Peters & Waterman (1982) as distinctive of excellent, innovative companies is related to the corporate view of implementation. Peters (1984) emphasises that "execution is strategy", that it is in the hard work of DOING IT, that organisations succeed.

The importance of both strategy formulation and strategy implementation is illustrated below in maxtrix form and suggests the probable outcomes of the four possible combinations of these variables: SUCCESS, ROULETTE, TROUBLE and FAILURE. (Bonoma 1985).

Strategy Implementation

| | | Strategy Formulation | |
|-------------------------|--|----------------------|----------|
| Strategy Implementation | | Good | Poor |
| Good | | Success | Roulette |
| Poor | | Trouble | Failure |

THE ROULETTE SITUATION may result in two outcomes. The good execution may overcome the poor strategy or at least give management an early warning of impending failure. Alternatively, the same good execution can hasten the failure of a poor strategy. For example, rapid production and effective marketing of a faulty new product causes the strategy to fail sooner.

The TROUBLE cell is characterised by situations where managers are likely to reformulate the strategy rather than question whether the implementation was effective. The new (and often LESS appropriate) strategy is then reimplemented and continues to fail.

FAILURE is the most likely to occur when a poorly formulated strategy is poorly implemented. In these situations, management has great difficulty getting back on the right track. If the same strategy is reformulated and implemented the same way, failure remains the probably result. Strategic problems in this cell of the matrix are very difficult to diagnose and remedy.

SELECTING AN IMPLEMENTATION APPROACH

The manager's task is to determine an appropriate approach to implementing the strategy once it has been formulated. On the basis of research carried out by Brodwin & Bourgeois (1984) on management practices at a

number of companies they suggest five fundamental approaches to implementing strategies.

These approaches range from simply telling employees to implement the strategy that has been formulated to developing employees who can formulate and implement sound strategies on their own. Brodwin & Bougeois call these five approaches the COMMANDER APPROACH, the ORGANISATION CHANGE APPROACH, the COLLABORATIVE APPROACH, the CULTURAL APPROACH and the CRESCIVE APPROACH. These approaches have different characteristics which are outlined below.

THE COMMANDER APPROACH

In this approach the manager concentrates on formulating the strategy by applying rigorous logic and analysis. Once the "best" strategy is determined the manager passes it along to subordinates who are instructed to implement the strategy.

THE ORGANISATIONAL CHANGE APPROACH

Managers who apply this approach assume that a good strategy has been formulated and view their task as getting the company moving toward new goals. The tools used to accomplish the task are largely behavioural and include such things as changing the organisational structure and staffing to focus attention on the

organisation's new priorities, revising planning and control systems, and invoking other organisational change techniques.

THE COLLABORATIVE APPROACH

In this approach the manager in charge of strategy calls in the rest of the management team to brainstorm strategy formulation and strategy implementation. Managers with different perspectives are encouraged to contribute their points of view in order to extract whatever group wisdom emerges from these multiple perspectives. The role of the manager is that of a coordinator to ensure that all good ideas are discussed and investigated. A fundamental criticism of this approach is that it is not really collective decision making since upper-level managers often retain centralised control.

THE CULTURAL APPROACH

This approach enlarges the Collaborative Approach to include lower levels in the organisation. Two main criticisms of this approach are that it is very time consuming to install and it is often the case that "outsiders" from lower levels of management are not accepted by top management executives.

THE CRESCIVE APPROACH (Crescive means 'increasing' or 'growing')

This approach addresses strategy formulation and strategy implementation simultaneously. This approach delivers strategy from the doers (salespeople, engineers, production workers) and lower level managers and supervisors.

Bodwin & Bourgeois advocate use of the CRESCIVE APPROACH for CEOs of large, complex, diversified organisations.

Again however converting an organisation that is accustomed to centralised, top-down systems to the CRESCIVE APPROACH can be very difficult, expensive and time-consuming. It is suggested as a viable approach for complex organisations that exist in dynamic industries.

Relationships between strategy and structure have received much attention in the literature. Chandler's (1962) thesis that structure follows strategy was supported by the results of his own study, as by the work of Channon (1973), Rumelt (1974) and others. Unfortunately these researches characterised strategy mainly by diversification and structure by divisionalisation. However a change to organisation structure is one of the factors to consider when implementing strategy. Many studies of the

implementation process have been carried out. There is a divergence in the conclusions of these studies between those who suggest the need for imposition of strategies by upper management as a means of implementation and those other writers who suggest that subordinates should be given more autonomy with regard to implementation of strategies. The divergence of views with regard to implementation appears to divide primarily between an older tradition and more recent studies.

The older tradition exemplified by writers such as Duncan 1976; Pressman & Wildavsky 1974; and Wilson 1963 suggests that rule-bound behaviour is necessary during implementation whereas the most recent empirical studies (Beyer & Trice 1978; Lipsky 1978; Brodwin & Bourgeois 1984; Guth & MacMillan 1986; Maynard-Moody, Mushend, Palumbo & Olivero 1987; Marcus 1988) have put greater emphasis on autonomy supporting the view that autonomy is often needed to facilitate implementation.

Beyer & Trice concluded that "if upper management wants better performance (in implementing policy) - - - it will have to grant - - - more influence in decisions -- - directors will have to grant more autonomy to their subordinates". (1978).

Guth & MacMillan found that if general management imposes its decisions, "resistance by middle management can drastically lower the efficiency with which the

decisions are implemented, if it does not completely stop them from being implemented" (1986).

Maynard-Moody & colleagues found that "empowered street-level workers of decentralised human service organisations play a more substantial role in the successful implementation of social policy than do less empowered oworkers in highly bureaucratic organisations". (1987).

Marcus (1988) found that implementation is likely to be more effective when policy implementators are free to design and determine the specifics. Autonomy is needed for organisations to go beyond more formal compliance to identification and internalisation. In this respect, it resembles market-driven initiative and competence to achieve objectives that cannot be accomplished by central direction.

Only Nutt (1986, 1987) appeared to find mixed support, in his investigations, for autonomy. In the innovations he analysed, upper managers had the highest success rates in installing planned changes in organisation when they justified the need for change and played a critical role in formulating a plan, illustrating how performance could be improved, and showing how the plan would improve performance.

There would appear to be a correlation between the "rationalist" approach to strategy formulation and the preference for less autonomy in strategy implementation whereas the "incrementalist" approach to formulation correlates more closely to the preference for more autonomy when implementing strategy.

Whichever type of implementation is used the over-riding consideration is the realisation that the job is only half done when strategy is formulated and that the implementation of the strategy is equally important as Peter & Waterman (1984) emphasise "execution is as important as inspired decision making".

SUMMARY

This chapter examines three elements of the strategic management process, the identification of long term goals and objectives, strategy formulation and strategy implementation.

The background to the development of strategic management has been examined in this chapter. It has been recognised that the origins of strategic thought were military strategies and that even in the military context, refinements and changes were made to strategies to make them more appropriate to changing circumstances and modern conditions.

The same basic components of strategic thought used by the military practitioners, namely, long term goals, objectives and tactics have been adopted by companies as they put strategic management thought into practice.

The identification of long term goals and objectives is the first stage in the process of strategy formulation. Within this process there is a dichotomy in terms of the approach to be used. There are two broad approaches to strategy formulation, these are, the PLANNING approach and the CRAFTING approach. There is empirical evidence which validates each approach.

Preference for one as opposed to the other, depends on the perspective from which strategy formulation is viewed. Using the military exemplar of strategy as the perspective would be consistent with a preference for the PLANNING approach as articulated by Ansoff (1984) and Andrews (1987). In this case the emphasis is given to a strong dependence on top management acting in a way similar to military commanders and taking the decisions about strategy formulation and then imposing these decisions and their ramifications upon the subordinate members of the organisation. This then is the PLANNING approach.

In contrast researchers who have approached strategy formulation from a behavioural science perspective, view strategy formulation not as rational optimising decisions made with objective information, but either as an evolving pattern of decisions and actions (Mintzberg 1987) or as a political process within the firm (Pettigrew 1977) and these views mirror the CRAFTING approach.

The third element examined in this chapter is strategy implementation and this element is very much a continuum of strategy formulation.

Consequently, recognising strategy implementation in this way, reinforces the advantage of the CRAFTING approach to strategy formulation since as Mintzberg

(1987) explains this allows "formulation and implementation to merge into a fluid process or learning through which creative strategies emerge".

The first prerequisite for achieving an understanding of the objectives of the thesis is the need to understand the meaning of the term strategy. Consequently this chapter has examined the characteristics of corporate strategy, which is the most expansive form of strategy, and which considers how the total organisation-frequently comprised of a number of diverse companies-should plan and conduct the long-term performance of its operations.

Some of the more significant organisations in the Scottish textiles and clothing industry are comprised of a number of individual businesses, typical of this type of organisation are Dawson International, Coats Viyella and William Baird consequently an understanding of the characteristics of corporate strategy is very relevant to the Scottish textiles and clothing industry.

CHAPTER THREE

ENVIRONMENTAL ANALYSIS

ORGANISATIONAL ENVIRONMENT

INTRODUCTION

Businesses do not exist in isolation, rather they exist in an environment which is becoming increasingly turbulent and being influenced by a wide variety of social, technological, political and economic changes. Even small changes can have a substantial effect on businesses. For example minor climatic changes arising from increased carbon dioxide in the atmosphere can have radical effects on industries from agriculture to tourism. (Business Week, January 30, 1989). This chapter examines the approaches required to achieve effective analysis of an environment which is no longer as deterministic as it was in the past.

Textile and clothing production is dispersed around the globe. This global industry has both manufacturing operations and marketing centres throughout the world. National boundaries no longer confine production, and globalisation has given birth to creative production options. In particular China poses a threat to other

textiles and clothing producing countries, for example, its positive trade balance increased from \$11.4bn in 1990 to \$13.8bn in 1991 (International Trade 1991-92. Gatt July 1993) and high quality, high priced clothing products made in China are increasingly appearing in our domestic market. Consequently an ongoing appreciation of the environment affecting the industry is an essential requirement for Scottish companies.

Environmental analysis is an important part of the strategic management process.

Environmental analysis is defined as the process of monitoring the organisational environment to identify both present and future threats and opportunities that may influence the firm's ability to reach its goals (Certo & Peter 1991).

In this definition the organisational environment is the set of all factors both outside and inside the organisation that can affect its progress toward attaining those goals.

According to a survey of large US industrial firms carried out by Diffenbach (1983), it was found that environmental analysis was considered to be very useful, but it frequently is not done well. This survey

indicated that corporate executives can expect to encounter major obstacles in making their environmental analysis efforts truly effective.

PURPOSE OF ENVIRONMENTAL ANALYSIS

Although the procedures used to perform an environmental analysis differ widely in different organisations, most firms have the same main reason for performing such an analysis (Brown 1981). In general, their purpose is to assess the organisational environment so that management can react to it appropriately and thereby enhance organisational success.

ROLES OF ENVIRONMENTAL ANALYSIS IN ORGANISATIONS

There is evidence that, if conscientiously performed, environmental analysis can help ensure organisational success (Daft, Sormunen & Parks 1988).

The specific organisational roles that the environmental analysis system assumes to ensure this success can differ widely from organisation to organisation.

Examples of THREE of these roles are (Engledow & Lenz 1985):

1. The POLICY-ORIENTED role: The main purpose of this role is to improve organisational performance by simply keeping top management informed about major trends emerging in the environment.
2. The INTEGRATED STRATEGIC role: This particular role ensures that environmental analysis is carried out to improve organisational performance by making top managers and divisional managers aware of issues that arise in the firm's environment, by having a direct impact on planning, and by linking corporate and divisional planning.
3. The FUNCTION-ORIENTED role: The main purpose of this role is to improve organisational performance by providing environmental information concerning the effective performance of specific organisational functions.

ENVIRONMENTAL STRUCTURE

In order to perform an environmental analysis efficiently and effectively, a manager must thoroughly understand how organisational environments are structured. Thomas (1974) divides the environment of an organisation into three distinct levels: the GENERAL environment, the OPERATING environment and the INTERNAL

environment.

The GENERAL ENVIRONMENT is that level of an organisation's external environment made up of components that are normally broad in scope and have little immediate application for managing an organisation.

The OPERATING ENVIRONMENT is that level of the organisation's external environment made up of components that normally have relatively specific and more immediate implications for managing the organisation.

The INTERNAL ENVIRONMENT is that level of an organisation's environment which exists inside the organisation and normally has immediate and specific implications for managing the organisation.

RELEVANCE OF ENVIRONMENTAL LEVELS

It is important for managers to realise that all levels of organisational environment do not necessarily affect an organisation equally. One method that is used to determine the relevance of environmental levels to organisations is to consider the organisation's size and its degree of involvement in international business

(Paulo De Vasconcellos Filho 1985). This theory suggests that as an organisation increases in size and becomes more involved in international business; variables in the general environment become more relevant to the successful management of the organisation.

Conversely, the smaller the organisation, the less involved it is likely to be in international business, and factors in the general environment tend to be less relevant to its successful management.

The competitive component of the operating environment consists of the primary competitive factors within an industry. An extensive discussion of these factors is contained in the Chapter titled "Competitive Strategy".

ENVIRONMENTAL INTELLIGENCE

A number of studies have been carried out on the influence of the environment on the strategic management process. (Katz 1985; Keats & Hitt 1988; Cooper & Miaoulis 1988; Wright 1984). All of these studies reaffirm the importance of environmental intelligence.

Environmental Intelligence is no longer a fashionable obsession of business academics; it is now on the agenda

of corporate board meetings. Unpredictable and discontinuous changes in competitive, technological, regulatory and social environments have become important concerns of managers, particularly in medium and large enterprises. Ghoshal & Kim (1986).

Three phenomena, in particular, have brought home the realisation that changes in the business environment must be monitored.

First, the trend of global competition has become increasingly dominant in the 1980s. Businesses have now to contend with foreign competitors who have different cultural, administrative and physical resource bases and competencies.

Second, since the business environment has become increasingly volatile the buffer between a firm and its environment has eroded. Lorange, Scott Morton & Ghoshal (1986).

Finally, technological and managerial capabilities are diffused across societies and firms. In most industries, major competitors have become virtually indistinguishable in terms of their technological competence or the scale of their operations. No longer does a firm such as Caterpillar, Kodak or Xerox enjoy

the absolute and unassailable leadership position that it used to. Relative competitive positions are now determined not on the basis of a technological or commercial breakthrough of the distant past but on the basis of how well firms can cope with the current wave of change.

ENVIRONMENTAL SCANNING

In order to obtain accurate information concerning current events and reasonable assessments of future trends, an intelligence function must be in place. Care must be taken to avoid information overload, many argue it is more important to pick up a few key trends and incorporate them into strategy formulation, than to amass a vast collection of detailed information which no one knows how to use (McAvoy 1983). This point is reaffirmed by Grant (1991) when he states that, "Environmental scanning to identify and anticipate change does not necessarily involve the traditional methods of amassing and analysing vast quantities of market research and economic data contemporary approaches to market intelligence are moving away from formal analysis of market statistics towards direct communication with customers".

Environmental scanning is the process of gathering information about events and their relationships within an organisation's internal and external environments. The purpose of all this information gathering is to help management determine the future direction of the organisation (Aguilar 1967). Although interest in and support for environmental scanning have existed for some time (Dill 1958; Thompson 1967; Kotler 1966), not all management theorists are certain of its worth (Stubbart 1982).

Stubbart carried out an empirical study into formal environmental scanning systems which built on similar studies carried out earlier by Fahey & King (1978) and Thomas (1980).

The Thomas study was generally optimistic about the effectiveness of formal environmental scanning whereas the Fahey & King and Stubbart studies were less optimistic. The main criticisms emerging from the latter two studies were that environmental scanning gained low marks for futurism, and if there were any problems with the performance of the organisation then this often lead to cost cutting within the environmental scanning activity, since this activity offered a vulnerable target for such cost cutting. Consequently any causal link between environmental scanning and

organisation performance must be a long and tenuous one. Stubbart's conclusion was that environmental scanning is one of those many ideas that look good on paper, but prove intractable in implementation.

In spite of doubts cast by some studies on the benefits of environmental scanning with regard to organisational performance there would appear to be a consensus which advocates the need for such scanning. In particular the growing uncertainty of business environments has increased the need for efficient strategic information systems. Among Peters & Waterman's 'excellent' companies, nine had problems, two years after the book, because they did not notice the first signals of important environmental changes (Business Week, November 1984).

ENVIRONMENTAL CHANGES

One of the most significant changes that has occurred recently in the business environment is that this environment is now global. As Ohmae (1990) describes it "the world has become almost borderless" while politically boundaries between countries still exist, on a competitive map, which shows the real flows of financial and industrial activity, those boundaries have largely disappeared.

According to Ohmae (1990) the main force which is causing the disappearance of these boundaries is the flow of information.

The world's population is now able to obtain information from all parts of the world. They can see for themselves what the tastes and preferences are in other countries, the style of clothing in fashion, the sports, the lifestyles.

There is an increasing trend to share in a common language, English.

Recognition of these changes within the business environment by organisations is in itself not enough to ensure that the organisation can respond to and exploit these changes.

For example a truly global corporation today is fundamentally different from the colonial-style multinationals of the 1960s and 1970s.

Ohmae (1990) who has studied the global corporation very closely states that "the global corporation serves its customers in all key markets with equal dedication. It does not enter individual markets for the sole purpose of exploiting their profit potential. Its value system

is universal. In an information-linked world where consumers know which products are best and cheapest, the power to choose or refuse lies in their hands, not in the back pockets of sleepy, privileged monopolies".

Consequently no company can operate effectively on a global scale by centralising all key decisions and then farming them out for implementation.

SUMMARY

It has been noted that the purpose of environmental analysis is to assess the organisation's environment so that management can react to changes in the environment and thereby enhance possibilities of organisational success.

"Not long ago, textile and apparel industries around the world constituted many independent sectors and independent markets. In many ways, today's textile and apparel industries are one international sector - with one international market --- countries no longer operate these industries in isolation, but, rather textile and apparel production and marketing activities are among the most dynamic in global commerce". (Dickerson 1991).

The above reference highlights the importance of environmental analysis to companies in the Scottish textiles and clothing industry. No longer can a Hawick knitwear manufacturer perceive his competition coming from another Hawick knitwear company but that the competition can emanate from anywhere in the world.

Secondly, as pointed out in the chapter, effective market intelligence for companies in the industry is increasingly dependent on companies undertaking, "direct communication with customers (Grant 1991)".

FINANCIAL OBJECTIVES

In considering the financial aspects of strategic management it is necessary to return briefly to the objectives of the organisation. What kind of objectives should the organisation seek? maximum profit, maximum return of stockholders' equity or a balanced satisfaction of the stockholders.

Traditionally and historically a business firm has been regarded as an economic institution; it has according to

CHAPTER FOUR

FINANCIAL ASPECTS OF STRATEGIC MANAGEMENT

INTRODUCTION

"If archangels instead of business people sat in directors' chairs they would still have to be concerned with profitability, despite their total lack of personal interest in making profits". (Drucker 1977).

Profit is not a cause but a result - the result of the performance of the business in marketing, innovation, productivity. Profit is the only effective test of performance.

FINANCIAL OBJECTIVES

In considering the financial aspects of strategic management it is necessary to return briefly to the objectives of the organisation. What kind of objectives should the organisation seek: maximum profit, maximum value of stockholders' equity or a balanced satisfaction of its stockholders.

Traditionally and historically a business firm has been regarded as an economic institution; it has according to

Ansoff (1979) developed a measurement of efficiency-profit - which is common and unique to business. It would seem therefore that profit-seeking, or maximisation of profit, would be the natural single business objective. Deciding on objectives can be a controversial issue in the context of business ethics.

During the eighteenth and nineteenth centuries it seemed appropriate to use short-term profitability as the yardstick of the firm's success.

Since the mid-twentieth century however the influx of technology and increasing capital-equipment needs have forced concern with long-term problems. If short-term profitability were to remain the principal performance yard stick, investments in projects with long-term maturity would naturally be neglected. The result would be a threat to the very survival of the firm in the long run. To assure survival, the concept of the firm's objectives must be expanded to cover the long-term horizon.

Drucker (1958) proposed survival as the central purpose of the firm. This is to be accomplished through the pursuit of a set of survival objectives based on five survival functions which the firm must fulfil to stay alive, among these objectives Drucker included

'adequate' profitability but not profit maximisation.

Ansoff (1979) makes two assumptions in considering the objectives of the organisation. The first assumption is that the business firm does have objectives which are different and distinct from individual objectives of the participants. This means that objectives for an institution known as a business firm can be inferred from its relationship to the environment, from its internal structure, from the functions it performs, and from its past history. The second assumption is that the firm seeks to optimise the efficiency of its resource - conversion process. The return to the firm, or profit, is optimised in some sense in relation to the resources employed to produce it.

An objective contains three elements: the particular attribute that is chosen as a measure of efficiency, the yard stick or scale by which the attribute is measured and the goal - the particular value on the scale which the firm seeks to attain.

The most common attribute that is selected is return on investment. There is some controversy over the appropriate denominator in calculating return on investment computations. The choice ranges over owners' equity or total assets or working capital plus fixed

assets is the best denominator. For example Ansoff (1979) uses owners' equity since in his opinion it provides an all-inclusive measure of top management's performance, including skill in use of outside financing. He does accept that the other denominators may be appropriate for appraisal of performance on management levels, where responsibility is primarily concerned with operating performance. The average rate of returns on equity over the time horizon is the yard stick for the firm and the goal is to optimise this return. Therefore the primary economic objective is to optimise the long-term rate of return on the equity employed in the firm.

The key idea is selecting profitability (a measure of return on resources) rather than profit (excess of revenues over cost) for the chosen attribute.

During the early years of any industry, the bases for competition change substantially as major changes occur in both the market and the product, process and distribution technologies serving it. Eventually, however, these changes slow and the bases for competition within the industry become relatively stable. Shortly, thereafter, market growth usually starts to slow, a development which substantially reduces the investment needs of the businesses in such

industries. When this occurs, many such firms re-focus their investment money on marketing programmes designed to take market share from other competitors. Sometimes, such programmes are successful. Usually, they are not, however, because the remaining competitors respond strongly in kind and because there are no new areas in which significant competitive advantages can be established.

As competition begins to stabilise, the businesses involved should shift their focus from growth to profitability, that is, from market development and asset acquisition to market segmentation and asset utilisation, since the return on increased investments in most functional areas is usually poor.

IMPACT OF STRATEGIC PLANNING ON PROFIT

One of the most significant research projects undertaken by the Marketing Science Institute is the ongoing Profit Impact of Market Strategies (PIMS) Study (Schoeffler, Buzzel & Heany 1987). The basic idea behind PIMS is to provide corporate top management, divisional management, marketing executives, and corporate planners with insights and information on expected profit performance of different kinds of businesses under different competitive conditions.

The PIMS study has gradually developed over the years since it was originally constructed by the General Electric Company and then transferred to Harvard Business School in 1972. In 1975 a separate organisation, the Strategic Planning Institute was founded to conduct the research and to provide advisory services to member companies. By 1986 PIMS incorporated data on more than 2,600 businesses, mostly in North America, but including more than 400 European businesses and over 100 in other regions of the world.

Annual data on three sets of variables are included:

profitability, ie, pre-tax operating profit as a percentage of sales (ROS) and invested capital (ROI);

strategy variables (eg market share, product quality, new product introduction, marketing, and R & D expenses);

industry variables (eg market growth, life-cycle stage, unionisation, customer concentration).

PIMS then uses multiple regression analysis to relate performance to industry and strategy factors. The table below shows the estimated PIMS equations.

The PIMS multiple regression equations: the impact of industry and strategy variables on profitability.

| Profit influences | Impact on: | |
|--------------------------|------------|-------|
| | ROI | ROS |
| Real market growth rate | 0.18 | 0.04 |
| Rate of price inflation | 0.22 | 0.08 |
| Purchase concentration | 0.02 | N.S |
| Unionisation (%) | -0.07 | -0.03 |
| Low purchase amount: | | |
| low importance | 6.06 | 1.63 |
| high importance | 5.42 | 2.10 |
| High purchase amount: | | |
| low importance | -6.96 | -2.58 |
| high importance | -3.84 | -1.11 |
| Exports-Imports (%) | 0.06 | 0.05 |
| Customised products | -2.44 | -1.77 |
| Market share | 0.34 | 0.14 |
| Relative quality | 0.11 | 0.05 |
| New products (%) | -0.12 | -0.05 |
| Marketing, % of sales | -0.52 | -0.32 |
| R & D, % of sales | -0.36 | -0.22 |
| Inventory, % of sales | -0.49 | -0.09 |
| Fixed capital intensity | -0.55 | -0.10 |
| Plant newness | 0.07 | 0.05 |
| Capacity utilisation (%) | 0.31 | 0.10 |
| Employee productivity | 0.13 | 0.06 |
| Vertical integration | 0.26 | 0.18 |
| FIFO inventory valuation | 1.30 | 0.62 |
| R ² | 0.39 | 0.31 |
| F | 58.3 | 45.1 |
| Number of Cases | 2,314 | 2,314 |

For example, if the Real Market Growth Rate of a business was to increase by one percentage point, the equation predicts that its ROI would rise by 0.18 percent. **Source:** Robert D Buzzel and Bradley T Gale, *The PIMS Principles* (Free Press, New York, 1987), p.274.

The PIMS study identified three major determinants of return on investment, namely, market share, investment intensity and company factors.

The analysis carried out in the study strongly supported the proposition that market share is a major influence on profitability. Buzzel, Gale & Sultan (1975) reported that a 10% point difference in market share is accompanied by a 5% point difference in return on investment. Sale & Branch (1982) came to a similar conclusion. In addition the multivariable PIMS ROI equation indicates that a 1% increase in market share leads to a 0.6% increase in ROI (Branch 1980; Gale, Heany & Swire 1977).

PIMS analysis shows how a business's profitability is determined by some 30 strategy and industry variables. By plugging in the actual levels of a business's strategy and industry variables into the PIMS regression estimates, it is possible to calculate that business's "PAR ROI". Par ROI is the normal level of ROI for a business given its profile of strategic and industry characteristics.

It is important to note however that one problem with using return on investment as a measure of a firm's financial performance is that it measures past

profitability. But it is not a valid way to set future objectives because the historical costs of assets - on which return on investment is based - are meaningless in planning future action. (Dearden 1987).

PIMS (Profit Impact on Market Strategy) has been a focus of attention in business strategy research in recent years.

There have however been criticisms of the findings of the PIMS study over the years. Some critics have urged caution in applying the results of research based upon the data (eg Anderson and Paine, 1978), while others have expressed doubt as to whether the PIMS research has any meaning at all (eg Benston 1985).

The PIMS data was based on an original analysis of 521 businesses and the PIMS data base is maintained by the Strategic Planning Institute, a privately held institution.

Subscribers submit data for business units of their choice and are given access to research findings and to data with which they can conduct their own research.

Up to 1987 the research data base contained 2600 unique businesses, that is a separate and identifiable unit for

which it is possible to implement a single independent strategic plan covering all phases of the business.

The major criticisms of PIMS are as follows:

There is some evidence that market leaders are over included and that large industrial parents were more likely to participate (Buzzell 1981); (McCabe 1984). Phillips, Change and Buzzell (1983) found that tenure in the programme was positively related to performance success.

The business unit and the market in which they participate are subjectively defined, and the definitions may lead businesses systematically to overstate their market shares by understating the scope of the markets in which they compete. (Marshall 1987).

The data have been audited and cleaned, and extreme values suppressed which may be detrimental to the resulting research. PIMS has stringent criteria for determining whether prospective subscribers are suitable for research therefore some businesses are excluded from subscribing because they are undergoing periods of extreme instability. (Anderson & Paine 1978; Lubatkin & Pitts 1983; and Magid, Roman & Santowski 1977).

Rumelt and Wensley (1980) explored the relative importance of the direct market share effect and third factor effects. They found no market share effect after market share is "cleansed" of its correlation with common third factors by use of an instrumental variable procedure.

An investigation carried out by Jacobson and Aaker (1985) suggested that the direct impact of market share on ROI that was found using the PIMS data base is substantially lower than widely assumed. Instead of the commonly cited figure of a 1% change in market share being associated with a 0.5% change in ROI, this investigation found a 1% change in market share associated with a 0.1% change in ROI.

In addition some researchers have suggested that all accounting data are fundamentally flawed and ought not to be used for economic research. (Fisher & McGowan 1983).

However a recent study of the PIMS programme (Marshall & Buzzell 1990) concluded that the PIMS programme did produce reliable data, although a number of problems were found. It was found that PIMS draws proportionately from more concentrated industries, and there is every likelihood that PIMS market shares are

overstated, and that PIMS industry variables (industry growth and concentration for the mid-1970s in many cases were drawn from the 1963-72 Census of Manufacturers data.

One of the most difficult areas of corporate strategy is the allocation of investment funds between the different business units. Past profitability is a poor basis for allocation since the correlation between a business's recent level of ROI and the ROI earned on new investment is extremely low (Grant 1991). Discounted cash flow analysis is excellent for appraising individual projects, but is less useful in allocating funds between whole businesses. In this situation the PIMS tool of "STRATEGIC ATTRACTIVENESS SCAN" can be used. A business unit's investment attractiveness is assessed in relation to:

estimated future real rate of growth of its market;
its Par ROI.

The PIMS analysis offers predictions as the "strategic attractiveness" of investment in the business. Consequently the PIMS programme can still make a positive contribution to corporate strategy when used judiciously.

Adopting the assumption as articulated by (Grant 1991) that the purpose of strategy is to increase long-term profitability and being quite clear about the definition of profits, the period over which profits are measured, and the influence of risk allows the approach to long term profitability of value - maximising to be taken.

Hence valuation of firms and strategies can be calculated by using the following equations (Brearley & Myers 1988):

The present value of the firm (V) is the sum of the future net cash flows of the firm (C) in each period t, discounted at the firm's cost of capital (k). Hence:

$$V = C_0 + \frac{C_1}{1+k} + \frac{C_2}{(1+k)^2} + \frac{C_n}{(1+k)^n} = \sum_t \frac{C_t}{(1+k)^t}$$

Net cash flow (C) is the after-tax cash flow generated by the company that is available to all providers of the company's capital, both shareholders and creditors. Starting with earnings before interest and tax (EBIT) net cash flow can be calculated as follows:

$$C = \text{EBIT} - \text{Taxes} + \text{Depreciation} - \text{Capital expenditure} - (\text{increase in working capital})$$

The net present value of the firm (V) is not an abstract concept. The net present value of the company is equal to the market value of its securities including both equity (E) and debt (D):

$$V = E + D$$

Compared to the appraisal of individual investment projects, special problems arise from DCF analysis of strategies. While individual investment project have finite lives, the firm (or the business unit) is much longer living, and strategies must also be chosen for the long term; hence the forecasting of cash flows over long periods of time gives rise to particular difficulties.

There has been increasing interest in the application of investment valuation techniques to corporate and business strategies in the firm or "value approaches" to strategy in recent years. (Rappaport 1986).

A group of consultants from McKinsey & Company have explained this trend thus:

"In the last decade, two separate streams of thinking and activity - corporate finance and corporate strategy - have come together with a resounding crash. Corporate finance is no longer the exclusive preserve of

financiers. Corporate strategy is no longer a separate realism ruled by CEOs. The link between strategy and finance has become very close and clear. Participants in the financial markets are increasingly involved in business operations through leveraged buyouts, hostile takeovers, and proxy contests. At the same time, chief executives have led their companies to become increasingly active players in the financial markets through self-generated restructurings, leveraged recapitalisations, leveraged buyouts, share repurchases and the like. Financing and investing are now inextricably linked. This new reality presents a challenge to business managers: the need to manage value. The need to focus as never before on the value their companies are creating". (Copeland, Holler & Murrin 1990).

When it comes to issues of multibusiness strategy, the valuation of business units is particularly important since the critical issue in the management of the corporate portfolio is the contribution which individual business units make to the overall value of the corporation.

A diversified company has two levels of strategy: business unit (or competitive) strategy and corporate (or company wide) strategy. (Porter 1987).

Grant (1991) expands on the above two types of strategy thus:

Corporate strategy defines the industries and markets in which the firm competes, comprising decisions over diversification, vertical integration, acquisitions, divestments and new ventures. It is concerned with the balance of the enterprise's portfolio of businesses which is adjusted by corporate decisions over the allocation of resources between the individual businesses.

Business strategy is concerned with how the firm competes within a particular industry or market. If the firm is to win, or even to survive, within an industry, it must adopt a strategy which establishes a competitive advantage over its rivals. Hence this area of strategy is also referred to as COMPETITIVE STRATEGY.

PORTFOLIO ANALYSIS

All except the smallest and simplest companies comprise more than one business.

Even those companies which operate within a single broad business area are usually involved in a number of product-market segments - which are distinct economically. These must be considered separately for

purposes of strategy development.

The fundamental determinant of strategy success for each business segment is the relative competitive position. (Hedley 1977). The Business Portfolio Concept was developed by the Boston Consulting Group and this concept stresses the importance of growth in shaping strategy. Two reasons for the importance of growth are that firstly growth is a major factor in influencing the likely ease and hence the cost of gaining market share. The second important factor concerning growth is the opportunity it provides for investment.

Businesses can basically fall into anyone of FOUR broad strategic categories:

| | | HIGH | LOW |
|-----------------|------|-----------|----------------|
| BUSINESS GROWTH | HIGH | STARS | QUESTION MARKS |
| | LOW | CASH COWS | DOGS |

RELATIVE COMPETITIVE POSITION
(MARKET SHARE).

Stars have a high growth and a high market share. They represent probably the best profit growth and investment opportunities available to a company.

