

External environment , business strategy

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External Environment and Strategic Analysis 0 Importance of External

Environment The external environment comprises of numerous factors that are beyond the control of a particular organization. However these aspects of business environment have a monumental impact on the functioning of a business and therefore their consideration is an important part of strategic analysis.

The external environment can be divided into two categories; the general environment and the competitive environment. Under the general environment, the strategist must analyze the political, economic, social, technological, environmental and legal (PESTEL) aspects that impact business strategy. Under the competitive environment, also referred to as the task or industry environment, the strategist takes into consideration the decisions, actions and moves initiated by rival firms in the same industry. The Michael Porter's Five Forces Framework is another important tool that can be used to analyze the external environment and gauge the attractiveness of a given industry.

The PESTEL analysis and five forces model would delineate the opportunities that an organization can tap. At the same time, various threats that the organization should be vary of would also be uncovered with the help of this analysis. These threats and opportunities are kept in mind and correlated with internal strengths and weaknesses while deciding various strategic issues including which businesses should the company invest money in. The objectives are also set keeping in mind the opportunities available to the organization.

2. 0 Steps to Carry Out External Environmental Analysis

The external environmental analysis can be carried out with the help of <https://assignbuster.com/external-environment-business-strategy/>

PESTEL framework and Five Forces Framework.

2. 1 PESTEL Analysis

Under the political factors, the strategist has to take into consideration the political stability, ideology of the ruling government as well as its attitude towards various businesses. The economic factors include interest rates, income levels, unemployment rates, and rate of inflation prevailing in the country. In general, recessionary conditions can have an adverse impact on companies. Rising affluence of people may prove to be a boon to companies especially to those operating in the entertainment and leisure sector.

The social factors include the opinions, beliefs, values and attitudes of the people. Number of women in the workforce, concern for health and fitness are also socio-cultural aspects, the increase in which can provide a boost to certain industries. Technological aspects too impact businesses. A company operating in the cell phone or computer manufacturing industry may confront a short product life cycle. In order to sustain in such an environment such company will have to constantly invest in research and development and manufacture state-of-the-art technologically advanced products.

The issue of global warming has necessitated that all companies adopt 'green' measures. This may be in the form of product or process improvements. Thus the environmental aspects too impact business strategy. Finally, companies have to adhere to the law of the land and abide by all laws, rules and regulations as stipulated from time to time.

2. 2 Michael Porter's Five Forces Framework

The Michael Porter's Five Forces Framework is the most common analytical tool used to examine the external environment. Each of the five forces, namely the threat of new entrants, bargaining power of buyers, bargaining <https://assignbuster.com/external-environment-business-strategy/>

power of suppliers, threat of substitutes and intensity of rivalry amongst existing firms impact the organizations ability to compete in a given market. This step by step approach reveals the magnitude of environmental uncertainty and intricacy in the industry which the management must consider while formulating strategy.

References

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