

# Understanding the strategic position of the organization



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## **Introduction**

Johnson and scholar (1999, pg 17) stated that " strategic analysis is concerned with understanding the strategic position of the organization in terms of its external environment, internal resources and the expectations.

### **4. 1 Business Environment:**

Kotler, (2003) mention that " Environment of a business means the external forces influencing the business decisions. They can be forces of economic, social, political and technological factors. These factors are outside the control of the business. The business can do little to change them".

Business is an activity that involves to gain profit. Business environment also keep stake holder satisfaction and the internal and external situation of the company which influence by the different internal and external factors such as (PEST) and Internal factors such as policy rule and procedure, capital, stakeholder, customers and supplier(internal factor).

Rahul, (2006: 2007) stated that " business environment means the combination of those factors which affects business and over which, at least for a short period of time business has no control". He again mentions that " these factors chiefly include customer's supplies, government policy, political set up constitutional rules, and these factors are beyond the control of business".

### **Environmental Analysis:**

Kotler, (2003) stated in his research " environmental uncertainty increases the more that environmental conditions are dynamic or the more they are

complex". The approach to making sense of this may differ both by the extent to which the environment is stable or dynamic, and also by the extent to which it is simple or complex. The aim of strategic analysis is, then, to form a view of the key influences on present and future well being of the organization, and what opportunities are afforded by the environment and the competences of the organization. Second, difficulty is uncertainty because of faster technological change and speed of global communication. Third, it must be realized that managers are no different from other individuals in the way they cope with complexity.

The business environment control by two factors external (Macro) and Internal (micro).

### **Macro Environment :( External)**

Macro environment is wider and outside of the company like Political, Economical, social and technological, (PEST). Macro environment can explain with the help of pest analysis and it help as to look opportunities and threats. T. R (2009-10) stated that " external factors which affect the success of a business like Political, Economical, Social, Technological and international environment are beyond the control of a business firm". It cannot be controlled.

### **Micro Environment :( Internal)**

Kotler, (2003) defines that Micro environment is " Groups that have a more direct effect on the organizations ability to reach its goal and objectives: customers, competitors, channel members pertness, suppliers, and employer".

Micro environment is also called an operating environment. Because this is the first stage to start business. Internal environment evaluate how to run business and which strategy can get profit. Micro environment include weakness and strength. Internal factors which affect the success of a business like customers, stake holder, distribution, government, and supplier. It can be controlled.

## **5. 2 PEST Analysis:**

" PEST analysis involves identify the political, economic, social and technological influence on an organization" Johnson and Scholes (1999).

They also mentioned that pest analysis may also help examine the differential impact of external influence on organization, either historically of key drives, and asks to what extent such influence will affect different organization or industries differently. As for example; an organization which is already established on their business, wants to open its business to other country A. country A has a good economic condition but politically not stable. In this situation business cannot run smoothly. Organization cannot get success on the business. Therefore, organization must use PEST analysis to identify opportunities and threats.

Pest analysis is an essential for an organization to identify external factors which influence external environment of an organization before establishing the business or expanding the business. It is useful when a company decides to open new business or extend its business new to new country and new market. The use of pest in this case, helps to break free of unconscious assumptions, and helps to effectively adapt to the realities of the new

environment. Kotler (1998) claim that " PEST analysis is a useful strategic <https://assignbuster.com/understanding-the-strategic-position-of-the-organization/>

tool for understanding market growth or decline, business position, potential and direction for operations".

PEST stand for ;

## **P-Political factors (legal and regulatory)**

## **E-economic factors**

## **S-social factors**

## **T-Technological**

### **Economic factors:**

David F R (2003) defined that " economic factors have a direct impact on the potential attractiveness of various strategies. For example; when interest rates rise, funds needed for capital expansions become more costly unavailable. Also, when interest rates rise, discretionary income declines and demand for discretionary good falls".

The economic climate can greatly affect a business. In a recession the general level of demand falls which will limit the ability of the firm to sell its goods at their full price. Economic growth trends taxation, government spending levels, disposable income, job growth/unemployment, exchange rates, tariffs, inflation, consumer confidence index, import/export ratios and production levels. These factors can effect on all business nationally or globally. These factors also effect on consumer's behavior. As for example; when value of pound is low means increase the export and decrease the import. If value of pound is low, foreigners will able to visit United Kingdom and tourism-oriented organization will get benefit as well.

**S-social factors:**

David F R (2003) mentioned that " Social, culture, demography, and environmental changes have a major impact upon virtually all products, service, markets, and customers. Small, large, for-profit and non-profit organization in all industries are being staggered and challenged by the opportunities and threats arising from change in social , culture, demography, environment variables".

