

DIPLOMA PENGURUSAN HAJI & UMRAH

**STRATEGIG MANAGEMENT
(DHU 3633)**

**CHAPTER 6:
ENVIRONMENTAL ANALYSIS**

CHAPTER 5:

ENVIRONMENTAL ANALYSIS

- What is environmental analysis ?
- Why does an Organization need Environmental Analysis ?

WHAT IS ENVIRONMENTAL ANALYSIS?

- ❑ Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance.
- ❑ The analysis entails assessing the level of threat or opportunity the factors might present.
- ❑ These evaluations are later translated into the decision-making process.
- ❑ The analysis helps align strategies with the firm's environment.
- ❑ Our market is facing changes every day.
- ❑ Many new things develop over time and the whole scenario can alter in only a few seconds.
- ❑ There are some factors that are beyond your control.
- ❑ But, you can control a lot of these things. Businesses are greatly influenced by their environment.
- ❑ All the situational factors which determine day to day circumstances impact firms.
- ❑ So, businesses must constantly analyze the trade environment and the market.

what is environmental analysis? – cont'd

- ❑ There are many strategic analysis tools that a firm can use, but some are more common.
- ❑ The most used detailed analysis of the environment is the PESTLE analysis.
- ❑ This is a bird's eye view of the business conduct. Managers and strategy builders use this analysis to find where their market currently.
- ❑ It also helps foresee where the organization will be in the future.
- ❑ PESTLE analysis consists of various factors that affect the business environment.
- ❑ Each letter in the acronym signifies a set of factors.
- ❑ These factors can affect every industry directly or indirectly.



what is environmental analysis? – cont'd

The letters in PESTLE, also called PESTEL, denote the following things:

❑ Political factors

❑ Economic factors

❑ Social factors

❑ Technological factors

❑ Legal factors

❑ Environmental factor

P	E	S	T	E	L
Political	Economic	Social	Technological	Environmental	Legal
<ul style="list-style-type: none"> • Government policy • Political stability or instability overseas • Foreign trade policy • Tax policy • Labor laws • Terrorism and military considerations • Environmental laws • Funding grants and initiatives • Trade restrictions • Fiscal policy 	<ul style="list-style-type: none"> • Economic Growth • Interest Rates • Exchange rates • Inflation • Disposable income of consumers • Disposable income of businesses • Taxation • Interstate taxes • Wages rates • Financing capabilities 	<ul style="list-style-type: none"> • Population growth • Age distribution • Health consciousness • Career attitudes • Customer buying trends • Cultural trends • Demographics • Industrial reviews and consumer confidence • Organizational image 	<ul style="list-style-type: none"> • Producing goods and services • Emerging technologies • Technological maturity • Distributing goods and services • Target Market Communication • Potential Copyright infringements • Increased training to use innovation • Potential Return on Investment (ROI) 	<ul style="list-style-type: none"> • The decline of raw materials • Pollution and green house gas emissions • Promoting positive business ethics and sustainability • Reduction of their carbon foot print. • Climate and weather • Environmental Legislation • Geographical location (and accessibility) 	<ul style="list-style-type: none"> • Health & Safety • Equal Opportunities • Advertising Standards • Consumer Rights and laws • Product Labeling • Product Safety • Safety Standards • Labor Laws • Future Legislation • Competitive Legislation

what is environmental analysis? – cont'd

- ✓ Often, managers choose to learn about political, economic, social and technological factors only.
- ✓ In that case, they conduct the PEST analysis.
- ✓ **PEST is also an environmental analysis.** It is a shorter version of PESTLE analysis. STEP, STEEP, STEEPLE, STEEPLED, and LEPEST:
- ✓ All of these are acronyms for the same set of factors.
- ✓ Some of them gauge additional factors like ethical and demographical factors.

