Business Policy Process: 4 Important Business Policy Processes

Four most Important business policy process are: 1. Environmental Scanning 2. Policy Formulation 3. Policy Implementation 4. Evaluation and Control.

1. Environmental Scanning:

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors those external and internal elements that will determine the future of the corporation.

The simplest way to conduct environmental scanning is through SWOT analysis. SWOT is an acronym used to describe those particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company.

The external environment consists of variables (Opportunities and Threats) that are outside the organization and not typically within the short-run control of top management. These variables form the context with which the corporation exists.

The internal environment of a corporation consists of variables (Strengths and Weaknesses) that are with the organization itself and are not usually within the short-run. Control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources. Key strengths form a set of core competencies that the corporation can use to gain competitive advantage.

2. Policy Formulation:

Policy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines.

a. Mission:

An organization's mission is the purpose or reason for the organization's existence. It tells what the company is providing to society, either a service like house cleaning or a product like automobiles. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from the other firms of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served.

It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but also what it wants to become management's strategic vision of the firm's future. (Some people like to consider vision and mission as two different concepts.

A mission statement describes what the organization is now; a vision statement describes what the organizations would like to become. We prefer to combine these ideas into a single mission statement).

The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company's task environment. It tells who we are and what we do as well as what we'd like to become.

One example of a mission statement is that of TTK Groups:

To improve the quality of home life by designing building, marketing and servicing the best appliances in the world.
A mission may be defined narrowly or broadly in scope. An example of a broad mission statement is that used by many corporations. Serve the best interests of shareowners, customers, and employees.

A broadly defined mission statement such as this keeps the company from restricting itself to one field or product line, but it fails to clearly identify either what it makes or which product/markets it plans to emphasize. Because this broad statement is so general, a narrow mission statement, such as the receding one by TTK appliances is more useful.

A narrow mission very clearly states the organization's primary business, but it may limit the scope of the firm's activities in terms of product or service offered, the technology used, and the market served. Instead of just stating it is a "railroad," a company might be better calling itself a "transportation company."

b. Objectives:

Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfilment of a corporation's mission. In effect, this is what society gives back to the corporation when the corporation does a good job of fulfilling its mission.

Robert, Chairman of Deere & Company, the world's largest maker of farm equipment, uses the phrase "double and double again" to express ambitious objectives for the company. "It gives us a sense that we're on the move," explained Robert.

For example, the Deere's current objectives are to double the market value (number of shares multiplied by stock price) of the company (8 crores in 2000) to 16 crores and then to double it again to 32 crores over 10 years.

Similarity the sales objective is to have sales (13 crores in 2000) double and double again over the next 10 years.

The term ‘goal’ is often used interchangeably with the term ‘objective’. In this paragraph, we prefer to differentiate the two terms. In contrast to an objective, we consider a goal statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion.

For example, a simple statement of “increased profitability” is thus a goal, not an objective, because it does not state how much profit the firm wants to make the next year. An objective would say something like, “increase profits 10% over last year.”

Some of the areas in which a corporation might establish its goals and objectives are:

1. Profitability (net profits)

2. Efficiency (low costs, etc.)

3. Growth (increase in total assets, sales, etc.)

4. Shareholder wealth (dividends plus stock price appreciation)

5. Utilization of resources (return on investment or equity)

6. Reputation (being considered a ‘top’ firm)

7. Contributions to employees (employment security, wages, diversity)

8. Contributions to society (taxes paid, participation in charities, providing a needed product or service)

9. Market leadership (market share)

10. Technological leadership (innovations, creativity)

11. Survival (avoiding bankruptcy)

12. Personal needs of top management (using the firm for personal purposes, such as providing jobs for relatives).

c. Strategies:

A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage. For example, after Rockwell International Corporation realized that it could no longer achieve its objectives by continuing with its strategy of diversification into multiple lines of businesses, it sold its aerospace and defence units to Boeing. Rockwell instead chose to concentrate o commercial electronics; an area that management felt had greater opportunities for growth.

The typical business firm usually considers 3 types of strategy:

Corporate, Business and Functional.

1. **Corporate Strategy** describes a company's overall direction in terms of its general attitude towards growth and the management of its various businesses and product lines. Corporate strategies typically fit within the 3 main categories of stability, growth strategy by acquiring other appliance companies in order to have a full line of major home appliances.

2. **Business Strategy** usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a corporation's products or services in the specific industry or market segment served by that business units.

Business strategies may fit within the two overall categories of competitive or cooperative strategies. For example, Apple Computer uses a differentiation competitive strategy that emphasizes innovative products with creative design.

The distinctive design and colours of its iMac line of personal computers (when contrasted with the usual beige of the competitor's products) has successfully boosted the company's market share and profits. In contrast British Airways followed a cooperative strategy by forming an alliance with American Airlines in order to provide global service.

3. **Functional Strategy** is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

Examples of R&D functional strategies are technological follower ship (imitate the products of other companies) and technological leadership (pioneer an innovation). For years, Magic Chef had been a successful appliance maker by spending little on R&D but by quickly imitating the innovations of other competitors.

This helped the company to keep its costs lower than its competitors and consequently to compete with lower prices. In terms of marketing functional strategies. Procter & Gamble is masters of marketing "pull" the process of spending huge amounts on advertising in order to create customer demand. This supports P&G's competitive strategy of differentiating its products from its competitors.

Business firms use all 3 types of strategy simultaneously. A hierarchy of strategy is the grouping of strategy types by level in the organization. This hierarchy of strategy is a nesting of one strategy within another so that they complement and support one another. Functional strategies support business strategies, which, in turn, support the corporate strategies.

Just as many firms often have no formally stated objectives, many firms have unstated, incremental or intuitive strategies that have never been articulated or analyzed. Often the only way to sot a corporation's implicit strategies are to look not at what management says, but at what it does.

Implicit strategies can be derived from corporate policies; programs approved (and disapproved), and authorized budgets. Programs and divisions favored by budget increases and staffed by managers who are considered to be on the fast promotion track reveal where the corporation is putting its money and its energy.

d. Policies:

A policy is a broad guideline for decision-making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives and strategies.

For example, consider the following company policies:

Intel:

Cannibalize our product line (undercut the sales of your current products) with better products before a competitor does it to you. (This supports Intel's objective of market leadership.)

General Electric:

GE must be number 1 or 2 wherever it competes. (This supports GE's objective to be number 1 in market capitalization.)

3M:

Researchers should spend 15% of their time working on something other than their primary project. (This supports 3M's strong product development strategy.)

Policies like these provide clear guidance to managers throughout the organization.

3. Policy Implementation:

Policy implementation is the process by which strategies and policies are put into action through the development of programs, budgets, and procedures. This process might involve changes within the overall culture, structure, and /or management system of the entire organization.

Except when such drastic corporate-wide changes are needed, however, the implementation of strategy is typically conducted by middle and lower level managers with review by top management. Sometimes referred to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation.

a. Programs:

A program is a statement of the activities or steps needed to accomplish a single-use plan. It makes the strategy action oriented. It may involve restructuring the corporation, changing the company's internal culture, or beginning a new research effort. For example, consider Intel Corporation, the microprocessor manufacturer.

Realizing that Intel world not be able to continue its corporate growth strategy without the continuous development of new generations of microprocessors, management decided to implement a series of programs:

i. They formed an alliance with Hewlett-Packard to develop the successor to the Pentium Prochip.

ii. They assembled an elite team of engineers and scientists to do long-term, original research into computer chip design.

Another example is FedEx Corporation's program to install a sophisticated information system to enable its customers to track their shipments at any point in time. FedEx thus installed computer terminals at 100,000 customers and gave proprietary software to another 650,000 so shippers could label much of their own packages.

b. Budgets:

A budget is a statement of a corporation's programs in terms of money. Used in planning and control, a budget lists the detailed cost of each program. Many corporations demand a certain percentage return on investment, often called a''hurdle rate," before management will approve a new program.

This ensures that the new program will significantly add to the corporation's profit performance and thus build shareholder value. The budget thus not only serves as a detailed plan of the new strategy in action, but also specifies through pro forma financial statements the expected impact on the firm's financial future.

c. Procedures:

Procedures, sometimes termed Standard Operating Procedures (SOP), are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete the corporation's programs.

For example, Delta Airlines used various procedures to cut costs. To reduce the number of employees, Delta asked technical experts in hydraulics, metalworking, avionics, and other trades to design cross-functional works teams.

To cut marketing expenses, Delta instituted a cap on travel agent commissions and emphasized sales to bigger accounts. Delta also changed its purchasing and food service procedures.

4. Evaluation and Control:

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems.

Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

Performance is the end result of activities. It includes the actual outcomes of the strategic management process. The practice of strategic management is justified in terms of its ability to improve an organization s performance, typically measured in terms of profits and return on investment.

For evaluation and Control to be effective, managers must obtain clear, prompt and unbiased information from the people be low them in the corporation's hierarchy. Using this information, managers compare what is actually happening with what was originally planned in the formulation stage.

The evaluation and control of performance completes the strategic management model. Based on performance results, management may need to make adjustments in its strategy formulation, in implementation, or in both

Steps involved in policy formulation

1. Environmental Analysis

2. Identification of Policy Alternatives

3. Evaluation of Policy Alternatives

4. Choice of Policy

1. Environmental Analysis: There are basically two environmental factors: internal and external. The two together provide for identification of problem areas with respect to which the policies could be made

2. Identification of Policy Alternatives: The environmental analysis helps to determine the opportunities and threats facing the company and also its strengths and weakness. When the organization is engaged in the matching of its strengths with the opportunities, various policy options emerge

3. Evaluation of Policy Alternatives: The evaluation of policies is known as policy audit. The alternatives can be evaluated on the basis of their consequences in terms of their contribution to corporate goals. Several criteria could be used for evaluation like growth, unit, profitability, development, organizational goals, etc.

4. Choice of Policy: The evaluation helps in the selection of the best possible policy. If any of the alternatives are not acceptable and not consistent with company's objectives, then the process reverts back to the identification of alternatives where fresh alternatives are looked for. The search begins again. After the policy has been made, it becomes necessary to review it from time to time so that it does not become obsolete.

TYPE OF POLICIES:

Basically there are three main types of policies

1. Basic Policies: These are framed by the top management and spell out the basic approach of a company to its activities and its environment.

2.General Policies: These are framed by the middle level management and are more specific. They apply to large segments of the organization.

3.Specific Policies: These are framed by the foremen and supervisors and are very specific in nature. They are applicable to routine activities.

Every enterprise has a number of policies. Some of the types are discussed as follows:

1. Major Policies:

Major policies are those which give a unified direction to an enterprise and imply a commitment of resources. These policies give shape to an enterprise in the accomplishment of its purpose. They should also be supportive to the organisational objectives.

2. Supportive Policies:

Besides major policies, there is a need to have supportive policies also. Supportive policies are meant to help in implementation of major policies. A concern may have the development of a new product as a major policy, the research to find out the unfulfilled needs of consumers may be a supportive policy.

3. Minor Policies:

The policies which do not influence main objectives of the enterprise may be called minor policies. These policies may relate to some routine matters of less importance. A policy may be to hire casual workers in case of emergencies. A manager may allow workers to go on leave if the workload is less. The policies relating to such matters may be called minor policies. These policies do give directions but are not of much significance.

4. Composite Policies:

Some concerns have a number of policies or group of policies. To increase sales, a concern may follow expansion, taking up of similar products, following aggressive marketing etc. To achieve one objective a number of policies may be used, these are composite policies.

<u>Process of Policy Formulation:</u>

Policy formulation is an important aspect of planning. The smooth working of an organization requires the formulation of policies. A well thought exercise is essential to formulate sound policies.

Following process should be followed for formulating a policy:

1. Defining Policy Area:

The area for which a policy is to be framed should be defined. The objectives and needs of the organization should be kept in mind while specifying the policy area. While framing a marketing policy, the marketing expectations and thrust areas should be kept in mind. The scope of the policy will depend upon the area which it is supposed to cover. So first thing in policy framing is to decide the area which it will cover.

2. Identifying Policy Alternatives:

The second step in policy formulation is the identification of policy alternatives. The alternatives should be decided on the basis of an analysis of external and internal environment. The internal environment will tell about the strengths and weaknesses of the organization while external environment will reveal opportunities and level of competition. Every alternative must ensure that the objective of the policy will be achieved.

3. Evaluating Alternatives:

All the alternatives are evolved in the light of organizational objectives. It should be analysed as to what contribution these alternatives will make in helping the organization for achieving its objectives. The factors like cost, benefits, resource requirement of each alternative should be properly assessed. The effect of various alternatives on the environment of the organization should also be analysed.

4. Selection of a Policy:

After proper evaluation, most appropriate alternative is selected. The selection of a policy is a long term commitment. In case the alternatives do not look satisfactory then efforts should be made to develop other alternatives.

5. Trial Run of a Policy:

The policy should be implemented on a trial basis. It should be assessed if the policy is achieving the desired objectives. There may be suggestions during the test run, these should be used to modify the policy. Ultimately the policy should achieve the desired results otherwise a new policy alternative should be thought of.

6. Implementing Policy:

If the policy is finally alright it should be implemented. The policy should be explained to those who are to implement it. There should be a proper discussion about the implications and impact of various clauses or provisions of the policy. Proper communication of the purpose and objective of the policy will help it in its implementation.

Purpose of Policies:

Policies are regarded as important for realizing the objectives of the organization. They also ensure co-ordination of efforts and activities in the enterprise.

The policies are formulated for the following purposes:

1. The main purpose of policies is to ensure that there is no deviation from the planned course of action. The framework is set within which everybody is expected to work. Policies ensure that the broad guides for action are adhered to.

2. Since policies chalk out a framework for each and every person, it ensures proper delegation of authority also. A manager knows the extent of authority required by a subordinate to undertake the work allotted to him. Policies serve the purpose of delegating adequate authority downwards.

3. Policies allow the scope for interpretation. The main aspects are given in a policy but the actual mode of implementation is decided by the concerned person.

4. Policies are helpful for future planning also. The impact and influence of policies help in thinking about the future.

5. Policies also ensure consistency of action. The guidelines are similar for everybody and actions must conform to the broad outlines.

Points to be Considered in Policy Formulation:

While framing policies, following aspects should be taken into consideration:

1. Organizational Goals:

The policies are formed to achieve organizational goals. The goals are the targets which are to be achieved and policies devise ways of reaching them. Policies should assist by basing them on relevant facts and figures and not on mere guess work.

2. Proper Participation:

Policies should be framed by the participation of persons at various levels of management. If policies are framed at top level without knowing the views of those for whom these are meant then there is likelihood that policies may not achieve the desired results. To ensure successful implementation of policies, there is a need for joint participation at the time of formulating them.

3. Reflect Business Environment:

The policies should be based on the internal and external environment. The situation prevailing inside and outside will provide a realistic base for policies. The policies should have the flexibility for adjustment if there is a change in business environment. Any type of rigidity followed in policies will defeat their purpose.