Question marks have a high growth potential but low market share. If successful these businesses/products will become new 'stars' which will in turn become 'cash cows' of the future. If unsuccessful they will become 'dogs'.

Cash cows have low growth and high market share. Large cash surpluses are generated by cash cows.

Dogs have low growth and low market share. Investment required just to maintain competitive position, though low, it exceeds the cash that is generated. A company should avoid having too many of its assets in this category.

It is therefore essential that a multibusiness company strikes a balance in its portfolio. As Hedley (1977) states many companies have been living from day to day for too long. Clear and explicit consideration of long range strategy must be restored to business consciousness and decision making or we shall find that the future has been mortgaged irretrievably. Relative competitive position within the context of the portfolio concept can provide the simple and sound individual business objectives which are needed for any company to optimise its strategic opportunities.

SUMMARY

Managers have employed strategic planning using Steiner's (1979) definition of strategic planning which states that, 'strategic planning is an orderly process by which top management determines organisational objectives, strategies needed to reach these objectives, and top-level actions necessary to implement the strategy properly', it can be seen that in this context the term strategic planning is interchangeable with strategic management for the last 25 years under the assumption that it improved profitability. However an analysis of 18 relevant empirical studies (Pearce, Freeman & Robinson 1987) revealed that the effect of formal strategic planning on organisational effectiveness remains an unresolved issue. One of the weaknesses highlighted by the analysis was that a number of the empirical studies did not provide a conceptual definition of planning. This weakness applied to the studies carried out by Thune & House (1970); Ansoff et al (1970); Herald (1972); Rue & Fulmer (1973); Harju (1981); Sapp & Seiler (1981); Leontiades & Tezel (1980). Concern has also been expressed regarding the methodological approach used in the 18 empirical studies. The principal methodological concern was the lack of attention to contextual influences (Jemison 1981). The implementation of formal strategic plans was another link between planning and performance which was

consistently ignored. Intended strategies often become altered through internal politics and the competitive market place (Mintzberg & McHugh 1986). Therefore the link between formal strategic planning and financial performance remains tenuous.

In spite of the lack of conclusive evidence within research studies linking the quality of strategic decision making to financial performance, profitability, in the form of return on capital employed, has been used, in this study of the Scottish textiles and clothing industry, as the measure by which the economic performance of organisations within the industry is judged.

This economic performance is in turn dependent on the quality of the component parts of the study, namely, the quality of an organisation's competitive strategy, the quality of its competencies and its key functional skills relative to the key competitive force in its industry.

CHAPTER FIVE

COMPETITIVE STRATEGY

INTRODUCTION

Following on from the previous chapter the examination of competitive behaviour is essential since competition determines the overall rate of profit in an industry.

The principal framework used in this chapter is Porter's five forces of competition model. "The merit of this model is that it provides a simple, yet powerful, organising framework for classifying the relevant information about an industry's structure and for predicting what the implications of these structural features are for competitive behaviour (Grant 1991).

DISTINGUISHING COMPETITIVE & CORPORATE STRATEGIES

As stated in Chapter 3 a diversified company has two levels of strategy:

- business unit (or competitive) strategy; and
- company wide or (competitive) strategy.

(Porter 1987).

Competitive strategy is about how to create competitive advantage in each of the businesses in which a company competes.

Corporate strategy concerns two different questions:
what business the corporation should be in; and
how the corporate office should manage the array of
business units.

Corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts.

Competition occurs at the business unit level. Diversified companies do not compete; only their business units compete.

It is very difficult to move from competitive strategy to corporate strategy, Porter (1987) likens it to passing through the Bermuda Triangle. The failure of corporate strategy reflects the fact that most diversified companies have failed to think in terms of how they really add value.

Much more emphasis is being directed today at competitive strategy. As competition becomes increasingly more intensive the need for firms to give more thought to competitive strategy will become more essential.

The Classic Approach to Formulation of Strategy

Essentially, developing a competitive strategy is developing a broad formula for how a business is going

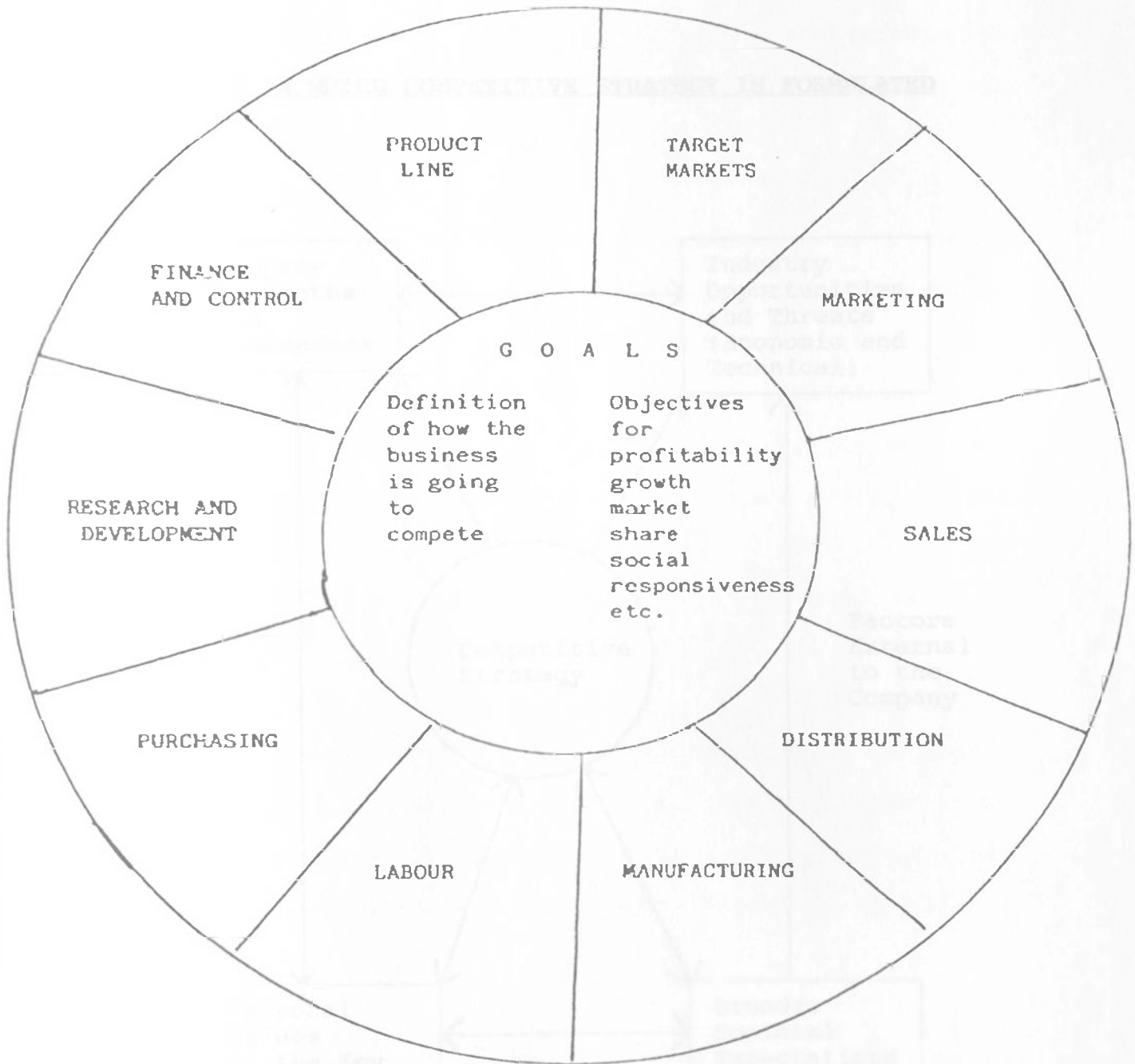
to compete, what its goals should be, and what policies will be needed to carry out those goals. (Porter 1980).

Competitive strategy is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.

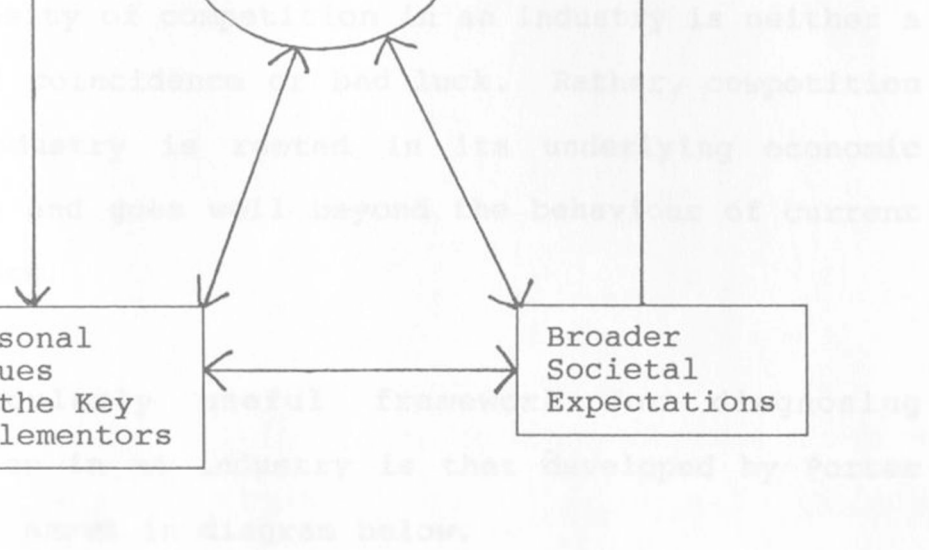
The figure below titled the 'Wheel of Competitive Strategy' is a device for articulating the key aspects of a firm's competitive strategy on a single page. (Porter 1980).

In the hub of the wheel are the firm's goals, which are its broad definition of how it wants to compete and its specific economic and non-economic objectives. The spokes of the wheel are the key operating policies with which the firm is seeking to achieve these goals. Under each heading on the wheel a succinct statement of the key operating policies in that functional area should be derived from the company's activities. Like a wheel the spokes (policies) must radiate from and reflect the hub (goals), and the spokes must be connected with each other or the wheel will not roll.

THE WHEEL OF COMPETITIVE STRATEGY



IN WHICH COMPETITIVE STRATEGY IS FORMULATED



The company's strengths and weaknesses are its profile of assets and skills relative to competitors, including financial resources, technological posture, brand identification and so on.

The personal values of an organisation are the motivations and needs of the key executives and other personnel who must implement the chosen strategy. Strengths and weaknesses combined with values determine the internal (to the company) limits of the competitive strategy a company can successfully adopt.

The external limits are determined by its industry and broader environment. Industry opportunities and threats define the competitive environment, with its attendant risks and potential rewards. Societal expectations reflect the impact on the company of such things as government policy, social concerns, evolving mores, and many others. These four factors must be considered before a business can develop a realistic and implementable set of goals and policies.

A firm can earn a rate of profit in excess of the "normal" or "competitive" rate, either by locating in an attractive industry, or by establishing a competitive advantage over its rivals. Of the two sources of superior profitability, competitive advantage is of increasing importance.

The reasons are not difficult to discern. Since the 1970-80s the pressure of competition has increased across the whole business sector. In industries producing traded goods the rising tide of international trade has opened previously sheltered domestic markets to vigorous import competition. In industries where profitability was once protected by substantial barriers to entry, new entry has been encouraged by deregulation, diversification by domestic companies, and multinational expansion by overseas companies.

These trends have had dire consequences for corporate profitability. In both the US and Western Europe, corporate profitability since the mid 1960s, despite a revival during the latter 1980s, has been on a downward trend. At the same time, the inter-industry dispersion of profitability has narrowed. Most of the industries which were once seen as safe havens for comfortable profits such as oil, computer and investment banking, health care services and aerospace, have suffered increasing competitive pressures.

Hence the primary goal for strategy must be the establishment of a position of competitive advantage for the firm.

THE ANALYSIS OF COMPETITION IN AN INDUSTRY

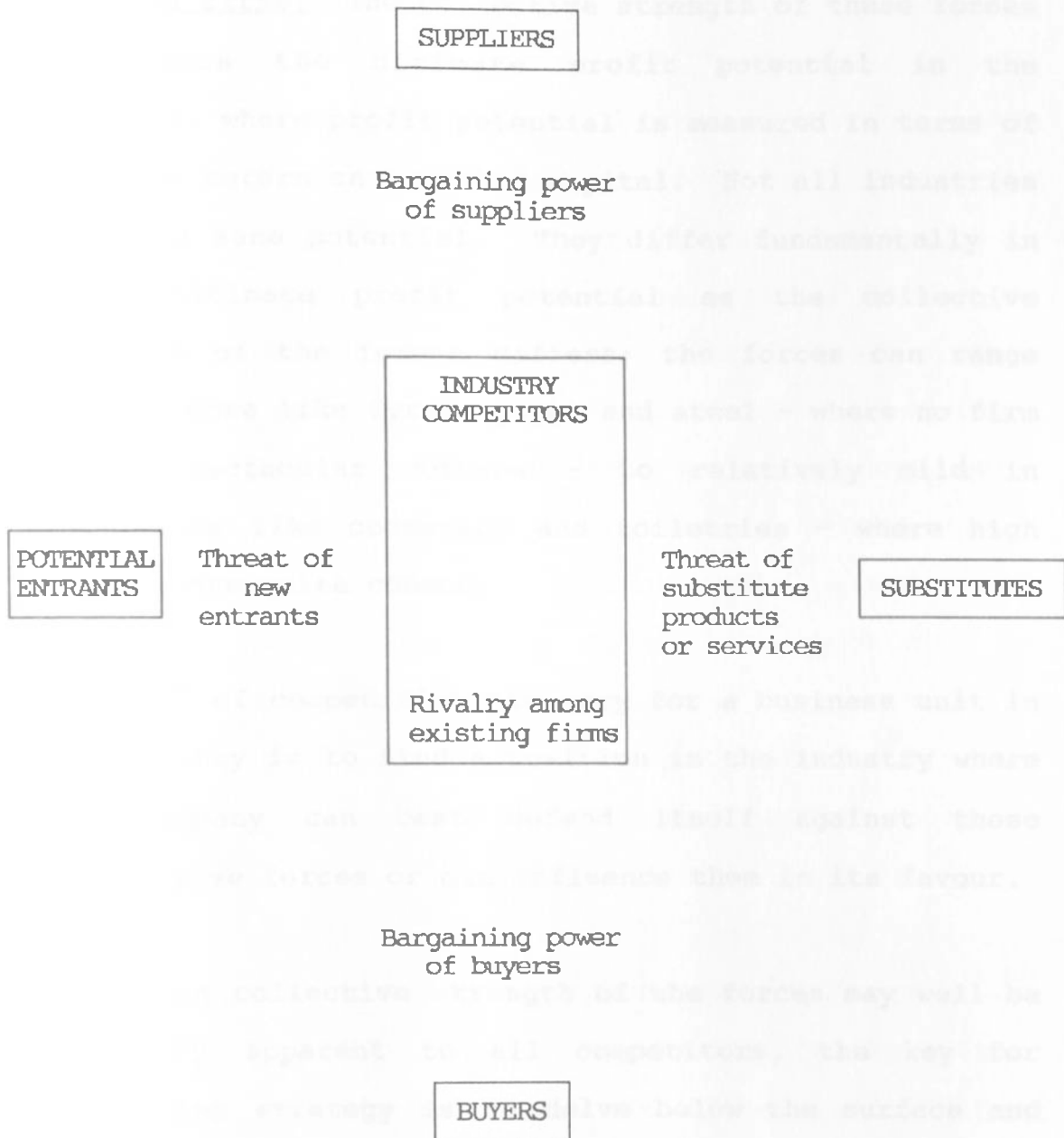
It has been stated that a firm can earn a rate of profit in excess of the "competitive" rate by locating in an attractive industry. It is therefore appropriate to consider the factors which determine the intensity of competition in an industry.

The key aspect of the firm's environment is the industry or industries in which it competes. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. Forces outside the industry are significant primarily in a relative sense; since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them.

The intensity of competition in an industry is neither a matter of coincidence or bad luck. Rather, competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors.

A particularly useful framework for diagnosing competition in an industry is that developed by Porter (1980) as shown in diagram below.

Porter's "five forces of competition" framework



The state of competition in an industry depends on five basic competitive forces: (1) the threat of new entrants; (2) the bargaining power of buyers; (3) the bargaining power of suppliers; (4) threat of

substitute products or services and (5) rivalry among existing firms. The collective strength of these forces determines the ultimate profit potential in the industry, where profit potential is measured in terms of long run return on invested capital. Not all industries have the same potential. They differ fundamentally in their ultimate profit potential as the collective strength of the forces differs; the forces can range from intense like tyres, paper and steel - where no firm earns spectacular returns - to relatively mild in industries like cosmetics and toiletries - where high returns are quite common.

The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favour.

Since the collective strength of the forces may well be painfully apparent to all competitors, the key for developing strategy is to delve below the surface and analyse the sources of each.

ANALYSIS OF THE FIVE COMPETITIVE FORCES

1. Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources.

The threat of entry into an industry depends on the barriers to entry.

A number of empirical studies have measured the impact of entry barriers on industry profitability. Studies by Bain (1956) and Mann (1966) found return on equity to be, on average, five percentage points higher in industries with "very high entry barriers" than those with "substantial" or "moderate to low" barriers. Studies using capital intensity and advertising intensity as proxies for scale economy and differentiation barrier respectively, show both variables to be positively related to profitability (Comanor & Wilson 1974) and Weiss (1971). A study by Yip (1983) found, contrary to expectation, that entry barriers had no observable effect in deterring entry.

Barriers to Entry

There are six major sources of barriers to entry:

Economies of scale - deter entry by forcing the entrant to come in at large scale and risk strong reaction from existing firms or come in at a small scale and accept a cost disadvantage. For example Xerox and General Electric did not have the scale economies to compete in the mainframe computer industry.

Product differentiation - means that established firms have brand identification and customer loyalties.

Capital requirements - the need to invest large financial resources in order to compete creates a barrier to entry, particularly if the capital is required for risky or unrecoverable up-front advertising or research and development.

Switching Costs - these are the costs incurred by a buyer when switching costs are high, then new entrants must offer a major improvement in cost or performance in order for the buyer to switch from an incumbent. For example, in intravenous solutions and kits for use in hospitals, procedures for attaching solutions to patients differ among competitive products and the hardware for hanging the bottles are not compatible.

Access to Distribution Channels - the new firm must persuade the channels to accept its product through price breaks, cooperative advertising allowances, and the like, which reduce profits. The manufacturer of a new food product, for example, must persuade the retailer to give it space on the fiercely competitive supermarket shelf via promises of promotions, intense selling efforts to the retailer, or some other means.

The more limited the wholesale or retail channels for a product are and the more existing competitors have these tied up, obviously the tougher the entry into the industry will be. Existing competitors may have ties with channels based on long relationships, high-quality

service, or even exclusive relationships in which the channel is solely identified with a particular manufacturer. Sometimes this barrier to entry is so high that to surmount it a new firm must create an entirely new distribution channel, as Timex did in the watch industry.

Government Policy - The last major source of entry barriers is government policy.

Government can limit or even foreclose entry into industries with such controls as licensing arrangements. More subtle government restrictions on entry can stem from controls such as air and water pollution standards, hygiene standards, product safety and efficacy regulations.

2. Bargaining Power of Buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other - all at the expense of industry profitability. The power of each of the industry's important buyer groups depends on a number of characteristics of its market situation and on the relative importance of its purchases from the industry compared with its overall business. A buyer group is powerful if the following circumstances hold true:

It is concentrated or purchases large volumes relative to seller sales.

The products it purchases from the industry represent a significant fraction of the buyer's costs or purchases.

The products it purchases from the industry are standard or undifferentiated.

It faces few switching costs.

It earns low profits.

Buyers pose a considerable threat of backward integration eg the major car manufacturers are well known for using the threat of self-manufacture as a bargaining lever.

The industry's product is unimportant to the quality of the buyers' products or services.

The buyer has full information.

Where the buyers are retailers who can influence consumers' purchasing decisions.

3. Bargaining Power of Suppliers

Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce

the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. By raising their prices, for example, chemical companies have contributed to the erosion of profitability of contract aerosol packagers because the packagers, facing intense competition from self-manufacture by their buyers, accordingly have limited freedom to raise their prices.

The conditions making suppliers powerful tend to mirror those making buyers powerful.

4. Pressure from Substitute Products

All firms in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternative offered by substitutes, the firmer the lid on industry profits.

Substitutes not only limit profits in normal times, but they also reduce the bonanza an industry can reap in boom times. In 1978 the producers of fibreglass insulation enjoyed unprecedented demand as a result of high energy costs and severe winter weather. But the industry's ability to raise prices was tempered by the plethora of insulation substitutes, including

cellulose, rock wool and styrofoam. These substitutes are bound to become an even stronger limit on profitability once the current round of plant additions has boosted capacity enough to meet demand.

5. Intensity of Rivalry Among Existing Competitors

Among the major factors determining the nature and intensity of competition between established firms are:

- concentration;
- diversity of competitors;
- product differentiation;
- excess capacity and exit barriers;
- cost conditions - scale economies and the ratio of fixed to variable costs.

Despite considerable empirical research into the relationship between industry structure and profitability, the results are far from conclusive.

Most contentious is the impact of seller concentration on profitability. (Schmalensee & Bresnahan 1988).

Rivalry among existing competitors takes the familiar form of jockeying for position - using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. In most industries,

competitive moves by one firm have noticeable effects on its competitors and thus incite retaliation or efforts to counter the move; that is, firms are mutually dependent. This pattern of action and reaction may or may not leave the initiating firm and the industry as a whole better off. If moves and counter-moves escalate, then all firms in the industry may suffer and be worse off than before.

Some forms of competition, notably price competition, are highly unstable and quite likely to leave the entire industry worse off from the standpoint of profitability. Price cuts are quickly and easily matched by rivals, and once matched they lower revenues for all firms unless industry price elasticity of demand is high enough. Advertising battles, on the other hand, may well expand demand or enhance the level of product differentiation in the industry for the benefit of all firms.

Rivalry in some industries is characterised by such phrases as 'warlike', 'bitter', or 'cut-throat', whereas in other industries it is termed 'polite' or 'gentlemanly'.

The exhibit below shows the average rate of return earned in different US industries over the period 1960-85. Some industries, such as tobacco and printing, earned comparatively high rate of profit; others such as textiles, primary metals and stone, glass and clay, earn

constantly low rates of profit. Therefore, it is worth reiterating the fact that the basic premise of industry analysis is that the level of industry profitability in neither an historical accident nor the result of entirely industry specific influences, but is determined by the characteristics of INDUSTRY STRUCTURE. Across the whole range of manufacturing and service industries the nature and intensity of competition is a product of common structural factors.

| | | |
|----------------------|---------|---------|
| | 1950-55 | 1956-65 |
| Chemical machinery | 7.0 | 7.4 |
| Electrical machinery | 7.0 | 4.3 |
| Food machinery | 6.3 | 3.8 |
| Iron machinery | 6.5 | 5.4 |
| Machine tools | 6.5 | 3.8 |
| Metals machinery | 6.4 | 4.3 |
| Medical machinery | 5.3 | 2.1 |
| Other machinery | 6.0 | 6.1 |
| Textile machinery | 5.7 | 3.7 |
| Transport machinery | 5.4 | 2.4 |
| Other machinery | 5.3 | 2.8 |
| Other machinery | 5.0 | 0.9 |
| Other machinery | 4.5 | 4.3 |
| Other machinery | 4.3 | 1.3 |
| Other machinery | 4.3 | 1.8 |
| Other machinery | 2.8 | -2.2 |

The return on invested capital is measured as the ratio of adjusted earnings before interest and taxes to adjusted capital stock (net plant and equipment plus investments and intangibles).

Source: Lawrence E. Katz and Lawrence E. Summers, "Industry Structure and Implications," Brookings Papers on Economic Activity (1983) p. 114.

**THE AFTER-TAX RATE OF RETURN ON INVESTED CAPITAL IN US
MANUFACTURING INDUSTRIES, 1960-85**

| Industry | 1960-85 (%) | 1981-85 (%) |
|---------------------------|----------------|----------------|
| Scientific instruments | 9.1 | 4.2 |
| Printing | 8.6 | 7.3 |
| Tobacco | 8.1 | 9.5 |
| Miscellaneous manufacture | 6.1 | 5.6 |
| Apparel | 7.0 | 7.4 |
| Electrical machinery | 7.0 | 4.5 |
| Chemicals | 6.9 | 3.8 |
| Transportation equipment | 6.6 | 5.4 |
| Paper | 6.6 | 3.8 |
| Leather | 6.4 | 4.3 |
| Non-electrical machinery | 6.1 | 2.1 |
| Food | 6.0 | 6.1 |
| Fabricated metals | 5.7 | 3.7 |
| Rubber | 5.4 | 2.1 |
| Petroleum | 5.3 | 2.8 |
| Lumber | 5.0 | 0.9 |
| Furniture | 4.3 | 4.3 |
| Stone, glass, clay | 4.3 | 1.1 |
| Textiles | 4.2 | 1.8 |
| Primary metals | 2.8 | -2.2 |

After-tax return on invested capital is measured as inflation-adjusted, after-tax net income divided by the inflation-adjusted capital stock (net plant and equipment plus investments and intangibles).

Source: Lawrence F Katz and Lawrence H Summers, "Industry rents: evidence and implications," Brookings Papers: Microeconomics 1989 (3), p214.

The underlying theory of the relationship between industry structure, competitive behaviour, and industry profitability is provided by the STRUCTURE - CONDUCT- PERFORMANCE approach to industrial economics which seeks to relate the characteristics of industry structure to the nature of competitive behaviour and to the level of industry profitability. (Grant 1991). The two reference points are the theory of monopoly and the theory of perfect competition, which represents the two ends of the spectrum of industry structures.

Where there is a single firm in an industry and new firms are unable to enter, MONOPOLY exists: competition is absent and the monopolist can fully exploit customers' need for the product to earn the maximum level of profit available. Where there are many firms in an industry, all producing an identical product, and with no restrictions upon entry PERFECT COMPETITION exists: price competition causes profits to fall to "the competitive level", a level that just covers the firms' cost of capital. In the real world, industries fall between these two extremes.

ANALYSING COMPETITIVE DYNAMICS

One of the chief criticisms levelled at the STRUCTURE- CONDUCT - PERFORMANCE approach to industry analysis

which underlies Porter's "five forces of competition" framework is that it fails to take account of the dynamic nature of competition and industry structure.

The key danger in using the Porter framework is that it can encourage us to make our predictions about competitive behaviour and profitability on the assumption that industry structure is exogenous and is constant over time. Yet the essence of competition is that it is a dynamic process in which structures are continually being reformed.

Schumpeter (1934) recognised the dynamic interaction between competition and industry structure. In his view, innovation is the key element of competition in transforming industrial structures. He described innovation as a "perennial gale of creative destruction" through which favourable industry structures, monopoly in particular contain the seeds of their own destruction by providing incentives for firms to attack established positions through new approaches to competing.

However most empirical studies of changes over time in industry structure and profitability show Schumpeter's process of "creative destruction" to be more of a breeze than a gale. Studies carried out by Masson and Shaanan (1982) of US and Canadian industry found that entry

occurred so slowly that profits are undermined only slowly. Another survey (Geroski & Masson 1987) commented that "the picture of the competitive process ... is, to say the least, sluggish in the extreme".

Overall, the studies show a fairly consistent picture of the rate of change of profitability and structure. At both the firm and the industry level, profits tend to be highly persistent in the long run (Mueller 1986). Structural change, notably concentration, entry, and the identity of leading firms, also appears to be, on average, slow (Caves & Porter 1980).

THE COMPETITIVE INTERACTION OF FIRMS

A second major limitation of the STRUCTURE - CONDUCT-PERFORMANCE approach to industry analysis is that it takes little or no account of the competitive interaction between firms. Observation shows that, in most markets, the outcome of the competitive process is determined not just by industry structure but also by the sequence, timing, and mutual perceptions of each firm's competitive moves. (Cassidy 1963). The competitive process is unstable. Evidence from a study of petrol retailing (Grant 1982) shows that intense local price wars can erupt as a result of a modest price cut by one petrol station, by personal animosity between

adjacent retailers, or by misjudgment by one retailer. The airline industry displays similar speed of competitive reactions which cause unstable competitive conditions. (Carlsson 1987).

While recognising that Porter's "five forces of competition framework" suffers from some critical limitations, the model never the less contains much merit in that it provides a simple, yet powerful, organising framework about an industry's structure and for predicting what the implications of these structural features are for competitive behaviour.

THREE GENERIC STRATEGIES (PORTER 1980)

In coping with the five competitive forces, there are three potentially successful generic strategic approaches to out performing other firms in an industry.

1. Overall cost leadership.
2. Differentiation.
3. Focus.

Effectively implementing any one of these generic strategies usually requires total commitment and supporting organisational arrangements that are diluted if there is more than one primary target.

1. OVERALL COST LEADERSHIP

This strategy was a common one in the 1970s because of popularisation of the experience curve concept. The experience curve is interesting for three reasons: because, as stated, of its pervasive influence on strategic thinking during the 1970s and 1980s; because it provides a suitable introduction into the sources of cost advantage; and because it demonstrates how analysis of the determinants of relative cost can yield clear strategy prescriptions. The experience curve concept was promulgated by the Boston Consulting Group (1968) and is summarised in The Law of Experience: The unit cost of value added to a standard product declines by a constant percentage (typically between 20 and 30 per cent), each time cumulative output doubles. "Unit cost of value added", is total cost per unit of production LESS the cost per unit of production of bought-in components and materials. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimisation in areas like R & D, service, salesforce, advertising and so on. A great deal of managerial attention to cost control is necessary to achieve these aims. Low cost relative to competitors becomes the theme running through the entire

strategy, though quality, service and other areas cannot be ignored.

Having a low-cost position yields the firm above-average returns in its industry despite the presence of strong competitive forces. Its cost position gives the firm a defence against rivalry from competitors, because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry.

Achieving a low overall cost position often requires a high relative market share or other advantages, such as favourable access to raw materials. In addition the quest for experience-based cost economies further implies that a firm's primary strategic goal should be market share. A number of empirical studies, most notably those undertaken by the PIMS programme, the BCG study confirmed the positive relationship between profitability and market share. (Buzzel, Gale & Sultan 1975; Buzzell & Wiersema 1981; Jacobsen & Aaker 1985). Both PIMS and the BCG study found that the critical variable determining ROI (return on investment) was not market share itself, but RELATIVE market share, that is, a firm's market share relative to that of its largest competitor. Thus, if FORD has 12 percent of the European car market and its largest competitor, FIAT,

has 16 percent, Ford's relative market share in Europe is 0.75.

Despite the evidence linking market share to profitability, no consensus exists as to the interpretation of the relationship (Grant 1991). The view of PIMS and BCG that market share confers superior profitability and their recommendation that increasing market share should be the primary strategy goal for companies has come under increasing attack on a number of grounds. First, there is doubt as to causation. Association is not the same as causation and it is not clear whether market share confers superior profit, whether profitable firms use their profit earnings to buy market share, or whether both high profits and high market share are consequences of some third variable. These criticisms have been articulated in an earlier chapter. One other criticism to add to those stated earlier is served from a study by Rumelt & Wensley (1981) which concluded that the positive relationship between market share and profitability was not the result of market share generating profit, but of both being joint outcomes of a risky competitive process. Evidence from airlines, personal computers, soft drinks, and many other industries confirms that competition for market share leads to price wars which lower profitability for all firms. It may well require

designing products for use in manufacturing, maintaining a wide line of related products to spread costs, and serving all major customer groups in order to build volume. In turn, implementing the low-cost strategy may require heavy up-front capital investment in state-of-the-art equipment, aggressive pricing, and start-up losses to build market share.

ECONOMIES DUE TO LEARNING EFFECTS

Economies due to learning effects and economies of scale have been identified as major underlying components of the experience curve phenomenon (Amit 1986; Hall & Howell 1985). To a large extent the significance of cost leadership as an independent strategy is based on the presumption that the experience curve declines CONTINUALLY with accumulated output over time, a view popularised by the Boston Consulting Group (BCG 1971).

However, evidence suggests that learning effects are greatest during the start-up period associated with a new plant or process (Alchian 1963; Baloff 1966; Hall & Howell 1985) and that they decline and die out once a certain cumulative output is reached. Any observed cost decline in an experience curve after such a point, therefore, must be due to effect other than those associated with learning (eg economies of scale).

ECONOMIES OF SCALE

After learning effects have been exhausted, further experience effects can be reaped only from economies of scale. There are two sources of scale economies: the plant level and the firm level. The concept of minimum efficient scale (MES) defines the minimum plant size necessary to realise plant-level scale economies (Pratten 1971; Scherer, Beckenstein, Kaufer & Murphy 1975; Silberston 1972; Walters 1963). First, once MES is reached, little in the way of additional cost reductions from plant-level economies is possible. Second, in many industries the cost disadvantages of operating at substantially less than MES are slight. Third, in many industries, MES is reached at low levels of market share.

Therefore the experience curve, as defined by BCG, does not continually decline: instead, it bottoms out. After it bottoms out, expanding output will not produce further cost reductions. Firms can exploit firm-level scale economies in marketing, buying, distribution, finance as well as economies from multi-plant operations (Prais 1976; Scherer et al 1975).

There is however little evidence about the significance of firm-level scale economies.