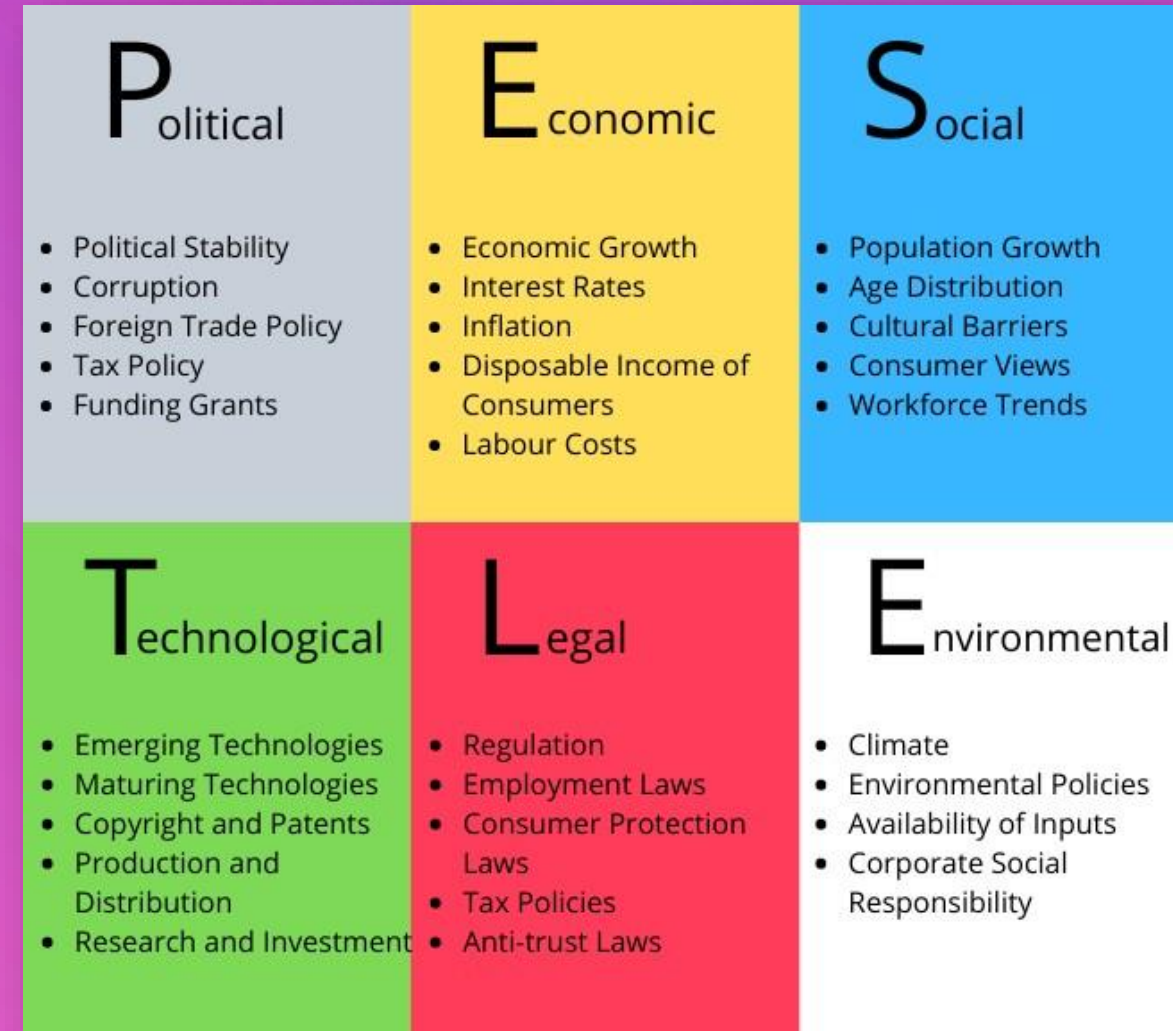


* STEEP is an English acronym for Sociological, Technological, Economical, Environmental and Political.

