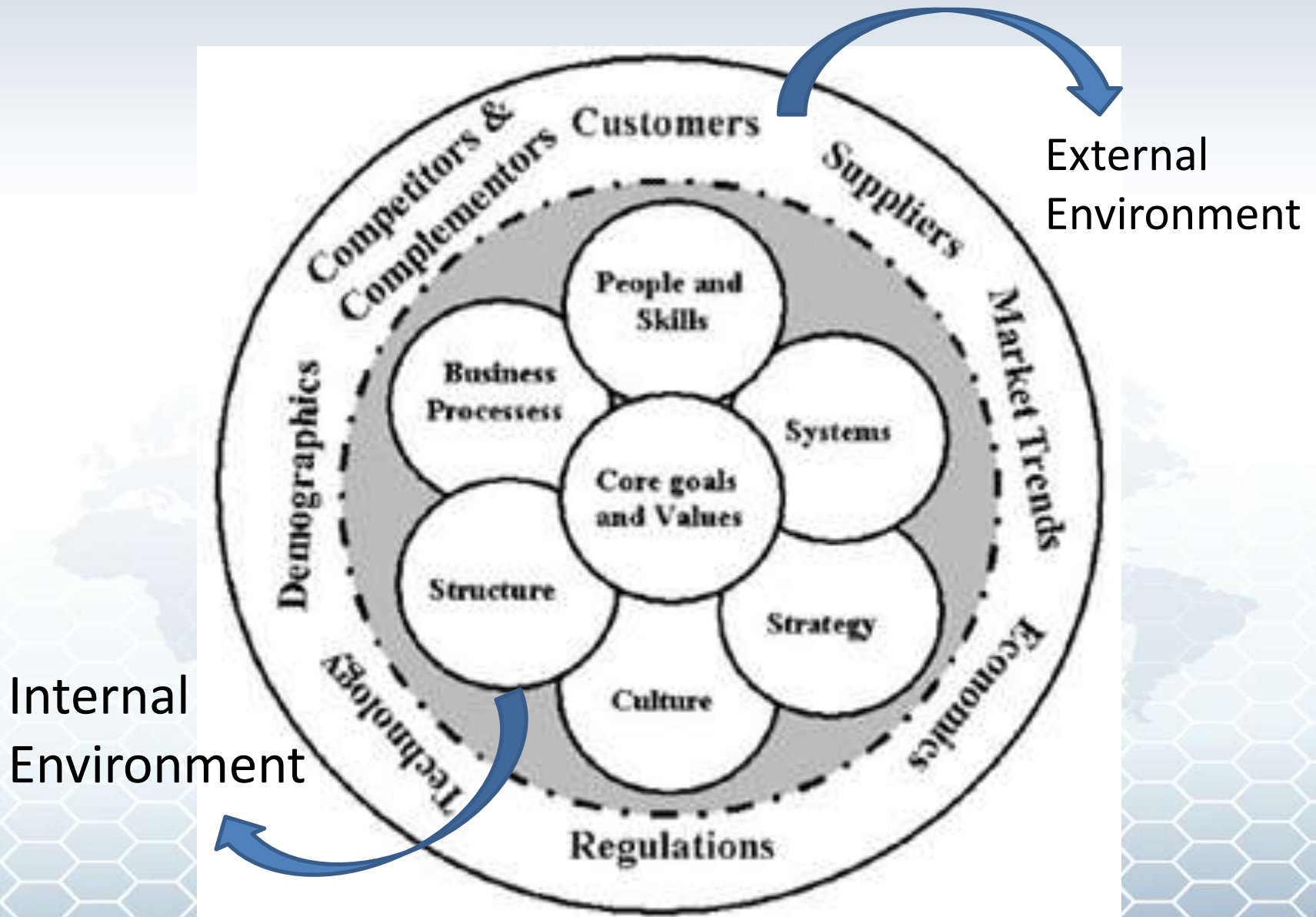


Ch 3 E- Environment

B **SINESS** **ENVIRONMENT**

Business Environment



Business environment

Business environment is the sum total of all **external and internal factors** that influence a business. You should keep in mind that external factors and internal factors can influence each other and work together to affect a business. For example, a health and safety regulation is an external factor that influences the internal environment of business operations. Additionally, some external factors are beyond your control. These factors are often called **external constraints**. Let's take a look at some key environmental factors.