SOURCES OF COST ADVANTAGE

The sources of cost advantage can be divided into STATIC and DYNAMIC sources. Hayes, Wheelright and Clark (1988) identified an over-emphasis on static, efficiency at the expense of dynamic efficiency as a key determinant of America's industrial decline. Hayes, Wheelright and Clark observed that the rise of American manufacturing during the early decades of the twentieth century was the result of a dynamic approach to manufacturing which represented a marriage between the values and commitment of the artisan, the principles of scientific management, and the potential of technological progress.

In the post-war period, argue Hayes, Wheelright and Clark, this dynamic approach to manufacturing transferred from American to Japanese companies. US managers turned their attention from manufacturing to marketing, finance, corporate planning, and government relations.

As companies lost touch with their manufacturing operations and became increasingly reliant upon financial data, quantitative targets, and scientific approaches to production management, the result was a shift from a culture of striving for improvement to one of static optimisation.

Regeneration of US industry, according to Hayes, Wheelright and Clark, requires a readoption of the dynamic approach to manufacturing. It requires a focus on the product rather than financial performance as the *raison d'être* of the firm, commitment to quality, re-establishing production workers as artisans rather than machine-hands, and the quest for constant improvement of products and processes.

Concern over American business's neglect of manufacturing has been the subject of a number of studies for example Hayes & Abernathy's (1980) attack on several of the assumptions and approaches which have characterised American management practice. A number of studies, for example, Hayes and Wheelright (1984); Jaikumar (1986); Gold (1989); Dertouzos, Lester & Solow (1989) have emphasised the need to move manufacturing strategy into the forefront of companies competitive strategies.

Cost efficiency may no longer be a guarantee of security and profitability in today's fast changing markets but in almost all industries it is a pre-requisite for success. In industries where competition has always been primarily price-based - steel, food products, and textiles - increasing intensity of competition is

requiring more intensive and radical approaches to cost reduction.

In industries where price competition was once muted - airlines, investment banking, and computers - firms are for the first time being forced to reconcile the pursuit of innovation, differentiation, and service quality with vigorous cost reduction.

Some avenues for cost reduction may be major strategic re-orientations such as, relocating production operations offshore; or organisational changes involving the removal of several layers of management. However the evidence from companies which have been most successful in achieving substantial and sustained reductions in total cost is that the cost reduction is most likely to be an accumulation of many hundreds of small changes, and depends less on the quality of strategic analysis and more on the motivation, alertness, and responsiveness of employees throughout the company.

DIFFERENTIATION

The second generic strategy is of differentiating the product or service offering of the firm, creating

something that is perceived INDUSTRY WIDE as being unique.

Differentiation advantage occurs when a firm is able to obtain from its differentiation a price premium in the market which exceeds the cost of providing the differentiation. Complex consumer durables, offer greater opportunities for differentiation than standardised industrial products. However even commodity products offer potential for differentiation by adding value to the product by offering customers sales training, promotional materials, market research data. Ultimately differentiation is all about a firm's responsiveness to customer requirements. Peters (1987) describes this response as "total customer responsiveness".

Every action, no matter how small, and no matter how far from the firing line a department may be, must be processed through the customer's eyes. Will this make it easier for the customer? Faster? Better? Less Expensive? Long-term profit equals revenue from continuously happy customer relationships minus cost.

THE NATURE OF DIFFERENTIATION AND DIFFERENTIATION ADVANTAGE

The potential for differentiating a product or service is only partly determined by its physical characteristics. In the case of simple products such as shampoo, toilet paper, and cigarettes, the proliferation of brands on any supermarket's shelves is a testimony to both the ingenuity of firms and the complexity of customer preferences.

Conventional strategy analysis treats differentiation and segmentation as separate strategy variables. Differentiation is concerned with HOW the firm competes; in what ways the firm can offer uniqueness to its customers. Segmentation is concerned with WHERE the firm competes; issues of product - market scope. While segmentation choices are concerned with selecting particular geographical, product, or customer segments; differentiation decisions are concerned with selecting the sources of uniqueness which the firm will use to distinguish its offerings from those of its competitors. These might include CONSISTENCY (McDonald's hamburgers), RELIABILITY (Federal Express's next-day delivery) conferring STATUS (American express), QUALITY (Marks & Spencer), and INNOVATION (Philips).

While segmentation is a feature of market structure, differentiation is a strategic choice by a firm. The distinction between segmentation and differentiation has been articulated in detail by Dickson & Ginter (1987).

ANALYSING DIFFERENTIATION

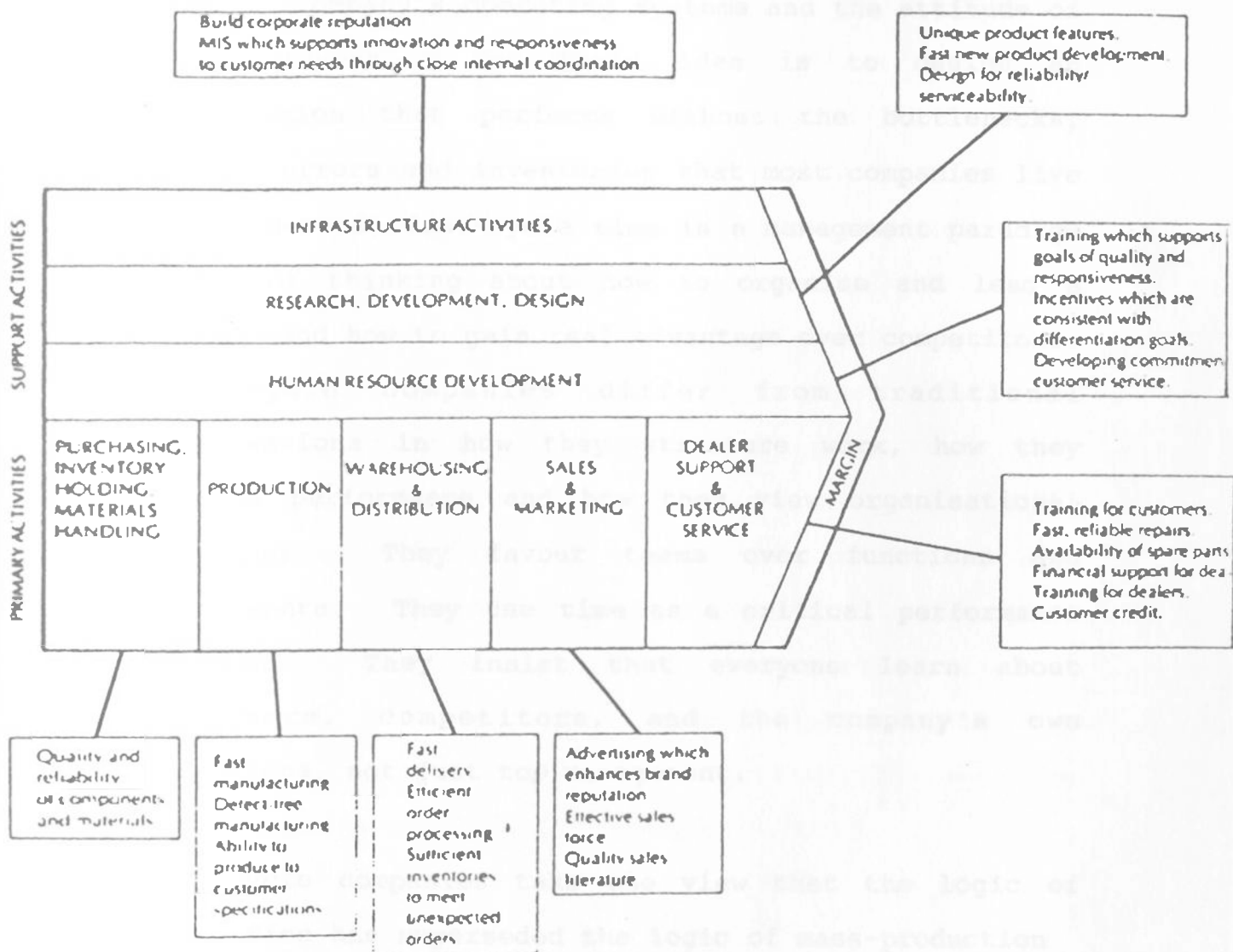
Market research has developed numerous techniques for analysing customer preferences and product attributes in order to guide the positioning of new products and repositioning of existing products within the market in order to achieve differentiation. These techniques include:

- multi-dimensional scaling;
- conjoint analysis;
- Redonic price analysis.

A number of empirical studies have been carried out into these techniques for example, Schiffman, Reynolds & Young (1981) have investigated multi-dimensional scaling, Cattin & Wittink (1982) have conducted a survey of conjoint analysis, and Lancaster (1971) has studied redonic price analysis.

THE VALUE CHAIN IN DIFFERENTIATION ANALYSIS

Porter's (1985) generic value chain (see below) can be used for identifying the drivers of uniqueness in each activity performed by the firm. The value chain can be used to identify the variables and actions through which the firm can achieve uniqueness in relation to competitors offerings.



One example from the above value chain which demonstrates the ability of differentiation to achieve competitive advantage is fast manufacturing.

Bower & Hout (1988) state that competitive advantage can be obtained by the application of fast-cycle capability. They explain that fast-cycle time plays two important roles. First, it is an organisational capability, a level of performance that management shapes and builds into the company's operating systems and the attitude of its employees. The basic idea is to design an organisation that performs without the bottlenecks, delays, errors and inventories that most companies live with. Second, fast-cycle time is a management paradigm, a way of thinking about how to organise and lead a company and how to gain real advantage over competitors. Fast-cycle companies differ from traditional organisations in how they structure work, how they measure performance and how they view organisational learning. They favour teams over functions and departments. They use time as a critical performance measure. They insist that everyone learn about customers, competitors, and the company's own operations, not just top management.

Fast-cycle companies take the view that the logic of innovation has superseded the logic of mass-production

and this in turn demands new organisation and management practices.

The attraction of differentiation over low cost as a basis for competitive advantage is, first, that it is less vulnerable to being overtwisted by turbulence in the external environment, and, secondly, that it is more difficult to replicate.

FOCUS

The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market; as with differentiation, focus may take many forms, Although the low cost and differentiation strategies are aimed at achieving their objectives industry wide, the entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both.

Of Porter's three generic strategies the focus strategy seems to have caused the greatest confusion (eg Dess & Davis 1982, 1984). Porter (1985) attempted to resolve his confusion by positing that the choice of a focused or broad strategy is independent of the choice of product differentiation or cost leadership. Thus according to Porter, a firm could take either a focused or broad approach to either product differentiation or cost leadership. Yet even today many researchers confuse a focused strategy with a product differentiation strategy.

The problem is one of levels of analysis. Whether pursuing cost leadership or product differentiation, the strategist using a focused approach must first differentiate the product offering from offerings aimed at other segments of the same market, hence the confusion between a focused strategy and product differentiation. Southland's 7-11 stores, for example, exemplify product differentiation based on convenience, but this is only when they are compared with food retailers targeting other market segments (eg supermarkets). When they are compared with other firms competing in their own niche (ie other convenience stores), it becomes clear that 7-11 stores strive for cost leadership.

Given that both cost leadership and product differentiation have broad and focused variants, the obvious question is: which variant should a firm choose? A conjoint analysis framework (Green & Srinivasan, 1978; Shocker & Srinivasan 1974, 1979; Srinivasan & Shocker 1973) can help to answer this question. This approach represents a product as a "point" in "attribute space" in which each dimension is a product attribute valued by customers. An "ideal point" is that combination of product attributes which the customer prefers to all other points in the attribute space.

If all customers' ideal points fall into roughly the same region, one product configuration should suit all customers. But if ideal points form two or more clusters, the firm may be able to offer more than one product configuration successfully. Obviously if all customers prefer a roughly similar product offering, a focus strategy is not viable. Thus, the viability of the focused strategy is tied directly to exogenous factors, that is, the heterogeneity of customer preferences.

THREE GENERIC STRATEGY REQUIREMENTS

Overall Cost Leadership

Required Skills and Resources

- Sustained capital investment
- Intense supervision of labour
- Products designed for ease of manufacture
- Low-cost distribution system.

Organisational Requirements

- Tight cost control
- Frequent, detailed control reports
- Structured organisation and responsibilities
- Incentives based on meeting strict quantitative targets.

Differentiation (something that is perceived industry wide as being unique)

Required Skills and Resources

- Strong marketing abilities
- Creative flair
- Corporate reputation for quality or technological leadership
- Strong co-operation from channels
- Long tradition in industry.

Organisational Requirements

- Strong co-ordination among functions in research and development

Product development and marketing
 Subjective measurement and incentives, instead of
 quantitative measures
 Amenities to attract creative people.

Focus

Required Skills and Resources

Combination of the above
 Policies directed at the particular strategic market.

Organisational Requirements

Combination of the above
 Policies directed at the particular strategic market.

THREE GENERIC STRATEGIES

| <u>Strategic Target</u> | <u>Strategic Advantage</u> | |
|-------------------------|--------------------------------------|-------------------------|
| | Uniqueness Perceived by the Customer | Low Cost Position |
| Industry wide | Differentiation | Overall Cost Leadership |
| Particular Segment Only | Focus | |

Stuck in the Middle

The three generic strategies are alternative, viable approaches to dealing with the competitive forces. The

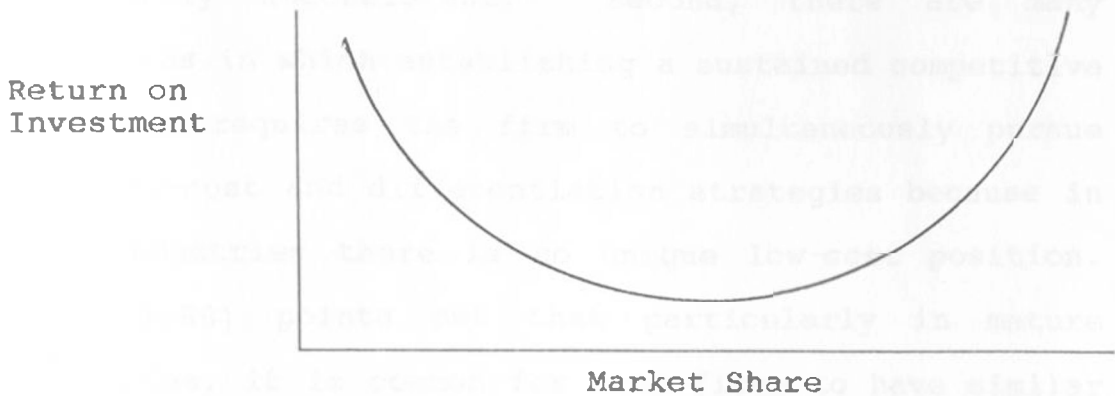
converse of the previous discussion is that the firm failing to develop its strategy in at least one of the three directions - a firm that is "stuck in the middle" - is in an extremely poor strategic situation. This firm lacks the market share, capital investment, and resolve to play the low-cost game, the industry wide differentiation necessary to obviate the need for a low-cost position, or the focus to create differentiation or a low-cost position in a more limited sphere.

The firm stuck in the middle is almost guaranteed low profitability.

Once stuck in the middle, it usually takes time and sustained effort to extricate the firm from this unenviable position. Yet there seems to be a tendency for firms in difficulty to flip back and forth over time among the generic strategies. Given the potential inconsistencies involved in pursuing these three strategies, such an approach is almost always doomed to failure.

These concepts suggest a number of possible relationships between market share and profitability. In some industries the problem of getting caught in the middle may mean that the smaller (focused or differentiated) firms and the largest (cost leadership)

firms are the most profitable, and the medium-sized firms are the least profitable. This implies a U-shaped relationship between profitability and market share:



This U-shaped relationship can be seen in the automobile industry when viewed on a global basis, with firms like General Motors (low cost) and Mercedes (differentiate) the profit leaders. Chrysler, British Leyland and Fiat lack cost position, differentiation, or focus - they are stuck in the middle.

Porter (1985) asserts that a firm must make a choice between the three generic strategies of overall cost leadership, differentiation and focus or it will become "stuck in the middle". In addition Porter stressed that "achieving cost leadership and differentiation are usually inconsistent because differentiation is usually costly". (Porter 1985).

According to Hill (1988) however Porter's model is flawed in two important respects. First, differentiation can be a means for firms to achieve an overall low-cost position. Hence, contrary to Porter's statement, cost leadership and differentiation are not necessarily inconsistent. Second, there are many situations in which establishing a sustained competitive advantage requires the firm to simultaneously pursue BOTH low-cost and differentiation strategies because in many industries there is no unique low-cost position. Hill (1988) points out that particularly in mature industries, it is common for many firms to have similar minimum-cost structures. Among such firms those that successfully emphasise both differentiation and low-cost will be rewarded by superior economic performance. In contrast, Porter's model categorises such firms as "stuck in the middle" and predicts inferior economic performance for them.

Porter certainly recognised that firms can pursue both low cost and differentiation successfully, however he maintained that this could only occur in three circumstances: when all competitors are stuck in the middle, when cost is strongly affected by share or interrelationships, and when a firm pioneers a major innovation.

Studies by Hall (1980) and White (1986) found that a sizeable number (in the White study 19 out of 69 units) of business units had a competitive advantage based on a combination of both low cost and differentiation.

Moreover white's (1986) results suggest that business units that successfully combined both low-cost and differentiation had the highest return of investment.

This evidence therefore contradicts Porter's (1985) paradigm that each of the three generic strategies represents "a fundamentally different approach to creating and sustaining a competitive advantage usually a firm must make a choice between them or it will become STUCK IN THE MIDDLE".

RISKS OF THE GENERIC STRATEGIES

Risks of Overall Cost Leadership

Cost leadership imposes severe burdens on the firm to keep up its position, which means reinvesting in modern equipment, ruthlessly scrapping obsolete assets, avoiding product line proliferation and being alert for technological improvements. Cost declines with cumulative volume are by no means automatic.

Cost leadership is vulnerable to the same risks, of relying on scale or experience as entry barriers. Some of these risks are:

- (a) technological change that nullifies past investments or learning
- (b) low-cost learning by industry newcomers or followers, through imitation or through their ability to invest in state-of-the-art facilities
- (c) inability to see required product or marketing change because of the attention placed on cost.

The classic example of the risks of cost leadership is the Ford Motor Company of the 1920s, Ford had achieved unchallenged cost leadership through limitation of models and varieties, aggressive backward integration, highly automated facilities and aggressive pursuit of lower costs through learning. As incomes rose however and many buyers had already purchased a car and were considering their second, the market began to place more or a premium on styling model changes, comfort and closed rather than open cars. Customers were willing to pay a price premium to get such features. General Motors stood ready to capitalise on this development with a full line of models. Ford faced enormous costs of strategic readjustment given the rigidities created

by heavy investments in cost minimisation of an obsolete model.

Risks of Differentiation

Differentiation also involves a series of risks:

- (a) the cost differential between low-cost competitors and the differentiated firm becomes too great for differentiation to hold brand loyalty, for example Kawasaki and other Japanese motorcycle producers have been able to successfully attack differentiated producers such as Harley Davidson and Triumph in large motorcycles by offering major cost savings to buyers.
- (b) buyers need for the differentiating factor falls. This can occur as buyers become more sophisticated.
- (c) imitation narrows perceived differentiation, a common occurrence as industries mature.

Risks of Focus

- (a) The cost differential between broad-range competitors and the focused firm widens to eliminate the cost advantages of serving a narrow target.
- (b) the differences in desired products or services between the strategic target and the market as a whole narrows.

- (c) competitors find submarkets WITHIN the strategic target and out focus the focuser.

DIFFERENT PERSPECTIVES ON THE GENERIC STRATEGIES MODELS

The research findings of Dess & Davis (1984) are generally consistent with Porter's (1980) contention that commitment to at least one of the three generic strategies (differentiation, overall low cost and focus) will result in higher performance than if the firm fails to develop a generic strategy, that is, becomes stuck in the middle. The findings that the overall low cost cluster had the highest average return on total assets supports prior research by Woo & Cooper (1981) and Hammersmesh, Anderson & Harris (1978) that rejects the notion that high market share is a requirement for the successful implementation of a low cost strategy. The group of firms identified with a focus strategy may illustrate a potential for trade-offs between growth and profitability. The focus group was the highest performing group on sales growth but had the lowest level of return on assets. These last findings are consistent with the empirical findings of Trostel and Nichols (1982) which indicated that privately-held companies may choose to emphasise sales growth at the possible expense of profitability.

The most common criticism has been that while low cost and differentiation strategies are empirically identifiable (Hambrick 1983; Dess & Davis 1984) and are indeed linked with above average profitability (Hambrick 1983; Phillips, Change and Buzzel 1984), Porter's dichotomy of cost and differentiation cannot be maintained. Phillips, Change and Buzzel (1983), Miller and Friesen (1986), Dess and Davis (1984), Chrisman (1986) and White (1986) have all found evidence of the successful combination of low cost and differentiation strategies and Murray (1988), Hill (1988) and Wright (1987) have argued on theoretical grounds that joint low cost and differentiation strategies should not only exist but also be necessary for competitive success in a variety of circumstances. These conclusions appear at first sight to contradict Porter's model, and several writers (Miller and Friesen 1986; Chrisman, Hofer and Boulton 1988; Hill 1988; Murray 1988) have interpreted them in this sense.

Porter does however allow for exceptions to his rule that cost leadership and differentiation are incompatible. He also states clearly that all competitors including differentiators, should seek to minimise their costs, providing this does not threaten their source of differentiation, and that a successful

differentiator must at least maintain a cost base near the industry average.

The cost leadership is about "lowest cost", not "low cost". This distinction is however, absent from the empirical investigations, which at best identify a mere intention as part of a strategic profile to lower costs. In these circumstances a correlation between cost and differentiation strategies is scarcely inconsistent with Porter's model, and even a correlation between successful differentiation and below average costs may say more about the inefficient or stuck in the middle firms (someone in the industry has to make below average profits) than about the correctness or otherwise of Porter's model.

In his original model Porter (1980) talked of just three generic strategies:

overall cost leadership, differentiation and focus. He then divided the focus strategy into two variants, cost focus and differentiation focus. Porter (1988).

He therefore now has four generic strategies: cost leadership, also referred to as low cost; differentiation, also referred to as broad

differentiation; cost focus (here the firm identifies a segment whose needs can be met at a lower cost by a dedicated producer); differentiation focus (firm identifies a segment with different needs than are provided for by the broad market competitors and dedicates itself to meeting those needs).

There is continuing debate on the work carried out by Hall (1980) and Porter (1980; 1985) as to whether cost leadership strategies and differentiation strategies are mutually exclusive or can be achieved simultaneously. Jones & Butler (1988) argue that Hall & Porter's framework contains some deficiencies: Porter fails to account for the underlying factors that explain the difference between the two types of strategies and Hall fails to provide a fully developed explanation of the relationship between generic business-level strategies because it glosses over cost dynamics related to choice of strategy.

Jones & Butler (1988) present a new approach by using transaction cost theory. Transaction costs are associated with the transfer and exchange of goods and services across the organisation boundary. For example, at input/supply side they are linked with procurement, at output side they are linked with disposal of products and services to external customers.

Transaction costs are the main component of differentiation strategies and production costs the main component of cost leadership strategies. In terms of strategy the limit to profitability for a firm that pursues a differentiation strategy also is a function of the degree to which transaction costs are a large proportion of total costs as the firm continues to differentiate.

It is therefore necessary to bring revenues into the picture since the firm that pursues a differentiation strategy may have an equal or greater market share and equal or greater profitability than one pursuing a cost leadership strategy.

The implication is that the average total costs experienced by a firm pursuing a cost leadership strategy are below those of a firm that pursues a pure differentiation strategy. The first firm will be able to price its products below the latter and reap benefits of lower total costs and a premium price simultaneously. This strategy of pursuing cost leadership and product differentiation simultaneously is suggested as the most profitable to pursue (Dess & Davis 1984; Miller & Dess 1985).

Murray (1988) articulates a similar theory and re-states some criticisms which have already been identified. He argues that the generic strategy concept can be clarified by linking each strategy to a set of environmental preconditions. Developing these preconditions also allows the key question (eg Miller & Friesen 1986) of the compatibility of generic strategies to be resolved and facilitates a discussion of the link between generic strategies and the strategic means (Dess and Davis 1982, 1984) used to implement them.

Most of the empirical studies on generic strategies show that firms that successfully pursue generic strategies out-perform their competitors. Extending the logic, by combining both generic strategies, that is, cost leadership and differentiation, successfully, a firm should be able to out-compete rivals that pursue only one strategy. Peters & Austin (1985) argued that there "is no such thing as a commodity", meaning that customers in any market will, if given the opportunity, base purchase decisions on attributes other than price, and because most industries seem to offer opportunities to exploit economies of scale or economies independent of scale at some point in their value chain (Porter 1985), it would seem that combining both the product differentiation and cost leadership strategies should be feasible in many industries.

This reasoning contradicts Porter, who argued that firms can successfully pursue a combination of generic strategies only if competitors are "stuck in the middle", if the firm enjoys overwhelming economies of scale, or if it holds exclusive rights to a major technological innovation.

A number of studies have tested aspects of the generic strategy hypotheses, and each set of conclusions has been different. Currently, there is no basis for reconciling these differences (Murray 1988). There is therefore a need for a major research undertaking which would eliminate the confusion which exists in assessing the relationships between the different generic strategies.

ANALYSING RESOURCES AND CAPABILITIES

The Role of Resource Analysis in Strategy Formulation

Strategy is concerned with matching a firm's capabilities to the opportunities which arise in the external environment. Strategic analysis of the firm's internal environment is surprisingly underdeveloped (Grant 1991). Analysis of the internal environment has, for the most part, been concerned with issues of strategy implementation.

The comparative neglect of internal resources by business strategists contrasts sharply with the approach of military strategy which has always given priority to resource analysis. Liddell Hart (1954), a prominent military historian, argued that there is only one underlying principle of war, "concentration of strength against weakness".

The case for making the resources and capabilities of the firm the foundation for its long term strategy rests upon two premises. The first concerns the role of resources in defining the identity of the firm. The starting-point for the formulation of strategy must be some statement of the firm's identity and purpose; this, as has been indicated in an earlier chapter, takes the form of a MISSION STATEMENT which answers the question: "What is our business?" Conventionally, the definition of the business has been in terms of the served market of the firm: "Who are our customers?" But if the external environment is in a state of flux, if different technologies vie to serve the same customer needs, or if the identity of customers quickly change, then an externally - focussed orientation does not provide the constancy of direction to act as a secure foundation for formulating long-term strategy. When external conditions are changing, the firm itself in terms of the

resources and capabilities which it comprises may be a much more stable basis on which to define its identity.

Thus, the basis of a resource-based approach to strategy is a definition of the firm, not in terms of the needs it is seeking to satisfy, but in terms of what it is capable of. The primary issue for strategy is determining what the firm can do. The second issue is deciding in which industries and through what types of competitive strategy the firm can best exploit these capabilities.

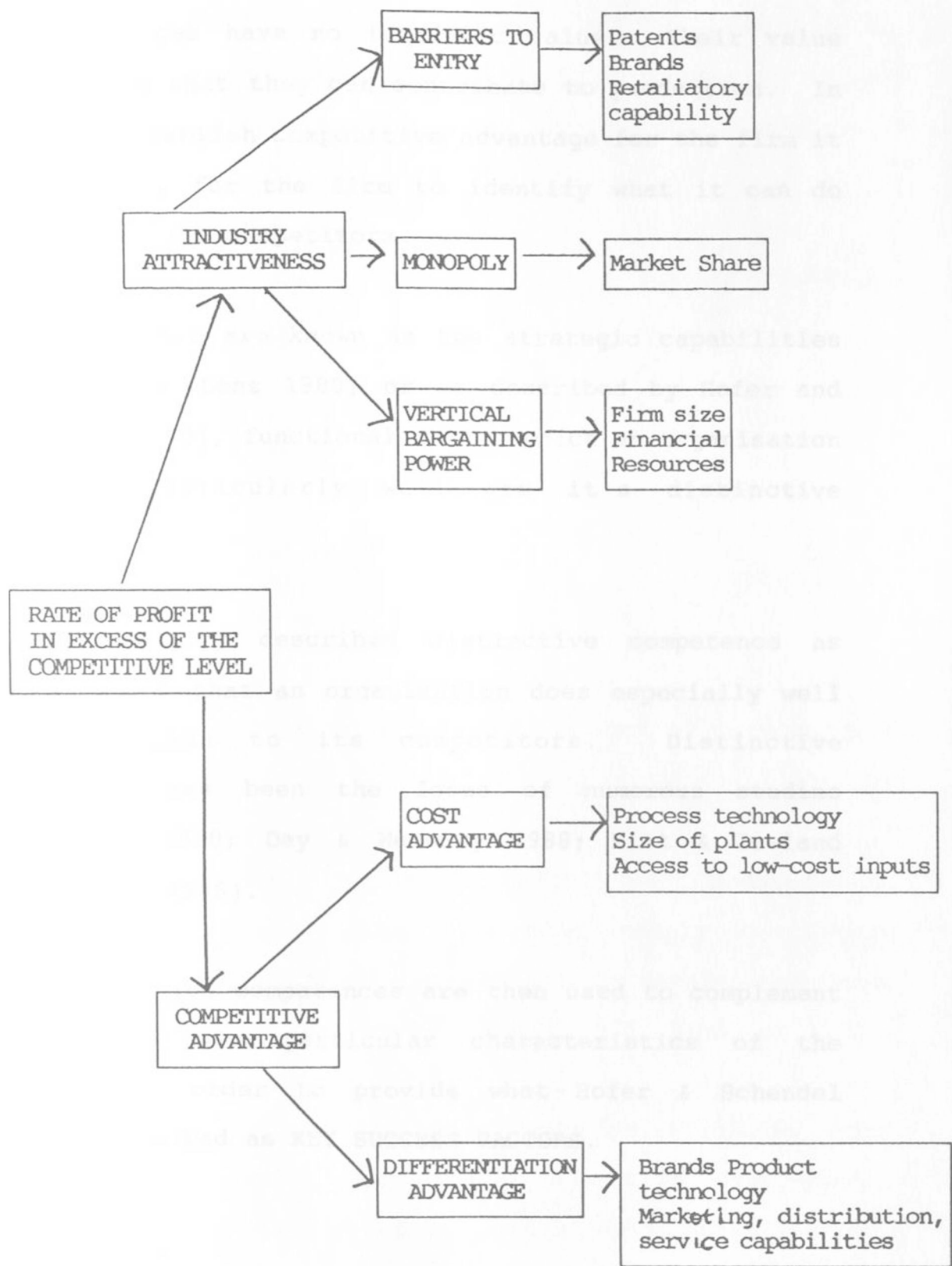
This approach rejects that proposed by Levitt (1954) in his classic article "Marketing Myopia". When markets are changing, argued Levitt, the key to successful adjustment is for the firm to define its served market broadly rather than narrowly; hence, by defining themselves as railroad businesses rather than transportation businesses the railroad companies became prisoners of a declining industry. However, these companies which have defined their businesses as serving broad-based customer needs have frequently failed through their inability to master the breadth of capabilities which correspond to their target markets.

The second reason for focussing upon resources as the foundation for an enterprise's strategy is that profits

are ultimately a return to the resources owned and controlled by the firm. It has already been stated that profits are derived from two sources, namely attractiveness of the industry in which the firm is located, and the achievement of competitive advantage over other firms in the industry. However both of these sources of profit can be traced back to the firm's resources.

In the case of competitive advantage both cost advantage and differentiation advantage are derived from some advantage with resources. Cost advantage over competitors is gained from such resource advantage as superior process technology, ownership of low-cost sources of raw materials, or locational advantages in relation to low-wage labour. Similarly differentiation advantage is based on control over certain resources such as brand names, patents or a wide distribution and service network.

Resources as the basis of superior profitability



From Resources to Capabilities

Most resources have no intrinsic value. Their value serves from what they can contribute to production. In order to establish competitive advantage for the firm it is necessary for the firm to identify what it can do BETTER than its competitors.

These are what are known as the strategic capabilities of the firm (Lenz 1980) or as described by Hofer and Schendel (1978), functional skills which an organisation performs particularly well are it's distinctive competences.

Selznick (1957) described distinctive competence as those things that an organisation does especially well in comparison to its competitors. Distinctive competence has been the focus of numerous studies (Bourgeois 1980; Day & Wensley 1988; Hitt & Ireland 1984; 1985; 1986).

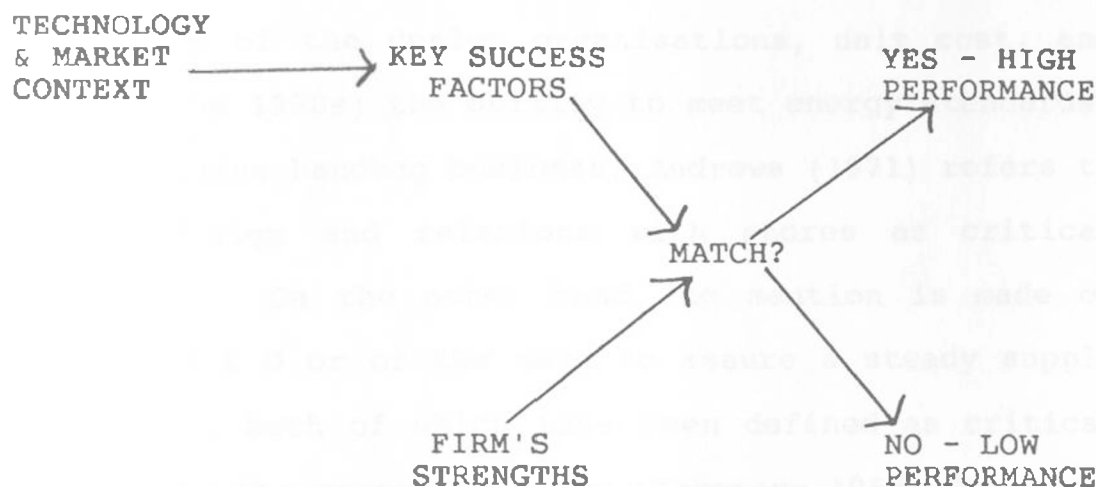
The distinctive competences are then used to complement and exploit the particular characteristics of the industry in order to provide what Hofer & Schendel (1977) described as KEY SUCCESS FACTORS.