* STEEPLE analysis . It is based on PEST analysis method, with addition of additional Environmental, Ethical and Legal factors.

P for Political factors:

- ❑ The political factors take the country's current political situation.
- ❑ It also reads the global political condition's effect on the country and business.
- ❑ When conducting this step, ask questions like "What kind of government leadership is impacting decisions of the firm?"
- ❑ **Some political factors that we can study are:**
 - i. Government policies
 - ii. Taxes laws and tariff
 - iii. Stability of government
 - iv. Entry mode regulations



Some determinants you can assess to know how economic factors are affecting your business below:

E for Economic factors:

- ❑ Economic factors involve all the determinants of the economy and its state.
- ❑ These are factors that can conclude the direction in which the economy might move.
- ❑ So, businesses analyze this factor based on the environment.
- ❑ It helps to set up strategies in line with changes.

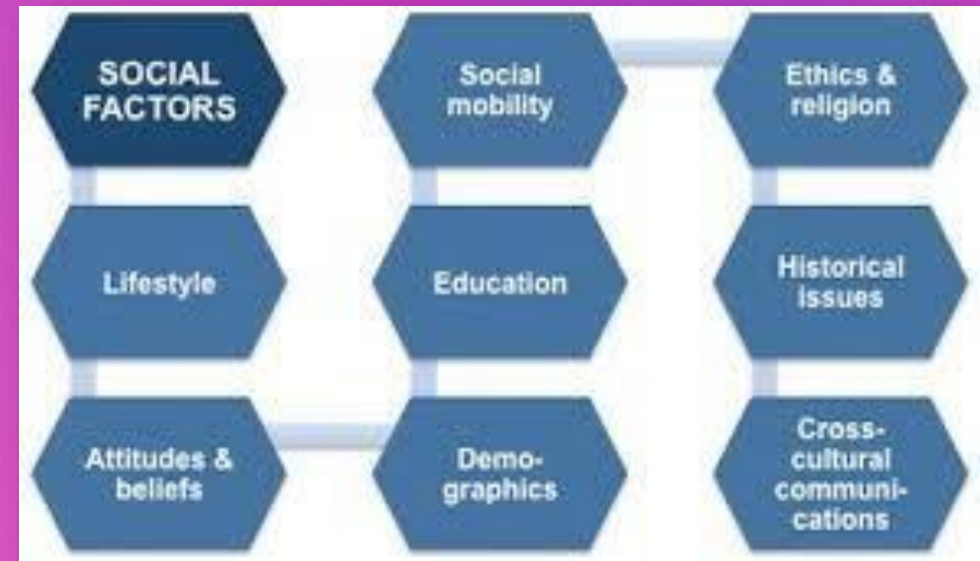
- ❖ The inflation rate
- ❖ The interest rate
- ❖ Disposable income of buyers
- ❖ Credit accessibility
- ❖ Unemployment rates
- ❖ The monetary or fiscal policies
- ❖ The foreign exchange rate



PESTLE

S for Social factors:

- ☐ Countries vary from each other. Every country has a distinctive mindset.
- ☐ These attitudes have an impact on the businesses.
- ☐ The social factors might ultimately affect the sales of products and services.
- ☐ Some of the social factors you should study are:
 - ✓ The cultural implications
 - ✓ The gender and connected demographics
 - ✓ The social lifestyles
 - ✓ The domestic structures
 - ✓ Educational levels
 - ✓ Distribution of Wealth

