

TRANSCRIPT

The Thought Leader's Viewpoint Episode 4

(Introduction): Governors State University School of Extended Learning presents The Thought Leader's Viewpoint.

Felicia L. Townsend: I am Felicia Townsend from Governors State University's School of Extended Learning. Joining me today is Dr. Anthony Andrews who is an associate professor in economics at Governors State University's College of Business.

Today we are going to discuss the effects of the external environment on small to mid-size companies.

Dr. Andrews thank you so much for joining me today.

Anthony Andrews: Thank you very much for having me.

FT: There are various factors that make up the external environment, such as technology, political, legal, the economy, social, and cultural. We know that these factors are beyond the control of the business. So if we look at technology as a factor of the external environment, explain some of the challenges and opportunities that businesses will face due to technology.

AA: Whenever I think about the external environment, I always think about an article that appeared in a textbook called *Wharton on Dynamic Competitive Strategy*. The faculty member there, Elizabeth Bailey, always said that the public sector is sometimes treated as an external factor in basically formulating strategies by small and medium sized firms. But the public sector of the economy often serve as nonmarket drivers in the success of a firm.

So the point that I am making here is that technology is both external and internal to the firm. In the external context, we think about the firm's competitive strategy in developing technologies that allow it to increase its competitive advantage under its market structure. But the firm must have a clear understanding of its market structure and this is something that sometimes medium firms don't pay much attention to.

What we're really talking about when we talk about the market structure is there six digit NAICS code which basically defines the market they're in, in terms of the number of firms and the type of markets that they are producing in. Usually small and medium sized firms, in my experiences, have a cursory view of their market structure or, at most, the structure of their local product market. So they have challenges based upon their specialization. There are different current and relevant technologies that are

known by a manager....So what happens when an owner of a firm does not recognize the possibilities of entry by competing firms or near competing firms.

The other point is, since there is such a great emphasis on data, what type of data is the manager of a small to medium sized firm utilizing to keep him up to date on what type of technologies on the external side are invading his operation or his market that reduce his competitiveness? These are some of the things that we might want to consider.

FT: Your body of work focuses on the economy, so talk to us about how the economy, as an external factor, can effect business firms?

AA: Well my body of work has ranged across the macro and the micro areas. With respect to the question that you're asking, I can look at two things that might be of importance that we might want to discuss.

One of those would be with respect to a study I did with water intensive firms. The six county Northwest area of Indiana was interested in trying to determine what high tech firms would be interested in locating there because they had an excess supply of water and how they could use that water as a mechanism to attract highly technical firms. So it was my responsibility to identify the types of highly technical firms that were already in their area that would be large users of water. Then to look at on a national level or regional bases firms that would be interested or have the technology to adapt to the large excess water supply that they had in the six county area. For example, I was working from the opposite side. I was working from the public side for the firms that were in the Northwest Indiana area.

I'm currently working with Governors State University and the University Industrial Park to identify synergies that are available for the industrial park that can link into smaller firms in University Park or the University Park market area which extends beyond its basic limit. So what I'm really looking at there is, what are the things that are available in the industrial park that can be utilized by firms outside the industrial park rather than the industrial park looking at linkages beyond the University Park area.

FT: In your opinion what is the most critical external business factor that small and mid-size companies face?

AA: Cash inflows for operating activities. That's the most critical thing. So the question is, how well do small and mid-sized firms recognize the synchronization of their production cycle with, say for example, that of local, state and the national business cycle? What I mean by that is, small and mid-sized firms are usually focused more on what is their internal environment and their localization area in which they're operating in. So they're not paying much attention to the business cycle, say for example, for the

state or for the nation. How would they manage their affairs in the expectation, let's say for example, a two year recession? Do they have enough cash flow? Are they planning in that context to be cognizant of the fact that there is going to be another recession and how can they set their goals to be able to go through that recession without having layoffs or reducing their production requirements. In other words, how well have they planned for the next recession?

FT: Dr. Andrews, is the success of a business dependent on its ability to adapt to its external environment?

AA: Of course. The example that I gave is probably the most critical. During down turns in a business cycle we lose a lot of firms and unemployment really increases as with respect to the great recession that we went through between 2007 and 2009. Some firms are just getting back to where they were prior to the recession.

The question is, can we get firms to consider looking at the impact of the business cycle on their own firms and to be able to plan in such a way as to minimize the impact that these downturns have on their production capability?

FT: How can companies use strategic planning as a means to adapt to the factors that exist outside of the organization?

AA: Strategic plans come in all different sizes and forms and formats. Firms probably want to have something that is not a tremendously large or structured plan but something that is small enough for them to make systematic changes as they move forward. You probably want to stick with, for small and medium sized firms, an analysis of their strengths, their weaknesses, their opportunities, and their threats. I think if they learn to do this well they can move to higher level, structured strategic plans. But strategic planning or planning in general is something that must be done by the firm because it basically provides the outlook and the analysis of the outlook or the expected outlook that can help them to, at least, minimize the problem areas that they will be facing.

FT: Can you name two strategies that companies can use to forecast changes that may occur in the external environment?

AA: First of all forecasting is not a science but an art. If you recall the last recession, not very many economists were able to forecast the great recession. After you develop, say for example, a sales forecast you then have to consider both internal and external events and possibilities that can be used to refine that forecast. So just because I come up with a number...where we are going to grow by seven percent, then I should take into consideration what is the economy going to be like over this period?

Are we expecting the economy to grow three percent or are we expecting the economy to grow one point five percent?

With respect to the firms' primary market, what growth has taken place in that industry? If the firms' follows small trends associated with their own particular industry, that will give them some type of insight to basically attenuate the growth parameters that they forecasted. So short period forecasting is probably the best strategy for small and medium sized firms. A forecast of six to twelve months or three years should be their first consideration, nothing longer than that. If they can learn to operate within that environment then they can hire someone to do more sophisticated long term forecasting. But the longer the forecast, the higher the probability of making that forecast increases. Small and medium sized firms...can think about long term trends and let that give them some idea. But again, the longer the trend, the longer the forecast, the higher the error probability associated with that.

FT: Dr. Andrews, what inspires you in your faculty role at Governors State University's College of Business?

AA: I think what I really enjoy, and I get my inspiration from at Governors State University, is teaching our students and preparing them to face their internal and external factors. The question that we really want to be able to say here is, have we prepared our undergraduate students for an education that will last them fifteen to twenty years or allow them to be able to get back into the academic environment for a master's degree or even further...? We want to make sure that we're above the trend in terms of understanding what is going to be happening five to seven years and maybe ten years.

If you notice, a lot of this information is focused on big data. We think that we have provided the curriculum and the program for students to take advantage of predictive and business analytics along with our other specializations in the business program for our students to make them capable to be able to reference across fields in terms of things that we provided.

FT: Dr. Andrews, it has been such a pleasure talking with you about the effects of the external environment on small to mid sized companies. Thank you for sharing your insights.

(Closing): If you want to learn more about the programs and services offered through Governors State University's School of Extended Learning, please visit govst.edu/oce, that's govst.edu/oce.

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