They defined KEY SUCCESS FACTORS as: those variables which management can influence through its decisions and which can affect significantly the overall competitive positions of the firms in an industry within any particular industry they are derived from the interaction of two sets of variables, namely, the economic and technological characteristics of the industry and the competitive weapons on which the various firms in the industry have built their strategies.

Indeed the fundamental paradigm of strategy states that (De Vasconcellosa and Hambrick 1989) in order to perform well, the firm must compete in settings in which the prerequisites for success, that is, the 'KEY SUCCESS FACTORS', match the firm's distinctive competencies or strengths. Viewed conversely, the firm must develop strengths that match the key success factors in its industry. This logic has been a part of most major normative works in strategy (Stevenson 1969, 1976; Ansoff 1965; Andrews 1971; Newman & Logan 1971; Christensen, Andrews & Bower 1978; Hofer & Schendel 1978; Porter 1980).

However, aside from qualitative evidence, these relationships have not been systematically documented or tested. Particularly lacking is a theory for

identifying on A PRIOR 1 basis what the 'key success factors' in an industry will be. The figure below indicates that the key success factors (KSFs) in an industry derive from its underlying characteristics and hence should be estimable other than through hindsight.



A model of the origins and implications of 'key success factors'.

De Vasconcellos E Sa and Hambrick (1989) undertook an empirical study which focussed solely on mature industrial products, in an attempt to develop mid-range theory (Hofer 1975; Pinder & Moore 1979; Hambrick 1983).

Key success factors are those tasks or attributes which are particularly mandated by the task environment. These requirements arise because of fundamental factors

such as buyer behaviour, shipping economies, regulation, and so on (Andrews 1971).

For example in the automobile industry, Daniel (1961) and Rockhart (1979) suggested that the variables critical in ensuring corporate performance are style, efficiency of the dealer organisations, unit cost, and (during the 1970s) the ability to meet energy standards. In the ladies handbag business, Andrews (1971) refers to style, design and relations with stores as critical variables. On the other hand, no mention is made of process R & D or of the need to assure a steady supply of inputs, both of which have been defined as critical factors in the cement industry (Thompson 1967; Strauss & Sayles 1972; Khadwalla 1977; Christensen et al 1978). Key success factors are obviously contextually contingent.

The study conducted by De Vasconcellos E Sa and Hambrick (1989) found quantifiable support for the contention that organisations which are rated higher than their competition on key success factors will out perform the competition. This calls for renewed attention to the importance of focus in strategic direction. When aiming for superiority over other organisations, managers should concentrate their efforts on performing a few

critical tasks exceedingly well, instead of a greater number of tasks only reasonably well (Drucker 1973).

In other words, it is vital that managers centre their activities on the key success factors pertaining to the organisations context.

STRATEGIC TYPES, DISTINCTIVE MARKETING COMPETENCIES AND ORGANISATIONAL PERFORMANCE

While acknowledging the premise that a match between a firm's distinctive competencies and the key success factors in the industry will normally provide the basis for an effective strategy, there are other factors which will influence the quality of the effectiveness of the strategy.

Miles & Snow articulated that effective organisations curve out and maintain a viable market for their goods or services. Ineffective organisations fail at this market alignment task. However recognising that the environment is continually changing and is full of uncertainty there is a vital need for organisations to have the ability to adjust or adapt to these dynamic conditions.

Miles & Snow (1978) carried out studies into four industries in order to study this adaptive process and to show how the adaptive behaviour of organisations influenced their strategic performance. They described the different adaptive behaviour of organisations as different STRATEGIC TYPES.

The Miles and Snow (1978) strategic typology - defenders, prospectors, analysers and reactors - has generated a large amount of interest, investigation and support (Hambrick 1979, 1983; McDaniel & Kolari 1987; Meyer 1982; Ruekert & Walker 1987; Snow & Hrebiniak 1980; Zahra 1987).

An analysis of Miles & Snow's descriptions of the four strategic types - defenders, prospectors, analysers and reactors - (1978) indicates that eleven distinctive strategic dimensions make up the adaptive cycle.

As a generalisation prospectors devote more resources to entrepreneurial tasks, they monitor the market place closely, and do the same with new product development and are particularly strong in marketing and R & D expertise. Defender organisations focus more on improvements in efficiency and are dominated by finance and production personnel. Analysers are something of a mixture, in stable market conditions they will emphasise

production and strive for improved efficiency. In turbulent environments they closely monitor key competitors and only take on board innovations which have strong market potential. Reactors tend to be more short-term in their behaviour, are more optimistic and their planning is more crisis oriented and disjointed.

A study by Conant, Mokwa & Varadarajan (1989) examined the relationship between strategic types, distinctive marketing competencies and organisational performance using the Miles and Snow (1978) strategic typology.

The relationship between strategic types, distinctive competencies and organisational performance has been examined in a number of studies. (Hambrick 1983; McDaniel & Kolari 1987; Miles & Snow 1978; Smith, Guthrie & Chen 1986; Snow & Hrebiniak 1980). These studies suggest that the strategic types differ in functional strategy expertise, competencies and performance.

Snow & Hrebiniak (1980) found that top managers in prospector organisations perceived marketing and marketing-related competencies to be among the four highest rated strengths to a greater degree than the other strategy types.

Hambrick found the frequency of, interest in, and hours of entrepreneurial scanning to be significantly greater in prospector organisations than in defender organisations. McDaniel and Kolari's (1987) study of the banking industry revealed that prospectors and analysts perceived marketing research and computerised customer information systems to be a more important input of organisational strategy than did defenders.

Taking consideration of the relative inputs along the product, price, promotion and distribution components of the marketing mix, findings indicate that defenders lag the rest of the industry in innovative behaviour, prospectors are the most innovative, and analysts place a priority on being 'second-in' with more cost-effective or value-oriented product or service offerings (Miles & Snow 1978).

In terms of performance, Miles & Snow (1978) proposed that any of the three more stable archetypal styles (defenders, prospectors and analysts) are equally likely to perform well, given that they respond to the challenges of the adaptive cycle in a consistent fashion. They also stated that 'reactors, due to their inconsistent pattern of adaption, frequently fall into an unpleasant cycle of responding inappropriately to environmental change and uncertainty, performing poorly

as a result and then being reluctant to act aggressively in the future.' (Miles & Snow 1978).

Although some studies have reported conflicting findings (eg Hambrick 1983), overall, a number of empirical studies have confirmed the Miles & Snow proposition (eg Snow & Hrebiniak 1980; Smith, Guthrie & Chen 1986).

Overall the findings of the study undertaken by Conant, Mokwa & Varadarajan (1989) corroborates previous findings and accentuates the different strategic orientations and distinctive marketing competencies of the organisations. The competency dimension which appeared to differentiate the defender, analyser and prospector strategic types the most was the 'new service development' dimension. Both marketing competencies and organisational performance were evaluated as comparatively weak in reactor organisations. Reactor organisations are 'strugglers' which do not exhibit competitively strong strategic orientations, policy thrusts, or decision-making practices.

The Conant, Mokwa & Varadarajan (1989) study examined Miles & Snow's strategic types from the consideration of only one dimension of performance, namely profitability, and they acknowledge the need for examining differences

between strategic types from the standpoint of multiple dimensions of performance.

Nevertheless the results of the study suggest that while the marketing competencies of prospector organisations are superior to those of analyser, defender, and reactor organisations, all three stable archetypes perform equally well in terms of profitability and out perform reactors.

GLOBAL COMPETITIVE ENVIRONMENT

Finally a totally new model of strategy has been promulgated by Hamel & Prahalad (1989). They believe that many of the standard concepts such as "strategic fit" (between resources and opportunities), "generic strategies" (low-cost vs differentiation vs focus), and the "strategy hierarchy" (goals, strategies and tactics) have often contributed to the process of competitive decline.

They argue that the new breed of global competitors which they perceive as being primarily Japanese and Korean companies such as Komatsu, Honda, Canon, NEC, Samsung and Lucky Gold Star have adopted a different perspective to strategy than that used by management in American and European companies.

Hamel & Prahalad (1989) observe that companies that have achieved global leadership in the past 20 years have had an obsession with winning at all levels of the organisation and have sustained that obsession over the 10 to 20 year quest for global leadership. They describe this obsession as "strategic intent", and this describes the new approach to strategy which they advocate.

To achieve strategic intent requires that managers must have as their goal not competitive imitation but competitive innovation. There are according to Hamel and Prahalad (1989) four approaches to competitive innovation. These are: building layers of advantage, searching for loose bricks, changing the terms of engagement, and competing through collaboration.

The wider a company's portfolio of advantages, the less risk it faces in competitive battles. New global competitors have built such portfolios by steadily expanding their arsenals of competitive weapons. They have moved from less defensible advantages such as low wage costs to more defensible advantages like global brands. This layering process is well exemplified by the Japanese colour television industry.

The Japanese television industry initially used their competitive advantage in low labour costs, then they added other layers of advantage in quality and reliability, then they invested heavily in building channels and brands and effectively created another layer of advantage namely global franchise. They then enlarged the scope of their products and businesses to amortize these earlier investments and companies that pursued this strategy, such as, MATSUSHITA, SHARP, TOSHIBA, HITACHI, SANYO had expanded into related businesses which allowed them to support global marketing investments.

They have now invested in regional manufacturing and design centres to allow them to tailor more closely to national markets.

These companies regarded the various sources of competitive advantage as mutually desirable layers, not mutually exclusive choices. Their actions in pursuing both cost and differentiation runs contrary to the recommendation of Porter (1980) who regarded such actions as being competitive suicide.

A second approach to competitive innovation is searching for loose bricks which exploits the benefit of surprise. This involves staking out territory. Honda entered the motorcycle market in the United States with 50cc

machines but soon expanded across the entire spectrum of the motor-related businesses.

The third approach, changing the focus of engagement, that is, refusing to accept the front runner's definition of industry and segment boundaries represents another form of competitive innovation.

Canon changed the terms of engagement in the copying industry. They standardised machines and components to reduce costs. Canon distributed through office-product dealers rather than try to match XEROX's huge direct sales force. They sold copiers rather than leasing them, which reduced the burden of financing the lease base.

Finally competing through collaboration simply adopts a maxim as old as human conflict itself: my enemy's enemy is my friend.

Consequently in the early 1980s MATSUSHITA established a joint venture with THORN (in the UK), TELEFUNKEN (in Germany), and THOMSON (in France), which allowed it to quickly multiply the forces arrayed against Philips in the battle for leadership in the European VCR business.

Collaboration can also be used to obtain an insight into competitors, strengths and weaknesses. Therefore TOYOTA's joint venture with GM, and MAZDA's with FORD,

give these companies an invaluable vantage point for assessing the progress their US rivals have made in cost reduction, quality and technology.

These observations of Hamel & Prahalad (1989) are based on ten years of research and they imply a new view of strategy.

Hamel & Prahalad (1989) are quite critical of western strategic thought stating that "it is not very comforting to think that the essence of western strategic thought can be reduced to eight rules for excellence, seven S's, five competitive forces, four product life cycle stages, three generic strategies, and innumerable two-by-two matrices".

This criticism is intensified to include other concepts which have been an integral western strategic part of management thought such as the product life cycle, experience curve, product portfolios and generic strategies. These concepts according to Hamel & Prahalad (1989) have adverse side effects: they reduce the number of strategic options management is willing to consider. They create a preference for selling businesses rather than defending them. They produce predictable strategies that rivals can easily decode.

The two writers' criticisms are quite far reaching commenting that many managers, using concepts like

segmentation, the value chain, competitor benchmarking, strategic groups and mobility barriers, have become better and better at drawing industry maps.

But while they have been map making their competitors have been moving entire continents.

There is nothing in the traditional approach to strategic management used by managers in the USA and Europe that escapes the criticisms of Hamel & Prahalad (1989).

They see concepts like "mature" and "declining" as being largely definitional. They take the view that a mature industry is one in which sales growth has stagnated in a managers current geographic market, for existing products, sold through existing channels. consequently it is not the industry that is mature but the managers' conception of the industry. Therefore by changing the conditions that cause maturity, for example, by adopting a global focus rather than a domestic focus can introduce a new impetus to an apparently mature industry.

Another of their criticisms is that over-commitment to strategic business units and the decentralisation of the strategic business unit is anathema to successful global distribution and brand positions.

The over-commitment to strategic business units often involves managers moving so many times as part of their "career development", that this continuous movement does not allow managers to understand the finer points of the business, when compared to the typical Japanese competitor whose managers have been working in the same business for over ten years.

The final criticism articulated by Hamel and Prahalad (1989) of the Western management approach to strategic management is the adherence to strategy hierarchy as described by for example Lorange & Vancil (1977).

Strategy hierarchy means that corporate goals guide business unit strategies and business unit strategies guide functional tactics. In such a hierarchy senior management makes the strategy and lower levels execute it. This in turn creates a separation between strategy formulation and strategy implementation. The difficulties inherent in such a separation have been clearly identified in an earlier chapter.

This separation creates a situation where all kinds of uncertainty can be created in the minds of business unit managers because top management may not be communicating openly about the competitive challenges their companies were facing.

Therefore the need for upward communication in strategy formulation is of paramount importance otherwise it can become elitist and irrelevant. Again, in contrast to the Japanese approach where upward communication is an inherent characteristic of their system, the Japanese have learned how to harness the "wisdom of the anthill".

In this particular respect Hamel and Prahalad (1989) assert that the starting point for next year's strategy is almost always this year's strategy and that improvements are incremental consequently this view is in complete agreement with the assertions of such writers as Pettigrew (1987); Mintzberg (1985) and Quinn (1988) and in contradiction to the theorists who subscribe to the "design school" approach such as Ansoff (1984), Day (1984) and Porter (1986).

Adherence to the goal of strategy hierarchy which creates inflexibly applied top-down plans tends to create a conservatism in companies and cause senior managers to lack the courage to commit their companies to heroic goals - goals that lie beyond the reach of planning and existing resources. Such adherence will not engender competitive innovation which is such an essential prerequisite for winning a global competitive war.

Hamel & Prahalad (1990) contend that their research indicates that new terms of competitive engagement

cannot be understood using the concepts that were devised 20 years ago when the participants in the competitive environment were primarily involved in domestic competition and were all speaking the language of the same business schools and consultancies.

Two major changes which have occurred in today's competitive environment are that this environment today is global rather than domestic and today's environment is changing much faster than ever before.

The urgent need for companies to adopt a global competitive orientation has been stated in Chapter Two in relation to the observations of Kenichi Ohmae (1990). His experience reinforces much of the findings of Hamel & Prahalad (1989).

Another and more radical approach to dealing with competition, particularly again in the global context, has been articulated by Prahalad & Hamel (1990). They observe that in the 1980s top managers were judged on their ability to restructure, declutter and delayer their corporations. In the 1990s they will be judged on their ability to identify, cultivate, and exploit the CORE COMPETENCIES that make growth possible - indeed according to Prahalad & Hamel (1990) they will have to rethink the concept of the corporation itself.

cannot be understood using the concepts that were devised 20 years ago when the participants in the competitive environment were primarily involved in domestic competition and were all speaking the language of the same business schools and consultancies.

Two major changes which have occurred in today's competitive environment are that this environment today is global rather than domestic and today's environment is changing much faster than ever before.

The urgent need for companies to adopt a global competitive orientation has been stated in Chapter Two in relation to the observations of Kenichi Ohmae (1990). His experience reinforces much of the findings of Hamel & Prahalad (1989).

Another and more radical approach to dealing with competition, particularly again in the global context, has been articulated by Prahalad & Hamel (1990). They observe that in the 1980s top managers were judged on their ability to restructure, declutter and delay their corporations. In the 1990s they will be judged on their ability to identify, cultivate, and exploit the CORE COMPETENCIES that make growth possible - indeed according to Prahalad & Hamel (1990) they will have to rethink the concept of the corporation itself.

Attainment of improved standards for product cost and quality have now become only minimum hurdles for continued competitiveness but are less and less important sources of differential advantage. It is now considered that in the long term competitiveness derives from an ability to build at lower cost and at a faster rate than competitors, the core competencies that produce and develop unanticipated products.

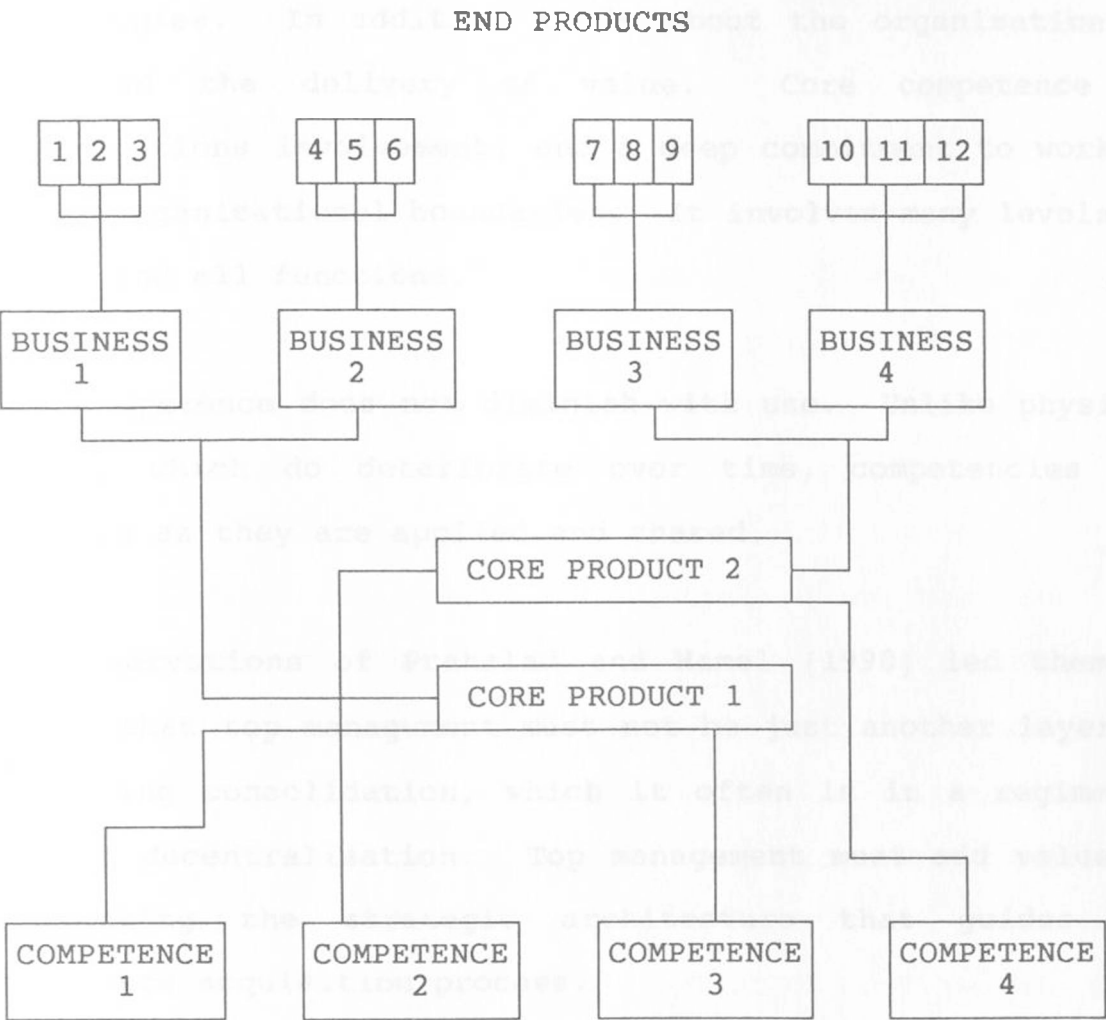
The real sources of advantage now are to be found in management's ability to adapt quickly to changing opportunities.

The Japanese companies appear to be better at developing core competencies than Western companies because, according to the observations of Prahalad & Hamel (1990), of their adherence to a concept of the corporation that limits the ability of individual businesses to exploit their deep resources of technological capability. Managers in Western companies must assume responsibility for competitive decline. It is unacceptable to blame high interest rates, Japanese protectionism, uncooperative unions and impatient investors. They must acknowledge how little added momentum their companies get from political or inacroeconomic "relief". The principles of Western management are badly in need of reform.

The diversified corporation is a large tree. The trunk and major branches are core products, the smaller

branches are business units; the leaves, flowers and fruit are end products. The root system that provides nourishment, sustenance, and stability is the core competence.

COMPETENCIES: THE ROOTS OF COMPETITIVENESS



Achievement of a high standard of core competencies is essential if companies are to compete in today's global environment.

Core competencies are the COLLECTIVE learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies. In addition it is about the organisation of work and the delivery of value. Core competence is communications involvement, and a deep commitment to working across organisational boundaries. It involves many levels of people and all functions.

Core competence does not diminish with use. Unlike physical assets, which do deteriorate over time, competencies are enhanced as they are applied and shared.

The observations of Prahalad and Hamel (1990) led them to assert that top management must not be just another layer of accounting consolidation, which it often is in a regime of radical decentralisation. Top management must add value by enunciating the strategic architecture that guides the competence acquisition process.

Therefore according to Hamel & Prahalad (1990) many of the concepts which have underpinned much of the strategic management thought in the past are no longer relevant, indeed could be damaging to firms.

Certainly the success of Japanese and Korean companies given as exemplars of this new approach to strategic management cannot be disputed.

Therefore full consideration must now be given to the need for a whole new model of strategy in order to ensure that it meets the demands of today's global competitive environment.

SUMMARY

"In recent years the growth in the number of textile - and apparel - producing nations around the globe has changed dramatically the climate for producers everywhere. Excessive production capacity has fostered intense competition". (Dickerson 1991).

This intensity of competition within the textiles and clothing industry has meant that it is difficult for companies to achieve and sustain positions of clear competitive advantage. Consequently it is a priority for companies to give their maximum attention to competitive strategy in order to identify the means by which competitive advantage can be achieved. This chapter has relied to a large extent on the writings of Michael Porter and has considered three generic strategies for coping with the five competitive forces. However in considering these three strategies, cost advantage is difficult to achieve by companies in the

Scottish industry due to international competition, increased economic turbulence and process innovation. Secondly opportunities for differentiation are limited due to so many of the products being associated with standardisation. A 'focus' strategy is defined by its emphasis on a single industry segment, within that segment a focus strategy may be orientated either towards low cost or differentiation.

Therefore the field investigation is concerned with the identification of the most successful competitive strategy in order to obtain a superior economic performance.

TEXTILE, TWISTED AND CLOTHING INDUSTRY

This study is primarily concerned with the performance of the textile, twisted and clothing industry within the service, textiles and clothing sector.

CHAPTER SIX

INDUSTRY NOTE

INTRODUCTION

This chapter examines the general situation in textiles and clothing. However since the focus of the research study is the Scottish textiles and clothing industry then greater attention has been given to the industry in Scotland. However the textiles and clothing industries in individual countries are, in anyways, one international industry with one international market.

Consequently examination of the industry is extended into a UK, European and international context and factors influencing the industry in the past, present and in the future have been considered since so many of these factors will determine the competitiveness of the Scottish industry in this international context.

THE SCOTTISH TEXTILES AND CLOTHING INDUSTRY

This study is primarily concerned with the performance of companies within the Scottish textiles and clothing industry.

The textiles and clothing industry in Scotland is a significant industry within the country for the following reasons:

It is one of the oldest established industries in the country and it employs relatively large numbers of people.

The industry is concentrated in geographical areas where little alternative employment is available, for example, the Borders region.

The industry in Scotland is generally export oriented and consequently is an important contributor to the United Kingdom's balance of payments.

OUTPUT AND EMPLOYMENT

In 1990 48,500 people were employed in the textiles and clothing industry in Scotland, 25,100 in textiles and 23,400 in clothing (Scottish Abstract of Statistics 1992).

To put the industry in perspective in employment terms, the only other industry in Scotland which employs more than the total employed in textiles and clothing is the food, drink and tobacco manufacturing industries with a

total of 69,200.

The textiles and clothing industry is more significant in Scotland than within the United Kingdom as a whole, as shown in the figures below:

Scotland as a percentage of UK in 1990

| | <u>Employment</u> | <u>Gross Output</u> |
|-------------------|-------------------|---------------------|
| Textiles | 12.8 | 11.2 |
| Clothing | 8.5 | 9.7 |
| All Manufacturing | 7.7 | 8.6 |

(Source: Scottish Abstract of Statistics 1992).

Although the textiles and clothing industry currently employs relative large numbers, employment in the industry has fallen dramatically in recent years, for example, in 1979 a total of 110,000 people were employed in the industry.

As stated above there has been a substantial drop in the numbers employed in the industry since 1979. There has also been a deterioration in the gross output figures for both the textiles and the clothing sector in Scotland compared to the total manufacturing output figure in Scotland as shown in the following figures:

GROSS OUTPUT FOR TEXTILES AS A PERCENTAGE OF TOTAL

SCOTTISH MANUFACTURING OUTPUT

1983

1990

4.5

3.2

GROSS OUTPUT FOR CLOTHING AS A PERCENTAGE OF TOTAL

SCOTTISH MANUFACTURING OUTPUT

1983

1990

3.0

2.7

(Source: Scottish Abstract of Statistics)

Looking at another criterion, namely, the gross value added per employee figure also produces negative reading.

The gross value added per employee figure for clothing in 1990 was £12,423 this was the lowest figure of all the Scottish manufacturing industries and indeed the second lowest figure of £13,848 was for textiles. These figures compare with the average gross value added per employee figure for manufacturing industries in Scotland of £24,331.

(Source: Scottish Abstract of Statistics 1992)

SECTORAL ANALYSIS

WOOLLEN AND WORSTED

One of the most notable differences between the Scottish and UK textile industries is the greater importance of woollen textiles in Scotland. The Scottish spinning industry produces yarn from a wide range of fibres, from the highest quality cashmere and other fine hairs through to lambswool and on to coarser Shetland yarns.

Yarns are produced in Scotland on both the woollen and worsted systems but the emphasis has traditionally been on the woollen system with very little worsted spinning being undertaken. The woollen sector consists of manufacturers who process carded wools and the worsted sector where combed wools are used. Markets for Scottish yarns are predominately domestic and they are the source of supply for weavers and knitters, very often in the same vertically integrated group.

The woollen and worsted and hosiery and other knitted goods sectors are so closely inter-linked that the demise of one would threaten the demise of the other.

HOSIERY AND OTHER KNITTED GOODS

The Scottish knitwear sector can be divided into 2 groups. Firstly those producers of high quality fully fashioned knitwear who are based primarily in the Borders with a smaller concentration in the Central region of Scotland namely around Alloa, Alva and Tillicoultry. This group use fibres ranging from the coarser Shetland wool to fine lambswool and at the top end of the range cashmere and other fine hairs.

The second group is the cut and sew sector which is based mainly in the West of Scotland. These producers use mainly synthetic fibres and operate at the cheaper end of the market. These firms generally export only about 20% of output compared to over 70% in the fully fashioned knitwear sector.

Like the woollen fabrics sector knitwear is considerably influenced by fashion changes, consequently this sector reflects fluctuating variations in economic performance caused to a certain extent by current fashion trends.

The specific segment of this sector which has most relevance to Scotland is that which includes jumpers and pullovers since this is the segment into which the Borders knitwear industry fits. Demand for products in

this segment has declined by 12% between 1982 and 1987 in volume terms but has increased in value terms by 35%, reflecting the much higher prices being charged for these garments (IMR Report 1989). Import penetration in this specific segment has been increasing progressively from 1982 to 1987 from 46% to 55% by volume (IMR Report 1989). The other segments within this sector are mens' knitted outerwear, womens' knitted outerwear, knitted underwear and nightwear and knitted hosiery. None of these areas are significant within the Scottish context. These areas are suffering particularly from increasing import penetration, for example import penetration in knitted shirts in 1987 and 99% (IMR Report 1989).

The knitting sector is particularly labour intensive and this makes it vulnerable to cheaper imports from overseas.

CARPETS

The carpet sector has experienced a severe recession in recent years. Since 1971 employment has declined by 7500 or 80% to a figure of 1600 in 1990. (Scottish Abstract of Statistics 1992).

There are only three main employers remaining:

A F Stoddard (Elderslie)

B M K Ltd (Kilmarnock)

Kingsmead Carpets (Cumnock)

However approximately 25 percent of all carpets are imported, with Belgium dominating the imported sector with nearly two thirds of all imports (Customs & Excise).

CLOTHING

The clothing sector is extremely vulnerable to competition from low cost overseas manufacturers.

The clothing sector has strong backward linkages to the textile sector. The Scottish Input-Output tables (1984) show that 85% of total domestic output of textiles is sold outside Scotland, but only 13% is actually exported overseas, with the remaining 70% going to other parts of the UK.

Since 1979 clothing production in Scotland has fallen. The fall has been sharper than that of Scottish manufacturing industry generally and more pronounced than that of the UK clothing industry.

In the first half of 1985 Scottish clothing output was

9% lower than in 1979 whereas over the same period Scottish manufacturing output in total was virtually unchanged and UK clothing output was only 3% lower. (Census of Employment).

One reason for this drop in output was the increase in import penetration within the clothing sector.

There have been substantial job losses within the clothing sector in recent years. Levi Strauss (UK) Ltd have closed factories in Bothwell and Inchinnan, J Seddon the shirt manufacturer went into liquidation causing the closure of factories in Denny and Bo'ness and a similar fate caused the closure of the factory of F Miller (Textiles) Ltd in Glasgow.

THE UK TEXTILE INDUSTRY

Key Statistics - 1990 (Source: Annual Census of Production 1992 and International Trade 1991-92 Gatt July 1993).

- Textiles industry in UK employs 200,000 directly with a further 200,000 involved in distribution, retailing and support sectors.
- Textiles in UK runs a major and widening trade gap.

The defect in balance between textiles and clothing exports and imports increased from -\$1.43 bn in 1980 to -\$6.56 bn in 1990.

- UK clothing industry employs 280,000.
- Total textiles gross output was £7.7 billion and total clothing gross output was £7.6 billion.

Analysis of the UK industry shows key trends in materials; production, design and technology, and retailing which are influencing its profile today. Whilst there has been a drift away from wool consumption in the Big 8 markets, for the UK it is predicted that an ageing population; improvements in technology leading to finer yarns, and the possible rise in costs of synthetics (green factor) will mean a return to the use of wool. However, the move towards lighter clothing will continue due to global warming and the increase in insulated buildings. Also, competition from wool textiles elsewhere will strengthen as other nations implement their own programmes to breed wool.

There has been increasing concentration of production within the UK textiles industry with Coats Viyella, Courtaulds and Dawsons setting prices and standards in many high quality areas. Integration is also

increasing, typified by Coats Viyella's recent, takeover of Tootal. Larger companies in the industry have invested heavily in plant, including CAD-CAM. However design leadership has firmly shifted to the retailing sector with textile producers becoming more reactive in many market sectors. In addition to this designers in the industry continue to hold only low levels of responsibility.

Probably the single most important trend influencing the UK textile industry today is the ever increasing power of the retailers. Retailing in the UK is dominated by five chains of which Marks and Spencer, Burtons and the C & A group account for 39% of market share. This concentration has proved relatively unhealthy for the textile industry as large runs of standardised clothing reduce creativity and consumer choice; producers become too dependent on these buyers, and new design and production talent have difficulty breeding through. Markets related to the clothing sector are also influenced by the concentration and resultant strength of retailers. The accessory market in Scotland, for example, is dominated by imports allowing little indigenous activity. Property prices have greatly influenced retail concentration, especially city centres where only the large chains can afford inflated rental charges. Even these retailers are beginning to suffer

the consequences of high interest rates and rentals, and of the imminent onslaught of the poll tax, as exemplified by the closure of the Next chain of a number of its city centre stores. Other trends that have influenced the textile industry include shortening fashion cycles leading to more complex retailing patterns back to producers; the "Sock Shop" type franchising which is perceived as trivial pop retailing; and the move up-market into high quality areas by mail-order retailing.

A study carried out for the US Chamber of Commerce (Davidson, Feyenhoff & Ghadar 1986), notes that productivity in the UK textiles and clothing industry is only about half the level of that in the United States, and that the process of industry concentration has continued.

Toyne (1984) in studying the competitive strategies of the five European nations of UK, Germany, Italy, France and the Netherlands concluded that the successful West German, Italian and Netherlands industries permitted market forces to mould their strategic responses to changes in their competitive environments. The relative unsuccessful British and French industries relied on responses that required substantial government intervention.

INDUSTRY PERFORMANCE IN EUROPE

In Europe textiles and clothing have long been declining industries. The most striking feature of the industry in Europe is the extent to which their employment has declined. At the same time, however, the number of people still working in textiles and clothing remains large and continues to give an important political dimension to trade and industrial policies in the sectors.

There are major differences among European countries. Germany and the Netherlands have tended to allow market forces to reduce production and employment, while in France, Italy and the United Kingdom, the governments have intervened more in attempts to sustain the industries.

At the level of industry performance, Italy has become the largest net exporter of textiles and clothing in the world, (in 1991 Italy dropped to third place as the largest net exporter of textiles and clothing. China with a surplus of \$13.8 bn was number one followed by South Korea. (Textile Outlook International 1993)) while the other European countries run sizable deficits. These differing approaches and circumstances bring tensions to the process of trade policy formation,

which is at the level of the European Community (EC) as a whole.