External Factors

- **Political factors** are governmental activities and political conditions that may affect your business. Examples include laws, regulations, tariffs and other trade barriers, war and social unrest.
- **Macroeconomic factors** are factors that can affect your business such as interest rates, unemployment rates, currency exchange rates, consumer confidence, consumer discretionary income, consumer savings rates, recessions, and depressions. These are factors that affect the entire economy, not just your business.
- **Microeconomic factors** are factors that can affect your business such as market size, demand, supply, relationships with suppliers and your distribution chain (such as retail stores that sell your products) and the number and strength of your competition.
- **Social factors** are basically sociological factors related to general society and social relations that affect your business. Social factors include social movements such as environmental movements, as well as changes in fashion and consumer preferences. For example, clothing fashions change with the season and there is a current trend towards green construction and organic foods.
- **Technological factors** are technological innovations that can either benefit or hurt your business. Some technological innovations can increase your productivity and profit margins such as computer software and automated production. On the other hand, some technological innovations pose an existential threat to a business such as Internet streaming challenging the DVD rental business.

Factors in Macro-Micro Environment

Table 4.1

Factors in the macro- and micro-environment of an organization

Macro-environment

Social
Legal, ethical and taxation
Economic
Political
Technological
Competitive

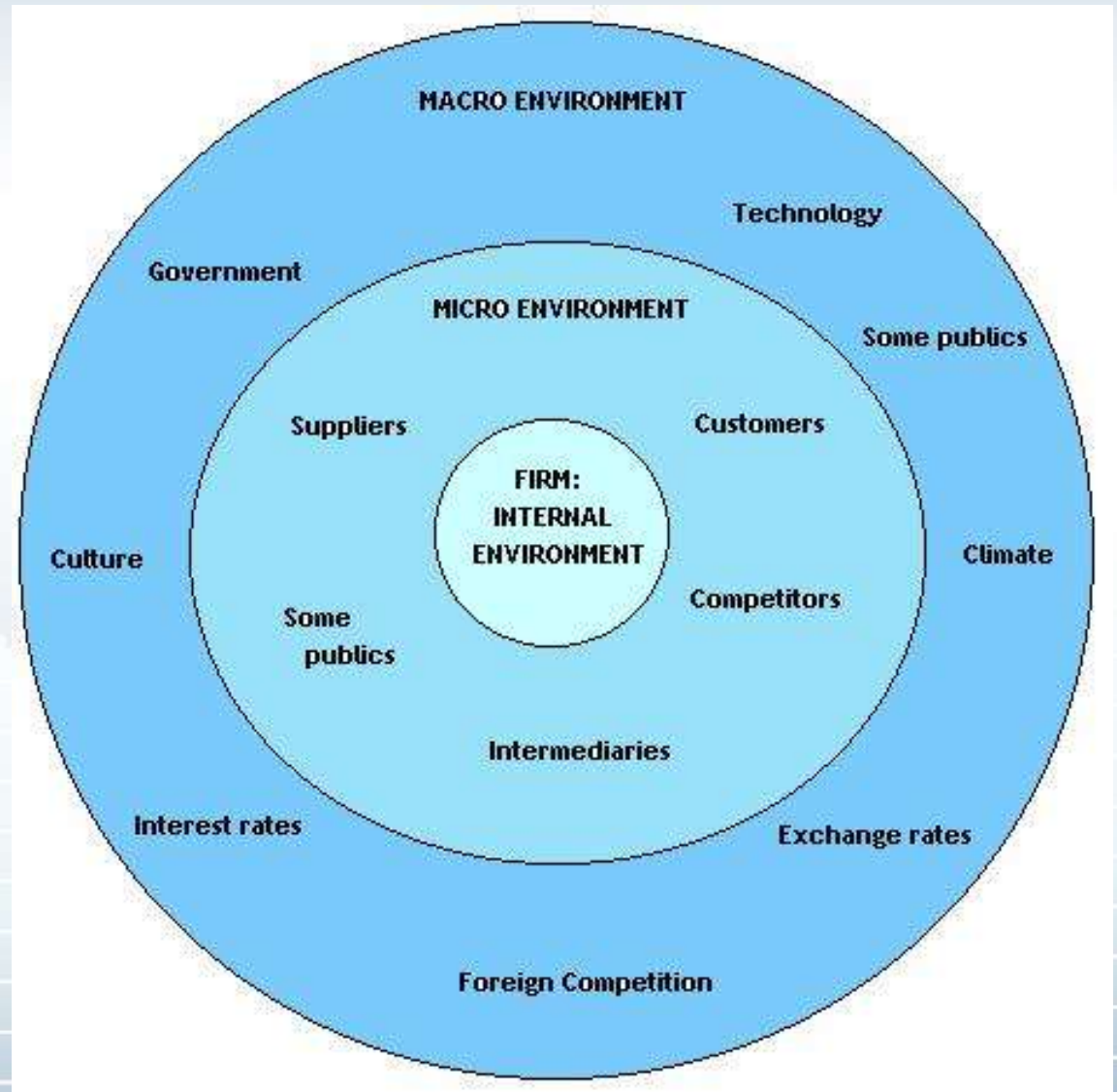
Micro-environment (e-marketplace)