4. Consistency:

Various policies of an enterprise should conform to each other. There should be no inconsistency among various policies. If there is inconsistency among policies then these will not be implemented. It must be ensured that policies are related to enterprise objectives and do not give conflicting guidelines.

5. Proper Communication:

The policies should be properly communicated to each level of management. If the policies are not properly known by those who are to implement them then there will be no use of such policies. Sometimes policies may not be well understood, there may be some doubt in the minds of persons, it will be the duty of management to clarify them and provide proper clarification.

6. In Writing:

The policies should always be in writing. This will ensure their proper and correct implementation. If the policies are not in writing, then a dispute may arise about their contents and purpose. The language of policies should also be simple so that it is well understood by concerned persons.

Factors Influencing Policies:

Policies are framed to help in smoothening the operations of a business. They are influenced both by internal and external factors.

1. Objectives and Strategies of the Organization:

All policies are framed to facilitate the achievement of objectives. The objectives and strategies fix the parameters within which the policies will operate. The policies should be consistent with the organizational goals and strategies.

2. Organisational Structure:

Organisational structure determines the levels of positions and fixes authority and responsibility of employees. The implementation of policies will be influenced by the type of organisation structure. A policy will be consistent with the positions and authority roles in the organisation. Policy determination will certainly be influenced by the organisational structures.

3. Available Resources:

The availability of resources such as human, financial, physical facilities will influence the formulation of a policy. If a policy implementation requires more resources than are available in the organisation then it will not be feasible. Rather the resources will fix the limits beyond which a policy cannot go.

4. Managerial Values:

Managers are the persons who are the prime movers of policies. The ethics and value systems of managers have a direct influence on the formation and implementation of policies. For example, if managers believe in honesty and truthfulness then these things will be reflected in various policies framed by them.

5. Social Factors:

A number of social factors also have an influence on the policies of the organisation. If society wants only quality products, does not tolerate exploitation of consumers, gives importance to pollution control, all these factors will have to be taken into account while framing policies for the organisation.

6. Political Factors:

Political factors have a great influence on the policies of an organisation. The framework of business is determined by the party in power. The thinking of a political party will certainly be reflected in the industrial, fiscal and monetary policies of the government. Every enterprise has to incorporate government policies into their policies. So political factors have a direct bearing on organisational policies.

Limitation of Policies:

Policies are the guidelines which may help the managers in their day-to-day working. Policies do not provide ready-made answers to every problem.

They suffer from the following limitations:

1. No Universal Solutions:

Policies do not offer universal solutions to all problems. Policies are framed under particular situations and remain suitable under those circumstances only. The fast changing economic, social and political situations influence the working of an enterprise. New policies are required under changed situations. This problem can be met by constantly evaluating policies. Policies may be modified as per the requirements of new situations.

2. No Instant Solutions:

Policies do not provide instant solutions to problems. These are only guidelines for the decision-makers. The solutions are to be found by the executives themselves. Policies cannot replace human judgment under any circumstances.

3. Dampen Human Initiation:

Too many policies kill the initiative of managers. They become habituated to act according to policies and do not try to their judgment. Policies also leave little room for individual initiative.

4. No Substitute for Human Judgment:

Policies do not provide standard solution to various problems. They are only guidelines which help managers in taking decisions. Managers have to judge the things according to the prevailing environment. Human judgment cannot be substituted by framing policies meticulously.

CHAPTER 1

INTRODUCTION TO BUSINESS POLICY AND STRATEGY

CHAPTER OUTLINE
1.1 Introduction *1.2 Meaning of Business Policy* *1.3 Definitions of Business Policy* *1.4 Characteristics of Business Policy* *1.5 Meaning of Strategy* *1.6 Definitions of Strategy* *1.7 Features of Strategy* *1.8 Nature and Importance of Business Policy & Strategy* *1.9 Comparison Between Policy and Strategy*

After reading this chapter, students should be able to:

- Understand the concepts of Business Policy and strategy
- Explain the Differences between strategy and Policy
- Describe the features of business policy
- Explain characteristics of strategy

1.1. INTRODUCTION

In recent time, all around the world severe competition has surfaced due to number of factors such as globalization, rapid technological changes, new markets and changing customer expectations which has led to increased competition, thereby forcing the businesses to think strategically and make decisions accordingly. In the present day, the main goal of businesses is developing strategy and methods which present the best service and production in a most productive and effective way. That is possible with having a long-term mission to be able to adapt their business in the fast changing world. So, the necessary strategies need to be identified, formulated and properly implemented in order to succeed.

The dynamic and resource scarce environment, with aware and demanding customers leads to strategic competition and the resultant increasing complications and accelerating changes in the environment made the planned policy paradigm inappropriate because the needs of a business could no longer be served by planned policy formulation.

Therefore, gradually there was a demand for a critical outlook towards the fundamental concept of business and its relationship with rest of the environment. Strategy is important for the long term survival of business firms in this competitive marketplace. The concept of business policy and strategy fulfilled this requirement and hence the understanding of these concepts becomes imperative.

1.2 BUSINESS POLICY: MEANING

Business policies are the guidelines formulated by an organization to govern its actions. They define the limits and the scope within which decisions must be made by the subordinates. It allows the lower level management to deal with the issues and challenges without consulting top level management every time for making decisions.

The term "Business Policy" comprises of two words, Business and Policy. Business as we know means exchange of goods and services for increasing utilities. Policy may be defined as "the mode of thought and the principles underlying the activities of an organization or an institution." Policies are general statements of principles which guide the thinking, decision making and actions in an organization.

Business policy is a set of principles and rules which directs the decisions of the subordinates. Policies are framed by the top level management to serve as a road map for operational decision making. It is helpful in stressing the rules, principles and values of the organization. Policies are designed, by taking opinions and general views of a number of people in the organization regarding any situation. They are made from the past experience and basic understanding. In this way, the people who come under the range of such policies will completely agree upon its implementation.

Policies help the management of an organization to determine what is to be done, in a particular situation. These have to be consistently applied over a long period of time to avoid discrepancies and overlapping.

1.3 DEFINITIONS OF BUSINESS POLICY

R.E.Thomas: *"Business Policy, basically, deals with decisions regarding the future of an ongoing enterprise. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in relation to its environment".*

Henry Mintzberb: *"Policy refers to Goal-directed decisions and actions in which capabilities and resources are matched with the opportunities and threats in the environment."*

"Policy and Strategy are consistent stream of decisions and actions to deal with the environment".

***Christensen, Steiner and others*:** "*The study of the function and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organisation and shape its future."*

1.4 FEATURES/CHARACTERISTICS/ESSENTIALS OF BUSINESS POLICY

An effective business policy should have following elements:

1. **Specific:** Policy should be specific and not generalised. If it is uncertain and generalised, it becomes tricky and difficult for the subordinates to implement it.

2. **Clear:** Policy should be written in clear terms. It should be easily understandable to the readers without being ambiguous. Use of jargons and connotations should be evaded to leave no scope of any misunderstanding in following the policy.

3. **Reliable:** Policy must be consistent enough so that it can be trusted and followed by the subordinates without any doubts and questions in mind regarding its credibility.

Features of Business Policy

Specific

Clear

Reliable

Uniform

Suitable

Simple

Comprehensive

Flexible Stable

Figure 1.1. Features of Effective Business Policy

4. **Uniform**: An effective policy should exhibit uniformity at all levels, amongst all the people, within an organisation.

5. **Suitable:** The business policy should appropriately confirm to the goals and objectives of the organisation. It should reflect the philosophy of the management.

6. **Simple:** A policy should be simple and easily understood by all in the organization to make the implementation easier and avoid any problems later on.

7. **Comprehensive:** Business policy should present a detailed account of all the necessary guidelines and principles to assist the people in decision making within an organisation. The scope should be wide.

8. **Flexible:** Policy should be flexible in operation and application so that if deemed necessary, subsequent changes could be made in it. Although, this does not imply that a policy should be subjected to changes frequently.

9. **Stable:** Policy should be stable and last for a consistently long time. Otherwise, it may lead to indecisiveness and ambiguity in minds of those who would want to follow it while making decisions.

1.5 STRATEGY: MEANING AND CONCEPT

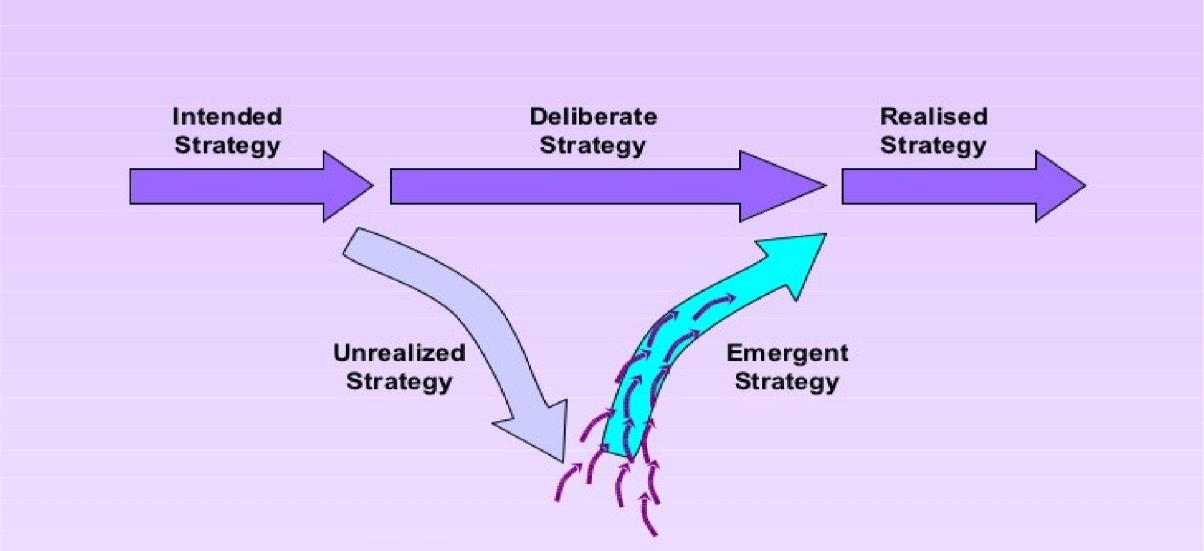
The word "strategy" is derived from the Greek word "strategos"; stratus meaning army and "ago" meaning leading or moving, implying, 'the art of general'. The concept of strategy has been borrowed from the military and adapted for use in business. In the military, strategy often refers to manoeuvring troops into position before the enemy actually gets engaged. In this regard, strategy refers to the deployment of troops. Once the enemy has been engaged, attention shifts to tactics. Here, the employment of troops is fundamental. Substitute "resources" for troops and the transfer of the concept to the business world begins to take form. In business, as in the military, strategy bridges the gap between policy and tactics.
Together, strategy and tactics bridge the gap between ends and means.

The 1950's and 1960's saw the word being applied to business operations by managers and academics who had served in the United States Army Air Force. Strategy is an action that managers take to accomplish the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process"

The strategy is a master game plan designed for achieving the objectives of an organization. It is a mix of competitive moves and actions made by the top level management for the accomplishment of goals successfully. They are dynamic and flexible in nature. Strategies are based on practical experiences, not on theoretical knowledge, i.e. they are realistic and action-oriented activity.

Strategy is the means by which objectives are deliberately and systematically pursued and achieved over time. It is not planning as strategy deals with competitive situation in an uncontrolled environment, whereas, planning deals with situations in a guarded environment. It helps the practitioners to respond thoughtfully and consciously without the need for instinct or presumptions.

To have a better understanding of the concept of strategy, it can be categorized into three distinct types: **Intended, Emergent and Realized Strategy, as propounded by Henry Mintzberg.**



Mintzberg's concept of emergent strategy

An **intended strategy** is concerned with the intentions of the company. It is the strategy that any firm in the market wishes to implement. Hence, intended strategies are frequently described specifically in the organization's business plan. A strategic plan made for a new firm is known as a business plan. This plan is nothing but a draft strategy that intends to keep the firm on track. For the same reason it is called intended strategy.

An **emergent strategy** can be defined as the one that emerges with time. It is not a planned strategy and is formulated by an organization in response to the diverse unforeseen threats, opportunities and challenges. Emergent strategies are dynamic and can result in both success and failure depending on how effectively it is implemented.

A **realized strategy** is pragmatic in nature. It is the strategy that a firm truly follows. Realized strategies are frequently a by-product of an organization's intended strategy, the firm's deliberate strategy and its emergent strategy.

In short, a Strategy is a comprehensive master plan stating how the corporation will achieve its mission and long term objectives. It deals with strategic decisions that decide the long term health of an enterprise. It maximizes competitive advantage and tries to minimize competitive disadvantages.

1.6 DEFINITIONS OF STRATEGY

Moltke: *"Strategy is the practical adaptation of the means placed at a general's disposal to the attainment of the object in view."*
B. H. Liddell Hart: *"Strategy is the art of distributing and applying military means to fulfil the ends of policy."*
Clausewitz: *"Strategy is the art of the employment of battles as a means to gain the objects of war".*
Chandler: *"Strategy is a comprehensive master plan that determinates the long term goals of an enterprise".*
Mintzberg: *"Strategy is a mediating force between the organization and its environment: consistent patterns in streams of organizational decisions to deal with the environment"*
Norman: *"Strategy is the art of creating value"*
Henry Mintzberg *in his 1994 book, The Rise and Fall of Strategic Planning, points out that people use "strategy" in several different ways, the most common being:* *1. Strategy as a plan, a "how," a means of getting from here to there.* *2. Strategy as a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.* *3. Strategy as position; that is, it reflects decisions to offer particular products or services in particular markets.*

4. *Strategy as perspective, that is, vision and direction.*
***Kenneth Andrews**: "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities."*
***Michael Porter:** "Strategy is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there."*
***Kepner Tregoe** says that strategy is "The framework which guides those choices that determine the nature and direction of an organization."*
***William F. Glueck**: "Strategy is a unified, comprehensive and integrated plan design to assure that the basic objectives of the enterprise are achieved."*

1.7 FEATURES OF STRATEGY

Business Strategy has following characteristics:

1. **Involves Choice:** Strategy involves the choices that decide the future, nature and direction of the activities that have to be undertaken by the organization so as to achieve the goals and objectives.

2. **Dynamic:** A strategy can never be static. It may have to be changed or modified as per the changing needs of the business and its environment. It's all about survival til the end.

3. **Top Level Management:** Strategies are formulated by the top-level management of the company. For the implementation of these strategies, the managers at the low level are expected to act.

4. **Strategy relates the firm to its environment:** Strategy relates the firm to its environment predominantly the external environment in all actions whether objective setting, or actions and resources required for its realization. This highlights the systems approach of management and treats an organization as part of the society which subsequently gets affected by it.

5. **Dependent on Internal/External factors:** Strategy as discussed earlier is formulated in a dynamic environment and hence, is the right combination of factors that are both internal and external to the environment. The management will have to consider both when deciding upon any course of action.

