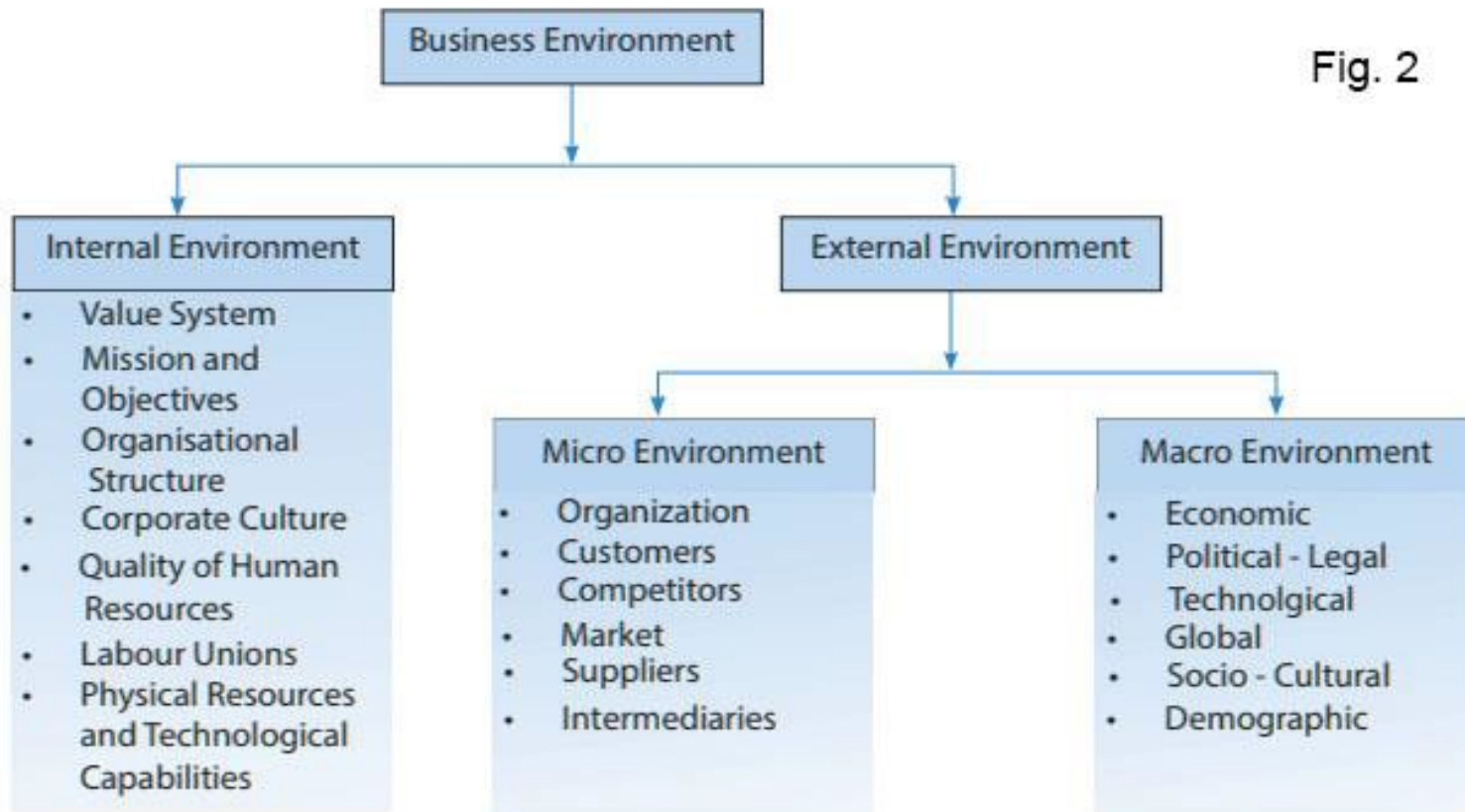




# ENVIRONMENTAL ANALYSIS

# COMPONENTS OF A BUSINESS ENVIRONMENT

Fig. 2



# 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.
- Businesses are greatly influenced by their environment, so they must constantly analyze the trade environment and the market.

# PESTEL FRAMEWORK

- 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 **PESTEL** 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.
- **PESTEL** analysis consists of various factors that affect the business environment.
- These factors can affect every industry directly or indirectly.



- **P** Is for “Political”.
- **E** Is for “Economic”.
- **S** Is for “Social”.
- **T** Is for “Technological”.
- **E** Is for “Environmental”.
- **L** Is for “Legal”.



# 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.
- Some of the factors considered for analysis are:
  - Government policies
  - Taxes laws and tariff
  - Stability of government
  - Entry mode regulations



# 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.



# ECONOMIC FACTORS

○ Some of the determinants considered for analysis are:

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





# 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.



# SOCIAL FACTORS

- Some of the social factors analysed:
  - The cultural implications
  - The gender and connected demographics
  - The social lifestyles
  - The domestic structures
  - Educational levels
  - Distribution of Wealth



# 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.
- Technological factors will help you know how the consumers react to various trends.
- Social media has become a vital part of any business now-a-days.



# TECHNOLOGICAL FACTORS

- Companies will have to perform this analysis for their benefit. It helps them:
  - New discoveries
  - Rate of technological obsolescence
  - Rate of technological advances
  - Innovative technological platforms



# ENVIRONMENT FACTORS

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



# 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 of the legal factors to be aware of:
  - Product regulations
  - Employment regulations
  - Competitive regulations
  - Patent infringements
  - Health and safety regulations



# IMPORTANCE OF ENVIRONMENT ANALYSIS

- There are many external factors other than the ones discussed.
- None of these factors are independent.
- They rely on each other.
- 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 PESTEL 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.



# STEPS TO CONDUCT ENVIRONMENT ANALYSIS

- ✓ Understand all the environmental factors before moving to the next step.
- ✓ Collect all the relevant information.
- ✓ Identify the opportunities for the organization.
- ✓ Recognize the threats the company faces.
- ✓ The final step is to take action.





# PESTEL ANALYSIS OF FOOD INDUSTRY IN INDIA

## ○ Political Factors:

- FDI & growth
- Wide regulations
- EXIM Policy
- Harmonised System for tariff rates

## ○ Economic Factors:

- Growing Disposable Incomes
- Increasing Labor Costs
- GDP
- Inflation
- Fiscal Policy



- Social Factors:
  - Health consciousness
  - Dietary Regulations
- Technological Factors:
  - Growth of e-commerce & digital economy
  - Automation
- Environmental Factors:
  - Organic farming
- Legal Factors:
  - Food Safety & Standards Authority of India (FSSAI)
  - Bureau of Indian Standards (BIS) & Indian Standards Institute (ISI)
  - Custom Clearance Procedure
  - International Organisation for Standardisation (ISO)
  - Agmark
  - Food Safety & Standards (Packing & labelling) Regulation



# SWOT ANALYSIS

- **Swot analysis** – an analysis of an organization's strengths and weaknesses alongside the opportunities and threats present in the external environment.”
- “**Swot analysis** involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business.”