In the last two decades (1963-83) employment in textiles and clothing in the European Community has declined from 4.1 million to 2.0 million, or by 51 per cent. (UN Yearbook of Industrial Statistics 1983).

This compares with a 49 per cent drop in employment in the Scottish textile and clothing industry between 1979 and 1987.

The textile and clothing sectors accounted for approximately 10 per cent of total manufacturing employment in Europe in 1983 (UN Yearbook of Statistics 1983). The corresponding share in total value added in 1983 was 6 per cent. These figures reflect the above-average labour intensity of the textile and clothing industry.

In Scotland in 1987 the textile and clothing sectors accounted for 15 per cent of total manufacturing employment. The value added share of the two sectors compared to total value added in Scotland in 1987 was 8.4%. This is a slightly worse figure than the European figure and reflects again adversely on the textile and clothing sectors either in terms of above-average labour

intensity or a poor value added performance or indeed in both of these criteria.

The following table shows a comparison between the four leading European textile and clothing industries of UK, Italy, Germany and France in terms of their value added and employment shares as a percentage of total manufacturing.

SHARES OF TEXTILES & CLOTHING IN MANUFACTURING

VALUE ADDED AND EMPLOYMENT (PERCENTAGE)

| | <u>Textiles</u> | | <u>Clothing</u> | |
|----------------|-----------------|------------|-----------------|------------|
| | Value Added | Employment | Value Added | Employment |
| United Kingdom | | | | |
| 1963 | N.A | 9.3 | N.A | 5.2 |
| 1982 | 3.1 | 5.1 | 2.0 | 4.1 |
| Italy | | | | |
| 1963 | 8.3 | 14.0 | 2.6 | 5.1 |
| 1981 | 6.6 | 8.5 | 3.3 | 5.1 |
| Germany | | | | |
| 1963 | 6.0 | 7.4 | 4.0 | 5.0 |
| 1983 | 2.4 | 3.9 | 1.7 | 2.7 |
| France | | | | |
| 1963 | 7.7 | 9.5 | 3.5 | 6.7 |
| 1983 | 3.3 | 5.2 | 2.2 | 4.8 |

(United Nations Yearbook of Industrial Statistics 1983)

Considering the 1980s figures the UK and France were

equally the poorest performers with Italy the best performer in terms of the value added contribution of their textile and clothing industries.

The undifferentiated strategy pursued by Courtaulds and other large textile groups formed in the 1960s required vertical and horizontal integration and the infusion of advanced technology and techniques of production. The goal was to displace low-cost Commonwealth suppliers who had been gaining an increasing share of the cotton textiles market since before 1960. It was believed that the economies of scale and market power achieved as a result of consolidation and modernisation would reduce costs sufficiently to market domestically produced textiles competitive with imports in an open market. Therefore the orientation towards a strategy of cost leadership described here has continued since this period and is and always has been the primary strategy of the UK textile and clothing industry.

The conditions which obtained in the UK textile and clothing industry in the 1990s were not conducive to the implementation of a cost leadership strategy. None of the requirements to make this strategy a success, as identified by Porter (1980), were evident in the UK textile and clothing industry at this time. Overall cost leadership strategy was a common strategy in the

1970s due to the popularisation of the experience curve concept.

The UK textile and clothing industry was clearly a declining industry consequently Courtaulds and some of the other large textile groups attempted to follow the strategic alternative of leadership in this declining industry situation, by investing in aggressive actions in pricing in order to increase their market share. However Harrigan's (1980) alternative for industries in decline of following a niche strategy in order to create or defend a strong position in a particular segment did not receive any great response from UK textile and clothing companies, and cost leadership had remained the dominant strategy in the industry.

By the early 1970s it became clear that the strategy was not a complete success. Although some mass-produced standardised textiles were competing with low-cost imports domestically and in other EC markets, a Commonwealth tariff was introduced in the early 1970s, and extended to include man-made fibre textiles in the mid-1970s.

The condition of the British textile and clothing industry in the 1980s was weak by industrialised country standards. The industry however contained a few well-

developed technically advanced competitive sectors that cover all aspects of textile manufacturing. It is strongly influenced by vertically and horizontally integrated firms that operate in a number of sectors including some that have extended into retailing as exemplified by Coats-Viyella through their Jaeger, and Viyella retail outlets.

COMPETITIVENESS IN THE NORTHERN IRELAND CLOTHING INDUSTRY

A number of features discussed in this chapter which influence competitiveness in the textile and clothing industry were studied in a report which investigated competitiveness in the Northern Ireland Clothing Industry. (University of Ulster 1987).

The authors of the report re-stated the point that traditionally competitiveness is measured by costs and prices relative to that of competitors, and that very often non-price factors are excluded from economic analysis and this leads to the adoption of the view that the key to competitiveness is reducing costs, frequently, taken to mean wages, to levels which are lower than your competitors. The report states that attributing competitive prowess to costs and wages is too narrow a perspective.

The report highlights the fact that the clothing industry is increasingly being influenced by global forces, pointing out an increase in output of clothing in the developing countries and in Eastern European countries, but a decrease in output in developed countries.

The influence of the retailer is re-affirmed in the report stating that one large (unnamed) multiple absorbs 40% of the total output of clothing from Northern Ireland.

Since the Northern Ireland clothing firms are relatively small, average number of employees was 144, a strategy of overall cost leadership / high volume was less likely to be successful than following a strategy of differentiation or a focus strategy. In spite of this the findings indicated that most companies set their prices at average or lower than average for the industry, believing that their products are purchased on the basis of price rather than features which differentiate them. This strategy which emphasised pricing as a competitive weapon was reflected in the fact that in most cases the managing director held the ultimate responsibility for setting prices.

This is another example of the inappropriateness of

Porter's (1980) cost leadership strategy within the UK textile and clothing industry.

The concern of Northern Ireland clothing companies with regard to keeping costs down was demonstrated again in relation to their relationships with suppliers. The companies stated that the main criterion used in selecting a supplier of fabric was PRICE.

When asked who were their major competitors, most companies cited UK companies, very few cited European or MFA countries.

Only half of the companies sampled had some form of marketing/selling department, the predominant type of promotion employed was given as 'sales staff'.

Quality was almost exclusively defined in terms of the physical attributes of the product.

Out of an average number of total employees of 144 for the industry, the average number of employees in Personnel was 1.

The researchers used the three measures of net profit before tax, sales per employee and sales per £ of assets to judge the competitiveness of individual companies.

They then applied Pearson Correlation Coefficients to these measures to assess the financial performance of the companies.

The main conclusions of the findings were that the most competitive companies were those that pursued the following strategies:

- set prices at upper end of price range;
- have a strong commitment to marketing;
- engage strongly in advertising;
- use own design team.

And in terms of company structure the most competitive companies displayed the following characteristics:

- high proportion of managers per employee;
- high proportion of training instructors per employee;
- high fixed costs.

These conclusions revealed a fundamental contradiction between the findings of the investigation and the perceptions of the respondents, which suggested that production-oriented companies who pursued a low price-setting strategy with a minimum emphasis on in-house training would be the most competitive companies.

Textiles is now a major global industry with many product categories and enterprises operating in almost a single market situation. There are six major strategic trends:

- Increasing liberalisation of international trading patterns caused by both national and international policy developments and by the increasing corporate linkages within the industry as the world moves towards market mechanisms and structures.
- Market intelligence and information are now spreading rapidly, a consequence of which is shortening production response throughout the world. Global production and retailing forces are now stronger than those of nation states. Related to this is the continuing fall in the real cost and time of both information and materials transportation.
- Common production technologies are increasingly being accessed throughout the world as textile machinery producers target all textile producers. This has meant that the competitive onus now falls upon material, design and production quality along

with qualitative marketing.

- Cross-national linkages in manufacturing are expanding with major textiles manufacturers, agents and retailers in the developed countries looking to third world national market boundaries.
- Both retailing groups and brand labels in key clothing sectors are growing in strength across national market boundaries.
- Influential and affluent consumer groups are travelling internationally causing product and geographical market boundaries to broaden and blur.

On a regional basis far Eastern and Mediterranean countries are becoming increasingly competitive through improved production, raw material and design quality. Many countries are undertaking similar initiatives to those taking place in Scotland to improve supply, security and volumes in fine animal fibres.

With the changes in the political situation in Eastern Europe during 1990 an increase in textile and clothing imports from this source is expected to grow steadily in the future.

THE SINGLE EUROPEAN MARKET

The UK Government and the textiles trade associations are currently evaluating the potential impact of the Single European Market on the UK textiles industry. Key internal market implications of the single market for the textile industry are:

- the removal of physical barriers and transport deregulation
- changes in VAT in individual countries
- harmonisation of technical standards
- changes in the public purchasing regime

The general consensus is that the single market will present more opportunities than threats, especially for quality-led Scottish products. The indirect effect of transport deregulation, in particular air freight, may provide opportunities for Scotland due to its peripheral location. There may be opportunities in industrial textiles through the opening of public procurement markets for products such as uniforms. There may be opportunities for Scottish companies to establish production units in low-wage countries such as Portugal, funded by Commission Regional Funds. The trend to centralised purchasing, which may be accelerated by

1992, could ease Scottish suppliers' access to other EEC markets.

INTERNATIONAL COMPETITIVENESS

Data compiled by the United Nations according to International Standard Industrial Categories (ISIC) provide a basis for comparing the relative size and labour productivity of the textile and clothing sectors among the principal and developing country producers.

The following table reports major indicators of industry size and performance for 1980, a year chosen as the most recent for which the dollar was not seriously overvalued. National values are converted to dollars at average 1980 exchange rates.

INDICATORS OF INDUSTRY SIZE AND COMPETITIVENESS 1980

| Country | Output (billion dollars) | Employment (thousands) | Value Added per worker (dollars per year) | Relative Wage | Relative Value added per worker/relative wage |
|---------|--------------------------------|---------------------------|--|------------------|--|
|---------|--------------------------------|---------------------------|--|------------------|--|

Textiles

| | | | | | |
|----------------|-------|-----|--------|------|------|
| United Kingdom | 13.49 | 351 | 15442* | 0.80 | 0.82 |
| Italy | 15.73 | 296 | 22689 | 0.81 | 1.20 |
| Germany | 19.09 | 317 | 22022 | 1.25 | 0.75 |
| France | 15.07 | 297 | 21515 | N.A. | N.A. |
| United States | 56.80 | 986 | 23357 | 1.00 | 1.00 |
| Hong Kong | 3.66 | 128 | 8430 | 0.39 | 0.92 |
| S. Korea | 5.65 | 393 | 5079 | 0.18 | 1.22 |
| Japan | 40.85 | 916 | 17325 | 0.77 | 0.96 |

Clothing

| | | | | | |
|----------------|-------|------|---------|------|------|
| United Kingdom | 7.03 | 277 | 12260** | 0.55 | 1.29 |
| Italy | 7.23 | 172 | 18587 | 0.96 | 1.12 |
| Germany | 10.12 | 228 | 22127 | 0.94 | 0.98 |
| France | 8.99 | 272 | 14618 | N.A. | N.A. |
| United States | 37.70 | 1150 | 17200 | 1.00 | 1.00 |
| Hong Kong | 5.24 | 264 | 7042 | 0.51 | 0.80 |
| S. Korea | 1.81 | 186 | 3667 | 0.20 | 1.05 |
| Japan | 10.76 | 466 | 11376 | 0.75 | 0.88 |

NB. The US figures are given as the base figure for relative wage and relative value added. (United Nations Yearbook of Industrial Statistics 1983).

* The equivalent Scottish figure was 14531 (dollars per year)

** The equivalent Scottish figure was 11811 (dollars per year)

(Source: Figures derived from the value added per worker figures from Scottish Abstract of Statistics 1982 and multiplying this figure by 2.386 which was the middle rate exchange rate for the dollar against the £ in 1980).

The above figures show the UK textiles and clothing performances in terms of value added per worker to be substantially inferior to the comparable figures for the countries of Italy, West Germany, France and the United States.

| | | | |
|----------------|-------|-------|--------|
| Textiles | | | |
| United Kingdom | 4.46 | 7.02 | -36.1% |
| West Germany | 13.34 | 17.98 | -25.6% |
| France | 6.06 | 7.86 | -23.1% |
| United States | 5.04 | 4.72 | +6.8% |
| Hong Kong | 8.21 | 10.28 | -20.3% |
| S. Korea | 6.98 | 8.95 | -22.1% |
| Japan | 5.26 | 4.14 | +27.1% |
| China | 7.32 | 5.43 | +25.6% |

| | | | |
|----------------|-------|-------|---------|
| Clothing | | | |
| United Kingdom | 3.04 | 6.26 | -50.9% |
| West Germany | 7.05 | 10.69 | -33.7% |
| France | 4.67 | 8.36 | -44.3% |
| United States | 2.52 | 22.98 | -89.2% |
| Hong Kong | 10.41 | 4.82 | +115.5% |
| S. Korea | 7.86 | 6.35 | +23.8% |
| Japan | 6.57 | 9.74 | -32.7% |
| China | 2.67 | 2.85 | -6.9% |

(International Trade 1991-92 Data July 1993)

EXPORTS, IMPORTS AND TRADE BALANCE 1990

| Country | Exports (billion dollars) | Imports (billion dollars) | Trade Balance (billion dollars) |
|---------|---------------------------------|---------------------------------|--|
|---------|---------------------------------|---------------------------------|--|

Textiles

| | | | |
|----------------|-------|-------|-------|
| United Kingdom | 4.38 | 7.02 | -2.64 |
| West Germany | 13.34 | 11.56 | 1.78 |
| France | 6.06 | 7.60 | -1.54 |
| United States | 5.04 | 6.73 | -1.69 |
| Hong Kong | 8.21 | 10.18 | -1.97 |
| S. Korea | 6.08 | 1.95 | 4.13 |
| Japan | 5.86 | 4.11 | 1.75 |
| China | 7.22 | 5.43 | 1.79 |

Clothing

| | | | |
|----------------|-------|-------|--------|
| United Kingdom | 3.04 | 6.96 | -3.92 |
| West Germany | 7.05 | 19.99 | -12.94 |
| France | 4.67 | 8.38 | -3.71 |
| United States | 2.57 | 26.98 | -24.41 |
| Hong Kong | 15.41 | 6.91 | 8.50 |
| S. Korea | 7.88 | 0.15 | 7.73 |
| Japan | 0.57 | 8.74 | -7.17 |
| China | 9.67 | 0.05 | 9.62 |

(International Trade 1991-92 Gatt July 1993)

The above figures show that the textile and clothing industries are more robust in the industrial countries, relative to some of the leading developing countries, than might be thought from the protective regime.

The relative size of the industries, the productivity performance compared to relative wage costs, all suggest a picture rather different from the familiar image of sectors in the North on the verge of decimation by powerful new competition from the NICs (newly industrialised countries).

IMPORTS OF MAJOR INDUSTRIAL COUNTRIES FROM NON-OECD
SOURCES (MILLION DOLLARS)

| | US | Germany | France | Italy | UK | Japan |
|-----------------|-------|---------|--------|-------|------|-------|
| <u>Textiles</u> | | | | | | |
| 1983 | 1691 | 1080 | 431 | 424 | 540 | 983 |
| 1984 | 2341 | 1062 | 454 | 477 | 567 | 1372 |
| 1985 | 2469 | 1054 | 499 | 536 | 606 | 1312 |
| <u>Clothing</u> | | | | | | |
| 1983 | 9314 | 3252 | 851 | 251 | 1246 | 1150 |
| 1984 | 12664 | 3430 | 855 | 245 | 1403 | 1611 |
| 1985 | 13755 | 3274 | 988 | 298 | 1306 | 1646 |

Source: OECD Foreign Trade by Commodities, Series C
Vol 2 DRI database.

The above figures indicate some sharp divergences in clothing imports from developing countries.

Germany's import level is approximately 4 times that of France, 13 times that of Italy and over twice that of

the United Kingdom. They indicate the high degree of openness of the German market and a relatively more restrictive market in France. The contrast with Italy may be explained by the greater competitiveness of Italian clothing. The United Kingdom is in an intermediate position between the openness of Germany and the restrictiveness of France.

Another factor causing divergences in these figures is the influence of large retailers. As pointed out by Toyne (1984) a retailer can help a foreign producer overcome many of the problems of tariff and non-tariff barriers, warehousing and transportation. Therefore, the relationship between retailers and foreign manufacturers is very important, and an often neglected area of consideration in analysing what changes are taking place in the global textile complex. This influence applies particularly in the UK where a few retailers such as Marks & Spencer, the C & A group, Sears Stores and the Burton group account for 44% of menswear clothing and 34% of womens clothing purchases in the UK in 1991. (Mintel Vol 3 1992). Over 40% of the value of British clothing imports came from countries having high wages, reflecting British consumer preference for certain styles, designs or fashion characteristics not available from local producers. (Arpan, De la Torre and Toyne 1982).

CRITICAL SUCCESS FACTORS

THE NEED FOR OVERSEAS PRODUCTION TO PENETRATE OVERSEAS MARKETS

INDUSTRY RELOCATION

A feature of the globalisation of the textiles and clothing industries has been the trend within the industries towards relocating production and sourcing to countries with lower labour costs and therefore acting "as export platforms" for supplying the markets of the developed countries. An example of this trend is the Laura Ashley company who have decided to close seven factories in the UK in 1991 and source from abroad which will increase the proportion of garments bought in from lower cost countries from 45% in 1990 to 85% in 1991. (Economic Intelligence Unit Retail Trade Review, March 1991).

Vertical integration as stated in the literature reviews is the combination of technologically distinct production, distribution, selling and/or other economic processes within the confines of a single firm. A strategy of vertical integration has both benefits and costs. To be successful however the productive capacities of the upstream and downstream units in the

firm must be held in balance. In the case of Laura Ashley the problems arose in the high cost levels of their upstream activities hence their decision to substantially withdraw from these activities. Another reason for the relocation is the need for companies to locate closer to their markets. Therefore a number of UK companies have set up production facilities in the USA, Canada, Australia and Western Europe.

A combination of the importance of market access, alongside low cost production has led to a number of UK companies investing in developing countries. A study titled "Relocating Manufacturing in Developing Countries - Opportunities for UK Companies" by S Page (NEDO, 1986) identified four "second generation" newly industrialising countries namely Malaysia, Thailand, Peru and Colombia where such foreign investment had occurred.

The importance of market access as a locational factor is illustrated by the expansion of Tootal in South East Asia and China. Two main advantages are derived from this locational decision, firstly, it allows the manufacturer to avoid import restrictions, and secondly, it accommodates the ability to tailor the product mix to customer needs and respond quickly to changes in these needs. Other companies are following this example where

similar market conditions prevail.

The possible phasing out of the Multi-Fibre Arrangement is likely to have a positive impact on the market for textile products in developing countries, especially in Asia. Industrial expansion in textile production and consumer products would benefit through an expansion in disposable income.

NEW RETAILING TECHNOLOGY AND RETAIL STRATEGIES

Access to markets in developing countries is a major factor for the largest firms producing for industrial users, or those with strong brand names serving consumers. But for a wide range of firms in the clothing and household textiles sectors - from the largest through to medium and even small scale firms - relationships with retailers are of major interest.

Relationships with retailers are particularly important in the UK given the high degree of concentration of UK retailing.

GROWING MARGINS IN RETAILING

As a result of this concentration, the gross retail margin (excluding value added tax) has increased as a

percentage of retail sales. In 1961 this was reported at about 29% for clothing in general. By 1984 it had risen to 36%. Not only is this margin high compared with that on other goods but it also increases with the size of the retail business, whether measured by number of outlets or by turnover. For example, among clothing, footwear and leather goods retailers the margin is 35.4% for those with one outlet but rises to 50.4% for those with 200 or more branches.

Many retailers have been investing in new computer technology to enable them to respond much more quickly to sales trends and at the same time reduce stocks. This means a move towards smaller initial orders - which places a requirement on suppliers to be able to respond quickly and flexibly to repeat orders, discontinuing production of lines which have not sold well, and shortening the time it takes to get the products to the shops.

This has potentially important implications and specifically changes in retailer technology and strategy may form a basis for competitive advantage in relocating production close to domestic markets in the West.

IMPORTANCE OF SPEED OF RESPONSE

Different kinds of products have different "time sensitivities". High fashion will be more time sensitive than classic garments. Moreover, time sensitivity will tend to vary with the stage in the retail cycle, being lower at the beginning of the selling season and greater for products with short selling seasons.

BOSTON CONSULTING RESEARCH

Estimating time sensitivity is not the end of the matter. The crucial point is to estimate the losses incurred by retailers as a result of holding stock at levels greater than optimum, or the profits foregone by being able to satisfy demand because of stock shortages. The Boston Consulting Group has made estimates of the cost of overstocking. The following example relates to men's sports shirts.

Foreign sourcing of men's sports shirts by US retailer.

Lead time for ordering = 7 months.

50% probability of an over-order of 10%.

Over ordered amount will be sold at a 50% mark-down from the original price.

Expected mark-down on whole order = $50\% \times 10 \times 50\% = 2.5\%$.

Domestic sourcing of men's sports shirts by US retailer.
 Lead time for ordering = 4 months.
 50% probability of an over-order of 8%.
 Over-ordered amount will be sold at 50% mark-down on the original price.
 Expected mark-down on whole order = 50% x 8% x 50% = 2%.

On the basis of this calculation, therefore, the savings from domestic ordering are only 0.5%.

DETERMINANTS OF SPEED OF RESPONSE

The way in which production is organised and the type of technology used in production are the important factors.

The following table shows estimates of the time taken in production and transit for the sales of garments in the US market, classified by type of production organisation, type of technology and location of production.

Estimates of Speed of Response (Number of days (1))

| <u>Integrated production in the US market</u> | | | | <u>Production partnerships for sale in the US market</u> | | |
|---|-------|--------|--------|--|----------------|--------------------|
| South Korea | China | USA(2) | USA(3) | USA(3)/China | USA(3)/Jamaica | USA(3)/South Korea |
| 66 | 67 | 36 | 10 | 89 | 35 | 88 |

- (1) Days in process and transit
- (2) US production with semi automated technology
- (3) US production with robotic technology

(Source: Mody & Wheeler, World Developments, November 1987).

The above table suggests that, in so far as speed of response becomes an important competitive factors, the decisive advantage will go not to production in the USA but to lower cost countries nearer to the USA than those in the Far East.

This might suggest that West European producers thinking about off-shore locations for supplying the European market should investigate sites in the Mediterranean basin and in Easter Europe. Indeed, French and German garment producers have many production partnerships with factories in these regions.

QUALITY OF COMMUNICATIONS

Distance may be a factor in determining also the quality of communication between retailer and manufacturer. shorter response times depend on better communication. Electronic data interchange (EDI) linking retailers to manufacturers and linking different stages of

production, facilitates shorter response times. But countries with lowest labour costs tend also to be those with the weakest communication infrastructure, so the quality of the communication infrastructure will also enter into the assessment of the costs and benefits of production in a particular location.

FAST CYCLE CAPABILITY

Bower & Hout (1988) carried out a study which showed that competitive advantage can be obtained by the application of fast-cycle capability, in terms of responding to customers needs.

They stated that the basic idea of fast-cycle capability is to design an organisation that performs without the bottlenecks, delays and errors and inventories that most companies live with. Therefore this capability must be given serious consideration when taking industry location decisions.

EXCHANGE RATE MOVEMENTS

Exchange rate fluctuations can change the relative profitability of production in different locations and the profitability of selling in different markets - even though the underlying fundamentals determining cost and

demand structures remain unchanged.

Exchange rate movements are primarily determined by short term capital movements - by flows of "hot money" in the highly integrated international money market. This makes life very complicated for firms considering their sourcing decisions and can give a false picture of what the long term prospects are.

The key exchange rate for the UK textiles industry is that of sterling against the US dollar, primarily because many of the developing companies which are competitive sources link their currencies to the US dollar. International garment sourcing contacts are frequently demonstrated in dollars, especially those negotiated with Far Eastern sources.

In the early 1980s there was a considerable depreciation of sterling against the dollar. The real effective exchange rate (nominal exchange rate adjusted for relative rates of inflation) of sterling in relation to the dollar fell by almost 20 percentage points from 1981 to 1986. This promoted exports of textile products from the UK (which grew by an annual average of 6% from 1983 to 1985). It also kept down import penetration ratios. For instance, from 1981 to 1983 the import penetration

ratio for footwear and clothing remained constant at 33%.

During 1985-88 the trend was for a fall of the dollar against sterling. The result was a deterioration in export growth and quite a sharp rise in import penetration ratios. For textiles the ratio rose from 44% in 1984 to 47% in 1987; and for clothing and footwear from 36% in 1984 to 39% in 1987.

The fact that the UK joined the European Monetary System in 1991 will not secure stability against the dollar and other currencies outside the EMS.

Ironically the very factors that enable firms to contemplate internationalisation of their operations also contribute to exchange rate volatility. Firms are able to internationalise production because of ease of communications and deregulation of capital movements. The same factors are at the root of wide and frequent fluctuations in exchange rates.

Firms which sign contracts with foreign subcontractors at fixed dollar prices might also contemplate hedging those contracts by buying dollars forward. But that is only a realistic option for firms with specialised finance expertise, which probably precludes small and medium sized firms.

CHANGES IN CONSUMER AWARENESS

EMERGENCE OF GREEN CONSUMER

This is a relatively new development which seemingly has come from nowhere in the past year to become a major marketing factor, although there have been discernible signs of changes in consumer awareness, such as the success of Body Shop (whose cosmetics are environmentally friendly and not tested on animals).

Another development in consumer awareness is the appearance of the ethical consumer. Ethical consumers are concerned about arms manufacture, production in South Africa, corporate responsibility to the community, sexual and racial discrimination, and exploitation of cheap labour in the Third World.

Ethical consumers are, in reality, often the same people as green consumers. One of the concerns of the ethical consumer is what he or she sees as the exploitation of poor people in the Third World. The ethical consumer is going to avoid buying garments that he or she perceives as based on cheap labour, working long hours and enjoying few rights.

Ethical consumers are provided with information on which

to base their purchases by a new magazine titled "New Consumer Magazine". New Consumer's winter 1989 issue carried an article headlined "Cut & Sewn Up in Bataan". This article invited consumers to check the label when buying clothing to see if the garment is made by a subsidiary of the UK firm William Baird. The cause for concern is the closure of a factory in the Bataan export processing zone in the Philippines which is owned by Bairds.

Another campaign is being organised in the Netherlands to put pressure on C & A to improve conditions of the workers in its supplying factories. The report is this campaign focuses on C & A suppliers in Philippines, Thailand and Bangladesh as well as on small workshops and homeworkers in the Netherlands. Concern is expressed about:

- the use of child labour by subcontractors;
- poor health & safety conditions and long hours of work;
- lack of workers' rights, particularly trade union rights.

THE MULTI-FIBRE ARRANGEMENT

The Multi-Fibre Arrangement (MFA) came into being in 1974, following a number of similar previous agreements. Under the MFA imports of textiles and clothing into developed countries from developing countries are restricted by means of import quotas. The MFA operates under the auspices of The General Agreement of Trade and Tariffs (GATT) and is intended to ensure the orderly development of trade, while developed countries undertake structural adjustment of their textile and clothing industries. The present MFA IV is due to expire on July 31st 1991. A new GATT Round (The "Uruguay" Round) is due to be completed in 1990 and one of its aims is to bring about the eventual integration of the textiles and clothing sector into GATT, on the basis of strengthened GATT rules and disciplines.

The present Government's policy of free trade is reinforced by the Silberston Report "The Future of the Multi-Fibre Arrangement" published by the DTI in October 1989. This report concludes that the MFA is a market distortion and that it should be ended. It reveals that UK consumers may benefit from a 5% fall in prices (worth £980m per annum at 1988 retail prices) and that viable enterprises will be able to adjust successfully to greater competition. However between 16,000 and 33,000

jobs will be shed by UK textile companies, with Scotland, the North West of England and Northern Ireland being the most vulnerable areas due to their specialisations and levels of unemployment. Using Silberston's figures it is estimated that loss of employment in Scotland will be between 5000 and 10,000 and that this will occur in the clothing and made-up knitwear sectors rather than the quality woollen segments of the industry.

Silberston's document has been generally well received from most sectors of the UK textiles industry, apart from some questions on detail. The Apparel, Knitting and Textiles Alliance and the Knitting Industries Federation believe that Silberston has seriously underestimated the adverse effect on the industry of ending the MFA and that many more than 33,000 jobs will be lost. In addition they believe that Silberston's assumption of a 5% fall in the average retail prices of clothing and textiles is an over-estimation. However the industry endorses his suggestion that the MFA be phased out by stages over a period of time and agrees that this should be accompanied by a general strengthening of GATT on measures against subsidies, dumping and counterfeiting. Counterfeiting of designs, labels and styles may prove to be the main problem for Scotland and its distinct textiles industry,

particularly with the retailing of such garments in markets that are less accessible and difficult to inspect. This will place pressure on the main Scottish textile industry associations to police the moves towards a new GATT regime.

The opening-up of markets under the relaxed MFA will proceed at different speeds in different product sectors, for example there will be rapid reductions in tariff and non-tariff trade barriers in raw materials with slower removals in made-up textiles and clothing, where the reduction of barriers will be slower for quality items but more rapid for real commodity items.

The problem of providing protection for the textile and clothing industrial sector obtains in a number of developed countries. Cline (1987) states that in the USA textiles and clothing have received more comprehensive and persistent protection than any other industrial sector, even though the original rationale for their protection more than two decades ago was to provide temporary relief so that the industries could adjust and become sufficiently competitive to face international competition on their own.

Even in the late 1980s, industry and trade unions in the USA are pressing for still tighter protection. There is

concern in the UK that failure to agree a new GATT (General Agreement on Tariffs and Trade) by the end of 1991 had placed in jeopardy the renewal of the protective measures for the British textile industry, with the current Multi-Fibre Arrangement (MFA) due to expire on 31 July 1991.

The fundamental question is whether the British public should continue to pay £1 billion more in consumption costs in order to preserve somewhere between 16,000 and 33,000 jobs in the British textile and clothing industry. Management representatives of the UK textile and clothing industry are not calling for more protection.

Indeed they would welcome an agreement in the Uruguay Round for trade talks to unwind the Multi-Fibre Arrangement. (P Montagnon 1991). Such an agreement would provide an opportunity for cutting the high tariffs imposed by the US on textile imports and for measures to curb dumping by foreign producers like Mexico and Turkey.

The indications are that the Multi-Fibre Arrangement will be extended when it expires on 31 July 1991. (R Anson, The Economist Intelligence Unit at MFA Conference, 12 March 1991). Those wish to see it

abolished do so on the basis of achieving the objective of free trade. Whereas those advocating its retention argue their case on the basis of fair trade. They do not want to see textiles becoming a cheap swop for the common agricultural policy within the Uruguay round negotiations. Imports to the West are increasingly coming from non MFA countries such as Turkey making the MFA increasingly meaningless.

THE INFLUENCE OF MACRO FACTORS

Examples of these include government policies and laws, supplies and prices of factors of production, general levels of education, prevailing cultural attitudes and values, foreign exchange value of the currency, condition of the infrastructure, the degree of industry concentration, and the size of the domestic market.

Macro factors play an important role in influencing both real competitiveness and artificial competitiveness.

THE INFLUENCE OF MICRO FACTORS

In every country's industries, some firms are more internationally competitive and successful than other firms, regardless of the international competitiveness of the nation's industry in aggregate. The differences

may occasionally be due to special government assistance to particular firms, but in most cases were due to differences in competitive strategy and management abilities. To put it succinctly some firms were better managed than others. And for the most part, "better managed" was synonymous with being better strategically positioned in a global context. Strategic positioning refers to utilising factors of production and other competitive advantages to maximise favourable opportunities and minimise unfavourable threats both domestically and internationally.

SUMMARY

This chapter has undertaken an examination of the general situation pertaining in the world wide textiles and clothing industry. It has been emphasised that one country's textiles and clothing industry can no longer exist in isolation, remaining impervious to the influences of activities occurring in the industry in other parts of the world. Consequently businesses in Scotland are now facing competitive pressures from producers in many parts of the world. This international competitive pressure is exemplified by the dramatic increase in China's exports of textiles and clothing products from \$4.17 billion in 1980 to £20.81 billion in 1991 (source: International Trade 1991-92 Gatt July 1993).

The chapter has outlined a number of different industry wide strategies which have been employed in different countries and has indicated their respective strengths and weaknesses.

It is within this industry context that firms have then to decide their own competitive strategies. It is therefore appropriate to recall the comments by Porter (1970) about the firm's environment, "industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm".

It is apparent that government policies have a strong influence on the structure of individual industries, which in turn has a strong influence on both corporate strategies and competitive strategies within the individual industry.

The main focus of the chapter is the Scottish textiles and clothing industry and in spite of the decline of the industry articulated at the beginning of the chapter, it still remains a significant industry, particularly in terms of the numbers it employs.

Consequently the objective of this study is to investigate the strategies which will reinforce the

competitive performance of the industry in Scotland so that it can contribute positively to the economic performance of the country.

This study investigates the economic life of the business and follows an organization's strategic activity as it is conducted in the day to day practice. The study is a qualitative study in its nature and the study is a descriptive study.

The study is an exploratory study and is based on the concept of a business strategy.

(1) The study is a qualitative study and is based on the concept of a business strategy.

(2) The study is a qualitative study and is based on the concept of a business strategy.

Following are the three main objectives of the study:

CHAPTER SEVEN

RESEARCH METHODOLOGY

This study investigates the relationships, at the business-level, between an organisation's competitive strategy, its competencies in its key functional skills, the key competitive force in its industry, and its economic performance.