6. **Action-oriented:** Strategy is relative combination of different actions. Actions could be to meet a particular situation, to solve a specific problem, or to accomplish a desirable objective. It may take any form because for every situation differs and, therefore, requires a somewhat new or a different approach.

7. **Forward Looking:** Strategy is future oriented. Any strategic action is needed when encountered with a new situation, and so strategy is relevant only to the future. It has no relevance to the past.

8. **Tactical:** Strategy is often confused with tactic by people but there is a difference between the two. Strategies define goals to be achieved whereas tactics define the actions one needs to take in order to achieve those set goals. For example, a strategy would be to double sales in a specific region whereas a tactic would be to hire more salespeople in that region to attain that goal.

Figure 1.2. Features of Strategy

9. **Measurable:** If your goals are indistinct, you won't know if you are achieving them or not. You can't manage what you can't measure. When we set goals, we also have to set ways to measure them to be certain that they are being achieved.

10. **Actionable:** Strategic goals are achievable through tactics. They are not dependent on factors you cannot control. Example, an actionable goal would be to double sales revenue in comparison to increasing the stock price by 30 percent because increasing the stock-price would be dependent on the market.

11. **Clear: Strategy should be formulated din clear and specific terms.** Employees should understand exactly what their organization's strategy is so that is can be achieved successfully. A strategy requires continuous and clear communication. It should guide the decisions and actions of the management.

12. **Unique:** Strategy should be an upshot of innovative and creative thinking. It has to be something new that is never tried before. If the strategy does not include any originality, there

is a high possibility that competitors will be already having comprehensive information about the strategy employed. Thus, strategy should involve some creativity to make it unique and differentiate from its competitors.

13. Confidential: Strategy should involve some secretive aspect in it which should be known only to the top management of the organization. The secret element of the strategy will keep the competitors inquisitive about the strategy.

14. Cost Effective: A successful strategy is the one that is cost effective and is able to break even and recovers at-least the amount of investment. The benefits received by the organization by implementing the strategy must weigh more than the cost incurred in formulating and executing the strategy.

1.8 MINTZBERG'S 5PS OF STRATEGY

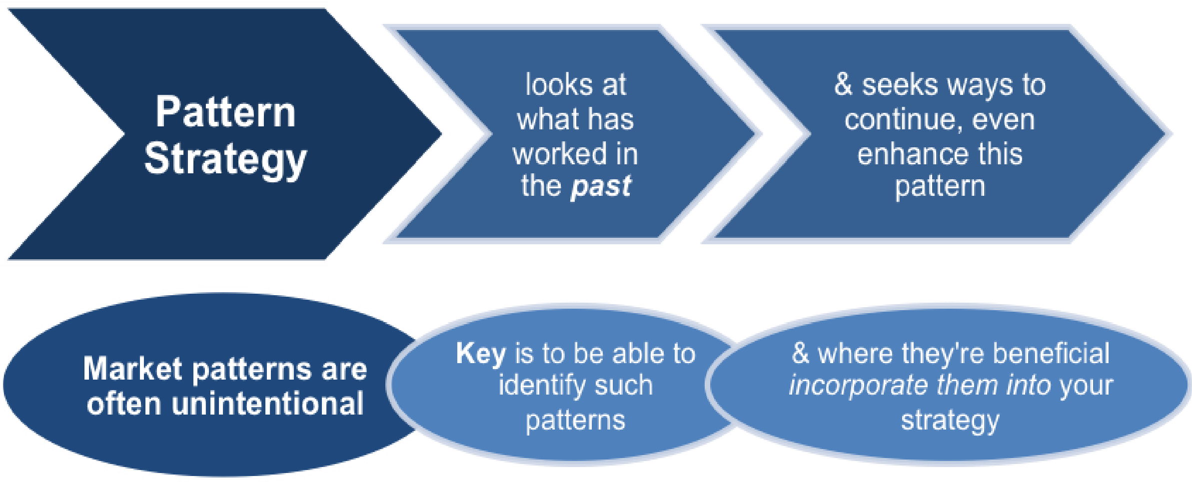
Henry Mintzberg an academician and author on business and management defined strategy as a method or a plan chosen to bring about a desired output. Henry Mintzberg suggested that there are five ways in which the term 'strategy' is used. These are called his **'5Ps for Strategy'**. Strategy can mean any of the following: **RSCTIVN ALY**

Figure 1.3: 5P's of Strategy

1. **Strategy as Plan:** In this definition, Mintzberg explains that a strategy is an intended or consciously followed course of action. The strategy is made in advance of its implementation and is followed up by actual implementation and development. This can also be called 'deliberate strategy'.

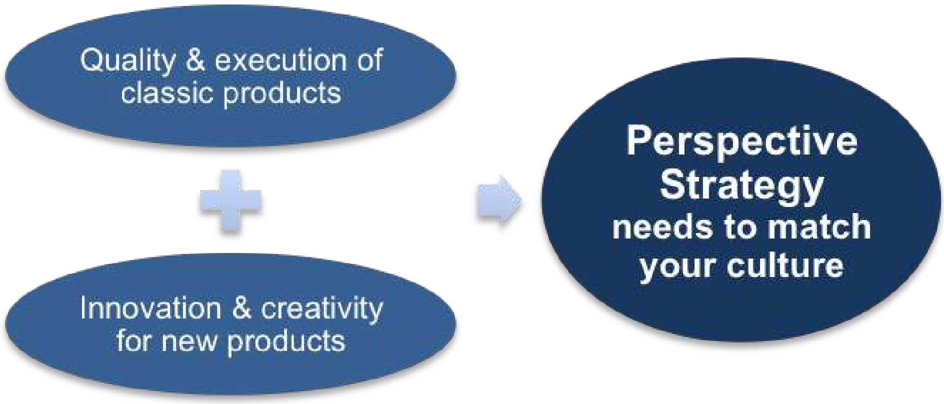
2. **Strategy as Ploy:** A 'ploy' is usually a manoeuvre in a competition or a game, one that is taken to get the better of your competitor. A ploy takes advantage of opportunities that arise. Ploys are usually undertaken to deter competitors from entering the market, for example by building new facilities with plenty capacity, or lowering prices.

3. **Strategy as Pattern:** Strategy should also be considered in terms of strategic outcomes. Strategies can be planned, but the outcome may not be what was expected. In some cases it may be possible to look back at what has happened, and describe a company's strategy in terms of a pattern that emerged.



4. Strategy as Position: Strategy is intended to locate or fit a business within its environment, and deciding on what position to adopt (e.g. within markets). A position may be a niche, providing low cost or distinctive products, or by exploiting competences to deter others in the market.

5. Strategy as Perspective: Finally, strategy can be defined in terms of the corporate personality and culture a company has adopted over time. Strategy is the way a company views itself in the world, through the eyes of its management and employees. This can refer to organisation culture.



1.9. NATURE AND IMPORTANCE OF BUSINESS POLICY & STRATEGY

Business Policy is considered as the study of functions and responsibilities of the senior management related to those organizational problems which could affect the success or failure of the enterprise. It deals with determining the future course of action that an organization needs to adopt and with mobilizing the resources which would help the organization to achieve its vision. Strategic Management and the role it plays in the success of business has been a subject of painstaking research and study for a long period of time now. Strategic Management makes sure that goals are set, crucial issues are outlined, time and resources are pivoted, internal environment is studied, outcomes and results are agreed upon, and the organization gets ready for any change if required.

An organization is usually established with an objective in mind, and this objective outlines the purpose for its existence. All the work carried out in an organization revolves around this particular target, and it has to align its internal resources with the external environment in a way that goals are achieved in reasonable time. Apart from quicker and effectual decision making, pursuing opportunities and directing work, strategic management helps in minimising costs, motivating employees, working against threats, seeking opportunities, predicting apparent market trends, and improving the overall performance of the organisation.

IMPORTANCE OF BUSINESS POLICY & STRATEGIC MANAGEMENT:

The significance of formulating strategy is evident from the fact that all managers try to prepare and plan the activities over a long period of time. This is done in order to react to any changes which may take place in the external or internal environment. It is concerned with actions to be taken which will provide competitive advantage to the organisation. Any company operating in the market, regardless of its size, nature or type of business, should formulate a proper strategy to survive for the longer period of time. By using a well-formulated strategy a company can not only gain competitive advantage, but also it can become the market leader.

Strategy is foundation of the company's success. It should be properly formulated, executed, modified or changed constantly depending on the changing environment. Well-formulated strategies create distinctive companies, helping the employees and stakeholders to set a clear division between company and its competitors. Having a clear and focused strategy is vitally essential for the success of any business, and without a properly-defined strategy, one may halt or fail altogether.

An efficient business policy and strategy is important because of the following reasons:

1. **Provides a Framework for Proper Planning:** Strategies provide the framework for plans by channelling operating decisions and regularly predefining them. A well-articulated 3 to 5 year long term view of the company serves to update the annual operating plan. The annual plan then becomes the stepping stone toward the accomplishment of the longer term goals. If strategies are formulated cautiously, it will lead to more reliable framework for operational planning.

2. **Provides Clarity in Direction**: Strategies focus on direction of activities by clarifying what activities are to be undertaken for achieving organizational objectives. They make the goals and objectives more clear and specific. It helps in giving a clear, concise and strategically sound direction to all the workers in the organization and also provides clarity as to how this will be achieved by giving comprehensive and detailed action plans.

3. **Defines Accountabilities**: It defines clear lines of authority and accountability and set time limits for attaining the expected results on the agreed predetermined objectives.

- ✓ **Proper Planning**
- ✓ **Clear Direction**
- ✓ **Defines Accountabilities**
- ✓ **Organizational Effectiveness**
- ✓ **Prioritizes Activities**
- ✓ **Ongoing Decision Making**
- ✓ **Personnel Satisfaction**
- ✓ **Best Use of Resources**

4. **Increases Organizational Effectiveness:** Strategies ensure organizational effectiveness in numerous ways. It is not only essential that resources are put to the best of their efficiency but also that they are put in a way which ensures their utmost contribution to the organizational objectives and strategies ensure that resources are deployed in a way as specified.

5. **Prioritizes and Aligns Activities**: Strategic planning is about making choices, defining priorities, mobilising and allocating resources to strategic initiatives in order to achieve the desired results.

6. **Provides a Framework for Ongoing Decision Making**: In view of the fact that all decisions must support the strategy, the strategy and the strategic initiatives become the reference point for further decision-making.

7. **Personnel Satisfaction:**

Strategies contribute towards organization effectiveness by providing satisfaction to all the people associated with the organization. In companies where formal strategic management process is followed, people are comparatively more satisfied as they are clear about their roles, thereby reducing role conflict and role ambiguity, leading to more satisfaction.

8. **Best use of Resources:**

Well designed strategies help the organisation in making efficient and optimum allocation and utilisation of resources. All the pros and cons of choosing a particular course of action over others, is weighed carefully before committing to any decision.

1.10. DIFFERENCES BETWEEN STRATEGY AND POLICY:

STRATEGY/STRATEGIC MANAGEMENT	BUSINESS POLICY
Deals with strategic decisions that decide the long-term health of an enterprise. It is a comprehensive plan of action designed to meet certain specific goals	It offers guidelines for managers to take appropriate decisions.
Strategy is a plan of action while the	Policy is a principle of action.
Strategies can be modified as per the situation, so they are dynamic in nature.	Policies are uniform in nature, however relaxations can be made for unexpected situations.
It is a means of putting a policy into effect within certain time limits.	It is a general course of action with no defined time limits.
Deals with those decisions which have not been encountered before in quite the same form, for which no predetermined or ordered responses subsist in the organization and which are significant in terms of the resources committed.	It is a guide to action in areas of recurring activity.
Always framed by the top management but sub strategies are formulated at the middle level. In contrast to	Policy, in general made by the top management.
It deals with vital decisions, whose implementation requires constant attention of top management.	Once policy decisions are formulated, these can be delegated and implemented by others independently.
Strategies are specific actions suggested to achieve the objectives.	Policies are statements or a commonly accepted understanding of decision making.
Deals with external environmental factors.	Policies are made for internal environment of business.
Strategies are action oriented.	Policies are though/decision oriented.
Everyone is empowered to implement the strategy.	Power is delegated to the subordinates for implementation.
Strategies are means to an end.	Policies are guidelines.
Strategy is concerned with uncertainties, competitive situations, and risks etc that are	Policy is in general concerned with the course of action to fulfil the set objectives.

likely to take place at a future date.	
Strategy is used to mobilize the available resources in the best interest of the company.	Policy is an overall guide that governs and controls the managerial action.

1.11. DIFFERENCES BETWEEN STRATEGY, TACTICS AND POLICY

Difference between Strategy –Tactics- Policy

Strategy	Tactics	Policy
Planning	Doing	Guiding
Why to Do	How to Do	Rules – How to Do It
Long Term- Documented	Short Term- Non Documented	Very Long Term- Documented and Signed by People
Competition and Business Environment	Competition and Business Environment	Mostly Only limited to Internal Resources
Can be Changed with Lot of Thought	Very Frequently Changed	Conservative and Difficult to Change
Related to Goals	Related to Goals	Related to Vision

1.12 SUMMARY

- Business policy is a set of principles and rules which directs the decisions of the subordinates. Policies are framed by the top level management to serve as a road map for operational decision making. It is helpful in stressing the rules, principles and values of the organization.
- Policies are designed, by taking opinions and general views of a number of people in the organization regarding any situation
- Strategy is a comprehensive master plan stating how the corporation will achieve its mission and long term objectives. It deals with strategic decisions that decide the long term health of an enterprise. It maximizes competitive advantage and tries to minimize competitive disadvantages.
- Strategy is foundation of the company's success. It should be properly formulated, executed, modified or changed constantly depending on the changing environment.

Well-formulated strategies create distinctive companies, helping the employees and stakeholders to set a clear division between company and its competitors.

- The difference between Strategy and Policy is little complex because Policies come under the Strategies. They are made to support strategies in numerous ways like accomplishing organizational goals and securing a valuable position in the market. Both of them are made by the top management as well as made after a profound analysis.

CHAPTER 2

STRATEGIC MANAGEMENT: PROCESS AND STRATEGY TYPES

CHAPTER OUTLINE
2.1 Introduction to SM *2.2 Strategic Management Process* *2.3 Importance of Strategic management Process* *2.4 Strategy Types and Features* *2.5 Factors Shaping Company's Strategy* *2.6 Summary* *2.7 Test your Knowledge*

2.1 STRATEGIC MANAGEMENT - AN INTRODUCTION

The term ‘strategic management’ is used to denote a branch of management that is concerned with the development of strategic vision, setting out objectives, formulating and implementing strategies and introducing corrective measures for the deviations, if any, to reach the organization’s strategic intent. Strategic management refers to the process of framing a strategic vision, forming the organisation’s mission, setting objectives, formulating and executing the strategy and then making the required corrective adjustments, if any. It is the process of planning for both expected as well as possible contingencies. The concept of Strategic Management can be applied to both small and large organizations, as even the smallest organization will face competition and, by formulating and executing suitable strategies, they can achieve sustainable competitive edge over the others.