# SWOT ANALYSIS

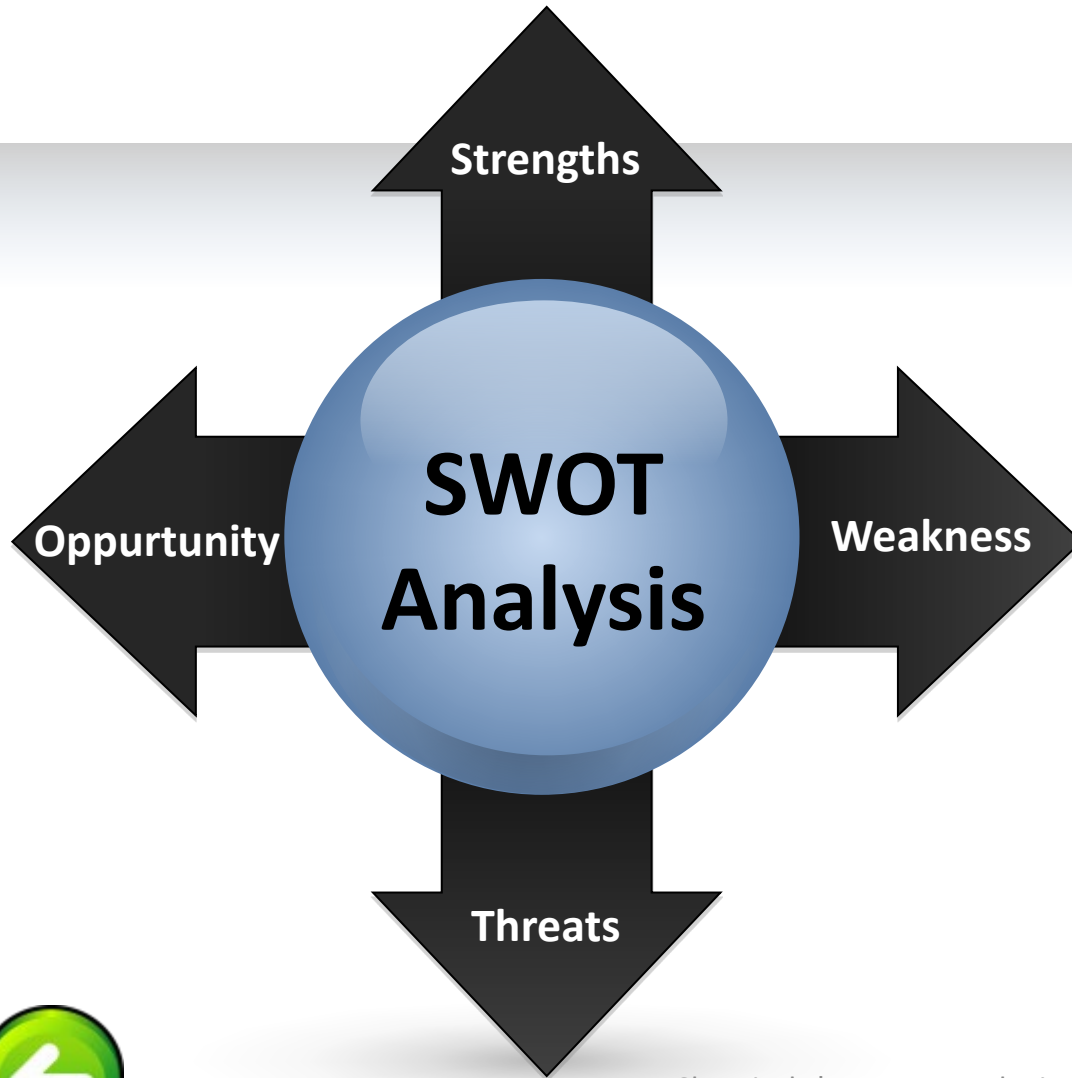
- **Strengths:** factors that give an edge for the company over its competitors.
- **Weaknesses:** factors that can be harmful if used against the firm by its competitors.
- **Opportunities:** favorable situations which can bring a competitive advantage.
- **Threats:** unfavorable situations which can negatively affect the business.



# SWOT MATRIX



# What is SWOT Analysis?



- ▶ Acronym for **Strengths, Weaknesses, Opportunities, and Threats**.
- ▶ Technique is credited to Stanford University in the 1960s and 1970s.
- ▶ **Planning tool** used to understand Strengths, Weaknesses, Opportunities, & Threats involved in a project / business.
- ▶ Used as **framework for organizing** and using data and information gained from **situation analysis** of internal and external environment.
- ▶ Technique that enables a group / individual to move from everyday problems / traditional strategies to a **fresh perspective**.



# What is SWOT Analysis?

## STRENGTHS

- ▶ Characteristics of the business or a team that give it an advantage over others in the industry.
- ▶ Positive tangible and intangible attributes, internal to an organization.
- ▶ Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.
- ▶ **Examples** - Abundant financial resources, Well-known brand name, Economies of scale, Lower costs [raw materials or processes], Superior management talent, Better marketing skills, Good distribution skills, Committed employees.



# What is SWOT Analysis?

## OPPORTUNITIES

- ▶ Chances to make greater profits in the environment - External attractive factors that represent the reason for an organization to exist & develop.
- ▶ Arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable.
- ▶ Organization should be careful and recognize the opportunities and grasp them whenever they arise. Opportunities may arise from market, competition, industry/government and technology.
- ▶ **Examples** - Rapid market growth, Rival firms are complacent, Changing customer needs/tastes, New uses for product discovered, Economic boom, Government deregulation, Sales decline for a substitute product .