The organization
Its customers
Its suppliers
Its competitors
Intermediaries
The public at large

Macro External Environment

‘PEST’

- Political
- Economics
- Social
- Technology



Political and Social Factors

Social developments also influence the business strategy. For instance consumerism and consumer protection movements require the firm's attention to product safety and truth in packaging. Similarly, managers are confronted by a host of federal, state and local laws and regulations. The public's demand for clean air, clean water and a clean environment is often considered a threat to business. At the same time, these factors can become opportunities, as shown by the car emission test requirements in many states which presented opportunities for the companies to develop, produce or operate such test equipment.

http://www.usfca.edu/fac_staff/weihrichh/docs/tows.pdf

Economics Factors

The general state of the economy certainly affects strategy formulation. For example, the expansion phase of the business cycle in the 1960s created an abundance of business opportunities while the recession in the first half of the 1970s required many industries to change their strategy, and drastically reduce their business activities. The strategist, of course, takes other economic factors besides the business cycle into account, such as the level of employment, the availability of credit and the level of prices. Also, individual companies are affected differently by economic factors. What is a threat to one firm is an opportunity for another.

http://www.usfca.edu/fac_staff/weihrichh/docs/tows.pdf

Technology Factors

Products and Technology. Products need to be adjusted to technological changes. For example, the astonishing success of the Volkswagen Beetle in the 1960s diminished in the 1970s. New customer demands for optional equipment, safety requirements and competition, along with new technology, gave rise to a new generation of VWs. It must be remembered that in almost all situations success is only temporary and product innovation is needed to ensure a competitive advantage for the firm. Of course, innovation is also costly and risky and the failure rate of new products is high; yet, a policy of no innovation at all may cause the demise of a company.