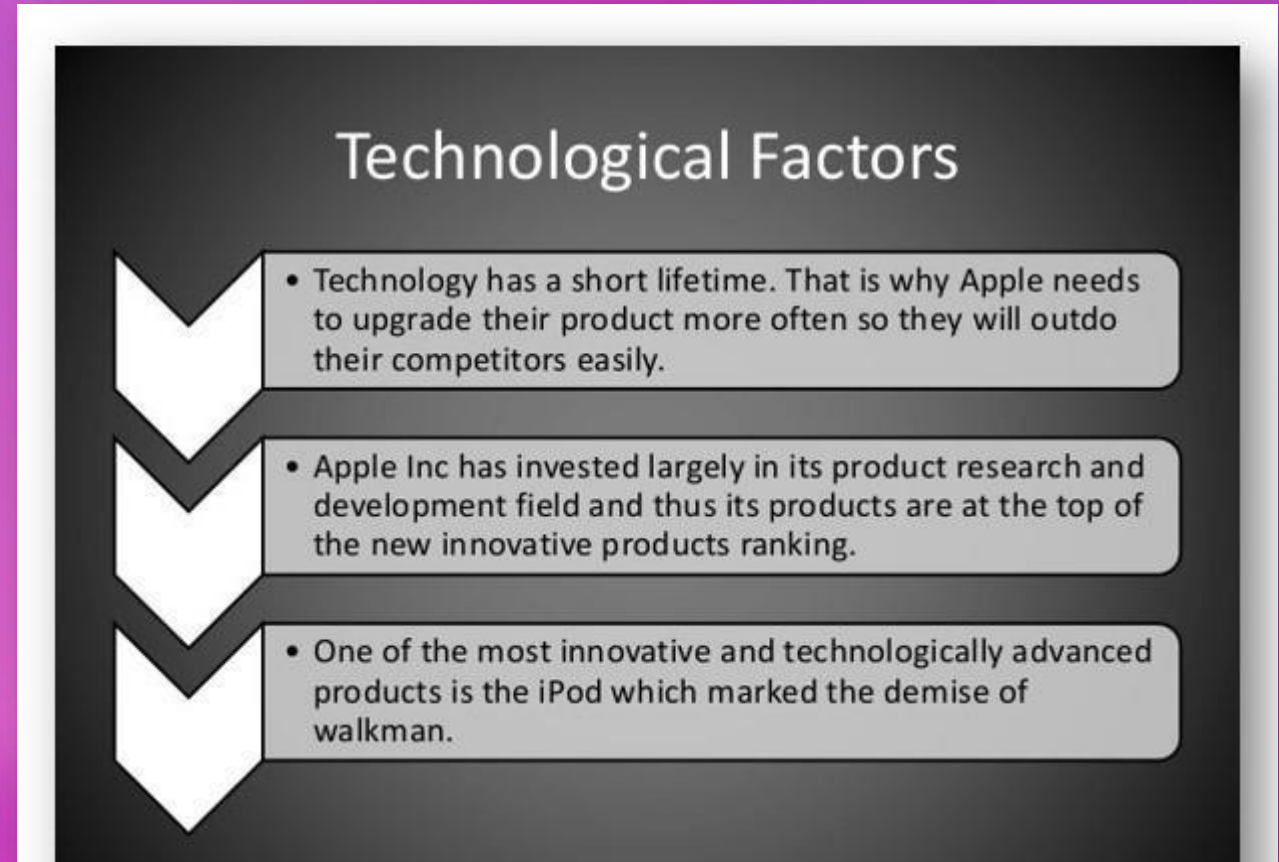


T for Technological factors:

- ❑ Technology is advancing continuously. The advancement is greatly influencing businesses.
- ❑ Performing environmental analysis on these factors will help you stay up to date with the changes.
- ❑ Technology alters every minute. This is why companies must stay connected all the time.
- ❑ Firms should integrate when needed.
- ❑ Technological factors will help you know how the consumers react to various trends.