Social factor include demographics and culture aspect in external factors of the macro environment. Demographics factors means age, gender, race, family size, lifestyle changes, population shifts, education, diversity, immigration/emigration, health, living standards, housing trends, fashion, attitudes to work, leisure activities, occupations and earning capacity. Being a human, nobody can live without society. So, the social life style, living standards, social values and status also affects the customers buying behavior.

**6. Business Strategy:**

Johnson and Scholes (1999) stated that " Strategy is the direction and scope of an organization over the long term: which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder expectations". Strategy is the long term plan that provides direction to organization. Every organization have aim to achieve goal and objective to establish their businesses but their strategy is different with each other.

Strategy is depending on type of business. Some businesses have strong

strategy some have not strong. As for example; strategy of the small chicken  
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and chips shop and KFC Company has different strategy. KFC is the big company that's why it has strong strategy. KFC want maintain standard quality of food expand its business in to worldwide but Small chicken and chips want to fulfill customers hunger, provide faster service, less price and making profit from daily business.

## **6. 1 Sainsbury's supermarket:**

According to assignment I have taken Sainsbury's Supermarket as a model of my research. Sainsbury plc is a leading UK food retailer which interests in financial service . it consists of Sainsbury's supermarket, Sainsbury's local, bells stores and JB Beaumont, Sainsbury's online and Sainsbury's bank. Sainsbury's Plc aims to fulfill responsibilities to the communities and environments in which they operate a point which is discussed within a PESTEL analysis.

### **6. 1. 1 Economic factors:**

The rapidly increasing global food crisis has increased food prices all over the world which will result in rising purchasing cost s for Sainsbury's. This will have an impact on the margins of the organization and might lead to passing over the cost to consumers by increasing prices of most things in the supermarket.

Even credit crunch might decrease the purchasing power of consumers may not effected and and they will still buy the basics thing but they may be more aware with prices of good. They may also spend less on luxury items, something that has greater profit margins for Sainsbury's.

When people have good income then they need more facilities. People can full fill their demand. The most basic tax change to help people on low incomes is to increase personal tax allowance, but even such a change has wider.

Economic factors will influence the future potential profit of a business. Consumer demand is variable and if they have less disposal income they could chose to spend less of their income at Sainsbury's. " Final profits are taxed therefore if the government raised these it would have an adverse affect upon Sainsbury's". (www. studyzones. com, Jan 21, 2003)

## **6. 1. 2 Social Factors:**

Kotler (2000) stead that " society shapes our belief, values, and norms. People absorb, almost unconsciously, a worldwide that defines their relationship to themselves, to others, to organizations, to society, to nature, and the universe"

Now a day, there seems to be more emphasis on fresh, easy style cooking. This serves an opportunity for Sainsbury's to encourage new recipes and unfussy eating.

There has been a huge emphasis by the government to promote healthy eating, primarily due to the increasing level of obesity within the UK. This has lead to many consumers to shift towards healthier food. This presents an opportunity to Sainsbury's to stock up with more healthy food of create healthier food at a cheaper price than other manufactures so as to benefit from this new trend.



**Conclusion:**

Economic factors impact the success of a business. When organization suffers from credit crunch then their vision of the future may also change. Like life style, day to day running business, operations, way what they doing recent. Since last two years, UK has been suffering from credit crunch, many businesses have closed and many people are jobless. When economic standard rises business can be rise because people can have more purchasing power and they sale more.

Social culture and environment factors the shaping the way of people life consumes, produce and work. If the population of children increases, demand of education industries will be increasing. On the contrast, in the same place after 60 years, population of elder people increases in proportion to 60 years back, the demand of elderly care home will be higher.

Organization need to open new care home and produce product for elder people.

Technology is an essential to make life easier. People prefer new technology and they use this in their organization. As for example; bank ATM machine, credit card. As a human, nobody can live without society. So, the social life style, living standards, social values and status also affects the customers buying behavior as well as doing business each other.

A business can be influenced by political, economic, social and technological factors. These are external factors over which a firm has no control. The business must, however, recognize these changes and adapt accordingly.

The economic climate can greatly affect a business. In a recession the

general level of demand falls which will limit the ability of the firm to sell its goods at their full price. Therefore, it is an essential that organization should use strategic analytical tools to determine internal and external environment before draw the firm's plan as well as to determine opportunities and threats constantly to improve firm's performance in the competitive market.

Thus, therefore organization needs to adopt change according to change of environment of business as well as needs and expectation of customers for better future of the organization.