The investigation addresses two questions central to the concept of business strategy:

- (1) Is an organisation's overall relative level of total competencies, compared to competitors, related to its economic performance?
- (2) Are business strategies which match an organisation's major competence to the key competitive force in its industry related to its economic performance?

Following on from these two questions the following two broad hypotheses were formulated.

H1. A business unit's overall relative level of total competencies, compared to competitors, is positively related to its economic performance. (Andrews 1971).

H2. A competitive business strategy which matches a business's key functional skills to the key competitive force in its industry is positively related to its economic performance. (strategic management literature (Andrews 1971; Hofer & Schendel 1978). There is also

LITERATURE REVIEW

Most authors agree that strategy represents the match that organisations attempt to make between their skills and competencies and their competitive environment and that this match should be viewed in relation to the organisation's major competitors (Ansoff 1965; Andrews 1971; Hofer & Schendel 1978; Porter 1980; Ohmae 1982).

Theorists have suggested that the stage of industry evolution and the nature of buyer needs are primary determinants of these keys competitive factors (Drucker 1954; Andrews 1971; Porter 1980).

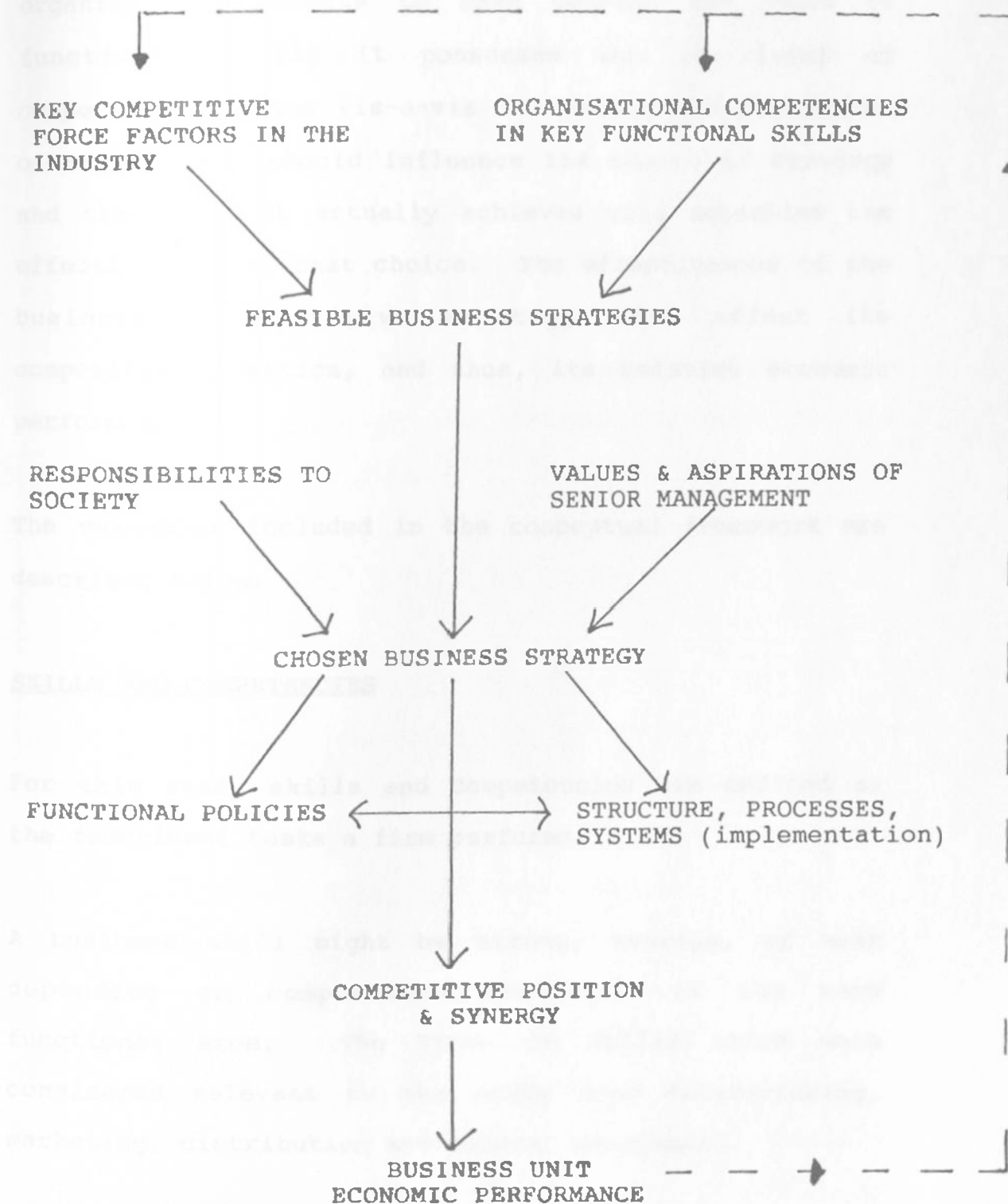
By demonstrating the importance of comparing the key industrial competitive force with business competencies then this concept is useful for explaining a firm's performance.

The assessment of an organisation's distinctive competencies is considered an important input into the strategy formulation process (Andrews 1971). Distinctive competencies, which are similar but not identical to company resources and competitive advantages, should be viewed in terms of an organisation's greatest functional strengths according to the mainstream strategic management literature (Andrews 1971; Hofer & Schendel 1978). There is also agreement that to accurately assess an organisation's competencies, both its types of functional skills and the levels of strengths it possesses in them should be considered, and that they should be evaluated relative to the organisation's major competitors (Ansoff 1986; Stevenson 1968; Snow & Hrebiniak 1980; Hitt & Ireland 1984, 1985).

There is some dubiety as to exactly what types of functional skills represent business-level distinctive competencies. While again there is no consensus, some writers have hinted that the administrative skills used to implement a strategy (eg general management, finance personnel, etc) should be viewed differently from the product-market skills (R & D, manufacturing, marketing, distribution) upon which competitive strategies are based (Selznick 1957; Stevenson 1968; Lenz 1980). There is however some indirect evidence that the two sets of skills may be related to organisational performance in different ways (Snow & Hrebiniak 1980).

CONCEPTUAL FRAMEWORK & LANGUAGE

CONCEPTUAL FRAMEWORK



(detailed description of above over page).

The above figure provides the framework upon which this study is based (Andrews 1971; Hofer & Schendel 1978; Porter 1980). As stated above, the match an organisation attempts to make between the types of functional skills it possesses and its level of competence in them vis-a-vis its industry's key forces of competition should influence its choice of strategy and the match it actually achieves will determine the effectiveness of that choice. The effectiveness of the business's competitive strategy will affect its competitive position, and thus, its relative economic performance.

The variables included in the conceptual framework are described below.

SKILLS AND COMPETENCIES

For this study skills and competencies are defined as the functional tasks a firm performs.

A business skill might be strong, average, or weak depending on competitors abilities in the same functional area. The types of skills which were considered relevant to the study were manufacturing, marketing, distribution and general management.

The combined strength of the business in these four skills represents its overall relative level of total competencies.

Distinctive competencies are functional skills which an organisation performs particularly well (Andrews 1971; Hofer & Schendel 1978).

The study has concentrated on analysing an organisation's product-market competencies however it is recognised that the ability of an organisation to implement its strategy will depend heavily on its general management talents.

KEY FORCES OF COMPETITION IN THE INDUSTRY

A particularly useful framework for diagnosing competition in an industry is Porter's (1980) "five forces of competition" framework. The state of competition in an industry depends on five basic competitive forces: (1) the threat of new entrants; (2) the bargaining power of buyers; (3) the bargaining power of suppliers; (4) the threat of substitute products or services; (5) rivalry among existing firms.

The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these

competitive forces or can respond to or influence them in its favour.

COMPETITIVE BUSINESS STRATEGIES

Strategies are the essential characteristics of the match organisations try to make between their skills and competencies and their competitive environments in order to achieve their objectives (Hofer & Schendel 1978).

The particular match which will determine the success of the business strategy in this study is the match between the key force or forces of competition in the industry and the key functional skill or skills applied by the company.

The context of the study was the Scottish textiles and clothing industry therefore the study has set out to identify the key competitive force(s) within this industry and has identified the organisational competencies in key functional areas which are needed to provide an appropriate match with the key competitive force(s).

The achievement of such a match will be reflected in a superior economic performance by the business in terms of its financial results.

METHODOLOGY

An analysis of qualitative and quantitative data was undertaken. Because the study was limited to the one industry, namely the Scottish textiles and clothing industry, a wide ranging sample was chosen to ensure that the responses were as representative as possible and also to ensure that the findings could be generalised as being typical of the industry, with a reasonable degree of confidence.

RESEARCH DESIGN

The businesses surveyed in the study were all involved in either textiles or clothing manufacture in order to ensure an adequate mix of business skills amongst the sample.

SAMPLE SELECTION

An extensive sample of the industry was taken from which a total of 25 businesses provided a positive response. Care was taken to survey the different sectors of the industry, for example, spinning, weaving, dyeing and finishing, knitwear, carpet manufacture and clothing manufacture in order to obtain a representative industrial sample.

DATA COLLECTION METHODS

Initially a personal interview survey approach was used which provided a high response rate and comprehensive data from the businesses however this approach proved to be very time consuming and consequently impractical. Thereafter a self reporting postal survey approach was used which was much quicker but produced a lower response rate. The questionnaire used in the self reporting survey was modified slightly in an effort to facilitate collection of financial data.

Data was gathered for a period of four financial years in order to smooth annual fluctuations in performance of the business units. For the Industry Note a wide range of secondary sources of information was used, industry, government data and statistics, reports prepared by the Scottish Development Agency on the textiles and clothing industry in Scotland and various commercially commissioned reports which investigated the various sectors of the industry, and financial data was double-checked against data contained in the Registrar of Companies Office in Edinburgh.

MEASUREMENT TECHNIQUES

The conceptual framework and variables used in this study required qualitative, subjective measurements of

nominal and ordinal data. Where available quantitative data were evaluated in the measurement process as well. Dess and Robinson (1984) have shown that subjective measurements although less desirable than objective measurements, are reasonably accurate, and usually necessary for business-level research. All business unit variables were measured relative to competitors. The identification of key competitive force factors in the industry as well as business strategies, competencies and performance, were based on data extracted from the various sources mentioned above.

Evaluations of business unit performance were based on the actual financial data available, that is, Sales per Employee and Return on Capital Employed.

ANALYSIS & RESULTS

TESTING HYPOTHESIS H1

The first hypothesis was generated to investigate whether an organisation's overall relative level of total competencies, compared to competitors, was related to its economic performance.

This analysis compared the overall strength of the sampled businesses in all skills combined with their relative economic performance.

Not unexpectedly, the overall level of relative competencies an organisation possessed was found to be positively related to its performance.

TESTING HYPOTHESIS H2

The second hypothesis was intended to test whether business strategy, in its matching the key competitive force in the industry and the key functional skills of the business, was positively related to the performance of the business.

In general, the findings suggest that it does matter strategically what type of competitive force is identified as the key competitive force in the industry and what type of functional skill is matched with this competitive force if success is to be achieved in the industry.

CHAPTER EIGHT

THE FINDINGS OF THE FIELD SURVEY

This chapter presents the analysis of the field study findings concerning the survey conducted of the firms operating in the Scottish textiles and clothing industry.

Twenty five firms operating in the industry were surveyed. There was a mixture within this number which represented the main sectors comprising the industry namely, spinning, weaving, dyeing and finishing, knitwear manufacture and clothing.

The statistical methods used in analysing the data collected from the field research were as follows:

The use of cross-tabulation techniques to determine whether there was a significant relationship between the dependent variables on the one hand and each of the independent variables on the other hand.

Z-test analysis and chi-square analysis were used to ascertain the significance of the differences found to

the responses gathered.

Pearson correlation coefficients were used to measure the relationship of one variable to another.

The questionnaire used in the field survey was comprised of seven sections. These were as follows:

| | |
|-----------|--------------------------------------|
| Section A | Background Information |
| Section B | How Your Firm Competes |
| Section C | Industry Competition Forces |
| Section D | Company's Sourcing and Outlets |
| Section E | Marketing Activities of the Business |
| Section F | The Cost of Marketing |
| Section G | Demographics of the Business Unit. |

The first section of the questionnaire, namely the section providing background information on the Scottish textiles and clothing industry, was included since this is the context of the study. The next two sections were aimed at providing information on the competitive behaviour of the companies and their perceptions of the sourcing and outlets contained only two questions and was included in order to identify the degree of concentration and commonality which obtains with regard to suppliers and buyers. Sections E and F were included

to provide information on the marketing activities of the companies in order to ascertain if the companies were following a marketing orientation or not.

Finally the section on the demographics of the business unit was included to provide financial data about the companies in order to ascertain the standard of their economic performance.

The main purpose of the textile and clothing industry with numerous small and medium sized firms is to provide the numbers employed by the firms which are listed in the survey are shown below.

| | Total numbers employed | Numbers employed in firms surveyed | Survey numbers as % of total |
|---|------------------------------|---|---------------------------------------|
| Textile Industry | 27300 | 4300 | 15.7 |
| Woolen & Worsted Industry (Wool, Worsted, Spinning) | 6000 | 1200 | 20.0 |
| Cotton & Silk Industry | 3000 | - | - |
| Silk & Polypropylene Fibers & Fabrics | 2000 | - | - |
| Knitwear & Hosiery Goods | 11000 | 2000 | 18.2 |
| Textile Finishing | 1700 | 200 | 11.8 |
| Respects & other Textile Finishing Coverings | 1600 | 200 | 12.5 |
| Miscellaneous Textiles | 2000 | - | - |

BACKGROUND INFORMATION

THE SCOTTISH TEXTILES AND CLOTHING INDUSTRY

The Scottish textiles and clothing industry is shown under two Standard Industrial Classifications (S.I.C.), in the Scottish Abstract of Statistics. The S.I.C. 43 for textiles and S.I.C. 45 for footwear and clothing.

The main sectors of the textiles and clothing industry with numbers employed and the numbers employed by the firms which participated in the survey are shown below:

| | Total numbers employed | Numbers employed in firms surveyed | Survey numbers as % of total |
|---|------------------------------|---|---------------------------------------|
| Textile Industry | 27300 | 4578 | 16.8 |
| Woollen & Worsted Industry (2) (incl. Spinning) | 6000 | 1257 | 21.0 |
| Cotton & Silk Industries | 3000 | - | |
| Jute & Polypropylene Yarns & Fabrics | 2000 | - | |
| Hosiery & Knitted Goods | 11000 | 2615 | 23.8 |
| Textile Finishing | 1700 | 206 | 12.0 |
| Carpets & Other Textile Floor Coverings | 1600 | 500 | 31.3 |
| Miscellaneous Textiles | 2000 | - | |

| | | | |
|---|-------|------|------|
| Footwear & Clothing Industry (1) | 23400 | 2450 | 10.5 |
| Clothing, Hats & Gloves | 19500 | 2450 | 12.6 |
| Household Textiles & Other Made-Up Textiles | 3100 | - | |
| Soft Furnishings | 800 | - | |

The above figures are for the year 1989.

- (1) There was no employment figure shown for footwear.
- (2) A number of companies in the woollen industry classification produced home furnishings.

Source: Scottish Abstract of Statistics 1992.
Field Survey

GEOGRAPHICAL MARKETS

Breakdown in percentage terms of sales between domestic and overseas markets.

| Sector | PERCENTAGE OF SALES | |
|---|---------------------|------------------|
| | Domestic Market | Overseas Markets |
| Woollen & Worsted Industry | 33 | 67 |
| Hosiery & Knitted Goods | 39 | 61 |
| Textile Finishing | 100 | 0 |
| Carpets & Other Textile Floor Coverings | 80 | 20 |
| Clothing, Hats & Gloves | 97 | 3 |

Source: Field Survey

The above illustrates that the woollen and worsted industry sector and the hosiery and knitted goods sector are much more export oriented than the other three sectors surveyed.

There are no comparable published figures for the above sectors of the Scottish textiles and clothing industry. However the annual report of the Scottish Woollen Industry for 1989 stated that 66% of the weaving output from their 37 members was exported, and 21% of their spinning output was exported.

The annual report of this association for 1990 showed that 72% of the weaving output was exported and 19% of the spinning output was exported.

BREAKDOWN OF DOMESTIC AND EXPORT SALES PER THE SCOTTISH TEXTILE AND CLOTHING INDUSTRY 1988 - 1990

| SECTOR | DOMESTIC SALES | | | EXPORT SALES | | |
|-----------------|----------------|------|------|--------------|------|------|
| | 1988 | 1989 | 1990 | 1988 | 1989 | 1990 |
| TEXTILE SECTOR | 59.9 | 61.4 | 61.0 | 40.1 | 38.6 | 39.0 |
| CLOTHING SECTOR | 93.0 | 93.4 | 94.8 | 7.9 | 6.6 | 5.2 |

SOURCE: The Scottish Council Development and Industry
 The Scottish Abstract of Statistics

COMPANY SIZE IN TERMS OF NUMBER OF EMPLOYEES

| Sector | Number of Employees (1989) | | | | | | |
|---|----------------------------|-------|---------|---------|---------|-----------|-----------|
| | 0-49 | 50-99 | 100-199 | 200-399 | 400-999 | 1000-1499 | 1500-2000 |
| Woollen & Worsted Industry | 3 | 4 | 5 | 1 | | | |
| Hosiery & Knitted Goods | | | | 2 | 1 | | 1 |
| Textile Finishing | 1 | 1 | 1 | | | | |
| Carpets & Other Textile Floor Coverings | | | | | 1 | | |
| Clothings, Hats & Gloves | | | | 1 | 2 | 1 | |
| Number of Firms | 4 | 5 | 6 | 4 | 4 | 1 | 1 |

The firms surveyed reflected a broad spectrum in terms of company size. The smallest company was a woollen and worsted industry company with only 13 employees and the largest company was a hosiery and knitted goods company with 1741 employees.

PRODUCTS/CUSTOMER TYPES

There was an overlap between products and customer types in the responses given to the question posed to identify the types of customer who purchased each firms products.

The responses to this question are summarised below:

| Sector | Products Sold / Customer Types |
|----------------------------|--|
| Woollen & Worsted Industry | Womenswear fabric Menswear fabric Home furnishings Jacketings, overcoatings Yarn for knitwear and weavers Knitting, weaving and hand-knitting and yarn Top end of bespoke tailors High quality lambswool/worsted linen/silk, cotton fabric High class cloth wholesalers Specialist Scottish retailers |

The above customer types served by the woollen and worsted industry demonstrates the overlap between this sector and the cotton and silk industries sector and the household textiles sector. It also demonstrates that a number of firms in this sector produce both fabric and yarn, which blurs the division between weavers and spinners.

| | |
|---|--|
| Hosiery & Other Knitted Goods | Classic, leisure and fashion natural fibre knitwear |
| Textile Finishing | Finishing of worsted, woollen and blends, mohair and silk yarn dyed fabrics. Piece dyeing of worsted and woollen woven fabrics for high class weaving companies. Commission yarn dyeing and finishing. |
| Carpets & Other Textile Floor Coverings | Retail, UK contract and export |
| Clothing, Hats & Gloves | Marks & Spencer, nightshirts, T-shirts, housecoats and shorts. Lingerie. |

HOW YOUR FIRM COMPETES

Fundamental to the consideration of competition is the need to consider how competitive advantage emerges and how it is sustained.

Therefore this section asked a number of questions in order to ascertain how firms within the industry compete.

The first question asked companies to identify their major competitors in both the domestic and the export markets.

The most significant response to this question was in response to the export market where the majority of companies indicated that their major competitors were the Italian manufacturers.

COST REDUCTION

Competitive advantage is achieved when one firm earns a higher rate of profit over another firm, and one method of achieving a higher rate of profit is to reduce costs. Consequently companies were asked to identify the approaches which contributed either significant cost reduction or no cost reduction in total cost over the past three years.

Seven approaches were considered, these were as follows:

Improved Production Processes - this includes the use of computer production systems, reduction in manual systems and labour flexibility.

Product Redesign - includes reduction in product variants.

Organisational Restructuring - includes reduction in excessive administrative procedures.

Minimisation of Overhead Cost - includes sound financial control and good house keeping practice.

Lower Price from Suppliers - includes changing from domestic sourcing to Far East sourcing in order to obtain a lower price.

Improved Quality from Suppliers - particularly relevant to supply of cashmere yarn where there has been a recent history of variability in the quality of supplies from China.

Improved Inventory Methods - avoidance of an over extensive product range which may be carried in the hope that the customer will find something he likes in such a range, but is costly to sustain.

WAYS OF REDUCING TOTAL COST

IMPROVED PRODUCTION PROCESSES

| Level of Significance | Number of Responses | Percentage Response |
|----------------------------|---------------------|---------------------|
| Significant Cost Reduction | 11 | 44 |
| No Cost Reduction | 7 | 28 |
| Neither of above | 7 | 28 |
| TOTALS | 25 | 100 |

PRODUCT REDESIGN

| Level of Significance | Number of Responses | Percentage Response |
|----------------------------|---------------------|---------------------|
| Significant Cost Reduction | 4 | 16 |
| No Cost Reduction | 11 | 44 |
| Neither of above | 10 | 40 |
| TOTALS | 25 | 100 |

ORGANISATIONAL RESTRUCTURING

| Level of Significance | Number of Responses | Percentage Response |
|----------------------------|---------------------|---------------------|
| Significant Cost Reduction | 9 | 36 |
| No Cost Reduction | 8 | 32 |
| Neither of above | 8 | 32 |
| TOTALS | 25 | 100 |

MINIMISATION OF OVERHEAD COST

| Level of Significance | Number of Responses | Percentage Response |
|----------------------------|---------------------|---------------------|
| Significant Cost Reduction | 10 | 40 |
| No Cost Reduction | 7 | 28 |
| Neither of above | 8 | 32 |
| TOTALS | 25 | 100 |

LOWER PRICE FROM SUPPLIERS

| Level of Significance | Number of Responses | Percentage Response |
|----------------------------|---------------------|---------------------|
| Significant Cost Reduction | 3 | 12 |
| No Cost Reduction | 17 | 68 |
| Neither of above | 5 | 20 |
| TOTALS | 25 | 100 |

IMPROVED QUALITY FROM SUPPLIERS

| Level of Significance | Number of Responses | Percentage Response |
|----------------------------|---------------------|---------------------|
| Significant Cost Reduction | 4 | 16 |
| No Cost Reduction | 18 | 72 |
| Neither of above | 3 | 12 |
| TOTALS | 25 | 100 |

IMPROVED INVENTORY METHODS

| Level of Significance | Number of Responses | Percentage Response |
|----------------------------|---------------------|---------------------|
| Significant Cost Reduction | 10 | 40 |
| No Cost Reduction | 7 | 28 |
| Neither of above | 8 | 32 |
| TOTALS | 25 | 100 |

Chi-square tests were carried out to ascertain if the difference between Improved Production Processes and Product Redesign and the difference between Minimisation of Overhead Cost and Lower Price from Suppliers were significant. In both cases the tests showed that the difference was significant.

In addition a Z-test was carried out to ascertain if the difference between Improved Production Processes and Product Redesign was significant.

These tests would appear to confirm that the THREE approaches with the greatest number of positive responses, namely, Improved Production Processes, Minimisation of Overhead Cost and Improved Inventory Methods are the ones which most effectively contributed to a reduction in total cost.

The above results indicate the areas in which firms achieved their most significant cost reductions, in order to be more competitive. There was however no evidence provided that companies in the industry were following a strategy of overall cost leadership, as described by PORTER (1980). Cost leadership requires aggressive construction of efficient-scale facilities, and from the figures included in the Industry Note chapter it is apparent that the Scottish textiles and clothing industry has declined substantially in size since the 1970s, therefore the conditions which obtain in the industry do not appear to be conducive to the achievement of aggressive economies of scale.

DIFFERENTIATION

Another method of achieving competitive advantage is through "Differentiation". A firm differentiates itself from its competitors "when it provides something unique that is valuable to buyers beyond simply offering a low price". (Porter 1985).

Therefore the question was asked in which particular categories did firms perceive their products to be superior or inferior to the competitors products.

The responses are shown in the tables below:

COMPETITIVE PRODUCE COMPARISON

OVERALL PRODUCT QUALITY

| Competitive Product Comparison | Number of Responses | Percentage Response |
|--------------------------------|---------------------|---------------------|
| Superior to Competition | 19 | 76 |
| Inferior to Competition | 0 | 0 |
| Neither of above | 6 | 24 |
| TOTALS | 25 | 100 |

PRODUCT DESIGN

| Competitive Product Comparison | Number of Responses | Percentage Response |
|--------------------------------|---------------------|---------------------|
| Superior to Competition | 13 | 52 |
| Inferior to Competition | 2 | 8 |
| Neither of above | 10 | 40 |
| TOTALS | 25 | 100 |

PRODUCT PRICE

| Competitive Product Comparison | Number of Responses | Percentage Response |
|--------------------------------|---------------------|---------------------|
| Superior to Competition | 10 | 40 |
| Inferior to Competition | 8 | 32 |
| Neither of above | 7 | 28 |
| TOTALS | 25 | 100 |

NOTE: Where price was described as inferior the price was higher than competition, and where price was described as superior the price was lower than competition.

UNIQUE FEATURES THAT SERVE SPECIFIC CUSTOMER NEEDS

| Competitive Product Comparison | Number of Responses | Percentage Response |
|--------------------------------|---------------------|---------------------|
| Superior to Competition | 17 | 68 |
| Inferior to Competition | 1 | 4 |
| Neither of above | 7 | 28 |
| TOTALS | 25 | 100 |

BREADTH OF PRODUCT LINE

| Competitive Product Comparison | Number of Responses | Percentage Response |
|--------------------------------|---------------------|---------------------|
| Superior to Competition | 18 | 72 |
| Inferior to Competition | 2 | 8 |
| Neither of above | 5 | 20 |
| TOTALS | 25 | 100 |

AFTER-SALES SERVICES

| Competitive Product Comparison | Number of Responses | Percentage Response |
|--------------------------------|---------------------|---------------------|
| Superior to Competition | 15 | 60 |
| Inferior to Competition | 1 | 4 |
| Neither of above | 5 | 36 |
| TOTALS | 25 | 100 |

ON-TIME DELIVERY

| Competitive Product Comparison | Number of Responses | Percentage Response |
|--------------------------------|---------------------|---------------------|
| Superior to Competition | 19 | 76 |
| Inferior to Competition | 0 | 0 |
| Neither of above | 6 | 24 |
| TOTALS | 25 | 100 |

A statistical analysis was undertaken to find out if there was a significant difference in the proportions recorded for "product price" and "unique features that serve specific customer needs". The result showed that there was no significant difference between these two variables. Therefore no firm conclusions can be drawn from this section.

The one interesting insight which emerged from the responses in this section was that the general feedback indicated that the firms perceived themselves as being superior to their competitors in each one of the categories stated, however in achieving this comprehensive superiority they were still able to charge a lower price than their competitors.

Referring again to Porter's (1980) three generic strategies, the strategies which would appear to be more suitable for the firms in the Scottish textiles and clothing industry to follow would be those of either differentiation or focus.

One significant characteristic which emerged from the survey and which is highlighted in this chapter under the Products/Customer Types details was that the industry caters for the top end of the market. The firms described their customers using terms such as "high quality", "top end", "specialist", and "high class". Therefore this is consistent with the differentiation strategy, namely, "creating something that is perceived INDUSTRY WIDE as being unique". (Porter 1980). However to gain advantage from differentiation depends on the firm being able to obtain from its differentiation a price premium in the market which exceeds the cost of providing the differentiation. As stated above this price premium does not appear to have been gained by firms in the industry.

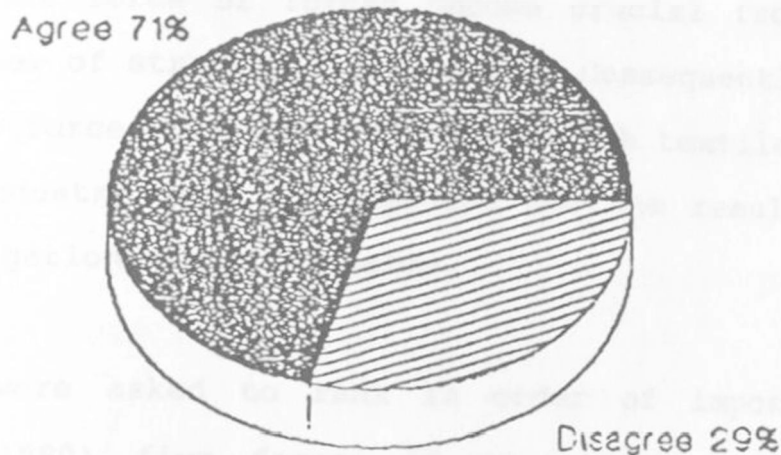
Another feature of the differentiation strategy which makes it inappropriate for the Scottish textiles and clothing industry is that it is aimed at being achieved industry wide. The customer types described earlier in

this chapter generally target specific segments of the market, particularly at the top end of the market. Consequently the focus strategy where companies aim for either a particular buyer group, or a segment of the product line or a geographic market would appear to be the most appropriate for the Scottish textiles and clothing industry. This is the strategy which is being pursued, by the woollen and worsted sector of the industry, where firms are targeting particular buyer groups.

The final question in the section was used to find out the extent of marketing orientation within the firms surveyed. Five sub-questions were used to find out whether the focus of the company was on the product or on the market place. The overall response suggested that firms pursued a marketing orientation however some doubt was cast on this by the reply to one sub-question - 'in my organisation the focus and emphasis are on making products'; to which seventy one percent agreed and twenty nine percent disagreed.

See chart below

Is the focus and emphasis on making products?



Such a response suggests that the greater majority of companies in the industry practise a production orientation rather than a marketing orientation.

Within the seventy one per cent of firms who replied that their focus and emphasis were on making products, one hundred per cent of the clothing companies responded to this effect.

INDUSTRY COMPETITION FORCES

The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against the competitive forces or can influence them in its favour. All of the competitive forces jointly determine the intensity of industry competition and profitability, and the strongest force or forces become crucial from the point of view of strategy formulation. Consequently the competitive forces relevant to the Scottish textiles and clothing industry were investigated and the results of the investigation are given below.

Companies were asked to rank in order of importance Porter's (1980) five forces of competition as they applied to the Scottish textiles and clothing industry.

RANKING OF COMPETITION FORCES

These forces are:

Threat of New Entrants;

Threat of Substitute Products;

Jousting Among Competitors;

The Power of Buyers;

The Power of Suppliers.

The Threat of New Entrants deals with the likelihood that new competitors will enter your industry or target market. New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Prices can be bid down or incumbents' costs inflated as a result, thereby reducing profitability.

The Threat of Substitute Products deals with the likelihood that your customers could be supplied by firms who use different production materials but whose products serve the same needs as your product. Substitutes limit the potential returns of an industry by placing a ceiling on the prices companies in the industry can profitably charge.

Jousting Among Current Competitors deals with competitive action between the competitors in your industry. This rivalry among existing competitors may result in price competition, advertising battles, product introductions and increased customer service.

The Power of Buyers deals with the extent to which your customers can influence your plans. Customers are important to all firms, but the emphasis here is on the extent to which you are dependent on one or a few specific customers.

Buyer power increases as buyers are concentrated or purchase a large volume relative to seller's sales or the product represents a significant fraction of the buyers costs.

The Power of Suppliers deals with the extent to which your suppliers can influence your plans. The emphasis here is on the extent to which you depend on one or a few specific suppliers. Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and service.

| Importance | Number of Responses | Percentage Responses |
|----------------|---------------------|----------------------|
| Very Important | 8 | 32 |
| Important | 9 | 36 |
| Not Important | 4 | 16 |
| Total | 21 | 100 |

IMPORTANCE OF COMPETITORS

| Importance | Number of Responses | Percentage Responses |
|----------------|---------------------|----------------------|
| Very Important | 12 | 48 |
| Important | 7 | 28 |
| Not Important | 4 | 16 |
| Total | 23 | 100 |

The responses were as follows:

THREAT OF NEW ENTRANTS

| Level of Importance | Number of Responses | Percentage Response |
|---------------------|---------------------|---------------------|
| Most Important | 8 | 32 |
| Neutral Importance | 5 | 20 |
| Least Important | 12 | 48 |
| TOTALS | 25 | 100 |

THREAT OF SUBSTITUTE PRODUCTS

| Level of Importance | Number of Responses | Percentage Response |
|---------------------|---------------------|---------------------|
| Most Important | 8 | 32 |
| Neutral Importance | 9 | 36 |
| Least Important | 8 | 32 |
| TOTALS | 25 | 100 |

JOUSTING AMONG COMPETITORS

| Level of Importance | Number of Responses | Percentage Response |
|---------------------|---------------------|---------------------|
| Most Important | 16 | 64 |
| Neutral Importance | 5 | 20 |
| Least Important | 4 | 16 |
| TOTALS | 25 | 100 |

THE POWER OF BUYERS

| Level of Importance | Number of Responses | Percentage Response |
|---------------------|---------------------|---------------------|
| Most Important | 14 | 56 |
| Neutral Importance | 4 | 16 |
| Least Important | 7 | 28 |
| TOTALS | 25 | 100 |

THE POWER OF SUPPLIERS

| Level of Importance | Number of Responses | Percentage Response |
|---------------------|---------------------|---------------------|
| Most Important | 4 | 16 |
| Neutral Importance | 2 | 8 |
| Least Important | 19 | 76 |
| TOTALS | 25 | 100 |

These tables show that Jousting Among Competitors was identified as the most important force of competition in the industry, followed closely by Power of Buyers, Threat of New Entrants and threat of Substitute followed with an identical response and the least important force was the Power of Suppliers. A statistical analysis was carried out to test whether Jousting Among Competitors was significantly different from the Power of Buyers, the result showed that there was no significant difference between these two forces.