Firms can use these factors for their benefit:

- ❑ New discoveries
- ❑ Rate of technological obsolescence
- ❑ Rate of technological advances
- ❑ Innovative technological platforms



L for Legal factors:

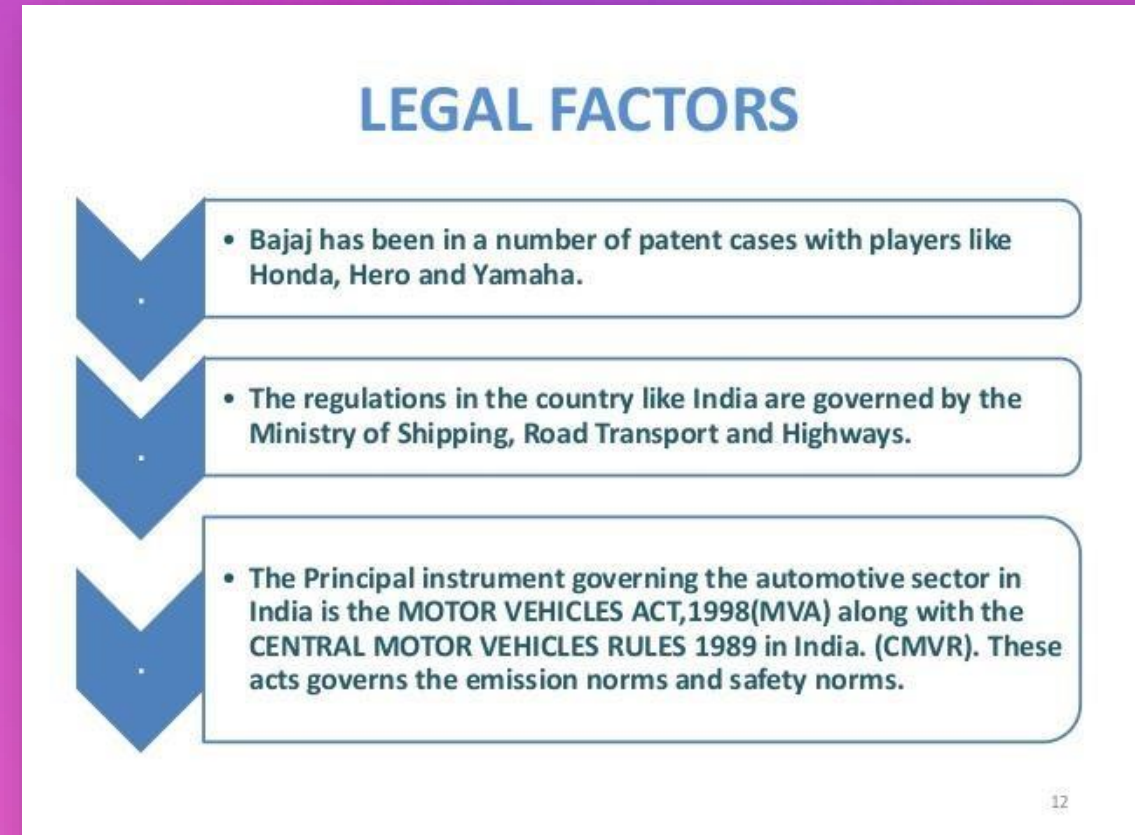
Legislative changes take place from time to time. Many of these changes affect the business environment.

If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy.

So, businesses should also analyze the legal developments in respective environments.