Identifying appropriate strategies that would help the managers to achieve better performance and a competitive edge over the rivals forms an integral part of strategic management. An organization is said to have competitive advantage if its profitability is more in comparison to the average profitability for all rival companies in the respective industry. SM is about strategists who set the objectives and go about attaining the same. It entails making and implementing decisions about the future which is uncertain and could bring numerous changes in its wake. It identifies the direction in which an organization should move. The managers and strategists must have a thorough knowledge of the general and competitive organizational environment so that they are able to take the right decisions. They should conduct an in-depth SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), thereby making best possible utilization of strengths, minimizing the organizational weaknesses, making use of the probable opportunities in the business environment and overcoming the threats.

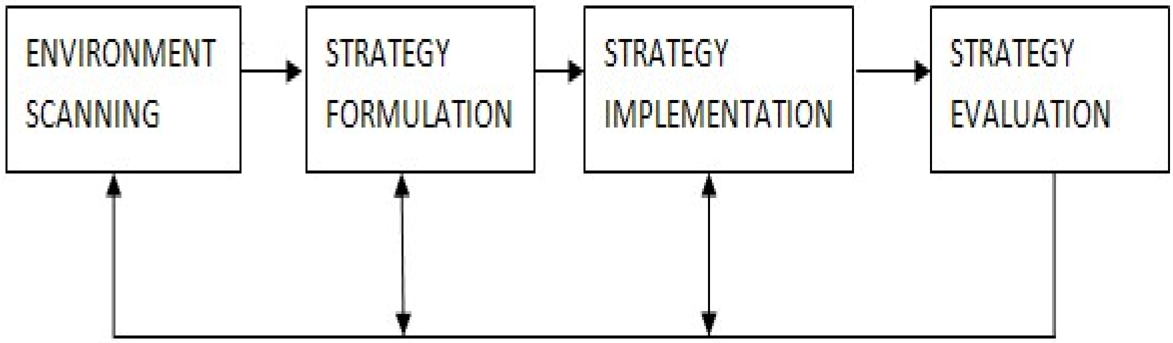
Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved. It evaluates its rivals and sets goals and strategies to overcome all possible threats and then re-evaluates strategies on a continuous basis so as to identify any discrepancies and taking corrective measures to ensure its success.

There are chiefly two main objectives of strategic management. Firstly, to carve a strategy that would create competitive advantage so that the company can perform well and have supremacy in the market and secondly, to steer the company fruitfully through all internal and external changes in the business environment.

2.2 STRATEGIC MANAGEMENT PROCESS

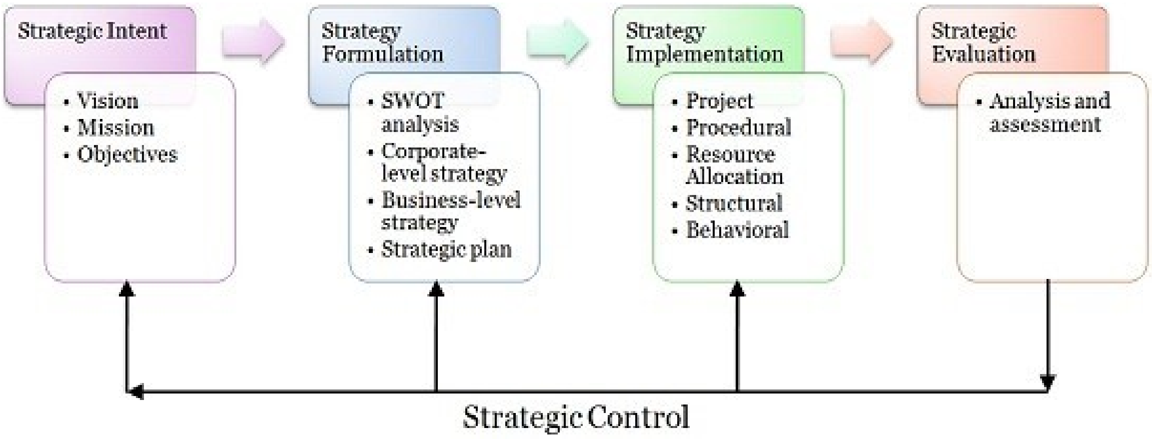
The strategic management process means defining the organization's strategy. It involves managers making a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic Management Process sorts answers for five major questions:

1. Beginning: Where are we at present?
2. Ends: Where do we want to be?
3. Means: How are we going to get there?
4. Evaluation: Which way is the best?
5. Control: How can we assure arrival?



There are number of stages in strategic Management Process. These have been described below:

I. Formulating Vision and Mission Statement (Strategic Intent) II. Environmental Analysis III. Strategy Formulation IV. Strategy Implementation V. Strategy Evaluation and Selection VI. Strategy Control



I. Strategic Intent: Strategic intent is defined as a compelling statement about where an organization is going that briefly conveys a sense of what that organization wants to attain in the long term. Strategic intent answers the fundamental question: "What exactly are we trying to achieve?" It provides a sense of direction, a particular point of view about the long-term market position or competitive position the organization hopes to extend and capture.

Strategic intent also provides a sense of discovery meaning that it endeavours to learn about other organizations that function in the same market with the purpose of adopting their best practices and avoiding drawbacks, if any. Then there is a sense of destiny too which is given by strategic intent, a valuable goal around which efforts can be put across the organization. Strategic intent can be defined as a purpose for which an organization exists. It is a statement that provides a perspective of the means, which will lead the organization to its vision. Strategic intent gives an idea of what the organization desires to achieve in future. It answers the question what the organization strives or stands for? It encompasses Vision, Mission, Objectives, Business Model, and goals. These are described below.

1. **Vision**: Vision refers to the blueprint of the company's future position. It describes where the organization wants to go. It is the dream of the business and an inspiration, an impetus to the planning process. It depicts the company's ambitions for the business and provides a glance of what the organization would like to be in future.

2. **Mission**: Mission outlines the firm's business, its goals and ways to reach those goals. It explains the reason for the existence of business. It is formulated to help the potential shareholders, stakeholders and investors to understand the purpose of the company. A mission statement helps to identify the business, company intends to undertake.

3. **Business Definition**: It seeks to explain the business undertaken by the firm, with respect to the needs of the customer, target audience, and other technologies. With the help of business definition, one can determine the strategic business choices. The corporate restructuring also is dependent on the business definition.

4. **Business Model**: Business model can be understood as a strategy for the effective functioning of the business, ascertaining sources of income, desired customer base, and financing details. Competitors operating in the same industry rely on the different business models due to their strategic choice.

5. **Goals and Objectives**: Goals are the end results, that the organization attempts to accomplish. On the other hand, objectives are time-based measurable actions, which help in the achievement of goals. These are the end results which are to be attained with the help of an overall plan, over a particular period of time.

The vision, mission, business definition, and business model explains the philosophy of business whereas, the goals and objectives are established with the purpose of achieving them.

II. Environmental Analysis: Environmental analysis or scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. The process begins with the scanning of the environment, i.e. both the external and internal factors of the organization. The external environment encompasses the political, legal, technological, economic, social and cultural forces that have a great impact on the functioning of the business. The internal factors include the organizational culture, hierarchy, business processes, SWOT analysis, industrial relations, etc. that play a crucial role in performing the business operations. It helps in studying the internal and external factors influencing an organization. After executing the environmental scanning process, management evaluates it on a continuous basis and strives to improve it.

III.Strategy Formulation: Strategy formulation is the process of deciding the best course of action for achieving the organizational objectives and fulfilling its mission and vision. he first step in forming a strategy is to review the information gleaned from completing the analysis. Determine what resources the business currently has that can help reach the defined goals and objectives. Identify any areas of which the business must seek external resources. The issues facing the company should be prioritized by their importance to your success. Once prioritized, begin formulating the strategy. Because business and economic situations are fluid, it is critical in this stage to develop alternative approaches that target each step of the plan. After conducting environment scanning and analysis, three kinds of strategies are formulated:

1. Corporate strategy
2. Business strategy and
3. Functional strategy

These have been discussed in detail in the forthcoming topics.

IV. Strategy Implementation: Successful strategy implementation is crucial for the success of the business unit. This is the action stage of the strategic management process. If the overall strategy does not work with the business' current structure, a new structure should be installed at the beginning of this stage. Everyone within the organization must be made clear of their responsibilities and duties, and how that fits in with the overall goal. Additionally, any resources or funding for the venture must be secured at this point. Once the funding is in place and the employees are ready, execute the plan. Strategy implementation includes designing the organization’s structure, distribution and allocation of resources, developing decision making process, and managing the human resources. For effective execution, strategy needs to be divided into more detailed policies at different functional levels like:

- Marketing

- Procurement
- Human Resource
- Finance
- Research & Development
- Production & Operations
- Information & Communication

V. Strategy Evaluation: Strategy evaluation is the last phase of strategic management process. Strategy evaluation and control actions include performance measurements, consistent review of internal and external issues and making corrective actions when necessary. Any successful evaluation of the strategy begins with defining the parameters to be measured. These parameters should mirror the goals set in Step I. Determine the progress by measuring the actual results versus the plan.

Monitoring internal and external issues will also enable you to react to any substantial change in the business environment. If the strategy is not moving the company toward its goal, take necessary corrective actions. If those actions are not successful, then repeat the strategic management process. During this phase, certain activities are performed to evaluate the outcomes of the strategic decision: establishing the performance targets and tolerance limits, measuring the deviations, and implementing the modifications.

Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives. These steps are followed whenever a new strategic management plan is to be created. The businesses that have already created a strategic management plan will come back to these steps as per the situation's requirement, so as to make the necessary changes.

2.3 IMPORTANCE OF STRATEGIC MANAGEMENT :

The significance of strategic management process can be assessed from the following points:

✓ **Makes organisation Proactive**

✓ **Framework for crucial decisions**

✓ **Prepares for Future**

✓ **Provides information about**

mistakes ✓ **Helps take corrective**

action

✓ **Increases Effectiveness**

✓ **Builds core competencies**

- It helps organization to be more proactive then reactive. It is very helpful to organization to obtain information from the turbulent and dynamic environment therefore they are able to control their own destiny in a better way.
- It gives a specific direction to the company, defines its goals and sets realistic objectives, which are in sync with the company's vision.
- It provides guidance to organization on any crucial or complex issue. It also provide framework for all major decisions taken in the organization.
- It prepares the organization to face the future and act as pathfinder for various opportunities from the environment.
- It helps organization to know the mistakes and pitfalls. It helps organization to avoid any costly mistake in product or in investment.
- It builds certain core competencies for the organization that help it in the path of survival and growth.

The fundamental justification behind strategic management is to achieve persistent competitiveness for the business which is only possible by formulation and implementation of such strategies which would be valuable for the business. It lays stress on assessing the opportunities and threats, strengths and weaknesses of the firm and developing strategies for its long term growth and survival.

2.4 TYPES OF STRATEGIES

Organizations are complex entities. Every organization must address several levels, types, or areas of strategic management. Moreover, for firm competing in more than one business area or market, a strategy of integration and interrelationships between these areas must be developed. Different authors have described these areas, types, or levels of strategies differently, but the critical issues can be addressed using three levels: a corporate-level strategy, a business-unit strategy, and functional/operational strategy. Hence the strategies can be categorised into 3 distinct types:

1. Corporate Strategy

2. Business Strategy

3. Functional Strategy

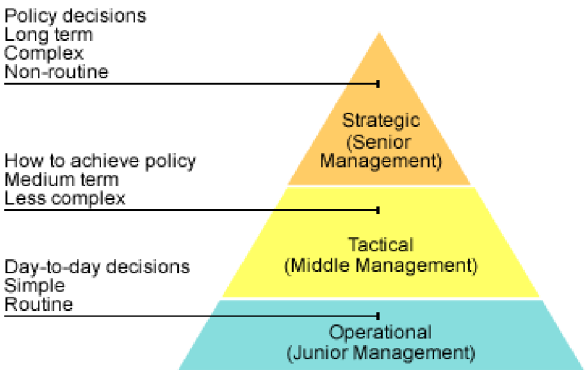


Figure 3.1 Types of Strategies

CORPORATE STATEGY:

Corporate strategy defines what business or businesses the firm is in or should be in, how each business should be conducted, and how it relates to society. This strategy is for the company and all of its business as a whole. Corporate strategies are established at the highest levels in the organization; they generally involve a long-range time horizon and focus on the entire organization. At the corporate level the concern revolves around the definition of business in which the corporation wishes to participate and the acquisition and allocation of resources to these business units. It is the growth strategy of the firm. It is formulated by the top managers. It includes major decisions like determinations of business lines, expansion and growth, diversification, takeover and mergers, new investment decisions and so on. It Corporate strategy is the overall managerial game plan for a diversified company.

CHARACTERISTICS OF CORPORATE STRATEGIES

The characteristics of the corporate strategy are explained as below:

1. **Wider in Scope:** The scope of corporate strategies is wide as it applies to whole organisation. Corporate strategy aims at formulating vision and mission for the entire organisation and attempts to coordinate the efforts of all towards the achievement of the same.

2. **Top Hierarchical Level:** These strategies are formulated at the top most level of management. Other strategies have to confirm to the overall objective of the firm formulated at this level.

3. **Formulated by Top Management:** Corporate strategies are formulated by top management**.** Corporate strategies are concerned with formulating the vision statement for the whole company.

4. **General and conceptual:** Corporate strategies are not specific like Business and functional strategies. It deals with number of strategic issues and involves lot of intellectual thinking.

5. **Long Term Orientation**: Corporate strategies are characterised by long term orientation. They decide where the company intends to be in future. It charts the future course of action for the managers. Fulfilling the long range plan and vision is not a short term process but a long one.
6. **Applicable to whole organisation:** Corporate strategies entail setting overall objectives for the firm that applies to the entire organisation. Everyone working at every level in the organisation, work in coordination to achieve the overall vision of the firm.

7. **Flexible and Dynamic:** Corporate strategies allow for flexibility to cope up with the changes taking place in the dynamic environment. In order to survive and grow in the long term it is essential to be flexible so as to incorporate changes as and when they take place.

8. **Integrated with other Strategies:** Corporate strategy aims at integrating business and functional strategies. Business units cannot work in isolation. They have to co-ordinated with the overall firm's objectives.

9. **Helps in decision making:** Corporate strategies form the foundation of the decision making process. All other decisions have to stem out from the corporate strategy. It forms the basis of future decision making.

10. **Action Oriented:** It gives importance to combination, sequence, timing, direction and path for various moves and actions taken by managers to handle uncertainties of the environment.

BUSINESS STRATEGY

Business strategy defines how each individual business will attempt to achieve its mission within its chosen area of endeavour. The strategies that are outlined at this level are slightly more specific and they usually relate to the smaller businesses within the larger organization This strategy pertains to each separate business unit (SBU) and deals with two significant issues:

(1) the scope of each business and the operational links with corporate strategy;

(2) the basis on which the business unit will achieve and maintain a competitive advantagewithin its industry.