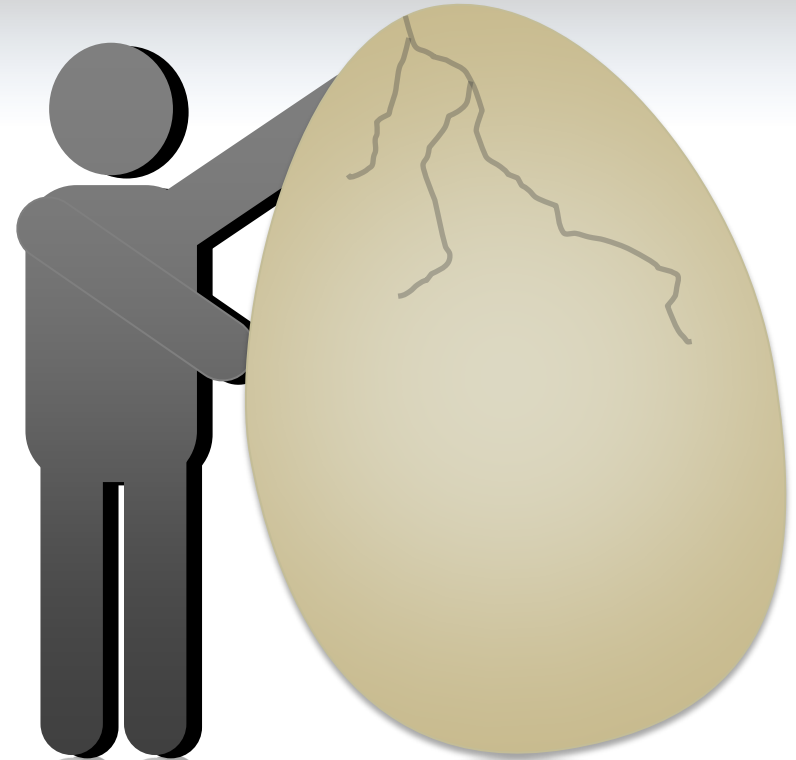




# What is SWOT Analysis?

## WEAKNESSES

- ▶ Characteristics that place the firm at a disadvantage relative to others.
- ▶ Detract the organization from its ability to attain the core goal and influence its growth.
- ▶ Weaknesses are the factors which do not meet the standards we feel they should meet. However, weaknesses are controllable. They must be minimized and eliminated.
- ▶ **Examples** - Limited financial resources, Weak spending on R & D, Very narrow product line, Limited distribution, Higher costs, Out-of-date products / technology, Weak market image, Poor marketing skills, Limited management skills, Under-trained employees.



# What is SWOT Analysis?

## THREATS

- ▶ External elements in the environment that could cause trouble for the business - External factors, beyond an organization's control, which could place the organization's mission or operation at risk.
- ▶ Arise when conditions in external environment jeopardize the reliability and profitability of the organization's business.
- ▶ Compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake.
- ▶ **Examples** - Entry of foreign competitors, Introduction of new substitute products, Product life cycle in decline, Changing customer needs/tastes, Rival firms adopt new strategies, Increased government regulation, Economic downturn.



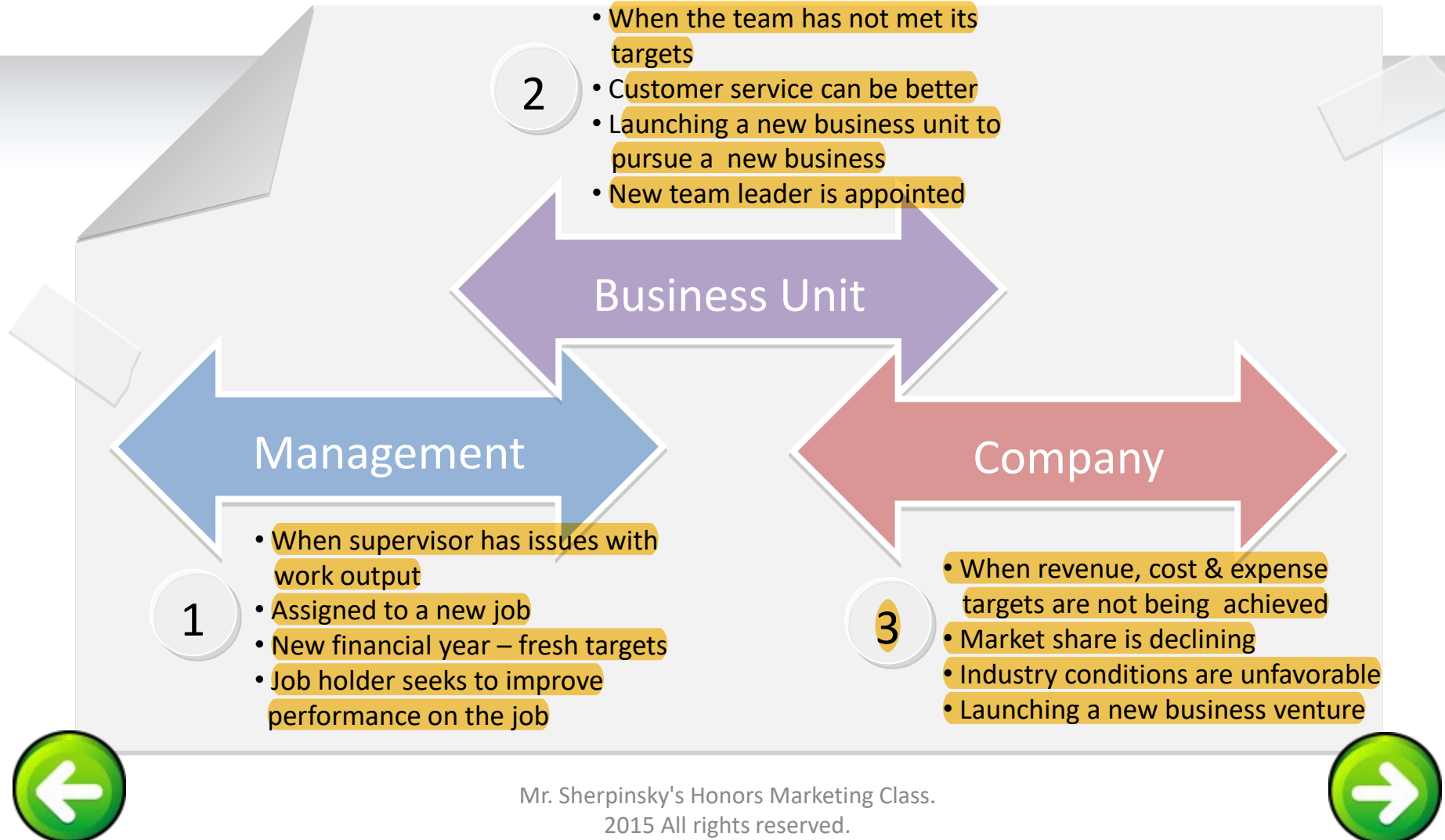
# Aim of SWOT Analysis?



- ▶ To help decision makers share and compare ideas.
- ▶ To bring a clearer common purpose and understanding of factors for success.
- ▶ To organize the important factors linked to success and failure in the business world.
- ▶ To analyze issues that have led to failure in the past.
- ▶ To provide linearity to the decision making process allowing complex ideas to be presented systematically.