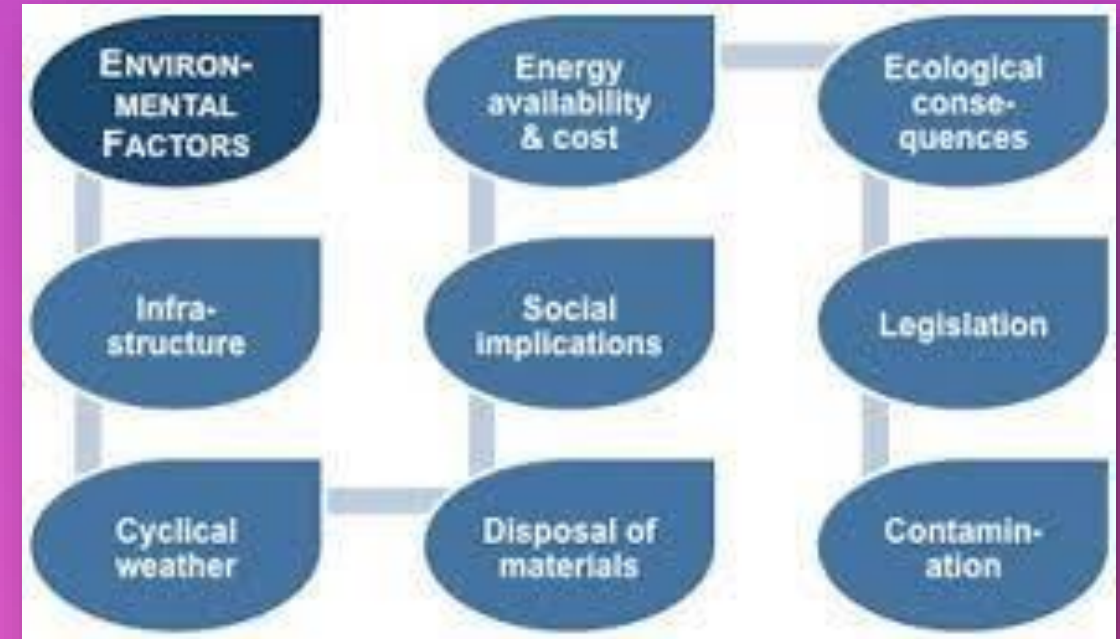
Some legal factors you need to be aware of:

- ☐ Product regulations
- ☐ Employment regulations
- ☐ Competitive regulations
- ☐ Patent infringements
- ☐ Health and safety regulations



E for Environmental factors:

- ❑ The location influences business trades. Changes in climatic changes can affect the trade.
- ❑ The consumer reactions to particular offering can also be an issue.
- ❑ This most often affects agri-businesses.
- ❑ Some environmental factors you can study are:
 - Geographical location
 - The climate and weather
 - Waste disposal laws
 - Energy consumption regulation
 - People's attitude towards the environment



There are many external factors other than the ones mentioned above.

None of these factors are independent. They rely on each other.

If you are wondering how you can conduct environmental analysis, here are 5 simple steps you could follow:

1. Understand all the environmental factors before moving to the next step.
2. Collect all the relevant information.
3. Identify the opportunities for your organization.
4. Recognize the threats your company faces.
5. The final step is to take action.

- ❑ It is true that industry factors have an impact on the company performance.
- ❑ Environmental analysis is essential to determine what role certain factors play in your business. PEST or PESTLE analysis allows businesses to take a look at the external factors.
- ❑ Many organizations use these tools to project the growth of their company effectively.
- ❑ The analyses provide a good look at factors like revenue, profitability, and corporate success.
- ❑ If you want to take the right decisions for your firm, employ environmental analysis.
- ❑ The analysis you should conduct depends on the nature of your company.

WHY DOES AN ORGANIZATION NEED ENVIRONMENTAL ANALYSIS ?

- ❑ Environmental analysis will help the firm to understand what is happening both inside and outside the organization and to increase the probability that the organisational strategies developed will appropriately reflect the organizational environment.
- ❑ Environmental scanning is necessary because there are rapid changes taking place in the environment that has a great impact on the working of the business firm.
- ❑ Analysis of business environment helps to identify strength weakness, opportunities and threats. SWOT analysis is necessary for the survival and growth of every business enterprise.



