

RUAHA CATHOLIC UNIVERSITY  
RMS 121  
SMALL BUSINESS AND ENTREPRENEURSHIP

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**Strategic Planning Tools and Approaches**

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**A: TOPIC INTRODUCTION**

Various business analysis techniques can be used in strategic planning, including SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, PEST (Political, Economic, Social, and Technological) analysis, STEER (Socio-cultural, Technological, Economic, Ecological, and Regulatory factors) analysis, and EPISTEL (Environment, Political, Informatics, Social, Technological, Economic and Legal).

**SWOT Analysis**

SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses/Limitations, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective (Strengths and Weaknesses are internal to the organization (*Internal factors*), AND: Opportunities and threats are presented by the external environment to the organization (*External factors*)). A **SWOT analysis** is a method of studying organizational resources and capabilities to assess the firm's strengths and weaknesses and scanning its environment to identify opportunities and threats.

- **Strengths:** characteristics of the business, or project team that give it an advantage over others
- **Weaknesses (or Limitations):** are characteristics that place the team at a disadvantage relative to others
- **Opportunities:** *external* chances to improve performance (e.g. make greater profits) in the environment
- **Threats:** *external* elements in the environment that could cause trouble for the business or project

**PEST Analysis**

PEST analysis (Political, Economic, Social, and Technological analysis) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. A PEST analysis is an analysis of the external (macro-environment) that affects all firms. Such external factors usually are beyond the firm's control and sometimes present themselves as threats. Some analysts added Legal and rearranged the mnemonic to SLEPT; inserting Environmental factors expanded it to PESTEL or PESTLE, which is popular in the United Kingdom. The model has recently been further extended to STEEPLE and STEEPLED, adding Ethics and demographic factors.

**Political** factors are how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

**Economic** factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy

***Social*** factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

***Technological*** factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

***Environmental*** factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

***Legal*** factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

## **B: STUDY QUESTIONS**

1. One way of utilizing SWOT is **matching and converting**. What does it mean by **matching and converting**?
2. Select one business entity and perform SWOT and PEST analysis for it.
3. Can SWOT analysis help to identify risks in a business? Explain.