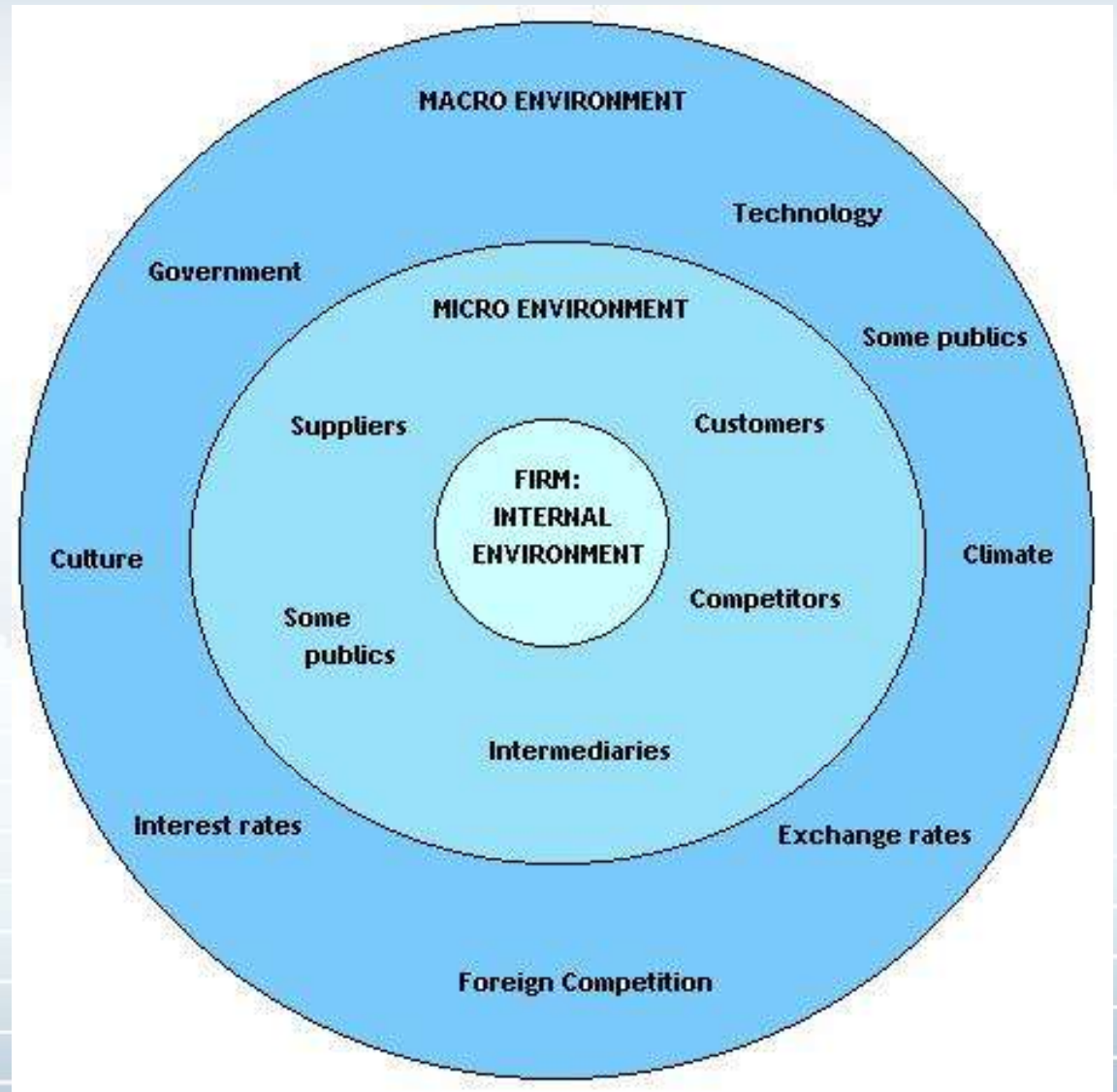
http://www.usfca.edu/fac_staff/weihrichh/docs/tows.pdf

Demographic Factors

Demographic changes significantly affect business. In the United States there are geographic shifts such as the movement of many people to the 'sun belt'. White-collar jobs tend to increase proportionally to blue-collar occupations. Income levels are expected to change, although the direction is less clear and may vary for different sectors of the labor market. The age composition will also change with elderly people making up an increasing proportion of the population. The strategist must take these and other factors into account because they influence the preferences for the kinds of products and services demanded by consumers.

Micro External Environment

- Market / Customer
- Suppliers
- Intermediaries
- Publics
- Competitors



Market / Customer

Markets and Competition. In the United States, coping with competition in the marketplace is a corporate way of life. The following questions and the answers to them are crucial for formulating a strategy:

- 'Who are our competitors?'
- 'How does our company compare with the competition'
- 'What are the strengths and weaknesses of our competitors?'
- 'What are their strategies?'
- 'How do we best compete?'

Suppliers



Intermediaries



Publics



Competitors



Internal Factors

The Internal Environment: Weaknesses and Strengths.

The demands of the external environment on the organization must be matched with the resources of the firm. Internal strengths and weaknesses vary greatly for different enterprises; they may, however, conveniently be categorized into

- (1) management and organization
- (2) operations
- (3) finance
- (4) other factors