THE NEED AND IMPORTANCE OF ENVIRONMENTAL ANALYSIS:

The following is the need and importance of environmental analysis:

1. Identification of strength:

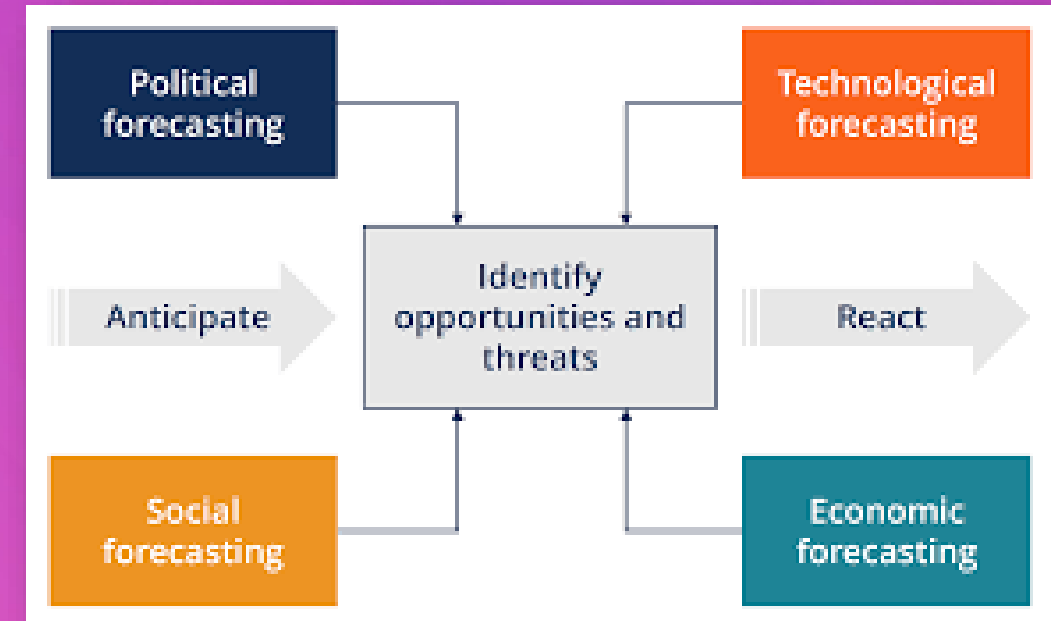
- ❑ Strength of the business firm means capacity of the firm to gain advantage over its competitors.
- ❑ Analysis of internal business environment helps to identify strength of the firm.
- ❑ After identifying the strength, the firm must try to consolidate or maximise its strength by further improvement in its existing plans, policies and resources.



The need and importance of environmental analysis:

2. Identification of weakness:

- ❑ Weakness of the firm means limitations of the firm.
- ❑ Monitoring internal environment helps to identify not only the strength but also the weakness of the firm.
- ❑ A firm may be strong in certain areas but may be weak in some other areas.
- ❑ For further growth and expansion, the weakness should be identified so as to correct them as soon as possible.



The need and importance of environmental analysis:

3. Identification of opportunities:

- ❑ Environmental analyses helps to identify the opportunities in the market.
- ❑ The firm should make every possible effort to grab the opportunities as and when they come.

Industry and environmental analysis:
Business Opportunity Identification



The need and importance of environmental analysis:

4. Identification of threat:

- ❑ Business is subject to threat from competitors and various factors.
- ❑ Environmental analyses help them to identify threat from the external environment.
- ❑ Early identification of threat is always beneficial as it helps to diffuse off some threat.

External Analysis: Opportunities and Threats

Analyzing the dynamics of the industry in which an organization competes to help identify:

<u>Opportunities</u>	<u>Threats</u>
Conditions in the environment that a company can take advantage of to become more profitable	Conditions in the environment that endanger the integrity and profitability of the company's business
	

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The need and importance of environmental analysis:

5. Optimum use of resources:

- ❑ Proper environmental assessment helps to make optimum utilisation of scarce human, natural and capital resources.
- ❑ Systematic analyses of business environment helps the firm to reduce wastage and make optimum use of available resources, without understanding the internal and external environment resources cannot be used in an effective manner.