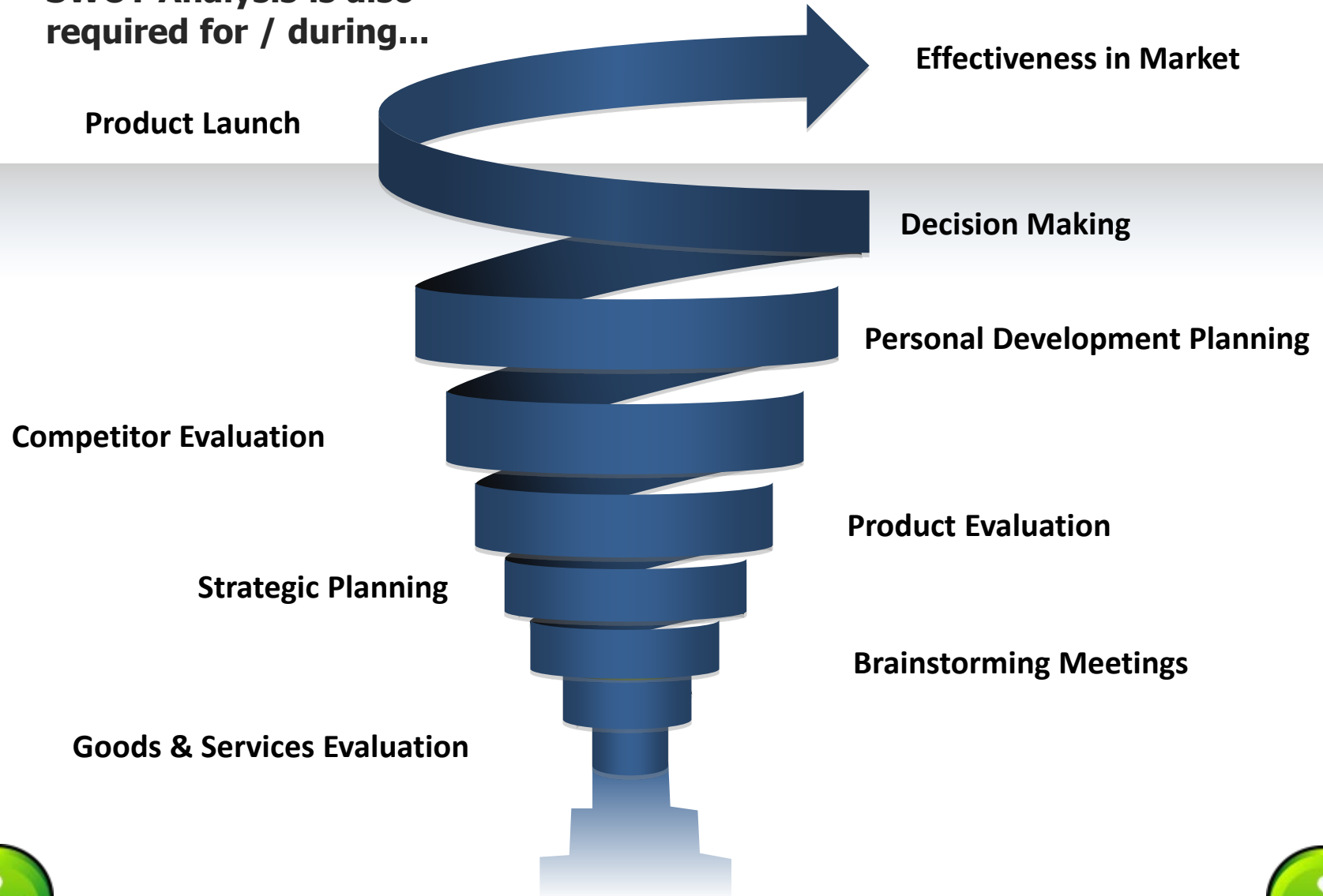


# Who needs SWOT Analysis?

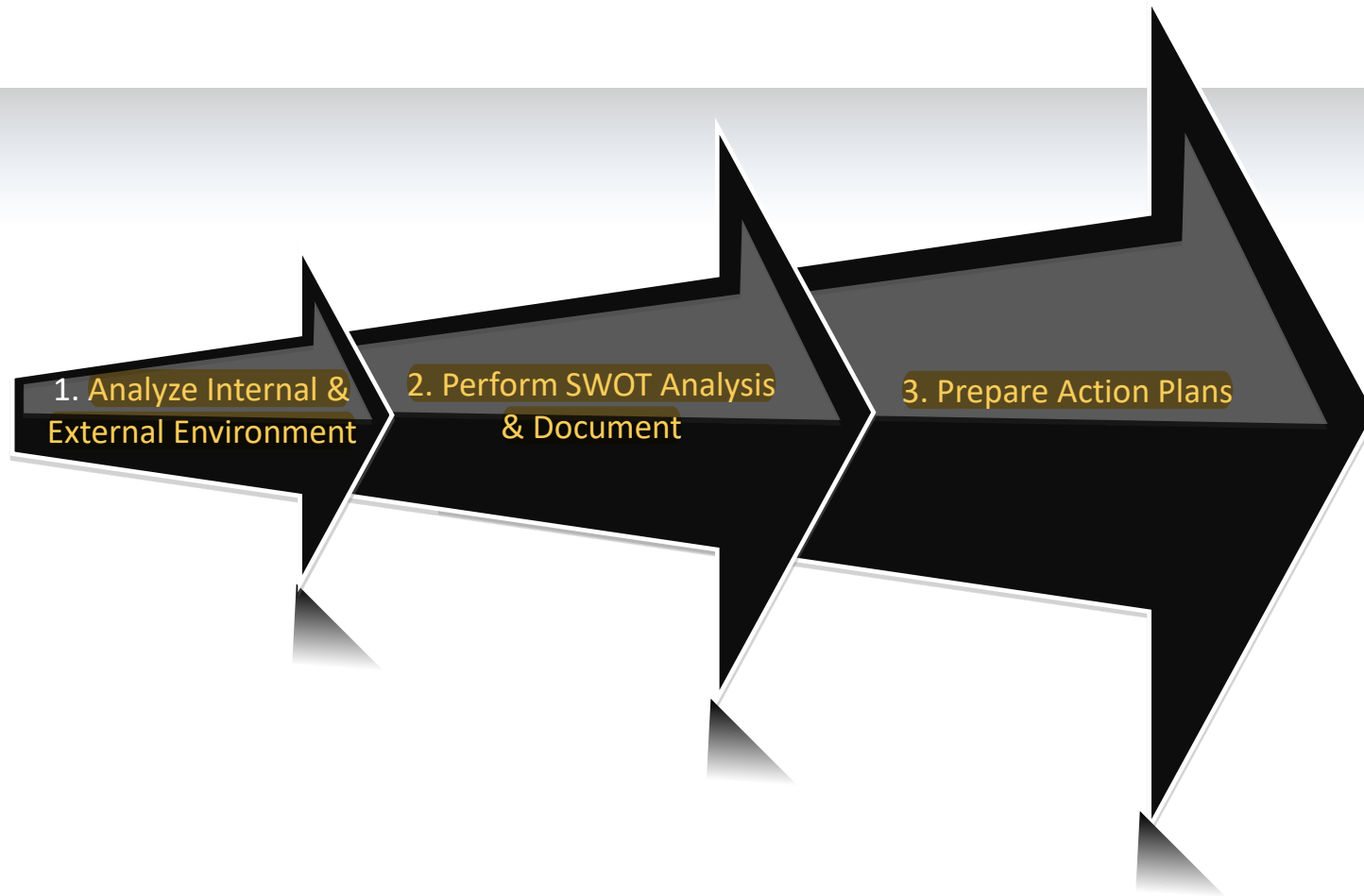


# Who needs SWOT Analysis?

**SWOT Analysis is also  
required for / during...**



# How to conduct SWOT Analysis?



# How to conduct SWOT Analysis?