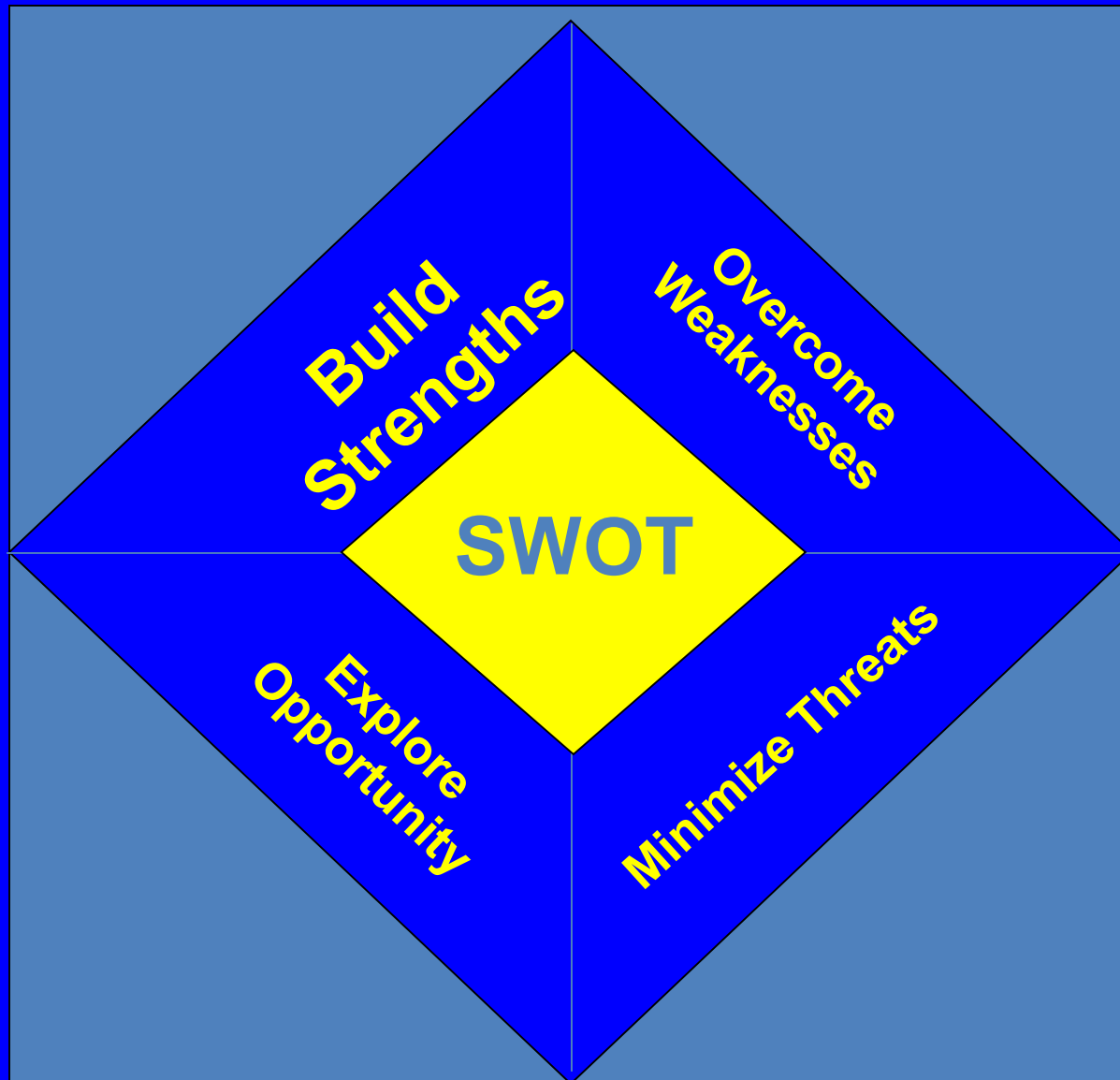
Other Factors. The focus here is on the obvious factors on which the strengths and weaknesses of the organization must be evaluated. Other factors however such as patents inventions and the firms image may be peculiar to an enterprise or may be prominent during a particular time period.

Finance. A careful evaluation of the company's strengths and weaknesses also must be made in the areas of capital structure, financing, profitability, the tax situation, financial planning and the accounting system. Many financial ratios are available for making analyses. But financial management not only requires focusing on the past and the present situation; it also demands short- and long-term financial planning congruent with the firm's objectives and strategy.

Operations. Operations must be carefully analyzed in terms of research and development capabilities, and the adequacy and productivity of the manufacturing facilities available to meet the expected growth and other objectives of the firm. Similarly, marketing must be assessed in terms of product distribution channels, brand name protection, competitive pricing, appropriate customer identification, service, and company image.