The business strategy consists of plans of action that managers adapt to use company's resources and distinctive competencies to gain competitive advantage over its rivals in a market. Business strategy is typically formulated in line with the corporate strategy. The main focus of the business strategy is on product development, innovation, integration, market development, diversification and the like.

CHARACTERISTICS OF BUSINESS STRATEGIES

1. **Specificity:** Business-level strategies are specific in nature unlike corporate strategy which is more generalised. These strategies deal specifically with issues affecting the particular business unit. Examples of specific issues are deciding a pricing strategy and creating a product mix. These strategies deal only with the specific business unit and do not apply to the rest of the organisation.

2. **Short-Term Perspective:** Corporate strategy tends to be oriented toward long-term goals whereas; business-level strategy is focused on short-term objectives. Examples of shortterm

goals include quarterly and annual revenues, return on investments, sales and production levels. Business units tend to focus on these short-term goals while allowing corporate strategists to make decisions regarding the long-term plans of the organisation.

3. Applicability: Business strategy does not apply to the entire organisation. It is specifically concerned with setting objectives, goals and targets for individual business units. Every business unit sets its own tangible and achievable goals in contrast to corporate strategy.

4. Independence: One of the important characteristic of business-level strategies is the concept of business-unit independence. The individual business units are given the independence from the organisation as a whole. This is done so as to let them decide certain strategic issues on their own. This enables business-level strategies to deal mainly with the concerns of the business unit without any intrusion from other units.

5. Simplicity: Business-level strategies tend to be fairly simple in nature. Corporate strategies tend to focus on abstract goals such as building core competences or creating firm flexibility. Business-level strategies however, tend to be much simpler. Goals tend to be tangible objectives such as increasing market share or developing brand recognition.

6. Scope: Business strategy is narrow in scope as it is not applicable to whole organisation. Since it is concerned with individual business units, the scope is also restricted. But in comparison to functional strategy, the scope is bigger.

7. In Sync with Corporate Level Strategy: Business strategy has to be integrated well with corporate strategy. The objectives set by mangers at this level have to be related to the overall organisational strategy.

8. Impact on SBU's: The impact of business strategy is on respective strategic business units. The success and failure of units depend upon the proper and careful implementation of this strategy.

FUNCTIONAL STRATEGY

Functional strategy focuses on supporting the corporate and business strategies. This strategy is the strategy for each specific functional unit within a business. Functional strategies principally are concerned with the activities of the functional areas of a business (i.e., human resource, operations, finance, marketing, research & development etc.). This is the day-to-day strategy that is going to keep your organization moving in the right direction. Just as some businesses fail to plan from a top-level perspective, other businesses fail to plan at this bottom-level. This level of strategy is possibly the most significant of all, as without a daily plan we are going to get stuck while our competition continues to excel. They support the desired competitive business level strategy and are complementary each other. The term functional strategy refers to the managerial action plan for a particular functional activity, business process, or a department within a business. An organisation needs functional strategy for every major business activity and the particular business unit. Functional strategy is narrower in scope than business strategy but still is relevant for the overall business strategy.

CHARACTERISTICS OF FUNCTIONAL STRATEGIES:

Functional Strategies can be characterised by number of factors. These are discussed below:

1. **Operational Hierarchical Level:** Functional strategy is formulated at the bottom level of decision making. These decisions are taken by the operational managers who are experts in specific functional areas like marketing, human resource, financial planning, etc.

2. **Short Term Orientation:** The time horizon of a functional strategy is usually comparatively short. Functional strategies identify and coordinate short- term actions, usually undertaken in a year or less.

3. **Specificity:** A functional strategy is more specific than business strategy. The business strategy provides general direction. Functional strategies give specific guidance to managers responsible for accomplishing annual objectives.

4. **Scope:** Functional strategy is narrow in scope as it deals with setting short term goals achievable in a year or less, unlike corporate strategy which has a long term orientation.
5. **Well integrated:** Functional or operational strategies have to confirm to overall objective and vision of the company. They depend upon both corporate and business strategies and cannot work independently.

6. **Participation in the development:** Different people participate in strategy development at the functional and business levels. Development of functional strategy is typically delegated by the business-level manager to principal subordinates charged with running the operating areas of the business. Functional strategy is the responsibility of the head of the particular functional department.

2.6 SUMMARY

- Strategy refers to the managerial action plan for achieving organizational objectives. In effect, strategy is a management tool for achieving strategic targets. It is the mechanism used to align firms with their environments.
- Strategies exist at least at three levels: the corporate level, the business unit level, and the functional level. A corporate strategy is needed to achieve corporate-level objectives; business strategies to achieve the business-unit performance objectives; functional strategies are needed to achieve the performance targets set for each functional department. Responsibility for strategy normally rest with a small number of strategic managers within the organization.
- Strategic managers are responsible for the overall performance of the organization. Functional managers, on the other hand, bear responsibility for specific business functions within the organization.
- In its final form, a strategic decision is moulded from the stream of inputs, decisions, and actions of many people, including the board of directors, president, and various line and staff managers.

CHAPTER 3

STRATEGIC MANAGEMENT DECISION MAKING

CHAPTER OUTLINE
3.1 Introduction to Strategic Decision making *3.2 Dimensions of Strategic Decisions* *3.3 Differences between Strategic, Administrative and Operational decisions* *3.4 Strategic Decision making Process* *3.5 Levels of Decision making & Types* *3.6 Summary* *3.7 Test your Knowledge*

3.1 STRATEGIC DECISION MAKING

Strategic decision making, or strategic planning, is the process of creating an organization's mission, values, goals and objectives. It involves charting a course based on long-term goals and a long term vision. Deciding upon a particular action plan a company also involves in altering strategies based on observed outcomes. Strategic decision making can transform companies into large groups and industries.

It is a managerial Process and a function of choosing a particular course of action out of several alternative courses for the purpose of achieving the organizational goals. They are different in nature than all other decisions which are taken at various level of the organization during day to day working.

3.2 DIMENSIONS/FEATURES OF STRATEGIC DECISIONS:

Strategic decisions refer to chosen alternative that affects key factors which determine the success of an organization's strategy. They are long term, complex decisions made by top lvel management. These decisions affect the entire direction of the firm. The major dimensions of strategic decisions are as follows:

1. **Top Management Support:** Strategic issues involve thinking in totality of the organization’s objectives in which a considerable amount of risk is involved. Hence, problems calling for strategic decisions require to be considered by the top management.

2. **Large amount of Resources:** Strategic Decisions involve the allocation of large amount of company resources. It may require either a huge financial investment to venture into a new area of business or the organization may require a huge amount of manpower with new skill sets.

3. **Profound Impact:** Strategic issues are likely to have a considerable impact on the long term prosperity of the firm. Generally the results of strategic implementation are seen on a long term basis and not on immediate terms.

4. **Future Oriented:** Strategic issues are future oriented. Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

5. **Multi-business Consequences:** Strategic issues have multi business consequences. As they involve organization in totality they affect different sections of the organization with varying degree.

6. **External factors:** Strategic decision demand consideration of factors in the firm’s external environment. Strategic focus in an organization involves orienting its internal environment to the changes of external environment.

7. Strategic decisions differ from administrative and operational decisions: Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help in implementation of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be an example of administrative decision.

3.3 Differences between Strategic, Administrative and Operational decisions

Strategic Decisions	**Administrative Decisions**	**Operational Decisions**
Strategic decisions are long-	Administrative decisions	Operational decisions are
term decisions.	are taken daily.	not frequently taken.
These are considered where The future planning is concerned.	These are short-term based Decisions.	These are medium-period based decisions.
Strategic decisions are taken in Accordance with organizational mission and vision.	These are taken according to strategic and operational Decisions.	These are taken in accordance with strategic and administrative decision.
These are related to overall Counter planning of all Organization.	These are related to working of employees in an Organization.	These are related to production.
These deal with organizational Growth.	These are in welfare of employees working in an organization.	These are related to production and factory growth.

3.4 STRATEGIC DECISION MAKING PROCESS

Strategic Decision making is the process of making choices by identifying a decision, collecting information, and assessing alternative solutions. Using a step-by-step decisionmaking process can help the organisations make more conscious and thoughtful decisions by organizing pertinent information and defining alternatives. This methodology increases the chances of choosing the most appropriate strategy.

Strategic Decision making process involves the following steps:

I. **Problem Identification:** The foremost step is to identify the problem that demands solution. Strategist must realise realize that a decision needs to be taken. The nature of decision should be defined clearly and precisely. This forms the basis of further steps.

II. **Collection of information:** After problem has been identified, relevant information is collected before taking any decision. Strategic decisions have long term impact on the firm, so they must be taken carefully. One needs to understand what kind of information is required, what would be the best sources of information, and the possible ways of collecting it. This involves both internal and external analysis.

III. **Identification of alternatives:** After collecting the required information, all possible solutions and alternatives are identified. It can be done through ones judgement and past experience or some additional information if needed is collected. This would help the strategists in choosing the best option out of the sorted alternatives.

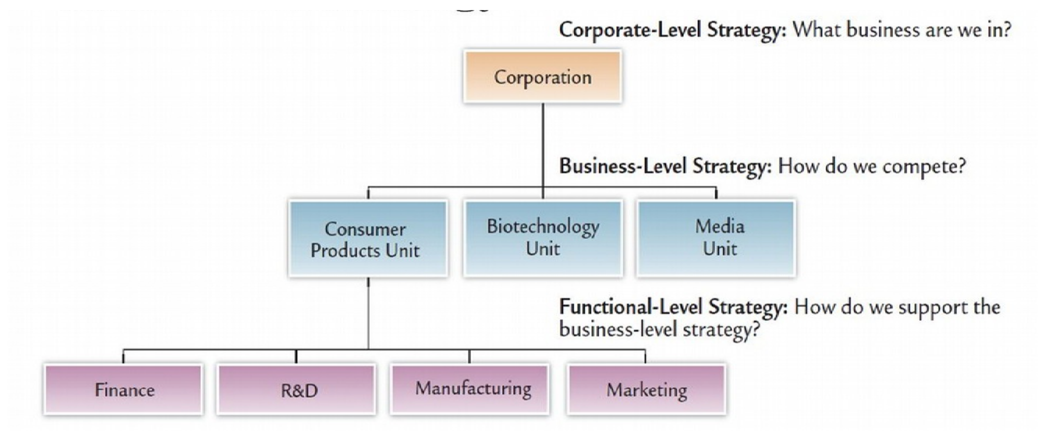
IV. **Analyses of alternatives against the collected information**: At this stage, decision makers would rely on the information collected during the previous stages to figure out what it would be like if the alternatives listed are carried out till the end. Evaluate whether the problem identified in Step I would be resolved if those alternatives are used. As one goes through this complex internal process, one begins to approve some alternatives, the ones those that seem to have a higher potential of making your strategy a success while rejecting others. In the end, the alternatives should be ranked in a priority order, based upon one's evaluation.

V. **Selection of the best alternative:** Once the evidence has been weighed and evaluated, the best alternative is selected and others are rejected at this stage. We may choose a combination of alternatives as per the requirement.

VI. **Implementation of Decision**: This is the action stage wherein the decision taken is finally implemented. Necessary resources are put to use and everyone work towards the fulfilment of the chosen decision.

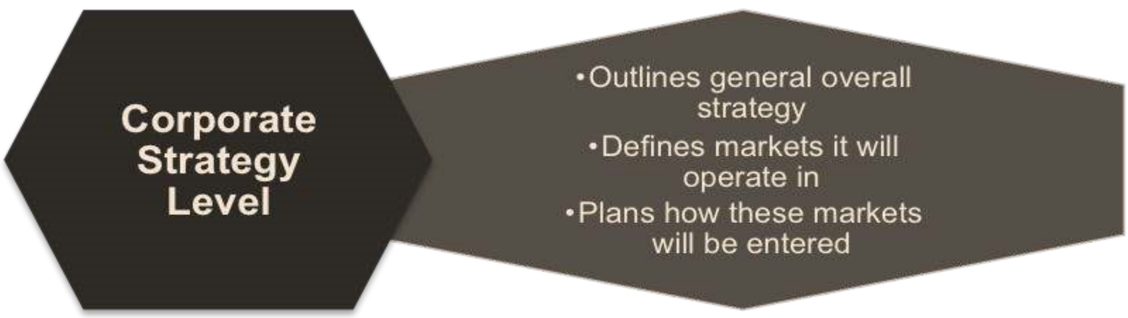
VII. **Review and Control:** In the final step, the outcome of decision taken in the previous step is evaluated. We need to find out how successful the decision has been in resolving the problem identified in first stage. If the decision has not resolved the identified problem, one may have to modify the decision, or take a new decision altogether. The whole process may have to be repeated in order to make a new decision.

3.5 LEVELS OF STRATEGY FORMULATION/ DECISION MAKING:



A large organization is multi divisional in nature. It has separate divisions which are called SBUs or strategic business units and has to manage each of these. The decision making hierarchy in large business multidivisional organisations entails three levels, i.e corporate, business and functional level. In single business firms operate mainly at two levels; corporate and functional. These three levels of strategy in the management of business are described as follows:

Corporate level: This level includes chief executing officers and other top management executives. These individuals have responsibilities of decision making within the organization. The role of corporate level managers is to formulate strategies for the entire organization. This role includes defining mission and vision, determining the different businesses it should be in, allocating resources among different businesses and so on. Strategic decisions are long term in nature, and are multifaceted decisions made by senior management. These decisions affect the entire direction of the firm. An example may be to establish a market niche in their field.



Business level: At business level, strategies are formulated by middle managers or heads of individual business units called SBU's within the company. The complexity of this level depends upon the number of businesses or divisions the organisation has. It is important to create a strategy for each business unit to determine which units are excelling and which are not so that they could be improved. Having a strategy at this level allows the managers to weigh the costs and benefits associated with individual business units and to decide accordingly about investing or divesting the resources. The role of managers is to convert the general statements into more specific goals.

Functional level: Functional level of strategy involves managers who are responsible for the specific business functions or operations such as human resources, purchasing, product development, finance, customer service etc. Functional decisions also called operational decisions are day to day decisions made by junior managers that are pretty much simple and usual. Functional level decisions are taken by department heads. They help ensure that the departments execute the defined strategic elements and that the components laid down at functional level help support both corporate level and business level strategies.

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.

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.

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

- Political factors
- Economic factors
- Social factors
- Technological factors
- Legal factors
- Environmental factor

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, STEPJE and LEPEST: All of these are acronyms for the same set of factors. Some of them gauge additional factors like ethical and demographical factors.

I will discuss the 6 most commonly assessed factors in environmental analysis.

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 you can study are:

- Government policies
- Taxes laws and tariff
- Stability of government
- Entry mode regulations

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.

I have listed some determinants you can assess to know how economic factors are affecting your business below:

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

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.

I have mentioned 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 agribusinesses.

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.

