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E-Content
BCH-601 : Business Policy

Lecture 29

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Environmental Scanning

- Before an organization can begin strategy formulation, it must scan the external environment to

- identify possible opportunities and threats and its internal environment for strengths and weaknesses.

- Environmental scanning is the monitoring, evaluation, and dissemination of information

- from the external and internal environments to key people within the corporation. A corporation

- uses this tool to avoid strategic surprise and to ensure its long-term health. Research has found a

- positive relationship between environmental scanning and profits.2 Approximately 70% of executives

- around the world state that global social, environmental, and business trends are increasingly

- important to corporate strategy, according to a 2008 survey by McKinsey & Company.3

IDENTIFYING EXTERNAL ENVIRONMENTAL VARIABLES

In undertaking environmental scanning, strategic managers must first be aware of the many
variables within a corporation's **natural, societal, and task environments** (see Figure 1–3).
The natural environment includes physical resources, wildlife, and climate that are an inherent
part of existence on Earth. These factors form an ecological system of interrelated life.
The societal environment is mankind's social system that includes general forces that do not directly
touch on the short-run activities of the organization that can, and often do, influence its
long-run decisions. These factors affect multiple industries and are as follows:

- _ Economic forces that regulate the exchange of materials, money, energy, and information.

- _ Technological forces that generate problem-solving inventions.

- _ Political–legal forces that allocate power and provide constraining and protecting laws

- and regulations.

- _ Sociocultural forces that regulate the values, mores, and customs of society.

The task environment includes those elements or groups that directly affect a corporation and,
in turn, are affected by it. **These are governments, local communities, suppliers, competitors,
customers, creditors, employees/labor unions, special-interest groups, and trade associations.**
A corporation's task environment is typically the industry within which the firm operates.
Industry analysis (popularized by Michael Porter) refers to an in-depth examination of key
factors within a corporation's task environment. The natural, societal, and task environments
must be monitored to detect the strategic factors that are likely in the future to have a strong
impact on corporate success or failure. Changes in the natural environment usually affect a
business corporation first through its impact on the societal environment in terms of resource
availability and costs and then upon the task environment in terms of the growth or decline of
particular industries.