Management and Organization. This category includes not only managerial talent but also the labor force as a whole. It also encompasses labor relations; personnel policies; the appraisal, selection, training and development of employees; and the reward system. The planning and control system as well as the organization structure and climate are equally important for the success of the organization

POSITIVE



NEGATIVE

INTERNAL

EXTERNAL



Internal Assessment of the Organization

What are our strengths?

- Manufacturing efficiency?
- Skilled workforce?
- Good market share?
- Strong financing?
- Superior reputation?

What are our weaknesses?

- Outdated facilities?
- Inadequate R & D?
- Obsolete technologies?
- Weak management?
- Past planning failures?

SWOT Analysis

What are our opportunities?

- Possible new markets?
- Strong economy?
- Weak market rivals?
- Emerging technologies?
- Growth of existing market?

What are our threats?

- New competitors?
- Shortage of resources?
- Changing market tastes?
- New regulations?
- Substitute products?

External Assessment of the Environment



Strengths

List all identified within IFE Matrix

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Weaknesses

List all identified within IFE Matrix

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Opportunities

List all identified within EFE Matrix
and possibly CPM Matrix

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

SO Strategies

Identify
Strategies for
ADVANCEMENT

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

WO Strategies

Identify
Strategies to
**OVERCOME
WEAKNESS**

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Threats

List all identified within EFE Matrix
and possibly CPM Matrix

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

ST Strategies

Identify
Strategies to
**AVOID
THREATS**

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

WT Strategies

Identify
Strategies to
**AVOID and
OVERCOME**

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

SO Strategy

กลยุทธ์เชิงรุก ได้มาจากการนำข้อมูลการประเมินสภาพแวดล้อมที่เป็นจุดแข็งและโอกาสมาพิจารณาร่วมกัน เพื่อที่จะนำมากำหนดเป็นยุทธศาสตร์หรือกลยุทธ์ในเชิงรุก เช่น ขยายตลาด เพิ่มกระบวนการผลิต เพิ่มกำลังการผลิต ขยายโรงงาน ขยายสาขา จ้างคนงานเพิ่ม จ่าย **OT** เพิ่มลงทุนเพิ่ม กู้เงินเพิ่ม ฯลฯ

ตัวอย่าง **กรมธนารักษ์**

จุดแข็ง คือ ความสามารถในการผลิตเหรียญ และมีโรงกษาปณ์ที่ทันสมัยและมีกำลังการผลิตเหลือ

โอกาส คือ สามารถหารายได้จากการผลิตเหรียญเพิ่มเติมได้

ยุทธศาสตร์เชิงรุก SO คือ การรับจ้างผลิตเหรียญทุกประเภททั้งในและต่างประเทศ

The SO Strategy (maxi-maxi).

Any company would like to be in a position where it can maximize both, strengths and opportunities. Such an enterprise can lead from strengths, utilizing resources to take advantage of the market for its products and services. For example, Mercedes Benz, with the technical know-how and the quality image, can take advantage of the external demand for luxury cars by an increasingly affluent public. Successful enterprises, even if they temporarily use one of the three previously mentioned strategies, will attempt to get into a situation where they can work from strengths to take advantage of opportunities. If they have weaknesses, they will strive to overcome them, making them strengths. If they face threats, they will cope with them so that they can focus on opportunities.

ST Strategy

กลยุทธ์เชิงป้องกัน คือการพิจารณาร่วมกันระหว่างจุดแข็งกับข้อจำกัด เนื่องจากขณะที่องค์กรมีจุดแข็ง แต่องค์กรกลับพบกับสภาพแวดล้อมอันเป็นข้อจำกัดจากภายนอกที่ควบคุมไม่ได้ แต่องค์กรสามารถใช้จุดแข็งที่มีอยู่ในการป้องกันข้อจำกัดที่มาจากภายนอกได้ ตัวอย่างมหาวิทยาลัยสุโขทัยธรรมมาธิราช

จุดแข็ง คือ เป็นมหาวิทยาลัยที่เปิดโอกาสการศึกษาให้แก่ประชาชนทั่วประเทศ

ข้อจำกัด คือ งบประมาณที่ได้รับการสนับสนุนจากภาครัฐมีไม่เพียงพอที่จะสามารถจัดตั้งหน่วยงานของตนเองอยู่ทุกจังหวัดทั่วประเทศได้