Environmental Analysis Process

The process of environmental analysis consists of the following stages :

- **Environmental Scanning:** Scanning means the process of analyzing the environment for identifying the factors which may influence the business. Its purpose is to identify the emerging trends or early warning signals. Such trends may have evolved over time or may have appeared suddenly. Environmental scanning alerts the organization to potentially significant forces in the external environment so that suitable strategic initiatives may be taken before these forces become critical for the organization, Scanning is basically exploratory in nature. There are so many environmental factors which influence the operation of a business. All these factors may not be relevant to an enterprise. Therefore, the critical and high priority factors must be identified. Several factors, *e.g.,* managerial philosophy, age, size, power, geographic dimension, type of business of the organization influence the selection of relevant environmental factors.

- **Environmental Monitoring :** At this stage information from the relevant environment is collected. Once the relevant factors in the environmental are identified, adequate data about these factors are gathered so as to ascertain their emerging pattern and trends. Monitoring is a follow up and deeper analysis of relevant environmental forces identified through scanning. Several technique are used to collect the relevant facts about environmental factors. Company records, publications, spying and verbal talks with the employees, customers, dealers, suppliers and competitors are the main sources of data.

- **Environmental Forecasting :** Forecasting is the process of estimating the relevant events of future based on the analysis of their past and present behavior. It is necessary to anticipate future events before any strategic plans are formulated. Forecasting can focus on future aspects of the environment which affects the organization. Forecasts are made for economic, social, political and technological elements of environment, Several technique like time series analysis, econometric model, scenario building, Delphi method, etc. are used for the purpose of forecasting.
- **Diagnosis (Assessment) :** Environmental factors are assessed in terms of their impact on the organization. Some factors in the environment may entail an opportunity while others may pose a threat to the organization. The degree of impact may also vary from one factor to another. SWOT analysis, ETOP and other such techniques are used for environmental diagnosis.

The four stages given above are intertwined as can be seen form Fig. 2.1

Importance of Environment:

It is necessary for a business to understand the environmental forces and conduct business accordingly. Hence, a business has to study the business environment in a continuous manner due to the following reasons:

First move advantage:

A business may get first mover advantage by identifying and exploiting the opportunities earlier than the competitors. It provides a sustainable competitive advantage to the business.

Strategy formulation:

Strategy is a long term action plan formulated and implemented for competitive advantage.

They are formulated and implemented considering the internal as well as external factors. SWOT analysis is the foundation of strategy formulation. It examines strengths, weakness, opportunities and threats of the firm relative to the competitors and helps to develop different strategic alternatives and select the most suitable. Hence, environmental study or analysis is very important for strategy formulation.

Competitive analysis:

Competitive analysis is also called industry analysis. It shows the intensity of competition among firms that varies widely across industries. In involves analysis of rivalry among competing firms, potential entry of new competitors, potential development of substitute products, bargaining power of suppliers and bargaining power of consumers. They form industry environment and show the growth and profitability potentiality of a firm. Hence, study of business environment is crucial for competitive analysis.

Strategic control:

Strategic control involves re-examination of environmental assumptions to ensure the effectiveness of strategy implementation. It is an early warning system. Hence, it answers question "Are we moving in the right direction?" It aims to proactive and continuous questioning of the basic direction of the strategy. In this way, environmental analysis serves as the basis of strategic control.

Adaptation:

A business can achieve competitive advantage if it adapts with the environment and manages itself accordingly. Adaptation refers to the adjustment with the emerging environmental conditions and trend. It helps to maximize the environmental opportunities and mitigate likely threats.

Stability and sustainability:

Stability is business activities is important for sustainability. Fluctuation in business activities adversely affects the functional areas as production, marketing, finance, and human resource. For stability, a business should monitor its environment regularly and adjust accordingly. It eventually provide sustainability to achieve business goals.

Dynamism:

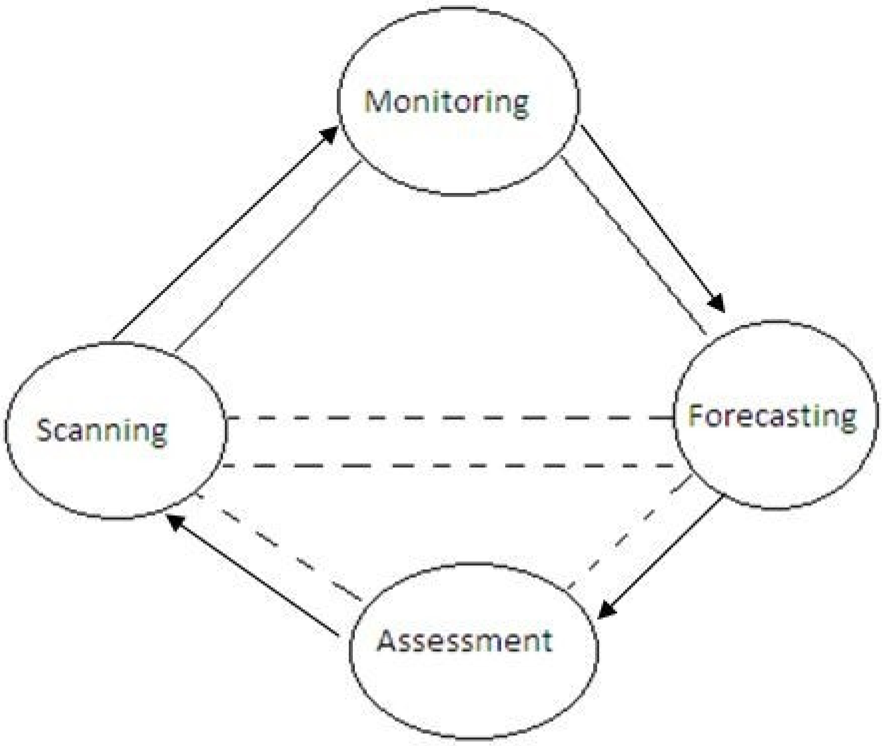
A firm can collect information from the environment if it studies it continuously. Further, it can detect the emerging trend and scenario from the environment and prepare itself to cope with the likely changes. It enhances competitive advantage of the firm.

Lobbying:

A business alone cannot influence the general environment. However, the environment may be influenced through formation of organized body like industry and trade federations. Environmental study and analysis enable them to understand the environment and lobby further to make it congenial.

Public image:

A business firm can improve its image by showing that it is sensitive to its environment and responsive to the aspirations of the public. The stakeholders continue to support the organization if it is sensitive to the organization. Stakeholders support enhances organizational effectiveness



Environmental Scanning

In any business organization, there is an internal and external environment. They comprise all the factors that can affect the business of a company in any way. And they also present opportunities for the business to grow and threats that may harm the business. So these environments need constant monitoring. This is where environmental scanning comes into the picture.

Environmental scanning meaning is the gathering of information from an organizations internal and external environments, and careful monitoring of these environments to identify future threats and opportunities. It is the analyses of all factors that may affect the future of the organization.
Now that we know the environmental scanning meaning, let us see the purpose. The purpose of this process of environmental scanning is to provide the entrepreneur with a roadmap to the changes likely to happen in the future. So this way they can adapt the business to overcome the threats and capitalize on the opportunities coming their way.

Approaches and Techniques Used for Environmental Scanning!

The external environment in which an organization exists consists of a bewildering variety of factors. These factors are events, trends, issues and expectations of different interested groups. Events are important and specific occurrences taking place in different environmental sectors.

Trends are the general tendencies or the courses of action along which events take place. Issues are the current concerns that arise in response to events and trends. Expectations are the demands made by interested groups in the light of their concern for issues.

By monitoring the environment through environmental scanning, an organization can consider the impact of the different eve trends, issues and expectations on its strategic management process. Similarly any organization-facing environment as a complex the scanning is absolutely essential, and strategists have to deal cautiously with process environmental scanning.

The effort has to be to deal with it is such a manner that unnecessary time and effort is not expended, while important facts are not ignored. For this to take place, it is important to devise an approach or a combination of different approaches, to environmental scanning.

Approaches to Environmental Scanning:

The experts have suggested three approaches, which could be adopted for, sort out information for environmental scanning.

1. Systematic Approach:

Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organization's activities, government policy statements pertaining the organization's business and industry, etc, could be collected continuous updating such information is necessary not only for strategic management but also for operational activities.

2. Ad hoc Approach:

Using this approach, an organization may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, when organization has to undertake special projects, evaluate existing strategy or devise new strategies. Changes and unforeseen developments may be investigated with regard to their impact on the organization.

3. Processed-form Approach:

For adopting this approach, the organization uses information in a processed form available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in processed form.

Sources of Information:

A company can obtain information from different sources, but it should be ensured that the information is correct. The correct source should be tapped for specific information for more accuracy. Information received form secondary sources may sometimes even misguide strategy managers.

Hence it is important that information should be verified for correctness before it is processed and decisions are taken based on it.

The various sources from where information can be gathered include:

1. An internal document viz, files, records, management information system, employees,standards, drawings, charts, etc.

2. Trade directories, journals, magazines, newspapers, books, newsletters, governmentpublications, annual reports of companies, case studies, etc.

3. Internet, television, radio news etc.

4. External agencies like customers, suppliers, inspection agencies, marketing intermediaries,dealers, advertisers, associations, unions, government agencies, share holders, competitors, etc.

5. Market research reports, consultants, educational institutions, testing laboratories etc.

6. Spying considered as a powerful way of extracting information from other companies.

It is found that chronological order of information is also quite important for strategy managers. Usually information received from government agencies is quite complex since processing takes more time. The information received from competitors is quite expensive but it is usually fresh and is quite useful.

The entire process consists of following steps:

1. Major events and trends in environment are studied.

2. A cause and effect relationship established with regard to events and trends for long andshort term. This is done through brain storming in a group.

3. Diagrams showing interrelationships amongst various factors are prepared and an attemptis made to quantify the results.

4. The study is reviewed by a group of experts who deliberate on each aspect and on thepossible strategies that may be decided.

Importance of Environmental Scanning

1] SWOT Analysis

As we saw previously in the environmental scanning meaning, it is a complex process. The close study of the internal and external environment of an organization will reveal some very valuable information, i.e. the strengths, weaknesses, opportunities, and threats of a company. Let us take a brief look.

- Strength: After analysis the internal environment of a company, we will be able to identify the strengths that give the company a competitive advantage. The entrepreneur can use this information to maximise these strengths and earn more profits.
- Weakness: Study of the internal environment also point out the weaknesses of the company. For the growth and stability of the company, these identified weaknesses must be corrected without delay.
- Opportunity: Analysis of the external environment helps with the identification of possible opportunities. The entrepreneur can prepare to capitalize on these.
- Threats: Analysis of the external environment will also help in the identification of any business threats from competitors or any other factors. The company can come up with a strategy to diffuse such threats or minimize their impact.

2] Best Use of Resources

Environmental scanning helps us conduct a thorough analysis and hence leads to the optimum utilization of resources for the business.

Whether it is capital resources, human resources or other factors of production, their best use and utilization is very important for any business.

Environmental scanning will help us avoid any wastages and allow for the most effective and economical use of these resources.

3] Survival and Growth of the Business

It is a very competitive world and for any business to survive and thrive it is a difficult task. But if the business employs all the techniques of environmental scanning it can gain a significant advantage.

It will allow the firm to prepare for future threats and opportunities while at the same time eliminating their weaknesses and improving on their strengths.

4] Planning for Long Term

A business must have a plan for both short term and long term. The planning of long-term objectives can only occur after proper analysis and environmental scanning meaning. This will help the entrepreneur plan the necessary business strategy.

5] Helps in Decision Making

Decision making is the choice of the best alternative done by management. Environmental scanning allows the firm to make the best decision keeping in mind the success and growth of the business. They point out all the threats and weaknesses. And they also identify the strengths of the firm

Environmental Scanning Process

Environmental scanning is a useful managerial tool for assessing the environmental trend.
The following process is adopted for environmental scanning.

1.Study the forces and Nature of the Environment:

In the first step of environmental scanning, the forces of the environment that have got significant bearing in the growth and development of the business should be identified. They may be political, economic, sociology-cultural, technological, legal, physical environment and global components. After this, the nature of the environmental components is studied.

The nature of environment may be simple or complex. It may also be stable or volatile. The nature of the environment affects a firm's ability to predict the future. Some business may be operating in simple environment and others in complex. When there is a high level of uncertainty and complexity in the environment, environmental scanning becomes more critical.

2.Determine the sources of Information:

After studying the process and nature of the environment, the sources of collecting information from the environment should be determined. There are different sources through which information on business environment may be collected. They are as follows:

Secondary sources:

Newspapers, book, research articles, industrial and trade publications, government publication, and annual report of the competitors.

Mass media:

Radio, TV and Internet.

Internal sources:

Internal reports, management information system, data network, and employee.

External agencies:

Consumers, marketing intermediaries and suppliers.

Formal studies:

Formal research and study by employee, research agencies, and educational institutions.

Spying and surveillance of the competitors.

3.Determine the Approach of Environmental scanning:

After determining the sources of information the approach of environmental analysis should be determined. There are mainly three approaches to environmental scanning. They are:

Systematic approach:

Under this approach, a systematic method is adopted for environmental scanning. The information regarding market and customer, government policy, economic and social aspects are continuously collected. In other words, the environment is monitored in a regular way. The timeliness and relevance of such information enhances the decision making capacity of the management.

Ad-hoc Approach:

Under this, specific environmental components are only analyzed through survey and study. Ad-hoc approach is useful for collecting information for specific project, evaluating the strategic alternative or formulating new strategies. It is not a continuous process.

Processed form approach:

Under this, the information collected from internal and external sources are used after processing them. Normally, the information obtained from secondary sources are processed and used as per the requirements of the business.

4.Scan and Assess the Trend:

This is the final step of environmental scanning process. It involves a detailed and micro study of the environment to identify the early signals of potential changes in the environment. It also detects changes that are already under way and shows the trend of the environment. The trend should be assessed in terms of opportunities and threats.

Techniques/Methods of Environmental scanning:

Environmental scanning is a technique of detail study of the environment. It is done to assess the trend of the environment and prepare the organization accordingly. There are different techniques/methods of environmental scanning. They are discussed below:

1.SWOT Analysis:

S stands for strengths,

W for weaknesses, O

for opportunities, and

T for threats.

SWOT analysis is the starting point to formulate a strategy.
It is a technique of environment analysis which evaluates organisation's strengths and weaknesses, environmental opportunities and threats and helps to formulate strategies and achieve objectives by:

1. Exploiting organisational strengths,

2. Exploiting environmental opportunities,3. Minimising and

correcting the weaknesses, and

4. Minimising environmental threats.

SWOT analysis compares organisation's strengths and weaknesses (company profile) with external threats and opportunities (environmental analysis). "A company profile depicts the quantity and quality of a company's principal resources and skills. It seeks to determine the firm's performance capabilities on the basis of its existing and accessible resources and skills" and "environmental analysis is the systematic assessment of information about the firm's external environment during the strategic planning process to identify strategic opportunities for the company as well as major threats, problems, or other possible impediments."

SWOT analysis helps to make strategies which will overcome its weaknesses and utilize its strengths to gain competitive advantage in the market. Organisations conduct SWOT analysis to identify the factors that can improve their performance.