## 1. Analyse Internal & External Environment



# How to conduct SWOT Analysis?

## SWOT Analysis



Positive

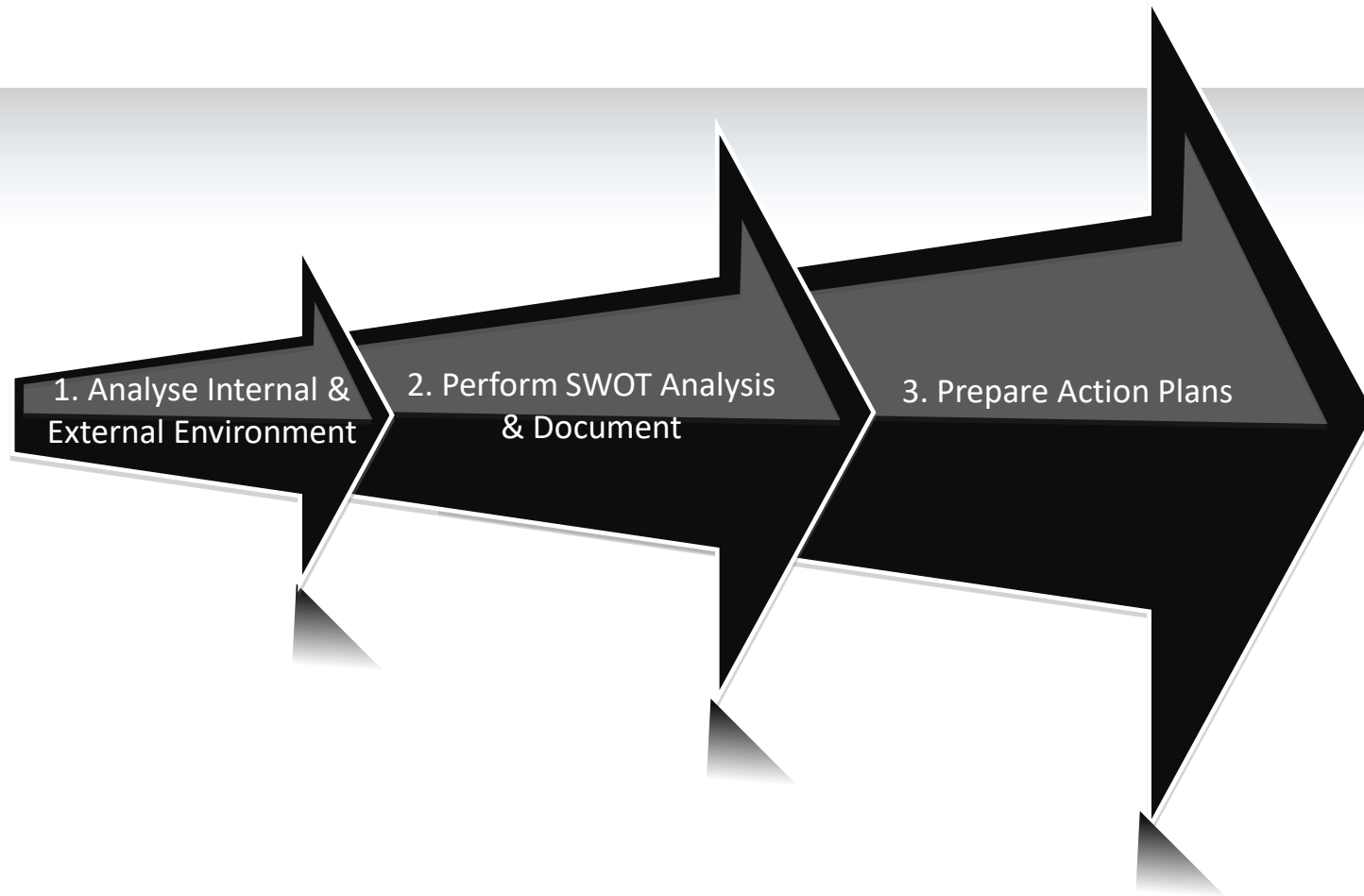
Negative

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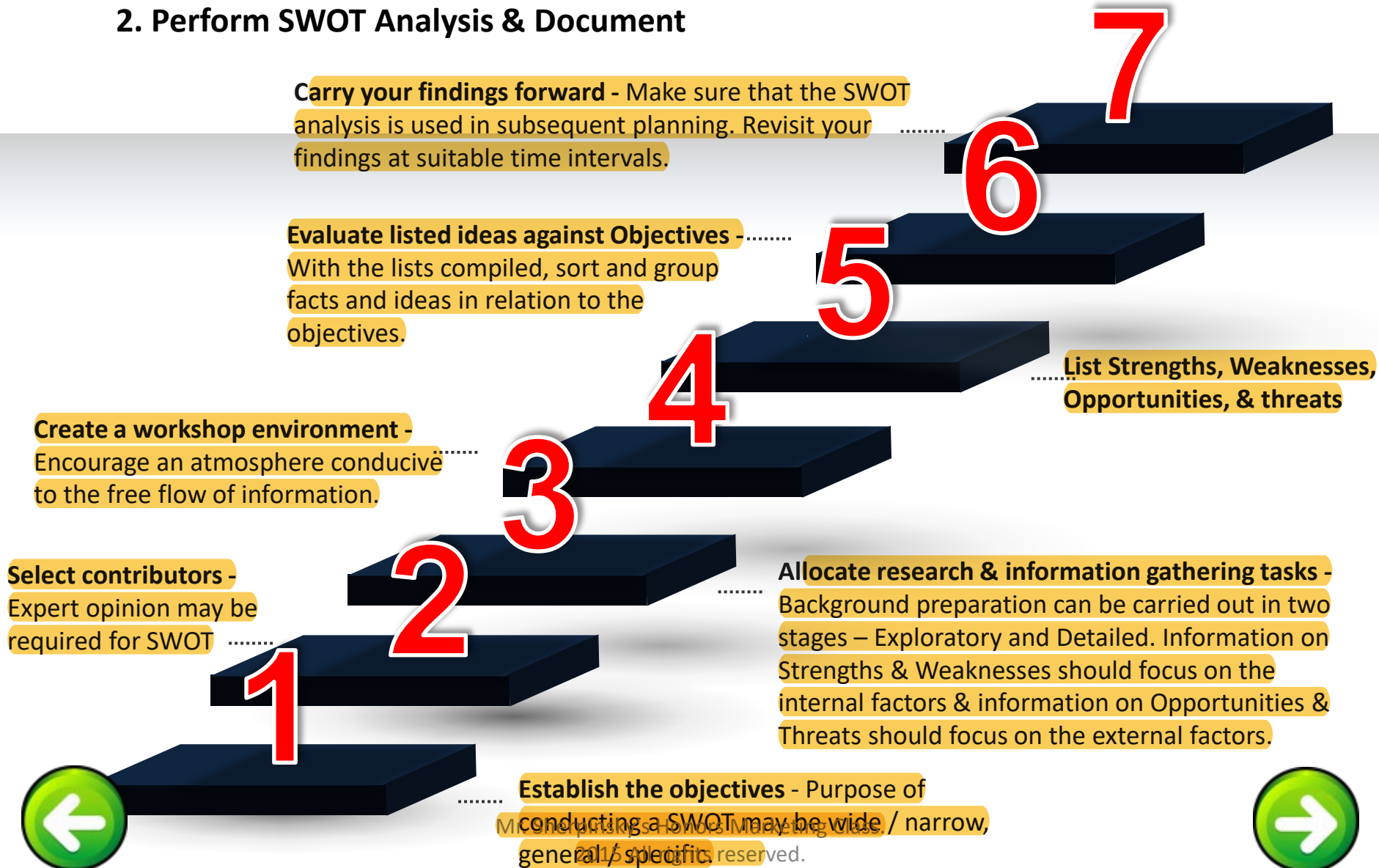