ยุทธศาสตร์เชิงป้องกัน ST คือ ยุทธศาสตร์การสร้างความร่วมมือกับโรงเรียนในพื้นที่ทุกจังหวัดทั่วประเทศ หรือ ใช้โอกาสจากเทคโนโลยีในการสอนแบบ **e-Learning** ได้

The ST Strategy (maxi-mini)

This strategy is based on the strengths of the organization that can deal with threats in the environment. The aim is to maximize the former while minimizing the latter. This, however, does not mean that a strong company can meet threats in the external environment head-on, as General Motors (GM) realized. In the 1960s, mighty GM recognized the potential threat posed by Ralph Nader, who exposed the safety hazards of the Corvair automobile. As will be remembered, the direct confrontation with Mr. Nader caused GM more problems than expected. In retrospect, the initial GM response from Strength was probably inappropriate. The lesson to be learned is that strengths must often be used with great restraint and discretion.

WO Strategy

กลยุทธ์เชิงแก้ไข คือการพิจารณาร่วมกันระหว่างจุดอ่อนกับโอกาส ซึ่งองค์กรอาจใช้โอกาสที่จะนำแนวคิดหรือวิธีใหม่ ๆ มาใช้ในการแก้ไขจุดอ่อนที่องค์กรมีอยู่ได้ ตัวอย่าง **ระบบราชการ**

จุดอ่อน คือ มีขั้นตอนการทำงานที่ยาว ใช้เวลามาก

โอกาส คือ โอกาสของการนำเทคโนโลยีสารสนเทศและการสื่อสารมาใช้ และเทคโนโลยีเหล่านี้มีคุณภาพดีขึ้นในขณะที่ค่าใช้จ่ายต่ำลง

ยุทธศาสตร์เชิงแก้ไข WO คือ ยุทธศาสตร์การส่งเสริมให้มีการนำเทคโนโลยีสารสนเทศและการสื่อสารมาใช้ในการบริหารจัดการและในกระบวนการทำงานของราชการให้มากขึ้น (**e-Administration**)

The WO Strategy (mini--maxi)

The second strategy attempts to minimize the weaknesses and to maximize tile opportunities. A company may identify opportunities ill the external environment but have organizational weaknesses which prevent the firm from taking advantage of market demands. For example, an auto accessory company with a great demand for electronic devices to control the amount and timing of fuel injection in a combustion engine, may lack the technology required for producing these microprocessors. One possible strategy would be to acquire this technology through cooperation with a firm having competency in this field. An alternative tactic would be to hire and train people with the required technical capabilities. Of course, the firm also has the choice of doing nothing, thus leaving the opportunity to competitors.

WT Strategy)

กลยุทธ์เชิงรับ คือการพิจารณาร่วมกันระหว่างจุดอ่อนกับอุปสรรค เพื่อที่จะนำมากำหนดเป็นยุทธศาสตร์หรือกลยุทธ์ในเชิงรับ หากองค์กรจำเป็นต้องเผชิญทั้งจุดอ่อนและข้อจำกัดภายนอกที่ไม่สามารถควบคุมได้แล้ว องค์กรจะทำอย่างไร ตัวอย่าง **ประเทศไทย**

จุดอ่อน คือ ต้องนำเข้าน้ำมันดิบจากต่างประเทศ

ข้อจำกัด คือ ราคาน้ำมันในตลาดโลกเพิ่มขึ้นอย่างมาก

ยุทธศาสตร์ในเชิงรับ WT คือ ยุทธศาสตร์การลดภาระประหยัดพลังงานทั่วประเทศอย่างจริงจัง และยุทธศาสตร์การหาพลังงานทดแทนที่นำทรัพยากรธรรมชาติในประเทศที่มีอยู่มาใช้มากขึ้น

The WT Strategy (mini-mini)

In general, the aim of the WT strategy is to minimize both weaknesses and threats. A company faced with external threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to fight for its survival or may even have to choose liquidation. But there are, of course, other choices. For example, such a firm may prefer a merger, or may cut back its operations, with the intent of either overcoming the weaknesses or hoping that the threat will diminish over time (too often wishful thinking). Whatever strategy is selected, the WT position is one that any firm will try to avoid.

The 'TOWS' Matrix

	S-Strengths	W-Weaknesses
O – Opportunities	SO	WO
T-Threat	ST	WT