Objectives of SWOT analysis:

1. To compare company's profile (strengths and weaknesses) with threats and opportunitiesin the product or market areas where it wants to compete. It highlights company's strengths on which strategies will be based (to exploit environmental opportunities) and weaknesses that must be overcome.

2. To compare company's profile with that of competitors. This highlight areas wherecompany has advantage or disadvantage over competitors in different product/market areas.

Strengths and weaknesses reflect internal environment of the organisation (company profile) and opportunities and threats reflect its external environment (environmental analysis).

Strengths

These are the strengths of a project or organization that can contribute to achieving the intended objectives. To determine what they are, the following questions could be asked:

- What advantages do you offer your customers?
- What do you do better than your competitors?
- Why do customers choose you over your competitors?
- What are our Unique Selling Points (USPs)?
- Which factors have a significant influence on the buying behaviour of your customers?

When formulating the strengths, it is important to approach these from an internal perspective as well as from the perspectives of the customer and the market. It is necessary to remain realistic in order to prevent that the organization or the project from being positioned too highly with respect to the market and the competition. For example, if your competitor delivers a high quality product to the market, good ingredients and sound workmanship are of the utmost importance.

Weakness

These are weaknesses of a project or organization that may have a negative effect on achieving the intended objectives.

To determine what these weaknesses are, the following questions could be asked:

- What could be improved by the organization?
- What should especially be avoided within the organization or project?
- What are customers likely to see as our weaknesses?
- What factors make us lose customers or market share?

These are difficult questions to answer and the answers may be quite confronting. Have especially other and external people assess your weaknesses so that you can work on these.

Opportunities

These are the opportunities that present themselves for the organization or project. To determine what these opportunities are, the following questions could be asked:

- What interesting trends could the organization or project respond to?
- What are the opportunities for the organization or project?

To answer the questions above, the following matters might be of influence: technological developments, policy developments from the government, changes within the target group, new suppliers, etcetera.

Threats

These could be possible obstacles that can negatively influence the project or organization from the market. To determine what these threats are, the following questions could be asked:

- What possible obstacles or external risk can be identified for the organization or project?
- What is the financial situation of the project or organization?
- Can new technologies pose a threat to the organization or project?
- Do the identified weaknesses pose a threat for the project or organization?
- How can we meet the quality requirements of the market and how can we compete with other suppliers?

(i) Strength is a positive attribute of the organisation that enables it to accept environmental challenges and improve its competitive position.

Organisational strengths can be:
1. Common strengths, and

2. Distinctive competencies.

Common strength is the organisational skill and capability possessed by other organisations also, distinctive competencies the organisational skill and capability possessed by a small number of competing firms. Such competence is not commonly possessed by all the firms.

Organisations that exploit their distinctive competence perform better than competitors and attain high level of performance. SWOT analysis enables the organisation discover its distinctive competence, make strategies to exploit its strengths, explore environmental opportunities and improve performance.

Internal strength can be harmonious labour-management relations, optimum utilisation of resources, high managerial skill, innovative ability, profitable functional areas, efficient R&D department, huge financial resources, competent staff, updated technology, high quality products etc.
(ii) Weakness is an attribute which restricts competitive strength of the organisation. Itrestricts its ability to make effective strategies. Organisational weaknesses require change in objectives which can be achieved through present skills and capabilities or investment in

capabilities to acquire organisational strengths. This enables the organisation implement strategies that help to attain its objectives.

Failure to overcome organisational weaknesses results in competitive disadvantages, that is, "a situation in which an organisation is not implementing valuable strategies that are being implemented by competing organisations".

Internal weaknesses can be high cost of production, poor functioning of departments, conflicts amongst superiors and subordinates, lack of managerial or innovative ability, obsolete technology, low financial reserves, long delivery times, inadequate R&D facilities etc.

(iii) Opportunities are environmental challenges which improve organisation's operationalefficiency. They are the favourable environmental conditions.

The external opportunities are: boom in the economy, development of new technology, growing markets, liberal government policies, government subsidies, accelerating market growth etc.

(iv)Threats are environmental challenges which weaken the organisation's competitiveposition. They are the unfavourable environmental conditions.

Some of the external threats are: recession in the economy, changing consumer preferences, new technology adopted by competitors, substitute products with high brand image or low cost, foreign competitors, increasing competition, political instability, economic downturn etc.

The impact of four variables (S, W, O and T) on strategy formulation is depicted through a matrix.

SWOT Matrix for Strategy Formulation

Internal Factors / External Factors	Internal Strengths (S)	Internal Weaknesses (W)
External Opportunities (O)	SO Strategy (Strategies to make use of opportunities through strengths)	WO Strategy (Strategies to make use of opportunities to minimise weaknesses)
External Threats (T)	ST Strategy (Strategies to prevent threats through strengths)	WT Strategy (Strategies to minimise dangers in sectors where weaknesses match the threats)

SO is the most desirable strategy where organisations use their strengths to exploit environmental opportunities and convert environmental threats into opportunities. In the worst situation, company's weaknesses match the environmental threats. Organisations follow WT strategy to minimise their weaknesses, convert them into strengths and convert environmental threats to opportunities.

A brief description of four strategies is given below:

(a) SO strategy:

Company uses its strengths to take advantage of environmental opportunities. Weaknesses are overcome and converted into strengths. Environmental threats are overpowered by opportunities.

(b) WO strategy:

Company minimizes its weaknesses to maximise environmental opportunities by developing internal strengths or acquire the needed strength from outside (for example, adopt a new technology or seek the guidance of experts).

(c) ST strategy:

The company maximises its strengths (technological, financial, managerial etc.) to minimise environmental threats. For example, company can use technological developments to face competition in the market.

(d) WT strategy:

The company minimizes its weaknesses and environmental threats. It may require restructuring of the firm.

Example of SWOT

Here's the SWOT analysis based on a fictional restaurant:

STRENGTHS	WEAKNESSES
• Excellent, well-trafficked location • Good reputation among local community • Seasonal menu, locally sourced	• Higher costs than comparable chain restaurants • Single location means limited reach • Modest advertising budget • Not currently using food delivery apps/technology
OPPORTUNITIES	**THREATS**
• Growing interest in/support for locally sourced ingredients • Seasonal menu keeps things fresh and interesting • Potential for growth via food delivery apps/technology	• Intensifying competition from established chain restaurants • Uncertain economic environment • Rising costs of ingredients WordStream

As you can see, this matrix format allows you to quickly and easily identify the various elements you've included in your analysis.

For example, we can see that a great location, strong reputation, and seasonal menu are strengths in this particular analysis. Conversely, we can see that heightened competition from chain restaurants and the rising costs of ingredients are two of the four weaknesses identified by our fictional restaurant business.

2. ETOP: Environmental Threat and Opportunity Profile

ETOP means environmental threat and opportunity profile. It is a technique of environment analysis where organisations make a profile of their external environment. It analyses information about environmental threats and opportunities and their impact on strategic planning process.

It helps to identify strategic opportunities for the company. Environmental opportunities indicate new lines of business and threats restrain them from entering into new business lines. A firm that wants to manufacture shoes, for example, will prepare an ETOP to analyse demand for shoes in the market, purchasing power of consumers, gender composition of market (male-female ratio), government regulations, technology used etc. On analysing the environment, if it finds there is demand for shoes, it will venture into this business.

The Environmental factors are quite complex and it may be difficult for strategy managers to classify them into neat categories to interpret them as opportunities and threats. A matrix of comparison is drawn where one item or factor is compared with other items after which the scores arrived at are added and ranked for each factor and total weight age score calculated for prioritizing each of the factors.

This is achieved by brainstorming. And finally the strategy manger uses his judgment to place various environmental issues in clear perspective to create the environmental threat and opportunity profile.

Although the technique of dividing various environmental factors into specific sectors and evaluating them as opportunities and threats is suggested by some authors, it must be carefully noted that each sector is not exclusive of the other.

Each of the major factors pertaining to a particular sector of environment may be divided into sub-sectors and their effects studied. The field force analysis goes hand in glove with ETOP, as here also the contribution with regard to opportunities and threats posed by the environment is also a necessary part of study.

ETOP Preparation:

The preparation of ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization. A comprehensive ETOP requires subdividing each environmental sector into sub factors and then the impact of each sub factor on the organization is described in the form of a statement.

A summary ETOP may only show the major factors for the sake of simplicity. The table 1 provides an example of an ETOP prepared for an established company, which is in the Two Wheeler industry.

The main business of the company is in Motor Bike manufacturing for the domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic based on the current Indian business environment.

Table 1: Environmental Threat and Opportunity Profile (ETOP) for a Motor Bike company:

Environmental Sectors	**Impact of each sector**
Social (↑)	Customer preference for motorbike, which are fashionable, easy to ride and durable.
Political (→)	No significant factor.
Economic (↑)	Growing affluence among urban consumers; Exports potential high.
Regulatory (↑)	Two Wheeler industry a thrust area for exports.
Market (↑)	Industry growth rate is 10 to 12 percent per year, For motorbike growth rate is 40 percent, largely Unsaturated demand.
Supplier (↑)	Mostly ancillaries and associated companies supply parts and components
Technological (↑)	Technological up gradation of industry in progress.

As shown in the table motorbike manufacturing is an attractive proposition due to the many opportunities operating in the environment. The company-can capitalize on the burgeoning demand by taking advantage of the various government policies and concessions. It can also take advantage of the high exports potential that already exists.

Since the company is an established manufacturer of motorbike, it has a favourable supplier as well as technological environment. But contrast the implications of this ETOP for a new manufacturer who is planning to enter this industry.

Though the market environment would still be favourable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, and have access to the latest technology and have the facilities to use it. The preparation of an ETOP provides a clear picture for organization to formulate strategies to take advantage of the opportunities and counter the threats in its environment.

The strategic managers should keep focus on the following dimensions,

1. Issue Selection:

Focus on issues, which have been selected, should not be missed since there is a likelihood of arriving at incorrect priorities. Some of the impotent issues may be those related to market share, competitive pricing, customer preferences, technological changes, economic policies, competitive trends, etc.

2. Accuracy of Data:

Data should be collected from good sources otherwise the entire process of environmental scanning may go waste. The relevance, importance, manageability, variability and low cost of data are some of the important factors, Which must be kept in focus.

3. Impact Studies:

Impact studies should be conducted focusing on the various opportunities and threats and the critical issues selected. It may include study of probable effects on the company's strengths and weaknesses, operating and remote environment, competitive position, accomplishment of mission and vision etc. Efforts should be taken to make assessments more objective wherever possible.

4. Flexibility in Operations:

There are number of uncertainties exist in a business situation and so a company can be greatly benefited buy devising proactive and flexible strategies in their plans, structures, strategy etc. The optimum level of flexibility should be maintained.

Some of the key elements for increasing the flexibility are as follows:

(a) The strategy for flexibility must be stated to enable managers adopt it during uniquesituations.

(b) Strategies must be reviewed and changed if required.

(c) Exceptions to decided strategies must be handled beforehand. This would enablemanagers to violate strategies when it is necessary.

(d) Flexibility may be quite costly for an organization in terms of changes and compressedplans; however, it is equally important for companies to meet urgent challenges.

3. PESTEL ANALYSIS

A PESTEL analysis is a framework or tool used by marketers to analyse and monitor the macro-environmental (external marketing environment) factors that have an impact on an organisation. The result of which is used to identify threats and weaknesses which is used in a **SWOT analysis**.

PESTEL stands for:

P – Political E – Economic

S – Social T – Technological E – Environmental L – Legal

Lets look at each of these macro-environmental factors in turn.

All the external environmental factors (PESTEL factors)

Political Factors

These are all about how and to what degree a government intervenes in the economy. This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, labour law, environmental law, trade restrictions and so on.
It is clear from the list above that political factors often have an impact on organisations and how they do business. Organisations need to be able to respond to the current and anticipated future legislation, and adjust their marketing policy accordingly. **Economic Factors**

Economic factors have a significant impact on how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses and so on.
These factors can be further broken down into macro-economical and micro-economical factors. Macro-economical factors deal with the management of demand in any given economy. Governments use interest rate control, taxation policy and government expenditure as their main mechanisms they use for this.
Micro-economic factors are all about the way people spend their incomes. This has a large impact on B2C organisations in particular. **Social Factors**

Also known as socio-cultural factors, are the areas that involve the shared belief and attitudes of the population. These factors include – population growth, age distribution, health consciousness, career attitudes and so on. These factors are of particular interest as they have a direct effect on how marketers understand customers and what drives them. **Technological Factors**

We all know how fast the technological landscape changes and how this impacts the way we market our products. Technological factors affect marketing and the management thereof in three distinct ways:

- New ways of producing goods and services
- New ways of distributing goods and services
- New ways of communicating with target markets **Environmental Factors**

These factors have only really come to the forefront in the last fifteen years or so. They have become important due to the increasing scarcity of raw materials, polution targets, doing business as an ethical and sustainable company, carbon footprint targets set by governments (this is a good example were one factor could be classes as political and environmental at the same time). These are just some of the issues marketers are facing within this factor. More and more consumers are demanding that the products they buy are sourced ethically, and if possible from a sustainable source. **Legal Factors**

Legal factors include - health and safety, equal opportunities, advertising standards, consumer rights and laws, product labelling and product safety. It is clear that companies need to know what is and what is not legal in order to trade successfully. If an organisation trades globally this becomes a very tricky area to get right as each country has its own set of rules and regulations.
Example of PESTLE/PESTEL ANALYSIS

1. Pestle Analysis Examples: Uber

Uber is a rapidly growing taxi service provider in the world. People like its features such as **easy accessibility with the app and taxi sharing**. However, there are controversies such as minimum wage complications and banning that are not helping its cause.

And now let us find out more about this company through a Pestle Analysis example. The infographic below will give you a brief on what we have discussed ahead:

1.1 Political Factor

As mentioned above, this company has many controversies to do away with. And one of the things that have put Uber in trouble is that it has not made its regulations clear. For example, people have**questions about its insurance policy**. Some of the questions that are in the mind of the users are if there is an accident, then the company will

- hold the driver as accountable or,
- the company will take the blame for itself.

1.2 Economic Factor

In this section of our sample pestle analysis of Uber, we will take a look at its economic factors.

- The company operates in a sharing economy. In other words, sharing of physical and intellectual resources take place in the economy in which Uber operates.
- Customers can easily connect with the driver through the app. Drivers can take them to their desired location. Customers find Uber cheaper than taxis.
- Uber has seen fast growth since its inception. However, some countries see unfair competition against regular taxis. It resulted in ban and restriction of its services.
- Other companies are also under the scanner of the authorities for the same reason.

But, Uber has been the focal point of this controversy as it is a leading taxi service provider.

People are also looking towards Uber to get new job opportunities. They are struggling to decide whether it is taking their job away or bringing new opportunities.

- One thing that favours Uber is its popularity. Taxi market is full of opportunities. Uber needs to keep doing its best.