# How to conduct SWOT Analysis?

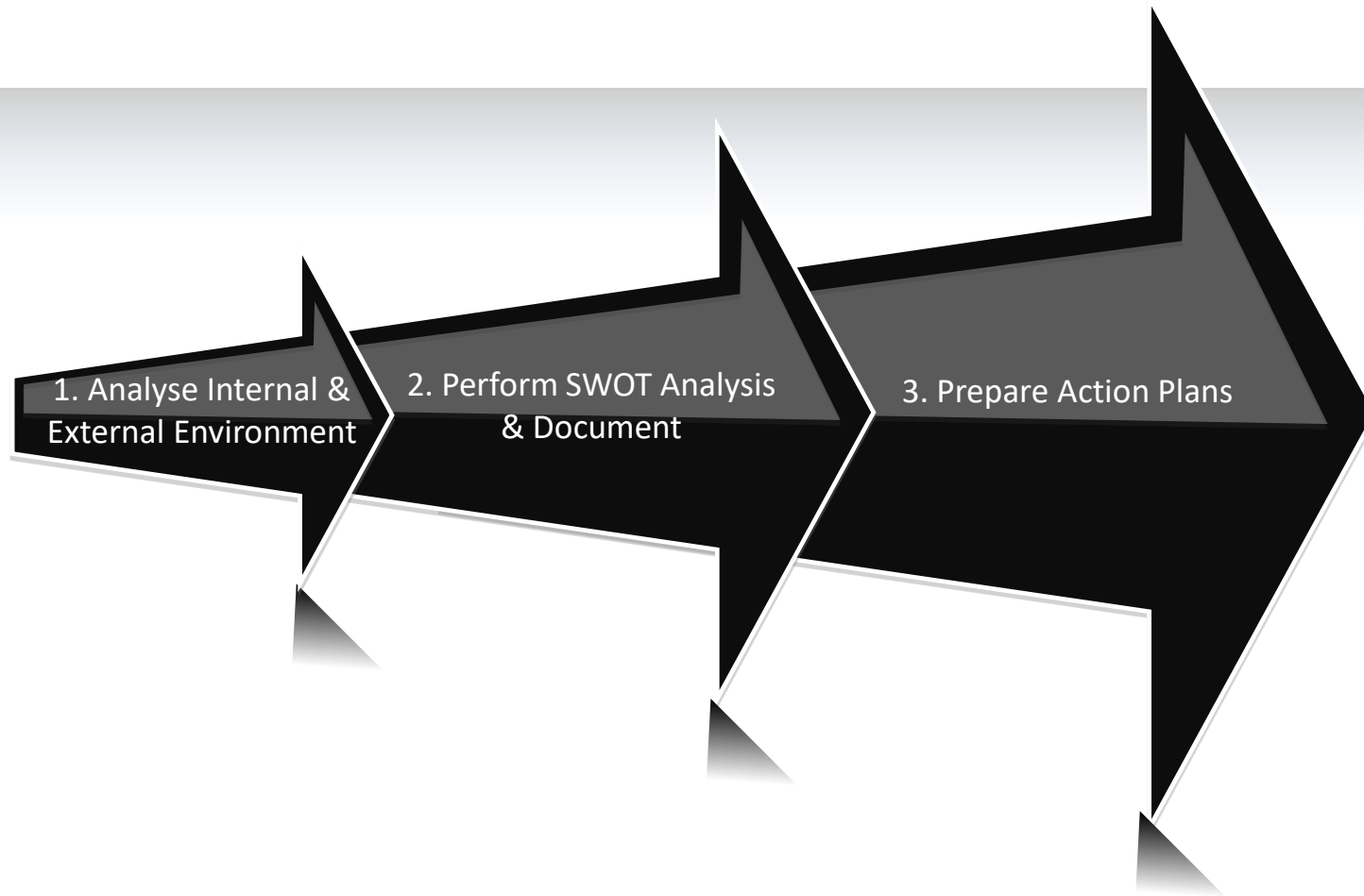


# How to conduct SWOT Analysis?

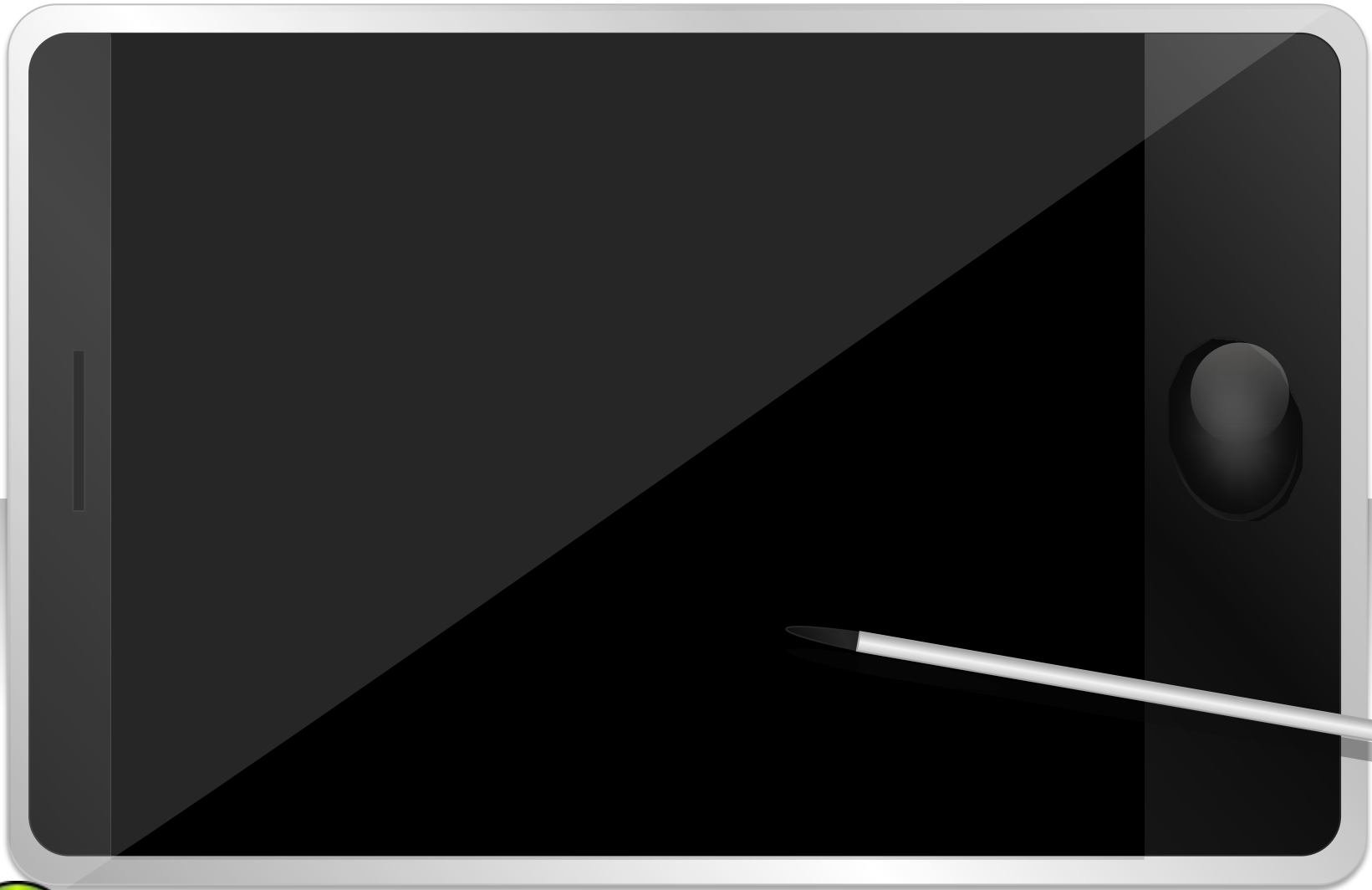
## 2. Perform SWOT Analysis & Document



# How to conduct SWOT Analysis?



# Take Notes!



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# How to conduct SWOT Analysis?

## 3. Prepare Action Plan

Once the SWOT analysis has been completed, mark each point with:



Things that MUST be addressed immediately



Things that can be handled now



Things that should be researched further



Things that should be planned for the future



# SWOT Analysis

## Learning Objectives

What is SWOT Analysis

Aim of SWOT Analysis

Who needs SWOT Analysis?

How to conduct SWOT Analysis?

Benefits & Pitfalls of SWOT Analysis



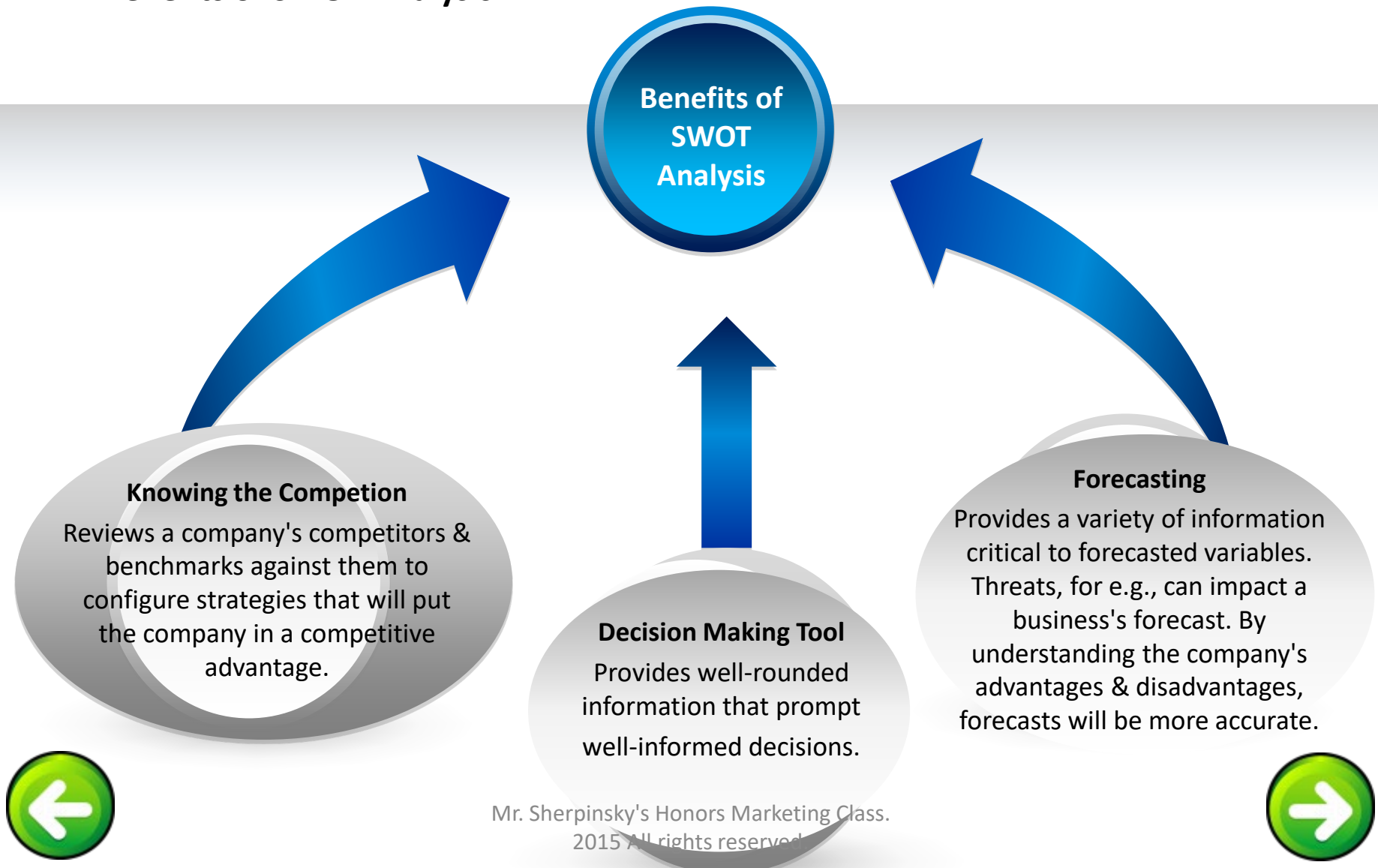
Brainstorming & Prioritization in SWOT Analysis

Tips & Exercise



# Benefits & Pitfalls of SWOT Analysis

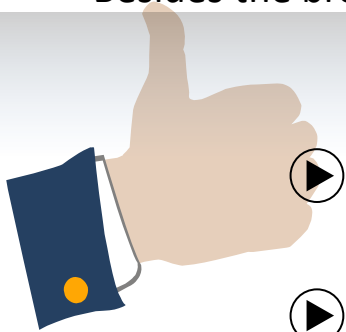
## Benefits of SWOT Analysis



# Benefits & Pitfalls of SWOT Analysis

## Benefits of SWOT Analysis

Besides the broad benefits, here are few more benefits of conducting SWOT Analysis:



Helps in setting of objectives for strategic planning

Provides a framework for identifying & analyzing strengths, weaknesses, opportunities & threats

Provides an impetus to analyze a situation & develop suitable strategies and tactics

Basis for assessing core capabilities & competencies

Evidence for, and cultural key to, change

Provides a stimulus to participation in a group experience





# Benefits & Pitfalls of SWOT Analysis

## Pitfalls of SWOT Analysis



Can be very subjective. Two people rarely come up with the same final version of a SWOT. Use it as a guide and not as a prescription.