The need and importance of environmental analysis:

6. Survival and growth:

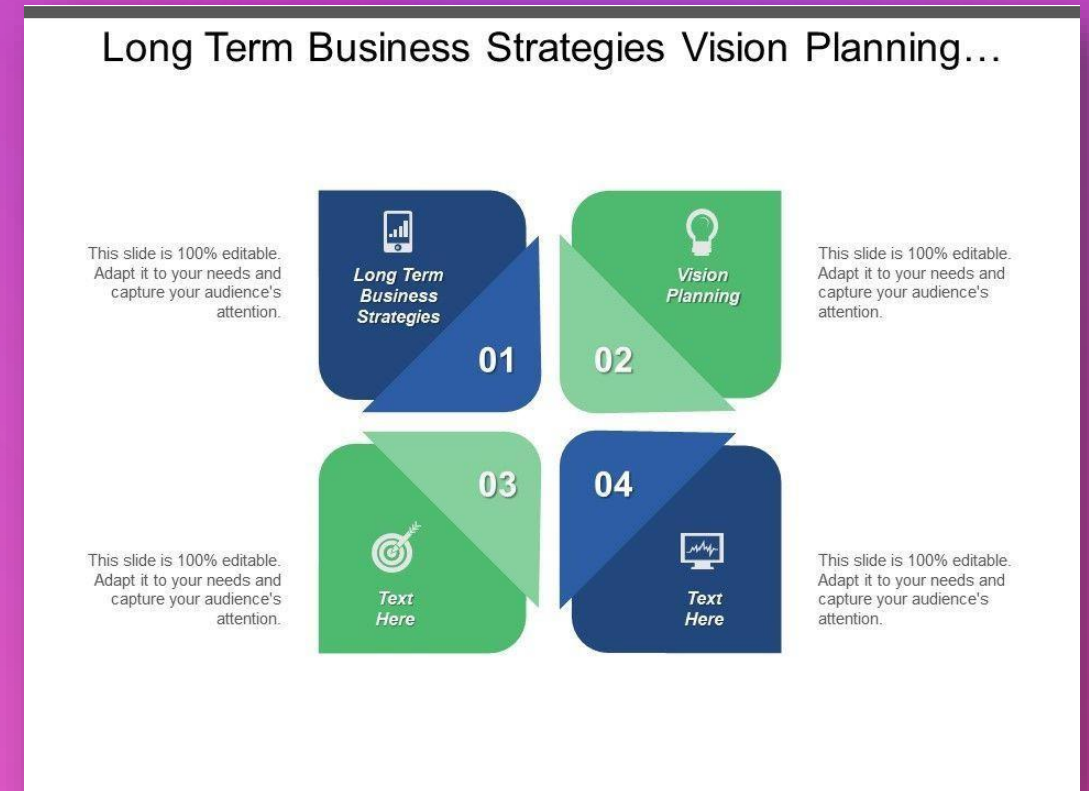
- ❑ Systematic analyses of business environment help the firm to maximise their strength, minimise the weakness, grab the opportunities and diffuse threats.
- ❑ This enables the firm to survive and grow in the competitive business world.



The need and importance of environmental analysis:

7. To plan long-term business strategy:

- ❑ A business organisation has short term and long-term objectives.
- ❑ Proper analyses of environmental factors help the business firm to frame plans and policies that could help in easy accomplishment of those organisational objectives.
- ❑ Without undertaking environmental scanning, the firm cannot develop a strategy for business success.



The need and importance of environmental analysis:

8. Environmental scanning aids decision-making:

- ❑ Decision-making is a process of selecting the best alternative from among various available alternatives.
- ❑ An environmental analysis is an extremely important tool in understanding and decision making in all situation of the business.
- ❑ Success of the firm depends upon the precise decision making ability.
- ❑ Study of environmental analyses enables the firm to select the best option for the success and growth of the firm.



**END OF
CHAPTER 6**