1.3 Social Factor

- Uber taxi services are user-friendly and accessible.
- To book an Uber ride, all you need to do is order through a mobile app. In a few minutes, you will get the confirmation of your ride.
- People show gratitude to the Uber for an affordable ride. It increased the fare charges with its the popularity. But, people still prefer it due to its accessibility.

1.4 Technological Factor

- Uber has reaped many benefits through the technology directly and indirectly.
- People post positive views on the various social media platforms. It has helped the company to grow fast. Next, its app is much helpful for users.
- Users can book their cabs from anywhere. App also gives information like estimated ride charges, drop off location, traffic, and weather. Users can pay their charges through the app.

1.5 Legal Factors

Above we discussed how Uber has faced bans in many countries for different reasons. Hence, the company needs to follow technical usage laws, labour and employee safety laws and copyrights laws as well.

1.6 Environmental Factors

- The impact of Uber on the environment is not certain. Few say that fuel usage and traffic congestion is increasing.
- Studies say the same when it comes to traffic congestion. It is because people may use Uber instead of public transport. Analysts are yet to confirm such blame.

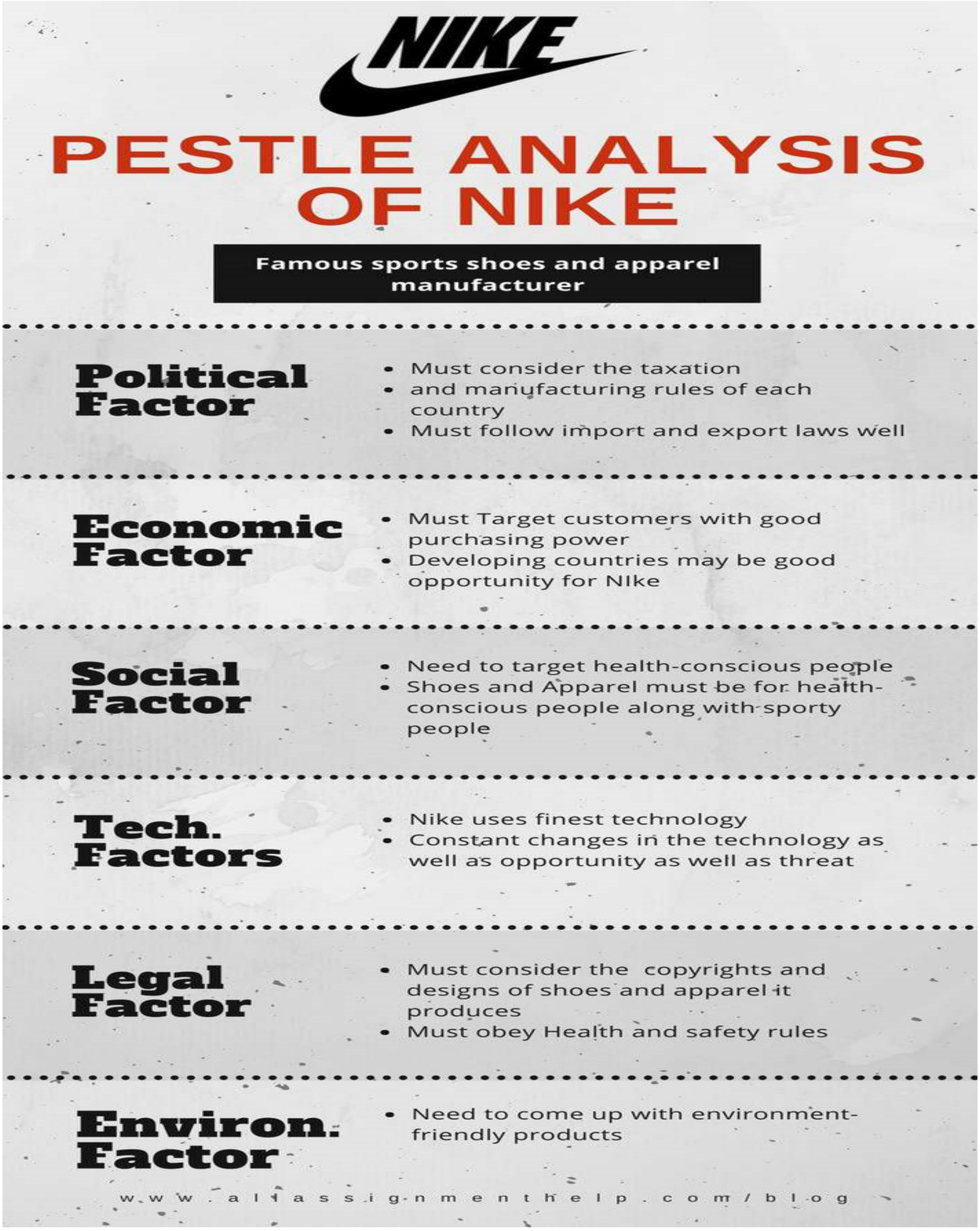
Conclusion: In conclusion, Uber is the fastest growing taxi service, provider. Its affordable charges, ease of use have helped it in becoming popular. Some controversies are also hindering its progress.

But, the company must carry on its service throughout the world. Of course! They need to keep a check on the controversies as well.

2. Pestle Analysis Examples: Nike

Nike Corporation is a US-based international company. It deals in design, development, and selling of footwear, clothing and other services.

Nike is the top brand when it comes to producing sports shows and sports apparel. It earned US$30.601 billion in 2015. It made it the most valuable brand in the sports businesses.



2.1 Political Factor

The political environment has a huge impact on Nike as it is globally present. Hence, the company must consider the taxation and manufacturing rules of a country.

Nike needs to keep an eye on the import and export laws of a country. It affects its product distribution worldwide.

2.2 Economic Factor

Nike needs to focus on the conditions of economies where it offers its products.

It can target economies such as US, UK, and others. All these countries have a stable economy. Nike can find the customers with good purchasing power there. Fast-growing nations are also an opportunity for Nike.

2.3 Social Factor

- Nowadays, people are conscious about their health. They are increasingly playing sports to stay fit. Nike plays an active role.
- It regularly comes up with high-quality sports shoes and apparel. It moulds its products as per the customers' need to get the positive results.

2.4 Technological Factor

- Nike gives importance to technology. It also needs to keep an eye on the technology it manufactures. It will help the company in competing well in the market.
- R&D investment is the external technological factor that affects Nike. The constant changes the technology is an opportunity, and threat as well.

2.5 Legal Factor

- Nike should keep an eye on the copyright of designs of shoes and apparel it manufactures.
- It also has to make sure it is not involved in child labour or breaking employment rules.
- Health and safety rules are also important for Nike to follow to maintain its global reach.

2.6 Environmental Factor

- At present, the environment is the prime concern globally.
- Nike is a leading brand. The company needs to come up with environment-friendly products. It will help them gain brand value.
- Also, it will increase sustainability for the company.

3. Pestle Analysis Examples: Coca Cola

In this section, we will share the third of the five pestle analysis examples.

Cola Cola is a famous soft drink producer. It offers different products to its large number of customers worldwide. It uses the finest technology in production.

Its products meet customers' expectation. It is a renowned soft drink production company in the world.

Let us take a look at the pestle analysis example of Coca Cola. The infographic below will give you a brief on what we have discussed ahead

3.1 Political Factor

- Coca Cola products are tested by FDA. It should follow the rules of a country. It should also provide the local stores with the best beverages.
- Countries may prevent it from distributing its products if all rules are not followed well.
- Rules can be related to accounting, internal marketing, labour or taxes.

3.2 Economic Factor

- Coca Cola has a huge customer base around the world. The company produces its products in various countries.
- It keeps its customers' tastes and preferences in mind. Most of its revenue comes from beverage sales.
- Recently, people have started giving preference to healthy drinks. Coca Cola has realized it. It is moving in that direction.

3.3 Social Factor

- Urban areas are the major market for this company.
- Coca Cola has introduced more than 30 alternative flavours in Japan. It has done the same in China.
- It is more focused on offering healthy products when it comes to the US. Coca Cola water and teas are some of the products that come under this category.
- Coca Cola can take the same approach in the countries such as Japan and China.

3.4 Technological Factor

- Coca Cola can be very effective with the use of new technologies.
- It will help it in manufacturing a large number of quality products.
- Coca Cola has a technological set up in Britain. It ensures customers get the finest products in a short time.
- Coca Cola has also used social media to increase its popularity. Its promotion campaigns have been a hit on various social media platforms.

3.5 Legal Factor

The company has done well in securing all the rights of its business. It has the rights of all the past and future products that it develops with a patented process.

3.6 Environmental Factor

- Water accessibility is essential to Coca Cola to manufacture its products. If they don't have water accessibility, then they can't operate.
- It needs to ensure that water processing is environment-friendly.

Conclusion: In conclusion, Coca Cola is a well-known brand around the world.It is famous for its soft drinks. However, it also needs to cover the customers that are more keen on consuming healthy drinks.

4.PEST Analysis

Changes in your business environment can create great opportunities for your organization – and cause significant threats.

For example, opportunities can come from new technologies that help you reach new customers, from new funding streams that allow you to invest in better equipment, and from changed government policies that open up new markets.

Threats can include deregulation that exposes you to intensified competition; a shrinking market; or increases to interest rates, which can cause problems if your company is burdened by debt.

PEST Analysis is a simple and widely used tool that helps you analyze the Political, Economic, Socio-Cultural, and Technological changes in your business environment. This helps you understand the "big picture" forces of change that you're exposed to, and, from this, take advantage of the opportunities that they present.

About the Technique

Harvard professor Francis Aguilar is thought to be the creator of PEST Analysis. He included a scanning tool called ETPS in his 1967 book, "**Scanning the Business Environment**." The name was later tweaked to create the current acronym.

PEST Analysis is useful for four main reasons:

1. It helps you to spot business or personal opportunities, and it gives you advanced warning of significant threats.
2. It reveals the direction of change within your business environment. This helps you shape what you're doing, so that you work with change, rather than against it.

3. It helps you avoid starting projects that are likely to fail, for reasons beyond your control.

4. It can help you break free of unconscious assumptions when you enter a new country, region, or market; because it helps you develop an objective view of this new environment.

How to Use the Technique

Follow these steps to analyze your business environment, and the opportunities and threats that it presents.

1. Use PEST to **brainstorm** the changes happening around you. Use the prompts below to guide your questioning, and tailor the questions to suit the specific needs of your business.
2. Brainstorm opportunities arising from each of these changes.
3. Brainstorm threats or issues that could be caused by them.
4. Take appropriate action.

Step 1: Brainstorm Factors

Political Factors to Consider

- When is the country's next local, state, or national election? How could this change government or regional policy?

- Who are the most likely contenders for power? What are their views on business policy, and on other policies that affect your organization?

- Depending on the country, how well developed are property rights and the rule of law, and how widespread are corruption and organized crime? How are these situations likely to change, and how is this likely to affect you?

- Could any pending legislation or taxation changes affect your business, either positively or negatively?

- How will business regulation, along with any planned changes to it, affect your business? And is there a trend towards regulation or deregulation?

- How does government approach corporate policy, corporate social responsibility, environmental issues, and customer protection legislation? What impact does this have, and is it likely to change?

- What is the likely timescale of proposed legislative changes?

Are there any other political factors that are likely to change?

Economic Factors to Consider

- How stable is the current economy? Is it growing, stagnating, or declining?
- Are key exchange rates stable, or do they tend to vary significantly?
- Are customers' levels of disposable income rising or falling? How is this likely to change in the next few years?
- What is the unemployment rate? Will it be easy to build a skilled workforce? Or will it be expensive to hire skilled labor?
- Do consumers and businesses have easy access to credit? If not, how will this affect your organization?
- How is globalization affecting the economic environment?
- Are there any other economic factors that you should consider?

Socio-Cultural Factors to Consider

- What is the population's growth rate and age profile? How is this likely to change?
- Are generational shifts in attitude likely to affect what you're doing?
- What are your society's levels of health, education, and social mobility? How are these changing, and what impact does this have?
- What employment patterns, job market trends, and attitudes toward work can you observe? Are these different for different age groups?
- What social attitudes and social taboos could affect your business? Have there been recent socio-cultural changes that might affect this?
- How do religious beliefs and lifestyle choices affect the population?
- Are any other socio-cultural factors likely to drive change for your business?

Technological Factors to Consider

- Are there any new technologies that you could be using?
- Are there any new technologies on the horizon that could radically affect your work or your industry?

Do any of your competitors have access to new technologies that could redefine their products?

In which areas do governments and educational institutions focus their research? Is there anything you can do to take advantage of this?

How has infrastructure changes affected work patterns (for example, levels of remote working)?

Are there existing technological hubs that you could work with or learn from?

Are there any other technological factors that you should consider?

Note:

There are variations of PEST Analysis that bring other factors into consideration. These include:

- **PESTLE/PESTEL:** Political, Economic, Socio-Cultural, Technological, Legal, Environmental.
- **PESTLIED:** Political, Economic, Socio-Cultural, Technological, Legal, International, Environmental, Demographic.
- **STEEPLE:** Social/Demographic, Technological, Economic, Environmental, Political, Legal, Ethical.
- **SLEPT:** Socio-Cultural, Legal, Economic, Political, Technological.

Step 2: Brainstorm Opportunities

Once you've identified the changes that are taking place in your business environment, it's time to look at each change, and brainstorm the opportunities that this could open up for you. For example, could it help you develop new products, open up new markets, or help you make processes more efficient?

Step 3: Brainstorm Threats

It's also important to think about how these changes could undermine your business. If you understand this early enough, you may be able to avoid these problems, or minimize their impact.

For example, if a core part of your market is in demographic decline, could you open up other areas of the market? Or if technology is threatening a key product, can you master that technology and improve the product.

Step 4: Take Action

Where you have identified significant opportunities, build the actions you'll take to exploit them into your **Business Plan**. Where you've identified significant risks, take appropriate action to manage or eliminate them.

5.Executive opinion method:

It is also called executive judgement method. Under this environment is forecasted on the basis of opinion and views of top executives. A panel is formed consisting of these executives.

6.Expert opinion method:

Under this environment forecasting is based an opinion of outside experts or specialist. The experts have better knowledge about market conditions and customer taste and preferences. This method is similar to executive opinion method. However, it uses external experts.

7.Dephi method:

This method is extension of expert opinion method. It involves forming a panel of experts and questioning each member of the panel about the future environmental trend. Later, the responses and summarized and returned to the members for assessment. This process continues till the acceptable consensus is achieved.

8.Extrapolating method:

Under this method, the past information is used to predict the future. Different methods used to extrapolate the future are time series, trend analysis and regression analysis.

9.Historical analogy:

Under this, the environmental trends are analyzed with the help of other trends which are parallel to historical trend.

10.Intuitive reasoning:

Under this, rational and unbiased intuition is used for environmental scanning. Environmental dynamics are guessed individual judgement. Reliability of this method is questionable.

11.Scenario building:

Scenarios are the pictures of possible future. They are built on the basis of time ordered sequence of events that have logical cause and effect relationship with each other. Scenarios are built to address future contingencies.