COMPANY'S SOURCING AND OUTLETS

TWO questions were asked in this section. One was to find out who were the companies main suppliers and who were the companies main buyers. The data gathered here connected with the data provided in the section on industry competition forces.

There was a commonality amongst the supplying firms where companies like Todd & Duncan, Joseph Dawson, ICI, Ciba-Geigy and Sandoz were frequently mentioned.

The same feature occurred in respect of the buyers where Marks & Spencer was mentioned by a number of companies as their main buyer, which reinforces the power of buyers as articulated in the section on industry competition forces.

The dyers and finishers demonstrated the weakest sales per employee figures and relating this performance to the Porter model of the five forces of industry competition this would seem to reflect the power of suppliers since these firms were supplied by a limited number of firms, such as, Ciba-Geigy and Sandoz. The firms which displayed the next weakest sales per employee figures were the clothing manufacturers and they sold mainly to the one buyer - Marks & Spencer Ltd.

sometimes their total output, to one or a few retailers.

The domination of a few retailers in the UK clothing market is shown in a report by MINTEL (Retail Intelligence, Volume 3 1992) which indicated that the four retailers, Marks & Spencer, the Burton Group, Sears (stores) and C & A accounted for 44.9% of the menswear clothing market in 1991. The same four companies accounted for 34.0% of the women's clothing market in 1991.

A second relevant circumstance occurs where the products the buyer group purchases from the sellers represent a significant fraction of the buyers costs or purchases.

Again this situation applies within the Scottish textiles and clothing industry when one considers that the yarn which the knitting and weaving companies buy from the spinners represents a significant fraction of the costs of these knitting and weaving companies.

A third circumstance, which manifests the power of buyers, occurs when retailers can gain significant bargaining power over manufacturers through their ability to influence consumers purchasing performance.

The influence of the large retail groups has been stated above in one respect however they can also exert pressure on consumers purchasing power in a number of ways. One obvious example is their stocking policy which could exclude a branded clothing product from being purchased by large numbers of consumers.

Consequently the evidence of the ranking exercise and the correlation analysis suggest that the POWER OF BUYERS is the KEY competitive force in the Scottish textiles and clothing industry.

COMPANY'S SOURCING AND OUTLETS

TWO questions were asked in this section. One was to find out who were the companies main suppliers and who were the companies main buyers. The data gathered here connected with the data provided in the section on industry competition forces.

There was a commonality amongst the supplying firms where companies like Todd & Duncan, Joseph Dawson, ICI, Ciba-Geigy and Sandoz were frequently mentioned.

The same feature occurred in respect of the buyers where Marks & Spencer was mentioned by a number of companies as their main buyer which reinforces the power of buyers as articulated in the section on industry competition forces.

The dyers and finishers demonstrated the weakest sales per employee figures and relating this performance to the Porter model of the five forces of industry competition this would seem to reflect the power of suppliers since these firms were supplied by a limited number of firms, such as, Ciba-Geigy and Sandoz. The firms which displayed the next weakest sales per employee figures were the clothing manufacturers and they sold mainly to the one buyer - Marks & Spencer Ltd.

MARKETING ACTIVITIES OF THE BUSINESS

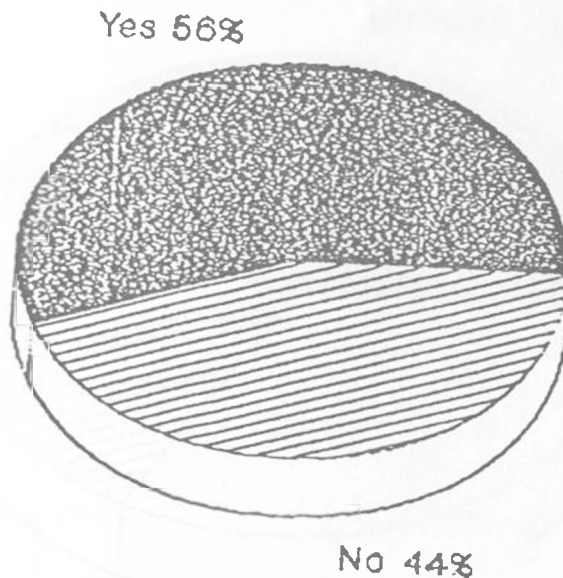
Stevenson (1976) conducted a study in which he analysed corporate strengths and weaknesses. This study was undertaken among six companies in the U.S.A. and the companies involved ranged from machinery and electronic manufacturers to a chemical producer and a paper converter. His findings revealed that divisional or middle-level managers considered that the most important factors which produce competitive advantage were Marketing (52.5 percent), Personnel (17.5 percent) and Technical Operations (15 percent). The attributes which were included under Marketing in this study were as follows: sales force; knowledge of the customer's needs; breadth of the product line; product quality; reputation and customer service.

In addition to this evidence indicating the importance of marketing in achieving competitive advantage, the relevance of marketing to the pursuance of both a differentiation strategy and a focus strategy are articulated in Chapter Five, that is, the chapter on Competitive Strategy.

In addition the competence of marketing is a necessary skill in dealing with the competitive force of the POWER OF BUYERS. Consequently the extent of marketing activity within firms in the industry was investigated in the survey. The following areas were covered in this section:

1. IS THERE ANYONE AT MANAGERIAL LEVEL WHO HAS THE WORD 'MARKETING' IN THEIR TITLE?

The response is shown in the chart below.

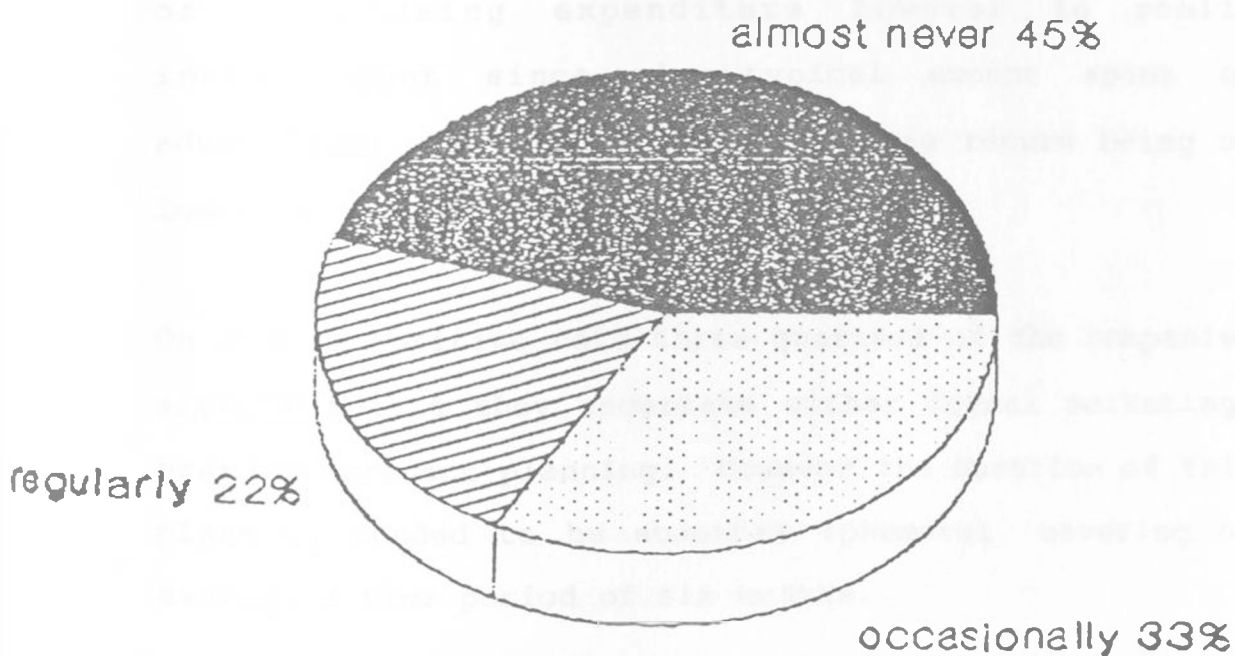


2. DOES THE COMPANY HAVE A DEPARTMENT OR AN EXECUTIVE WITH 'MARKET RESEARCH' IN THAT TITLE?

The response here was quite clear cut in that only ONE firm out of the twenty five responses stated YES.

3. IS MARKET RESEARCH REGULARLY, OCCASIONALLY OR ALMOST NEVER USED BY THE COMPANY?

The response is shown in the chart below.



Almost half of the companies surveyed did not have a customer services department or executive, and just less than half the companies had access to market research data to interpret sales revenue variances and profit contribution variances.

Almost half of the companies surveyed did no advertising and of the companies which did advertise their percentage of sales turnover spent on this activity was minimal ranging from 0.1 percent to 5 percent.

There was a positive correlation between advertising expenditure and return on capital employed. The result of advertising expenditure however is really insignificant since the typical amount spent on advertising was very minimal, with one return being as low as 0.025% of sales turnover.

On a more positive note three quarters of the companies signified that they undertake either formal marketing, brand or product planning. However the duration of this planning tended to be somewhat ephemeral, covering on average a time period of six months.

The majority of companies (eighty percent) also indicated a positive approach to marketing by revealing that eighty percent of them recruited sales people

primarily for their selling expertise rather than their technical expertise.

The final item of data in this section disclosed that the weaving companies sold most of their products in overseas markets.

The clothing companies identified the POWER OF BUYERS as being the most significant competitive force, they displayed a strong tendency towards a production orientation rather than a marketing orientation, and their sales per employee figures were much less than the average from sales per employee figure for the firms surveyed.

The majority of the weaving companies identified the POWER OF BUYERS as the most significant competitive force, they were generally marketing oriented and they returned higher than average sales per employee figures.

Having examined the extent of marketing activity practised by the companies surveyed the next stage was to study the intensity of the application of marketing. This was undertaken by investigating the cost of marketing.

The implications of the responses to the questions on the marketing activities of the business were that, although there were a few exceptions, there was a general lack of marketing commitment and a lack of marketing skills within the industry.

THE COST OF MARKETING

The amount spent on 'marketing' by the individual companies, as a percentage of total gross sales revenue was investigated.

As with advertising there was a wide disparity of responses here ranging from 0.2 percent to 15.0 percent with the average figure being 5.8 percent.

All of the companies which demonstrated a higher than average marketing expenditure were, with the exception of one clothing company, weaving companies. The weaving companies also demonstrated a higher than average sales per employee figure.

The analysis of the findings revealed a positive correlation between marketing expenditure and return on capital employed.

Linking marketing expenditure to Porter's model of the forces of competition in the industry, the high spenders on marketing identified the power of buyers as the key competitive force.

Another question asked under the heading of Cost of Marketing was 'What percentage of your products/lines

account for 80 percent of your company's profits?' This question was asked in order to identify whether there was a misplacement of marketing efforts within the company.

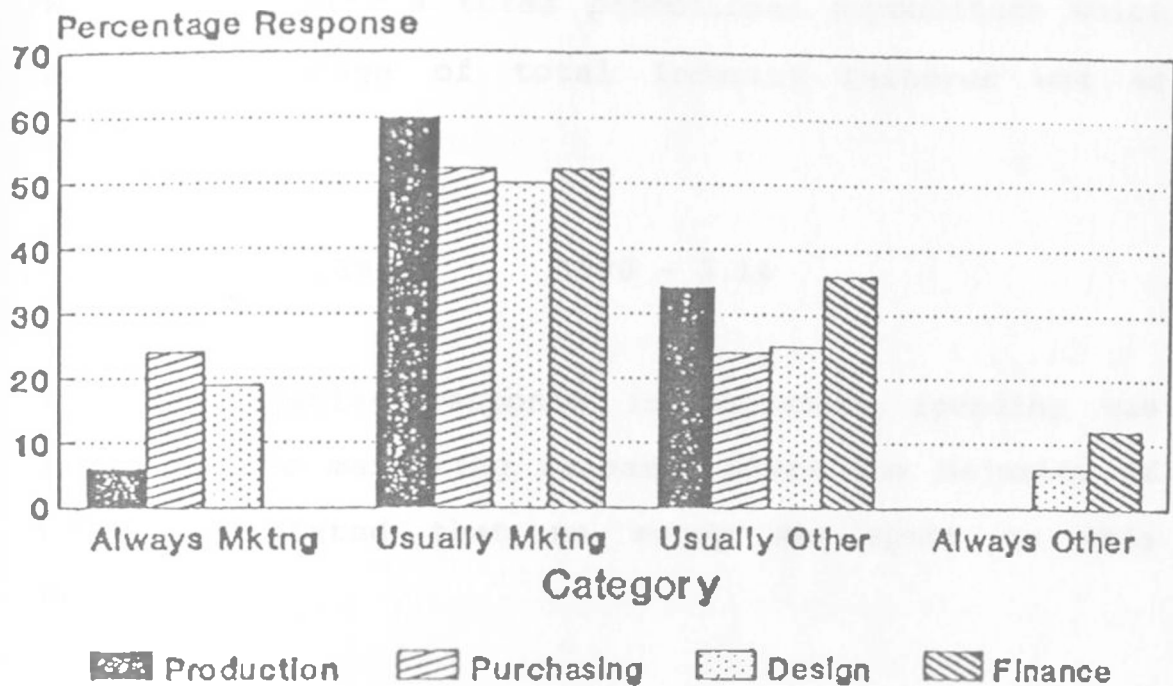
The responses ranged from 20 percent to 80 percent, with the average figure being 45 percent. This therefore suggests that there is a misplacement of marketing efforts within the company.

The companies which appeared to indicate a misplacement of marketing efforts showed no particular sectorial pattern, with companies from all the different sectors of the industry, identifying this weakness.

The final question in this section was used to identify that where there is a conflict between the requirements of the marketing function of the company and the requirements of the other functions of production, purchasing, design and finance, which function tends to get the better of the argument.

The responses to this question are shown in the table below.

Conflict Between Marketing and Other Functions



Above table represents where conflict occurs between marketing and other functions which function gets the better of the argument.

These results indicate that finance, production and design at least usually and sometimes always assert themselves over marketing.

The one function which emerged as being the most dominant where a conflict occurred was finance. There was no linkage between the response to this question to either the Porter model of forces of competition or to the economic performance of the companies.

The amount of expenditure on marketing was minimal. As stated the average expenditure on advertising was 5.8% of gross sales revenue. This compares with the Scottish Woollen Industry's total promotional expenditure which as a percentage of total industry turnover was as follows:

1989 - 2.8%

1990 - 3.1%

A more negative response in marketing spending was returned for marketing research where the majority of companies stated that no money was spent on this activity.

DEMOGRAPHICS OF THE BUSINESS UNIT

The purpose of the study, as described, in the chapter on Research Methodology clearly states that the success of a business unit's strategy relative to its competitors is manifested in a positive economic performance.

The two criteria used to assess economic performance of the business units were average sales per employee and return on capital employed.

Consequently this final section of the questionnaire was included in order to gather the data to allow this assessment of economic performance to be undertaken.

The information gathered in this section related to the following:

1. NUMBER OF EMPLOYEES
2. TOTAL SALES REVENUE
3. RETURN ON CAPITAL EMPLOYED.

PROFITABILITY

The request to supply data on the profitability of firms in the Scottish textiles and clothing industry was euphemised, by expressing profitability in terms of the return on capital employed, R.O.C.E. (ie, net profit before tax expressed as a percentage of capital employed, where capital employed is fixed assets plus current assets less current liabilities).

In spite of this roundabout approach there was a reluctance by firms to divulge this particular information. Fourteen out of the twenty five respondent companies provided the information.

The results are shown below:

RETURN ON CAPITAL EMPLOYED

Textiles Sector

| <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|-------------|-------------|-------------|-------------|
| 22.3% | 21.5% | 30.2% | 22.8% |

Clothing Sector

| <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|-------------|-------------|-------------|-------------|
| N.R. | 18.8% | N.R. | N.R. |

There was a wide disparity in the R.O.C.E. performance of individual companies and even the individual companies performances fluctuated widely from year to year.

It was difficult to draw any firm conclusions from the data gathered on profitability, it did reveal however that spinning companies showed a poor return on capital employed and this could be explained by their high investment in modern spinning machinery.

AVERAGE SALES PER EMPLOYEE

Textiles Sector

| <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|-------------|-------------|-------------|-------------|
| £ 26,957 | £ 37,018 | £ 33,376 | £ 30,268 |

Clothing Sector

| <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|-------------|-------------|-------------|-------------|
| £ 18,872 | £ 21,965 | £ 19,000 | £ 24,285 |

Four year average figure for sales per employee.

| Industry Sector | Average Sales per Employee 1986 - 1989 |
|---|---|
| | £ |
| Textile Industry | 31,500 |
| Woollen & Worsted Industry | 36,200 |
| Hosiery & Other Knitted Goods | 23,100 |
| Textile Finishing | 16,500 |
| Carpets & Other Textile Floor Coverings | 43,000 |
| Footwear & Clothing Industries | 21,000 |
| Clothing, Hats & Gloves | 21,000 |

There was a higher response to provide sales figures than return on capital employed figures, with twenty two firms providing this data. The companies, within the woollen and worsted industry, which were engaged only in the activity of spinning showed the highest figures for sales per employee. This could be a corollary to the aforementioned low figure for return on capital employed experienced by the spinning companies and explained by the higher productivity of these firms which results from their characteristic of being highly mechanised, through large capital investment in modern spinning machinery.

The dyers and finishers together with the clothing companies showed the lowest figures for sales per employee. Both of these sectors are comparatively

highly labour intensive and this mitigates against the achievement of high sales per employee figures.

The carpet manufacturer returned the highest sales per employee figures however it would be inappropriate to extrapolate on these figures since they were obtained from only the one source.

The weaving companies within the woollen and worsted industry sector contributed to the comparatively high sales per employee figure for this sector. These companies have a high overseas to domestic sales ratio, they concentrate on a high quality product both in terms of fabric content and quality of design and they typically sell to a high class of customer, their sales are frequently made to order. These factors provide them with a higher added value to their product and this may explain why they have returned higher than average sales per employee.

The hosiery and other knitted goods sector also have a high overseas to domestic sales ratio which normally means a higher sales value, however this sector is like clothing highly labour intensive and this latter factor reduces their overall sales per employee figures.

The only definitive figures available which support the assertions made above with regard to sales per employee figures are the ones shown below and obtained from the Scottish Abstract of Statistics 1992.

| Sector | 1990 | |
|-----------------------------------|-----------------------------------|---|
| | Gross Output per Employee £ | Gross Value Added per Employee £ |
| Textile Industry | 34,223 | 13,848 |
| Footwear & Clothing Industries | 30,874 | 12,423 |

CHAPTER NINE

CONCLUSIONS

If we accept that the fundamental goal of the firm is to earn a return on its capital that exceeds the cost of its capital, what determines the ability of the firm to earn such a rate of return? There are two routes. First, the firm may locate in an industry where favourable industry conditions result in the industry earning a rate of return above the competitive level. Secondly, the firm may attain a position of advantage vis-a-vis its competitors within an industry allowing it to earn a return in excess of the industry average.

These two sources of superior performance define the two basic levels of strategy within an enterprise: corporate strategy and business strategy. Corporate strategy defines the industries and markets in which the firm competes, comprising decisions over diversification, vertical integration, acquisitions and new ventures. Business strategy is concerned with how the firm competes within a particular industry or market. If the firm is to win, or even to survive within an industry, it must adopt a strategy which establishes a competitive advantage over its rivals.

Hence, this area of strategy is also referred to as COMPETITIVE STRATEGY.

The literature review provided a meaningful understanding of these two different levels of strategy. In addition, account was taken of the importance of the external environment of the firm which comprises all external factors which influence the firm's performance and decisions, by the inclusion of the chapter on Environmental Analysis.

Two other relevant and valuable inputs from the literature review were first the consideration of the financial performance of the business viewed against the background that the purpose of strategy is to increase the long-term profitability of the firm. Secondly the literature review pointed out the need for firms, particularly firms in the textiles and clothing industry, to be aware of the trend towards globalisation. The impact of international competition is increasing risk, accelerating change and intensifying competition, which makes it incumbent on companies to understand that they are now operating in a global arena and to consider the implications of this development.

The field survey undertook an analysis of the competitive forces within the Scottish textiles and

clothing industry and to identify which if any of these forces was the most significant.

The analysis of the findings revealed that the POWER OF BUYERS was the key competitive force in the Scottish textiles and clothing industry.

The implications of this particular finding are far reaching. It means that firms within the industry must recognise the influence of the POWER OF BUYERS and therefore ensure that their performance accommodates and responds to the needs of buyers.

One concept of strategy suggests the characteristics of the match an organisation seeks to make between its skills and resources and its competitive environment will influence its ability to achieve its goals and objectives (Hofer & Schendel 1978). Some theorists suggest that skills and distinctive competences are the KEY building blocks of strategy at the business level. (Rumelt 1979; Hofer & Schendel 1978).

The focus of this study is at the individual business level rather than the corporate level, since a firm is unlikely to achieve success at the corporate level until it achieves success at the business level.

Academics (Drucker 1954; Ansoff 1965; Andrews 1971; Hofer & Schendel 1978; Abell 1980; Porter 1980) and practitioners (Ohmae 1982; Rothschild 1984) agree that strategy represents the characteristics of the match organisations attempt to make between their skills and distinctive competences and their competitive environment. They also agree that this match is best framed in terms of the key success factors in a given environment and how well the organisation can meet them. According to these writers, the needs of customers are the primary determinants of these key success factors.

This assertion was consistent with the findings of this particular study since as mentioned above the analysis of the findings indicated that the POWER OF BUYERS was the key competitive force in the Scottish textiles and clothing industry.

A buyer is defined as anyone (a person or an organisation) who might conceivably buy a given product. A collection of buyers is a market, since a market is defined as the set of all individuals and organisations who are actual or potential buyers of a product or a service.

Firms in the industry would therefore benefit from adopting a customer orientation, their business approach

should be market-led, they should demonstrate a marketing-orientation.

To what extent were these approaches practised within the industry and what were the methods used by the companies to compete?

One half of the dichotomy contained in the hypothesis for the study was the identification of the key competitive force. The other half of the dichotomy was the need to find out the particular competence needed to match this key competitive force. Inherent in the hypothesis is the realisation that by understanding the determinants of competition in an industry and the characteristics of customers' demand, we can identify the basis upon which competitive advantage can be established.

The particular competence needed to achieve this match is the ability of companies to implement a customer orientation within their business practise.

The field survey examined how firms in the industry compete. The overall result suggested that they do not practice customer orientation. For example almost fifty percent of the firms surveyed did not perceive their products as being different from their competitors

products. Whereas an apparent pre-requisite for the achievement of customer orientation is a positive approach towards product differentiation. Another result of the field survey was that only just over half the companies surveyed indicated that they follow a policy of forward integration towards the consumer, which again does not suggest a customer oriented approach. One piece of strong evidence to emerge from the examination into how firms compete which indicated that firms in the industry do not pursue a market-led approach was the response which stated that more than seventy percent of firms place their focus and emphasis on MAKING PRODUCTS.

The field survey also investigated the marketing activities of companies within the industry.

The feedback to this part of the survey indicated overall that there was no strong marketing orientation within the industry. Just over fifty percent of businesses answered that there was someone at managerial level with 'marketing' in their title. However when asked the same question with regard to 'market research' only one firm out of the twenty five surveyed replied positively. The lack of this particular activity makes it very difficult for companies to find out what one customer needs and how these needs may be changing - in

practise to pursue a customer orientation. Only half of the companies acknowledged that they had a customer services facility and there was evidence that the amount of financial resources devoted to advertising and to marketing in general was minimal.

The survey highlighted a polarisation within the industry. This contradiction manifested itself in the activities and the performances of on the one hand, the clothing companies, and on the other hand, the weaving companies. These two sectors produced the most definite results in the survey.

Both the clothing companies and the weaving companies identified the power of buyers as being the most important competitive force. However the clothing companies revealed a production orientation in their competitive approach to the conduct of their business, whereas the weaving companies displayed a marketing orientation in their business practice. The clothing companies returned both poorer than average sales per employee figures and return on capital employed figures, whereas the weaving companies returned better than average figures in both these economic criteria.

The clothing companies suffer as a result of the intense level of concentration which exists within the UK retail

clothing industry. The bulk of the sales of the clothing companies surveyed are sold within the UK market and are sold mainly to one retail organisation. Consequently the bargaining power of such a buyer is substantial and the effects of such buyer power are reflected in the financial results of the clothing companies. The clothing companies being dependent on one or a very few large retail organisations for their sales effectively act as the production function for these companies, consequently their flexibility in terms of marketing decisions is very limited.

The weaving companies have a much greater diversity of buyers, for example, they export the bulk of their products and they sell to a variety of individual designers and individual wool merchants. This heterogeneity of buyers allows them greater opportunity for practising a customer orientation approach. Where this approach is applied efficiently these companies achieve a superior economic performance.

The positive effects of a marketing orientation were exemplified by the identification of a positive correlation between both advertising, expenditure and marketing expenditure AND return on capital employed.

The positive effects of a marketing orientation were

exemplified by the identification of a positive correlation between both advertising, expenditure and marketing expenditure AND return on capital employed.

The positive effects of a marketing commitment have also been articulated in research conducted in the Northern Ireland Clothing Industry (McNamee, Murray & McHugh 1987).

In this research however the positive effects were quantified in terms of sales per employee however the results in terms of influence on profit were negative.

This study also concluded that companies which set their prices at the upper end of the price range are likely to be the most competitive. This conclusion is consistent with the superior performance of the weaving companies, in this study, and whose products tend to be higher priced.

CURRENT COMPETITIVE STRATEGIES

Examples of strategies being employed elsewhere in the world are:

The (West) German textiles and clothing industry has moved towards a higher added value competitive strategy,

building on its reputation for delivery and quality and manifested in brands such as Boss, Mondi and Escada. (Textile Outlook International March 1989).

Competitiveness can also be improved by employing new technology. The EC textiles and clothing industry are investing 5 bn ECU a year in new technology. (Comitextil March 1989).

Some European companies are gaining competitive advantage by exploiting their ability to serve retailers in a speedy fashion, by shortening design and production cycles. Companies such as Benetton have purposely promoted the shortening of fashion cycles and developed ways of supplying a market characterised by a "multiplication of seasons".

Italian companies in particular have used the strategy of focussing on design and quality sensitive segments of the market.

European companies are increasingly sourcing labour intensive parts of the value added chain in low cost countries.

One British company, Claremont Garments has employed the fashion designer, Caroline Charles with the objective of

gaining competitive advantage from having an enhanced design capability (The Times 31/8/93).

IMPLICATIONS OF THE STUDY

The study examined the characteristics of the Scottish textiles and clothing industry and in particular, it examined the forces driving industry competition.

The key competitive force within the industry was identified as being the POWER OF BUYERS. The size and concentration of buyers in the industry particularly the clothing sector has already been acknowledged and one direct effect of this concentration is to depress the sales value performance and the profitability of the firms in the Scottish clothing sector.

Where firms could exploit the opportunity to offer a wide range of products and uniqueness of the product, as occurred in the weaving sector, then the economic performance as demonstrated in sales value figures and profitability was much more positive.

Therefore the results of this study indicate that there are key success factors in the industry and the business unit's relative strength in them influences its performance. This conclusion is consistent with the

findings of Hofer 1975 and Ohmae 1982.

However no evidence was found which revealed that businesses employed a deliberate strategy which would allow them to match their distinctive competences with key success factors and consequently produce superior economic performance.

Where firms did produce superior results the background to this occurring was almost accidental and due to the firm being located in one sector of the industry rather than another.

In other words the ability of a business to match distinctive competences with key success factors, through its strategy and to influence its relative performance as suggested by Andrews 1971 and Hofer & Schendel 1978 could not be confirmed in this study because of the lack of any identifiable strategies.

SUGGESTIONS FOR FURTHER RESEARCH

The objective of this research was to study the relationship, at the business-level, between an organisation's competitive strategy, its competences in its key functional skills, the key competitive force in its industry, and its economic performance.

The investigation succeeded in identifying a relationship between an organisation's key competitive force, competences in key functional skills and its economic performance.

However the study indicated that this relationship did not occur as the result of formal and explicit competitive strategy decision making by the organisation's management. Instead, it was the outcome of other factors, for example, the characteristics of the market that was being served.

Consequently further research could focus more effectively on corporate level behaviour with regard to the strategic decision making of management.

This further research should attempt to improve upon the current study by the use of larger samples and more sophisticated measurement and data analysis techniques.

It may therefore be appropriate to extend the context of the research into the UK textiles and clothing industry.

There is a wide disparity in the size of companies in the industry therefore another area for further research would be to undertake an investigation using the same objectives as used in the current study to do a comparative study between large and small firms.

Finally a comparative study could be undertaken between the textiles sector and the clothing sector of the industry in terms of their approaches to the development and implementation of competitive strategy.

REFERENCES

- Abell, D.F. Defining the Business: The Starting Point of Strategic Planning. Englewood Cliffs, N.J. Prentice-Hall, 1980
- Alchian, A. "Reliability of Progress Curves in Airline Production". Econometrica 31, 1963
- Amit, R. "Cost Leadership Strategy and Experience Curves". Strategic Management Journal 7, 1986
- Andrews, K.R. The Concept of Corporate Strategy. Richard D. Irwin, Homewood, ILL. 1980
- Andrews, K.R. The Concept of Corporate Strategy. Richard D. Irwin, Homewood, ILL. 1987
- Anderson, C.R. & Paine, F.T. "PIMS: A Re-examination". Academy of Management Review. July 1978
- Ansoff, H.I., Avner, J., Brandenburg, R.G. & Radosevich, R. "Does Planning Pay?" The Effect of Planning on Success of Acquisition in American Firms". Long Range Planning 3 (2), 1970
- Ansoff, H.I. Strategic Management. MacMillan, London, 1979
- Ansoff, H.I. Business Strategy & Policy: An Analytic Approach to Business Policy for Growth & Expansion. McGraw-Hill, N.Y., 1985
- Anthony, R.N. Planning Control Systems: A Framework for Analysis. Harvard University Press, Boston, 1965
- Aquilar, F. Scanning The Business Environment. MacMillan, N.Y., 1967

Bain, J.S. Barriers to New Competition. Harvard University Press, Cambridge, Mass, 1956

Baloff, H. "The Learning Curve: Some Controversial Issues".