May cause organizations to view circumstances as very simple due to which certain key strategic contact may be overlooked.



Categorizing aspects as strengths, weaknesses, opportunities & threats might be very subjective as there is great degree of uncertainty in market.



To be effective, SWOT needs to be conducted regularly. The pace of change makes it difficult to anticipate developments.



The data used in the analysis may be based on assumptions that subsequently prove to be unfounded [good and bad].



It lacks detailed structure, so key elements may get missed.



# Brainstorming & Prioritization in SWOT Analysis

## Brainstorming → Prioritization

Output from Brainstorming exercise is Prioritized

Begin brainstorming by asking the following questions:

- What opportunities exist in our external environment?
- What threats to the institution exist in our external environment?
- What are the strengths of our institution?
- What are the weaknesses of our institution?

At the end of the Brainstorming exercise:

- Reduce the list of strengths & weaknesses to no more than five distinctive competencies and debilitating weaknesses
  - Strengths that are distinctive competencies
  - Weaknesses that are debilitating
- Reduce threats and opportunities to the five most critically important of each.



# SWOT Analysis

## Learning Objectives

What is SWOT Analysis?

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Who needs SWOT Analysis?

How to conduct SWOT Analysis?

Benefits & Pitfalls of SWOT Analysis

Brainstorming & Prioritization in SWOT Analysis

Tips & Exercise



# Tips & Exercise

## EXAMPLE

### Mc Donald's SWOT Analysis

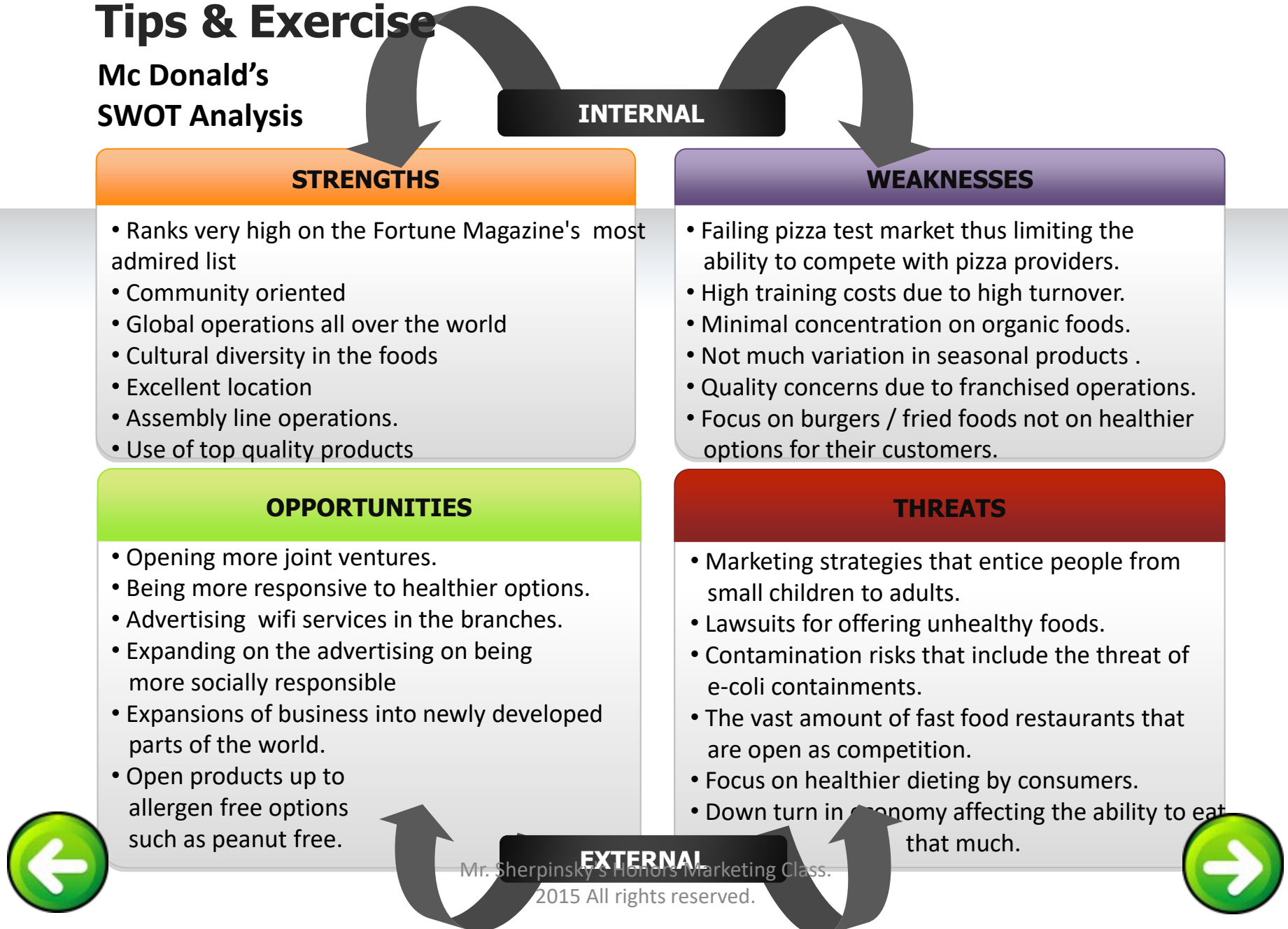


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# Tips & Exercise

## Mc Donald's SWOT Analysis





# Differences between ethics and CSR

Business Ethics	CSR
The whole encompassing behaviour of businesses	CSR as an element business ethics
Business Ethics is the VERY broad field of study concerning good ethical decision-making in commercial contexts.	CSR is more narrowly about a company's SOCIAL obligations...that is, a company's obligations to society in general.
Business Ethics is concerned with not just social obligations, but also obligations to employees, customers, suppliers and competitors.	CSR is about the extent to which companies owe something to "society at large" (i.e., those who do not have a direct involvement with the business).
Business ethics is more about "good" or "bad" conduct according to moral standards	CSR : integrating economic, social and environmental targets in one strategy...

Terms are difficult to define and these inconsistencies mean debate on the differences

Aspect	CSR	Corporate governance
Primary focus	Various groups of stakeholders	Shareholder interest
Problems to be solved	Conflict between business and society and between business and environment	Principal-agent conflict Principal- principal conflict
Main task	Incorporation of stakeholder interest to companies operation, transparency	Investor protection, value creation, transparency
Dominant performance dimension	Social and environmental	Financial
Formalization	Low (recommendations, guidelines, green papers)	High (reporting standards, guidelines, hard and soft law, fiduciary duty)
Shortcomings	Lack of regulation, weak accountability to stakeholders (no fiduciary duty)	Short term orientation, risk of abuse Guidelines and regulations do not solve the fundamental problems

Source: (Aluchna, Roszkowska-Menkes 2015, p. 41)