Benston, G. "The Validity of Profits - Structure Studies with Particular Reference to the FTC's Line-of-Business Data". American Economic Review, March 1985

Beyer, J.M. & Trice, H.M. "A re-examination of the Relations Between Scope and Various Components of Organisational Complexity". Administration Science Quarterly 24, 1978

Bhatty, E.F. "Corporate Planning in Medium-Sized Companies in the U.K." Long Range Planning, 1981

Bonoma, T.V. The Marketing Edge: Making Strategies Work. The Free Press, N.Y., 1985

Bower, J.L. & Hout, T.M. "Fast-Cycle Capability for Competitive Power". Harvard Business Review, November - December 1988

Brearley, R. & Meyers, S. Principles of Corporate Finance. McGraw-Hill. N.Y., 1981

Brodwin, D.R. & Bourgeois, L.J. III "Five Steps in Strategic Action". California Management Review, Spring 1984

Brown, J.K. This Business of Issues: Coping with the Company's Environment. The Conference Board, N.Y., 1979

Buzzell, R.D., Gale, B. & Sultan, R. "Market Share: A Key to Profitability". Harvard Business Review 51 (1), 1975

Buzzell, R.D. "Are There Natural Market Structures?"
Journal of Marketing, Winter 1981

Buzzell, R. & Wiersema, F. "Successful Share-Building
Strategies". Harvard Business Review, January -
February 1981

Chittick, D.B. "Toward the Use of Consistent
Criteria: A Survey". Journal of Marketing, 46,
Winter 1982

Porter, M.E. "The Dynamics of Changing
Market Concentration". The Journal of Industrial
Economics 19, 1973

Porter, M.E. Strategic Management Concepts
and Applications. McGraw-Hill, N.Y., 1981

Porter, M.E. Strategy and Structure: Chapters in the
History of American Industrial Development. MIT
Press, Cambridge, Mass., 1985

Porter, M.E. Strategy and Structure in British
Industry. Harvard University Press, Boston,
Mass., 1973

Porter, M.E., Hofer, C.W. & Schmitz, J.A. "Toward a
System for Classifying Business Strategies".
Academy of Management Review, Vol. 12, No. 3,
1987

Porter, M.E., Andrews, A.B., Schoor, J.B.,
McDonald, J.B. & Porter, M.E. Business Policy:
Text and Cases. Irwin, Homewood, Ill., 1982

Porter, M.E. & Wilson, T.A. Advertising and Market
Power. Harvard University Press, Cambridge, Mass.,
1982

Porter, M.E. & Collis, D.A. Strategic Management,
Text, Tools and Cases for Business Policy, Rent
Publishing Co. Mayfield, 1985

- Carlsson, B. "Reflections on Industrial Dynamics".
International Journal of Industrial Organisation
5, 1987
- Cassidy, R. Price Warfare in Business Competition.
Michigan State University, East , 1963
- Cattin, P. & Wittink, D.R. "Commercial Use of Conjoint
Analysis: A Survey". Journal of Marketing,
Summer 1982
- Caves, R. & Porter, M.E. "The Dynamics of Changing
Seller Concentration". The Journal of Industrial
Economics 19, 1980
- Certo, S.C. & Peter, J.P. Strategic Management Concepts
and Applications. McGraw-Hill. N.Y., 1991
- Chandler, A. Strategy and Structure: Chapters in the
History of American Industrial Enterprise. MIT
Press, Cambridge, Mass, 1962
- Channon, D. Strategy and Structure in British
Enterprise. Harvard University Press, Boston,
Mass, 1973
- Chrisman, J.J., Hofer, C.W. & Boulton, W.R. "Toward a
System for Classifying Business Strategies".
Academy of Management Review, Vol. 13, No. 3,
1988
- Christensen, C.R., Andrews, A.R., Bower, J.L.,
Hammermesh, R.G. & Porter, M.E. Business Policy:
Text and Cases. Irwin, Homewood, ILL, 1982
- Commanor, W.S. & Wilson, T.A. Advertising and Market
Power. Harvard University Press, Cambridge, Mass,
1974
- Comerford, A. & Callaghan, D.W. Strategic Management,
Text, Tools and Cases for Business Policy. Kent
Publishing Co. Boston, 1985

Conant, J.S., Mokwa, M.P. & Varadarajan, P.R.
 "Strategic Types, Distinctive Marketing
 Competencies and Organisational Performance: A
 Multiple Measures-Based Study". Strategic
 Management Journal, Vol. 11, 1990

Cooper, P.D. & Miaoulis, G. "Altering Corporate Strategic Criteria to Reflect the Changing Environment: The Role of Life Satisfaction and the Growing Senior Market". California Management Review, Fall 1988

Copeland, T., Koller, T. & Murrin, J. Valuation:
Measuring and Managing the Value of Companies.
Wiley, N.Y., 1990

- Daft, R.L., Sormunen, J. & Parks, D. "Chief Executive Scanning, Environmental Characteristics and Company Performance". Strategic Management Journal, No. 9, 1988
- Day, G. "Strategic Market Planning: The Pursuit of Competitive Advantage". West Publishing Co. St Paul, Minn, 1984
- Dearden, J. "Measuring Profit Centers". Harvard Business Review, September - October 1987
- Demb, A., Chouet. D., Lossius, T. & Neubauer, F. "Defining the Role of the Board". Long Range Planning, 22 February 1989
- Dertouzosu, M.L., Lester, R.K. & Solow, R.M. Made in America: Regaining the Productivity Edge. MIT Press, Cambridge, Mass, 1989
- Dess, G. & Davis, P. "Porter's Generic Strategies as Determinants of Strategic Group Membership and Performance". Academy of Management Journal 26, 1984
- DeVasconcellos, Filho. "Environmental Analysis for Strategic Planning". Managerial Planning, January - February 1985
- Dickerson, K. Textiles and Apparel in the International Economy. MacMillan, N.Y., 1991
- Dickson, P.R. & Ginter, J.L. "Market Segmentation, Product Differentiation and Marketing Strategy". Journal of Marketing 51, 1987
- Diffenbach, J. "Corporate Analysis in Large U.S. Corporations". Long Range Planning, June 1983
- Dill, W.R. "Environment as an Influence on Managerial Autonomy". Administrative Science Quarterly, 1958

Dimock, M.E. The Executive in Action. Harper & Brothers, N.Y., 1945

Donaldson, G. "Financial Goals and Strategic Consequences". Harvard Business Review, May - June 1985

Drucker, P. The Practice of Management. Harper & Row, N.Y., 1954

Drucker, P. Management: Tasks, Responsibilities and Practices. Harpet & Row, N.Y., 1977

Duncan, R.B. "Characteristics of Organisational Environments and Perceived Environmental Uncertainty". Administrative Science Quarterly 17 (2), 1976

Eisenhardt, K.H. & Bourgeois, L.J. II "Politics of Strategic Decision Making in High-Velocity Environments: Toward a Mid-Range Theory". Academy of Management Journal, Vol. 31, No. 4, 1988

Engledow, J.L. & Lenz, R.T. "Whatever Happened to Environmental Analysis". Long Range Planning 18 No. 2, 1985

Essame, H.P. A Study in Command. Charles Scribner & Sons, N.Y., 1974

Fahley, L. & King, W.R. "Environmental Scanning for Corporate Planning". Business Horizons, August 1977

Farago, L. Ordeal & Triumph. I. Obolensky, N.Y., 1964

Fisher, F.M. & McGowan, J.L. "On the Issue of Accounting Rates of Return to Infer Monopoly Profits". American Economic Review, March 1983

Foch, F. Principles of War translated by J. DeMorinni, AMS Press, N.Y., 1970

Forman, R. "Strategic Planning and the Chief Executive". Long Range Planning, 21 August 1988

- Gale, B.T. "Can More Capital Buy Higher Productivity?"
Harvard Business Review, July - August 1980
- Gale, B.T. & Branch, B.S. "Concentration versus Market Share: Which Determines Profitability?" Anti-Trust Bulletin, Spring 1982
- Geroski, P.A. & Masson, P.T. "Dynamic Market Models in Industrial Organisation". International Journal of Industrial Organisations 5, 1987
- Ghosal, S. & Seoki Kim, "Building Effective Intelligence Systems for Competitive Advantage". Strategic Management Journal, Fall 1986
- Gilder, G. Microcosm: The Quanteum Revolution in Economics and Technology. Simon & Schuster, N.Y., 1989
- Gold, B. "Computerization in Domestic and International Manufacturing". California Management Review, Winter 1989
- Granger, C.H. "How to Set Company Objectives". Academy of Management Review, July 1970
- Grant, R.M. "Pricing Behaviour in the U.K. Wholesale Market for Petrol: A Structure - Conduct Analysis". Journal of Industrial Economics 30, 1982
- Grant, R.M. Contemporary Stat. Analysis. Blackwell, Cambridge, Mass, 1991
- Gray, E.R. & Smeltzer, L.R. "Corporate Image - An Integral Part of Strategy". Sloan Management Review, Summer 1985
- Guth, W.D. & MacMillan, I.C. Strategy Implementation and Middle Management Conditions in Lamb, R. (ed). Advances in Strategic Management, Vol. 3, Greenwich JAI Press, 1986

- Hall, W.K. "Survival Strategies in a Hostile Environment". Harvard Business Review 58 (5), 1980
- Hall, G. & Howell, S. "The Experience Curve from the Economists Perspective". Strategic Management Journal, No. 6, 1985
- Hambrick, D.C. "Some Tests of the Effectiveness and Functional Attributes of Miles & Snow's Strategic Types". Academy of Management Journal, March 1983
- Hambrick, D.C. "High Profit of Strategies in Mature Capital Goods Industries: A Contingency Approach". Academy of Management Journal 26, 1983
- Hamel, G. & Prahalad, G.K. "Managing Strategic Responsibility in the MNC". Strategic Management Journal, October - December 1983
- Hamel, G. & Prahalad, G.K. "Do You Really Have a Global Strategy?" Harvard Business Review, July - August 1985
- Hamel, G. & Prahalad, G.K. "Strategic Intent". Harvard Business Review, May - June 1989
- Hamermesh, R.G., Anderson, M.J. & Harris, J.E. "Strategies for Low Market Share Businesses". Harvard Business Review 56 (3), 1978
- Harrigan, K.R. Strategies for Declining Businesses. D.C. Heath Lexington, 1980
- Hart, B.H.L. Strategy, Praeger, N.Y., 1954
- Harzu, P. "Attitude of Strategic Managers Toward a Formalized Corporate Planning". Turku, School of Economics 1981

- Hayes, R. & Abernathy, W. "Managing our Way to Economic Decline". Harvard Business Review, July - August 1980
- Hayes, R. & Wheelright, S. Restoring our Competitive Edge: Competing Through Manufacturing. Wiley, N.Y., 1984
- Hayes, R.H. "Strategic Planning - Forward in Reverse". Harvard Business Review, November - December 1985
- Hedley, B. "Strategy and The Business Portfolio". Long Range Planning, February 1977
- Herold, D.M. "Long Range Planning and Organisational Performance: A Cross-Validation Study". Academy of Management Journal 14, 1972
- Hill, C.L. "Differentiation versus Low Cost or Differentiation and Low Cost: A Contingency Framework". Academy of Management Review 13, No. 3, 1988
- Hitt, M.A. & Ireland, R.D. "Corporate Distinctive Competence, Strategy and Industrial Performance". Strategic Management Journal, Vol. 6, 1985
- Hitt, M.A. & Ireland, R.D. "Relationships among Corporate Level Distinctive Competence, Diversification Strategy, Corporate Structure and Performance". Journal of Management Studies, July 1986

Irving, D. The Trail of the Fox, E.P. Dutton, N.Y.,
1977

Jacobsen, R. & Aaker, D. "Is Market Share All That It's Cracked Up To Be?" Journal of Marketing 49, 1985

Jaikamur, R. "Post-Industrial Manufacturing". Harvard Business Review, November - December 1986

Jemison, D.B. "The Importance of an Integrative Approach to Strategy". Academy of Management Review 6, 1981

Jomini, A.H. Art of War translated by G.H. Mendell & W.P. Craighill, Greenwood Press, Westport Conn, 1971

Jones, G.R. & Hill, C.W.L. "Transaction Cost Analysis of Strategy - Structure Choice". Strategic Management Journal, March - April 1988

Katz, R.L. Cases and Concepts in Corporate Strategy.
Prentice-Hall, 1985

Katz, A. "Evaluating the Environment: Economic and
Technological Factors in W.D. Guth (ed). Handbook
of Business Strategy. Warren, Gorham & Lamont,
1985

Keats, B.W. & Hitt, M.A. " Causal Model of Linkages
Among Environmental Dimensions, Macro
Organisational Characteristics and Performance".
Academy of Management Journal, Vol. 31, No. 3,
1988

Khandiwalla, P.N. The Design of Organisations.
Harcourt-Brace, N.Y., 1977

Koonz, H. & O'Donnell Principles of Management.
McGraw-Hill, N.Y., 1972

Kotler, P. "A Design for the Firm's Marketing Nerve
Center". Business Horizons, Fall 1966

Lancaster, K. Consumer Demand: A New Approach.
Columbia University Press, N.Y., 1971

Learned, E.P., Christiansen, C.R., Andrews, K.R. &
Guth, W.D. Business Policy: Text and Cases
Richard D. Irwin, Homewood, ILL. 1965

Learned, E.P. & Sproat, A.T. Organisation Theory and
Policy, Notes for Analysis. Richard Irwin,
Homewood, ILL. 1966

Lenin, V.I. Collected Works of V.I. Lenin Edited and
Annotated. International Publishers, N.Y., 1927

Leontiades, M. & Tezel, A. "Planning Perceptions and
Planning Results". Strategic Management Journal
No. 1, 1980

Levitt, T. "Marketing Myopia". Harvard Business
Review, July - August 1960

Lipsky, M. Standing the Study of Public Policy
Implementation on its Head. In W.D. Burnham &
M.W. Weinsberg (eds). American Politics and
Public Policy. Cambridge, Mass. MIT Press, 1978

Lorange, P. & Vancil, R.E. Strategic Planning Systems.
Prentice-Hall, Englewood Cliffs, N.J., 1977

Lorange, P. Scott Morton, M.S. & Ghosal, S. Strategic
Control, West Publishing, St. Paul, Minn, 1986

Lubatkin, M. & Pitts, M. "PIMS: Fact or Folklore?"
Journal of Business Strategy, Winter 1983

McAvoy, R.E. "Corporate Strategy and the Power of Competitive Analysis". Academy of Management Review, July 1983

McDaniel, S.W. & Kolari, J.W. "Marketing Strategy Implications of the Miles & Snow Strategic Typology". Journal of Marketing, October 1987

Machiavelli, N. The Prince of Discourses. Modern Library, N.Y., 1950

McCabe, D. "Donald McCabe Replies". Journal of Business Strategy, Spring 1984

McKinsey, J.O. Adjusting Policies to Meeting Changing Conditions. General Management Series, No. 116 (New York: American Management Association Inc. 1932)

Magid, W., Roman, J. & Santowski, R. "Critical Analysis of PIMS. Working Paper prepared for C. Kriebel, Carnegie-Mellon University, Pittsburgh, 1977

Mann, H.M. "Seller Concentration, Entry Barriers and Rates of Return in Thirty Industries". Review of Economics & Statistics 48, 1966

Mao Tse-Tung. Selected Military Writings 1928-1949, China Books, San Francisco, 1967

Marcus, A.A. "Implementing Externally Induced Innovations: A Comparison of Rule-Bound and Autonomous Approaches". Academy of Management Journal, Vol. 31, No. 2, 1988

Marshall, C.T. "PIMS and The FTC Line of Business Data: A Comparison". Doctoral Dissertation, Harvard University, 1987

Masson, R. & Shaanan, T. "Stochastic Dynamic Limit Policy: An Empirical Test". Review of Economics & Statistics 64, 1982

- Matloff, M. & Snell, E.M. Strategic Planning for Coalition Warfare (1941-42), Washington D.C. Office of Chief of Military History, Department of the Army, 1953
- Maynard-Moody, S., Musheno, S. Palumbo, D. & Oliviero, A. "Streetwise Social Policy: Empowering Workers to Resolve the Dilemma of Discretion and Accountability". Paper delivered at the Annual Meeting of the American Political Science Association, Chicago, 1987
- Meyer, A.D. "Adapting to Environmental Jolts". Administrative Science Quarterly, December 1982
- Miles, R.E. & Snow, C.C. Organisational Strategy, Structure and Process. McGraw-Hill, N.Y., 1978
- Miller, D. & Friesen, P.H. "Archetypes of Strategy Formulation". Management Science 24, 1978
- Miller, D. & Friesen, P.H. Organisations: A Quantum View. Prentice-Hall, Englewood, N.J., 1984
- Mintzberg, H. "Strategy Making in Three Modes" California Management Review, Winter 1973
- Mintzberg, H. "Of Strategies: Deliberate and Emergent". Strategic Management Journal, July - September, 1985
- Mintzberg, H. & McHugh, A. "Strategy Formulation in and Adhocracy". Administrative Science Quarterly 30, 1986
- Mintzberg, H. "Crafting Strategy". Harvard Business Review, July - August, 1987
- Mintzberg, H. Strategy Formulation: Schools of Thought. In J. Frederickson (ed). Perspectives on Strategic Management. Harper Business, N.Y., 1990

Montgomery, B.L. The Memoirs of Field-Marshal The Viscount Montgomery of Alanlin World Publishing, Cleveland, 1958

Murray, A.I. "A Contingency View of Porter's Generic Strategies". Academy of Management Review, Vol. 13, No. 3, 1988

A. Logan, J.W. Porter, B.L. Montgomery
Mont. J.W. Publishing Co. Cleveland, Ohio
1971

"The Tactics of Bypassing" The Academy of
Management Journal 13 (1) 1970

"Identifying and Exploiting the Weak
Side of the Strategy" Academy of Management Review
12, 1987

Napoleon, I. "Maximes De Guerre" in T.R. Phillips ed.
Roots of Strategy Military Service Publishing,
Hamburg, P.A., 1940

Newman, W.H. Administrative Action. Prentice-Hall,
Englewood, N.J., 1951

Newman, W.H. & Logan, J.P. Strategy, Policy, Central
Management. S.W. Publishing Co., Cincinnati,
Ohio, 1971

Nutt, P.C. "The Tactics of Implementation". Academy of
Management Journal 29 (2), 1986

Nutt, P.C. "Identifying and Appraising How Managers
Install Strategy". Strategic Management Journal
No. 8, 1987

Ohmae, K. The Borderless World: Power and Strategy.
Collins, 1990

Olson, H. "Why Directors Keep Getting Sued". Fortune,
13 March 1989

- Pearce, J.A. II "The Company Mission as a Strategic Tool". Sloan Management Review, Spring 1982
- Pearce, J.A. II, Freeman, B. & Robinson, R.B. Jnr. "The Tenuous Link Between Formal Strategic Planning and Financial Performance". Academy of Management Review Vol. 12, No. 4, 1987
- Peters, T.J. & Waterman, R.H. In Search of Excellence: Lessons from America's Best Run Companies. Harper & Row, N.Y., 1982
- Peters, T.J. & Austin, N.K. A Passion for Excellence, the Leadership Difference. Random House, N.Y., 1985
- Pettigrew, A.M. The Management of Strategic Change. Blackwell, Oxford, 1987
- Phillips, L., Chang, D. & Buzzell, R.D. "Product Quality, Cost Position and Business Performance: A Test of Some Key Theses". Journal of Marketing, Spring 1983
- Porter, M.E. Competitive Strategy. Free Press, N.Y., 1980
- Porter, M.E. Competitive Advantage. Free Press, N.Y., 1985
- Porter, M.E. "From Competitive Advantage to Corporate Strategy". Harvard Business Review, May - June 1987
- Prais, S.J. The Evolution of Giant Firms in Britain. University of Cambridge Press, Cambridge, 1976
- Pratten, C.F. "Economics of Scale in Manufacturing Industry". University of Cambridge Press, Cambridge, 1971

Pressman, J. & Wildavsky, A. Implementation of Strategy. University of California Press, Berkeley, California, 1974.

Quinn, J.B. "Strategic Change: Logical Incrementalism". Sloan Management Review, Fall 1978

Quinn, J. & Mintzberg, H. Strategy Process: Concepts, Contexts and Cases. Prentice-Hall, Englewood, N.J., 1988

A. "Stock Market Signals to Management".
Harvard Business Review, Vol. 5, 1987

M.W. Setting Strategic Goals and Objectives.
Irwin Publishing Co., St. Paul, Minn., 1980

M.W. "The Chief Executive and the Board".
Harvard Business Review, March-April, 1988

Quinn, J. "Why Don't U.S. Firms Use More Innovation
in Strategy?". Long Range Planning, Vol. 1, 1968

M.W. & Fulmer, R. "Is Long Range Planning
Profitable?". Proceedings of the Academy of
Management, 1971

M.W. & Hollander, F.G. Strategic Management:
Concepts and Applications. McGraw-Hill, N.Y., 1989

Quinn, M.W. & Walker, G.C. "Organizational Memory,
Marketing and R & D Capabilities in Exploiting
Different Business Opportunities". Strategic
Management Journal, May - June 1987

Swain, R.P. Strategy, Structure and Corporate
Performance. Harvard University Press, Cambridge,
Mass., 1974

Swain, R. & Wainley, R. "The Search for the Market Share
Effect". Harvard Business Review, Vol. 65, No. 1, 1987

- Radosevich, R. "Designing Information Systems for Strategic Decisions". Long Range Planning, Vol. 4, 1974
- Rappaport, A. "Strategic Analysis for more Profitable Acquisitions". Harvard Business Review, July - August 1979
- Rappaport, A. "Stock Market Signals to Managers". Harvard Business Review, No. 6, 1987
- Richards, M.D. Setting Strategic Goals and Objectives. West Publishing Co. St. Paul, Minn, 1986
- Rockhart, G.F. "The Chief Executive and Data Needs". Harvard Business Review, March - April 1979
- Rosenstein, J. "Why Don't U.S. Boards Get More Involved in Strategy". Long Range Planning 20, No. 3, 1987
- Rue, L.W. & Fulmer, R. "Is Long Range Planning Profitable?" Proceedings of the Academy of Management, 1973
- Rue, L.W. & Holland, P.G. Strategic Management: Concepts and Experiences. McGraw-Hill, N.Y., 1989
- Ruekert, R.W. & Walker, O.C. "Interactions Between Marketing and R & D Departments in Implementing Different Business Strategies". Strategic Management Journal, May - June 1987
- Rumelt, R.P. Strategy, Structure and Economic Performance. Harvard University Press, Cambridge, Mass, 1974
- Rumelt, R. & Wensley, R. "In Search of the Market Share Effect". Paper MGL - 63. Graduate School of Management, UCLA, 1981

- Sapp, R.W. & Seiler, R.W. "The Relationship between Long-Range Planning and Financial Performance of the U.S. Commercial Banks". Managerial Planning 30 (2), 1981
- Scherer, F.M., Beckenstein, A., Kaufer, E. & Murphy, R.D. The Economics of Multi-Plant Operations. Harvard University Press, Cambridge, Mass
- Schiffman, S.S., Reynolds, M.L. & Young, F.W. Introduction to Multi-Dimensional Scaling: Theory, Methods and Applications. Academy Press, N.Y., 1981
- Schmalensee, R. "Inter-Industry Studies of Structure and Performance", & Bresnahan, T.F. "Empirical Studies of Industries with Market Power" in Schmalensee, R. & Willig, R.D. (eds). Handbook of Industrial Organisation. North Holland, Amsterdam, 1988
- Schoeffler, S., Buzzell, R.D. & Heany, D.F. "Impact of Strategic Planning on Profit Performance". Harvard Business Review 52 (2), 1974
- Schumpeter, J.A. The Theory of Economic Development. Harvard University Press, Cambridge, Mass, 1934
- Selznick, P. Leadership in Administration: A Sociological Interpretation. Harper & Row, N.Y., 1957
- Shetty, Y.K. "New Look at Corporate Goals". California Management Review, Winter 1979
- Shocker, A.D. & Srinivasan, V. "Multi-attribute Approaches for Product Concept Evaluation and Generation: A Critical Review". Journal of Marketing Research XVI, May 1979

- Smith, K.G., Guthrie, J.P. & Chen, M. "Miles & Snow's Typology of Strategy, Organisational Size and Organisational Performance". Academy of Management Proceedings, 1986
- Snow, C.C. & Hrebiniak, L.G. "Strategy, Distinctive Competence and Organisational Performance". Administrative Science Quarterly, June 1980
- Sousa de Vasconcellos & Sa Jorge Alberto & Hambrick, D.C. "Key Success Factors: Test of a General Theory in the Mature Industrial - Product Sector". Strategic Management Journal, July - August 1989
- Steiner, G. Strategic Planning. Free press, N.Y., 1979
- Stevenson, W. A Man Called Intrepid: The Secret War. Harcourt Brace Jovanovich, N.Y., 1976
- Strauss, G. & Sayles, L.R. Personnel: The Human Problems of Management. Prentice-Hall, Englewood, N.J., 1972
- Stuart, C. "Are Environmental Scanning Units Effective". Long Range Planning, June 1982
- Sun Tzu, The Art of War translated by S.B. Griffith, Oxford University Press, 1963. Original 500 B.C.

Thomas, P.S. "Environment Analysis for Corporate Planning". Business Horizons, October 1974

Thomas, P.S. "Environmental Scanning - The State of the Art". Long Range Planning, February 1980

Thompson, J.D. Organisations in Action. McGraw-Hill, New York, 1967

Thune, S.S. & House, R.J. "Where Long-Range Planning Pays Off - Findings of a Survey of Formal and Informal Planners". Business Horizons 13 (4), 1970

Tilles, S. "How to Evaluate Corporate Strategy". Harvard Business Review, July - August 1963

Toynes, N., Arpan, J.S., Ricks, D.A., Shrimp, T.A. & Barnett, A. The Global Textile Industry. Winchester, Mass, Allen-Unwin, 1984

Tregoe, B. & Zimmerman, I. Top Management Strategy. Simon & Schuster, N.Y., 1980

Trostel, A.O. & Nichols, M.P. "Privately-Held and Publicly-Held Companies: A Comparison of Strategic Choices and Management Processes". Academy of Management Journal 25, 1982

Varner, V.J. & Alger, J.I. (eds). History of the
Military Art: Notes for the Course (U.S. Military
Academy, West Point, N.Y., 1978)

Von Bulow, D.F. The Spirit of the Modern System of War
translated by C.M. de Martemont, London 1806

Von Clausewitz, C. On War translated by M. Howard & P.
Paret. Princeton University Press. Princeton,
N.J., 1976

Simon, H.A. Innovation in Organizations: Notes toward
a Theory. In J. Thompson ed., Approaches to
Organizational Design. Homewood of Chicago
Press, Pittsburgh, 1961

Porter, M.E. & Cooper, A.C. Characteristics of Effectiveness
Shareholder. Strategic Management Journal
No. 2, 1981

Wright, P. "The Role of Strategy in
Performance: Application of Strategic Planning".
Strategic Management Journal 5, 1, 1984

Wright, P. "A Re-examination of Porter's Strategies".
Strategic Management Journal 5, 2, 1984

- Weiss, L. "Quantitative Studies in Industrial Organisations" in M. Intriligator (ed). *Frontiers to Quantitative Economics*. North Holland, Amsterdam, 1971
- Wensley, R. "PIMS & BCG: New Horizons or False Dawn?" *Strategic Management Journal* 3, 1982
- White, R.E. "Generic Business Strategies, Organisational Context and Performance: An Empirical Investigation".
- Wilson, J.Q. *Innovation in Organisations: Notes toward a Theory*. In J Thompson (ed). *Approaches to Organisational Design*. University of Pittsburgh Press, Pittsburgh, 1963
- Woo, C.Y. & Cooper, A.R. "Strategies of Effective Low Share Businesses". *Strategic Management Journal* No. 2, 1981
- Wright, P. "MNC - Third World Business Unit Performance: Application of Strategic Elements". *Strategic Management Journal* No. 5, 1984
- Wright, P. "A Refinement of Porter's Strategies". *Strategic Management Journal* No. 8, 1987

Yip, G. "Stateways to Entry" Harvard Business Review,
September - October 1983

Young, D. Rommel: The Desert Fox. Harper & Row, N.Y.,
1974

Zahra, S. "Corporate Strategic Types, Environmental Perceptions, Managerial Philosophies and Goals: An Empirical Study". Akron Business & Economic Review, Summer 1987

Significance of difference between
 independent variables and Product Adoption

$$F_2 = \frac{1}{25} = 0.04$$

$$0.04 = 0.7 + 0.3 \times 0.7$$

$$0.44 = 0.45 - 0$$



Significant difference

APPENDIX A

STATISTICAL ANALYSES

1. Test for significance of difference between Improved Production Processes and Product Redesign.

$$P_1 = \frac{11}{25}$$

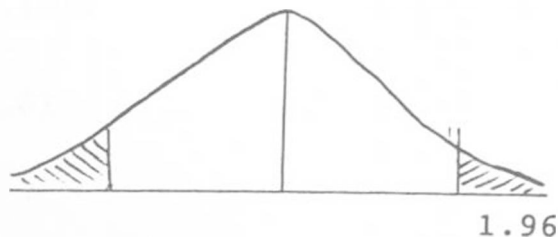
$$P_2 = \frac{4}{25}$$

$$P_1 = 0.44$$

$$P_2 = 0.16$$

$$\begin{aligned} \text{Standard Error} &= \frac{0.3 \times 0.7 + 0.3 \times 0.7}{25} \\ &= 0.1296 \end{aligned}$$

$$\begin{aligned} \text{Difference of Proportions} & \frac{(0.44 - 0.16) - 0}{0.1296} \\ &= 2.16 \end{aligned}$$



∴ Significant difference

2. Test for significance of difference between Organisational Restructuring and Improved Quality from suppliers.

Organisational Restructuring / Improved Quality

$$\frac{9}{25}$$

$$\frac{4}{25}$$

$$P_1 = \frac{9}{25}$$

$$P_2 = \frac{4}{25}$$

$$P = \frac{6.5}{25}$$

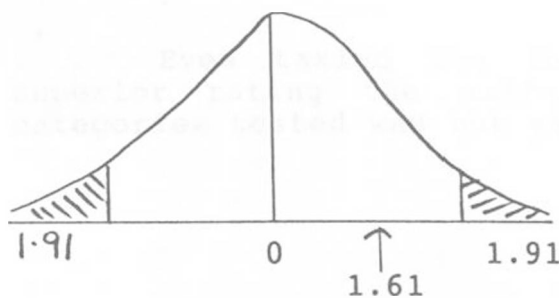
$$S.E. = \frac{2 \times \frac{6.5}{25} (1 - \frac{6.5}{25})}{25}$$

$$= 0.1241$$

$$Z = \frac{(\frac{9}{25} - \frac{4}{25}) - 0}{0.1241}$$

$$= \frac{0.2}{0.1241}$$

$$= 1.61$$



∴ Not significant difference

3. Test for significant difference between Product Price and Unique features that serve specific customer needs.

The responses for Superior and Neither were added and this total was used as a Superior response in an attempt to make the statistical analysis more meaningful.

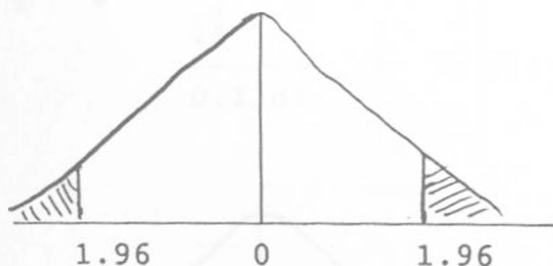
$$\begin{aligned} \therefore \text{Superior for Product Price ie, } P_1 &= \frac{17}{25} \\ &= 0.68 \end{aligned}$$

$$\begin{aligned} \text{Superior for Unique features ie, } P_2 &= \frac{24}{25} \\ &= 0.96 \end{aligned}$$

$$\therefore P = 0.82$$

$$\begin{aligned} \text{S.E.} &= \frac{0.82 \times (1 - 0.82) + 0.82 (1 - 0.82)}{25} \\ &= 0.1087 \end{aligned}$$

$$\begin{aligned} \text{Difference of proportions} &= \frac{(0.96 - 0.82) - 0}{0.1087} \\ &= 1.28 \end{aligned}$$



\therefore Even taking the inflated figure for the superior rating the difference between the two categories tested was not significant.

There is no significant difference - 2 would have to be greater than 1.96

4. H_0 = population proportions are the same

H_1 = population proportions are different.

Test whether JOUSTING AMONG COMPETITORS is significantly different from THE POWER OF BUYERS.

$$P_1 = \frac{16}{25}$$

$$P_2 = \frac{14}{25}$$

$$P = \frac{15}{25} = \frac{3}{5}$$

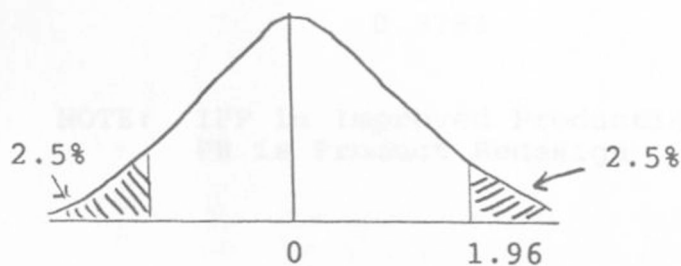
$$S.E. = \frac{\frac{3}{5} (1-\frac{3}{5})}{25} + \frac{\frac{3}{5} (1-\frac{3}{5})}{25}$$

$$= \frac{\frac{6}{25} + \frac{6}{25}}{25}$$

$$= \frac{12}{625}$$

$$= 0.1386$$

$$Z = \frac{\frac{2}{25} - 0}{0.1386} = 0.577$$



There is no significant difference - Z would have to be greater than 1.96

5. MTB > print c1 c2

ROW IPP PR

| | | |
|---|----|----|
| 1 | 11 | 4 |
| 2 | 7 | 11 |
| 3 | 7 | 10 |

H_0 : the IPP and PR results are independent

H_1 : the IPP and PR results are not independent

MTB > chis c1 c2

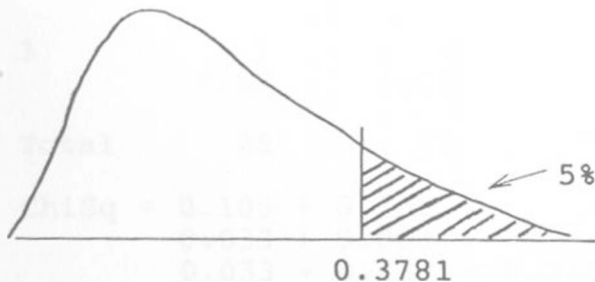
Expected counts are printed below observed counts

| | IPP | PR | Total |
|-------|------------|------------|-------|
| 1 | 11 7.50 | 4 7.50 | 15 |
| 2 | 7 9.00 | 11 9.00 | 18 |
| 3 | 7 8.50 | 10 8.50 | 17 |
| Total | 25 | 25 | 50 |

$$\text{ChiSq} = 1.633 + 1.633 + 0.444 + 0.444 + 0.265 + 0.265 = \underline{4.685}$$

$$\text{df} = 2$$

MTB > nopa



NOTE: IPP is Improved Production Processes
PR is Product Redesign

6. MTB > chis c4 c5

Expected counts are printed below observed counts

| | MOH | LPS | Total |
|-------|------------|-------------|-------|
| 1 | 10 6.50 | 3 6.50 | 13 |
| 2 | 7 12.00 | 17 12.00 | 24 |
| 3 | 8 6.50 | 5 6.50 | 13 |
| Total | 25 | 25 | 50 |

$$\begin{aligned}\text{ChiSq} = & 1.885 + 1.885 + \\ & 2.083 + 2.083 + \\ & 0.346 + 0.346 = \underline{8.628}\end{aligned}$$

$$\text{df} = 2$$

MTB > chis c1 c3

Expected counts are printed below observed counts

| | IPP | OR | Total |
|-------|-------------|------------|-------|
| 1 | 11 10.00 | 9 10.00 | 20 |
| 2 | 7 7.50 | 8 7.50 | 15 |
| 3 | 7 7.50 | 8 7.50 | 15 |
| Total | 25 | 25 | 50 |

$$\begin{aligned}\text{ChiSq} = & 0.100 + 0.100 + \\ & 0.033 + 0.033 + \\ & 0.033 + 0.033 = \underline{0.333}\end{aligned}$$

NOTE: MOH is Minimisation of Overhead Cost
LPS is Lower Price from Suppliers
IPP is Improved Production Processes
OR is Organisational Restructuring